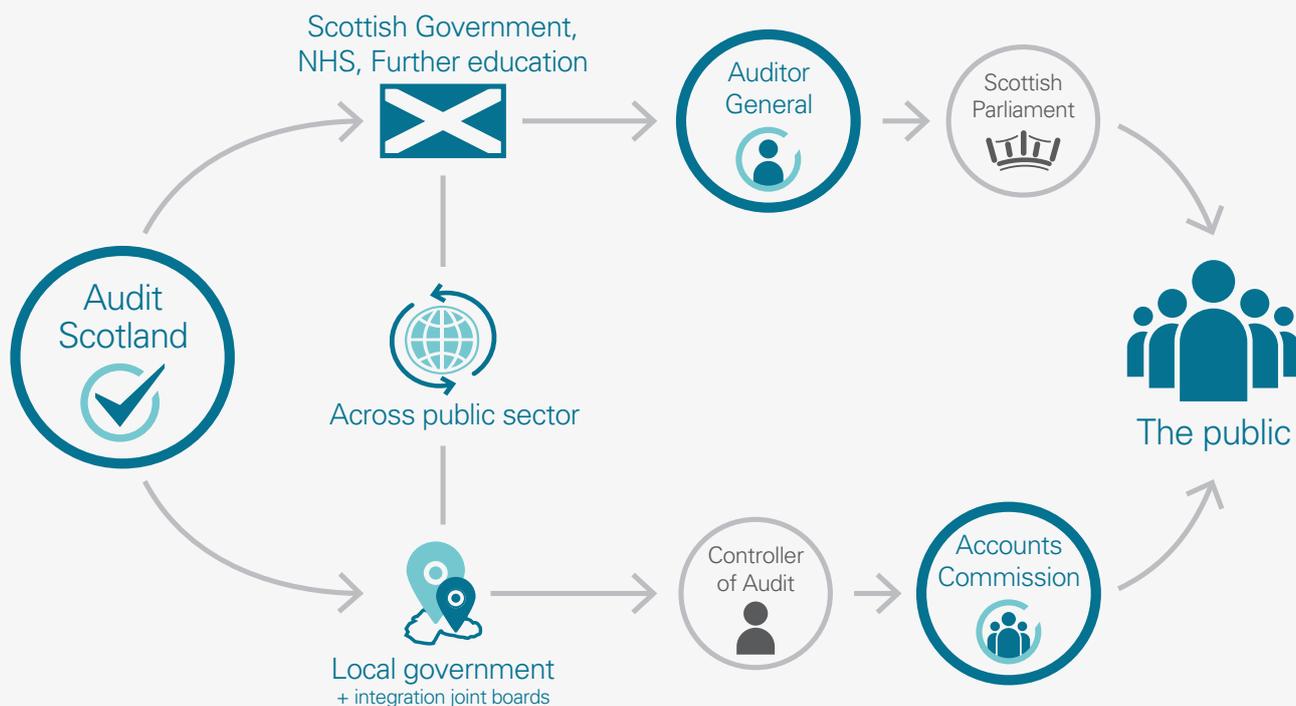


Annual report and accounts

2019/20





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

2019/20 in numbers

293  accounts audited

17  national and local performance reports

£0.8 million  savings, efficiencies and cost reduction

43  graduate and school-leaver trainees

117,000  visitors to our website

25,901  social media engagements

£8,000  Raised by our colleagues for SAMH and other charities

Financial overview

Expenditure

£22.1 million  People Costs

£4.5 million  Audit Firms

£5.3 million  Other Costs

Fees and funding

£18.6 million  Audit Fees

£13.3 million  Scottish Parliament

Chair's welcome



We are living in extraordinary times, with the most severe public health crisis the world has seen since the influenza pandemic of 1918 to 1920.

Our world has changed and, as yet, we don't know by how much. The same is true for Audit Scotland as an organisation. Our first priority throughout this pandemic has been the safety and wellbeing of our colleagues.

We are also working through what this means for us as an organisation; how we work and the work we do. As with many others, the answers are not fully formed. But we are clear that we must be pragmatic and flexible in our work, with an empathy towards the significant stresses on public bodies, while maintaining the quality and integrity that public audit requires in order to assure the people of Scotland about how public money is spent and public bodies are governed.

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. Our board must be satisfied that the organisation itself also makes the best use of public money.

The board met six 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.

This marks the end of my term as chair of Audit Scotland's board. 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 rest of the Management Team and senior leadership.

And finally I would like to acknowledge the staff of Audit Scotland. During my time with the organisation I have been struck by the kindness, togetherness and above all, the competence of the people who work here. This year, more than ever, these characteristics have been vital. Thank you.

Ian Leitch CBE
Chair of the Audit Scotland Board

Accountable Officer's report



An annual report looks back at the preceding year, and typically my Accountable Officer's report would consider our organisation's achievements and performance over the past 12 months.

However, the emergence of COVID-19 during the final months of 2019/20 represents a challenge on a scale we have not seen in our lifetimes.

As with nations across the globe, the pandemic has put Scotland's public services under tremendous strain. I would like to record my heart-felt thanks to everyone working on the frontlines and behind the scenes to protect us all.

This pandemic comes at a time when Scotland's public services and finances are already under significant pressure. They are working to meet the challenges of an ageing population, continuing inequalities and the climate emergency, as well as working to mitigate the potential effects of EU withdrawal.

Against this backdrop, Audit Scotland has continued to report on issues of significant public interest, seeking to bring clarity and help public bodies focus on what is important. Closer to home, we have considered what the significant reviews into the audit business mean for public audit in Scotland, a model that contains important safeguards of independence, objectivity and quality.

But inevitably much of our focus is on what the future holds. Public bodies will remain under significant pressure. We will ensure that audit is pragmatic, flexible and consistent, while remaining independent and of the highest quality. By focusing on good governance and sound financial management, we can assure and inform the people of Scotland about the vital public services that we all rely on, now more than ever.

On a personal note, I will soon end my term as Auditor General. I would like to pay tribute to my Audit Scotland colleagues. It has been a tremendous privilege to work with them over the last eight years, and I thank them all for their outstanding professionalism, support and friendship. Their work has never been more important, and I wish them all the best for the future.

Caroline Gardner
Accountable Officer and Auditor General for Scotland

Our year

In this section of the report we set out:

- Our COVID-19 statement
- Our performance against our strategic objectives
- 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](#). 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](#) set out our strategic objectives for that three-year period and charts the progress we have made.

In 2019/20, we published our [Corporate plan 2019/20 update](#), which set the following objectives for the year:

- Delivering world-class audit
- Being a world-class organisation.

COVID-19 statement

The COVID-19 pandemic is a global challenge. It is having, and will continue to have, a profound impact on Scotland's people and public services.

We would like to pay tribute to everyone who is working so hard to see our country through this pandemic. That includes the health and social care workers and others on the front line, and also those behind the scenes at public bodies who are striving to save lives, support communities and protect jobs.

Our own priority as an organisation has been the health, safety and wellbeing of Audit Scotland's people.

Since closing our offices and instituting our Business Continuity protocols, we have worked to keep our teams informed, supported and connected, and made physical and mental wellbeing and emotional support a clear focus. We have also safeguarded the connectivity and security of our digital network, and provided colleagues with the immediate resources they need to work from home. We continue to adapt to the new ways of working and carrying out our responsibilities.

As the auditors of Scotland's public services our approach is to be pragmatic, flexible and consistent while still safeguarding the transparency, quality and integrity of audit. We are reviewing our work programme to ensure it is relevant in a changed world, and are acutely aware of the significant strain on public bodies and their limited capacity.

Equally however, at a time of crisis, strong governance and sound financial management are more important than ever. Public audit has a duty to assure the people of Scotland that public money is being spent properly, to ensure public bodies demonstrate sound and transparent decision-making, and help public services focus on what is truly important.

It may be months and in some cases years before we fully understand what impact this pandemic has had on our public services and our society. As an organisation we will continue to adapt, provide support to our colleagues across the public sector, and report to the people of Scotland on what it means for them.

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.

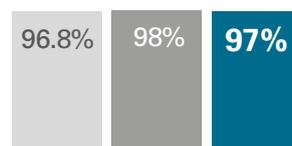
The quality of our work is critical. It forms the bedrock of our audit judgements, recommendations, our reputation and ultimately our ability to make a difference to public services and how public money is spent.

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.

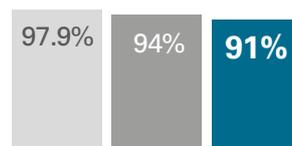
In 2019/20 we:

- ✓ delivered 293 audits under the [Code of audit practice 2016](#)
- ✓ expanded our support for parliamentary scrutiny of the budget development process, financial management and the efficiency and effectiveness of public expenditure
- ✓ consolidated the work we have done on our capacity to audit the devolved financial powers and social security
- ✓ further developed audit methodologies for EU withdrawal preparedness, including consultation across the public sector on preparations and guidance on key issues for public bodies
- ✓ further enhanced the [Audit Quality Framework](#) which covers all the audit work undertaken on behalf of the Auditor General and the Accounts Commission
- ✓ consulted on our draft new Code of Audit Practice, which will set the expectations of public audit for the next five years, and prepared for the next round of audit appointments
- ✓ started the implementation of our Digital audit strategy to improve our use of technology, including rolling out data analytics and employing our first dedicated digital auditor
- ✓ published our Communications and engagement strategy for the next three years, developing how we communicate our audit work and engage with all our stakeholders.

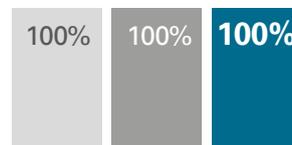
Key performance indicators



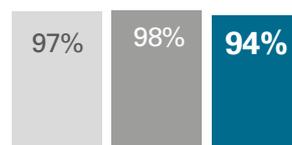
Annual audits delivered to schedule



Reports published to schedule



Audits delivered within 4% of budget



Correspondence responses issued to schedule

■ 2017/18 ■ 2018/19 ■ 2019/20

Annual audits

This forms the largest part of our statutory work.



174  Local government

75  Central government

23  NHS

21  Further education

Accounts audited in 2019/20

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 293 sets of accounts this year. There are 217 public bodies but some produce separate accounts for entities such as charity accounts. All accounts were judged to be true and fair but one audit opinion was modified, five highlighted non compliance with regulatory or statutory requirements or inadequate accounting records (City of Edinburgh Council, Dumfries and Galloway Council, Renfrewshire Council, Social Security Scotland, Tayside Contracts Joint Committee and West Lothian Council).

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 has powers under Section 22 of the Public Finance and Accountability (Scotland) Act 2000 to bring matters relating to central government or health bodies directly to the attention of the Scottish Parliament. In local government, the Controller of Audit has powers under Section 102 of the Local Government (Scotland) Act 1973 to highlight issues directly to the Accounts Commission. These reports are known as 'Section 22' and 'Section 102' reports.

We issued 14 such reports in 2019/20. This is the most we have ever produced for a single year, and followed a previous record number of 11 in 2018/19; this is a clear sign of the increasing strains on public bodies.

These reports covered Highlands and Islands Enterprise, Scottish Government Consolidated Accounts, Scottish Police Authority, three NHS Boards (Highland, Tayside, Lothian), Fife Integration Joint Board, Glasgow City and Renfrewshire Councils, the Scottish Prison Service, Disclosure Scotland, Social Security Scotland, Scottish Public Pensions Agency and Bòrd na Gàidhlig.

Performance audits

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



Health



Local government



Education



New financial powers



Infrastructure



Digital



Even before the COVID-19 pandemic, it was a year of continuing pressure on the health service. Our [NHS overview](#) (download icon), published in November, said the NHS needed to refocus its priorities to speed up health and social care integration and system-wide reform.

Our report on [NHS workforce planning](#) (download icon) (August) found there were significant challenges to increasing the numbers of GPs, paramedics, nurses and midwives.

The financial pressures on local government were highlighted in our [financial overview](#) (download icon) (December), which reported that councils were increasingly relying on reserves.

In the education sector, our [overview of colleges](#) (download icon) (June) and report on [university finances](#) (download icon) (September), both highlighted increasing cost pressures. Our follow-up report on [early learning and childcare](#) (download icon) (March) found steady progress in increasing the hours of care provided but risks with staff and buildings.

We reported on the operations of [Scotland's new social security powers](#) (download icon) (May) and found the Scottish Government had done well in delivering the first devolved benefits but that the real challenges were still to come.

Our review of [privately-financed infrastructure investment](#) (download icon) (January) found that it had enabled more buildings and roads to be built but the Scottish Government needed to be clearer about how and when it used private finance. Our report on [City region and growth deals](#) (download icon) (January) also found positive economic results but no plans for measuring their long-term success.

Our update on the management of an IT project at the [Scottish Public Pensions Agency](#) (download icon) found it had cost millions and set the agency's planning back significantly. Meanwhile our report on [Enabling digital government](#) (download icon) said the Scottish Government needed to show more strategic leadership to achieve its digital ambitions.

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.

During 2019/20, we published seven BVARs:



Stirling Council

⬇️ April 2019



Perth and Kinross Council

⬇️ August 2019



North Lanarkshire Council

⬇️ May 2019



Scottish Borders Council

⬇️ October 2019



Clackmannanshire Council

⬇️ June 2019



Highland Council

⬇️ January 2020



Midlothian Council

⬇️ July 2019

Briefings

We produce briefings to help people understand changes and developing issues in the public sector. In 2019/20, we published:



Enterprise and skills review
 (Download) May 2019



Principles for community empowerment
 (Download) July 2019



Public health reform in Scotland
 (Download) May 2019



Operation of the fiscal framework
 (Download) October 2019



General Medical Services contract in Scotland
 (Download) May 2019



Preparing for withdrawal from the European Union
 (Download) December 2019



Drug and alcohol services
 (Download) May 2019



Student loans
 (Download) January 2020



Planning for outcomes
 (Download) June 2019

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 58 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; Public Audit and Post-legislative Scrutiny Committee; 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.

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 next biennial NFI report is due in 2020/21.

In partnership with Police Scotland, we published [Red flags: procurement](#) , a document giving guidance and examples of the signs that could alert auditors to fraud or irregularity in public sector procurement.

As part of our audit work, we review whether public bodies have adequate controls in place to prevent and detect fraud. In April 2019, our [How councils work: Safeguarding public money](#)  report highlighted auditors' concerns that systems at councils to prevent money being lost to mistakes and fraud were under strain. We also published an annual [Fraud and irregularity update](#)  on cases auditors reported on during 2018/19.

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 produces a national scrutiny plan. More details about the group membership and work is available at the [scrutiny improvement section](#)  on our website.

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 is set out in our [International strategy for 2017-20](#) , and our [International work 2019/20 annual report](#)  reports on our work during 2019/20.

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.

Audit quality

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



Our Audit Quality and Appointments (AQA) team provides quality assurance across all our work. It is an independent unit within Audit Scotland, working separately from our audit teams.

Our 2019/20 report on the [Quality of public audit in Scotland](#)  says the quality of audit is high and improving. ICAS found compliance with expected standards and continuous improvement, with most audits only needing minor improvement and auditors using recommendations to improve the quality of work.

Our Professional Support team works closely with the AQA 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 2016](#)  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 Chair of LASAAC (Local Authority (Scotland) Accounts Advisory Committee), member of the Chartered Institute of Public Finance and Accountancy (CIPFA)/LASAAC board, Scotland Strategy Board, Financial Reporting Advisory Group, Financial Reporting Council's audit and assurance council and 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.

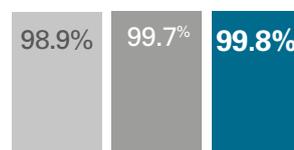
Being a world-class organisation

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.

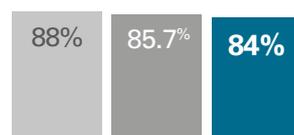
In 2019/20 we:

- ✓ recruited 16 graduate and school-leaver trainees into our professional training schemes, helping develop the next generation of financial professionals and our workforce
- ✓ achieved our highest ever score in the Best Companies staff engagement survey, for the second consecutive year, 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
- ✓ continued to invest in the resilience and flexibility of our digital services.

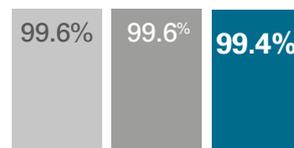
Key performance indicators



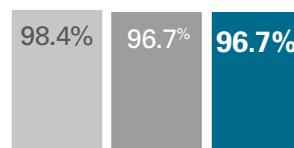
People in post



Exam pass rate for professional trainees



IT uptime



IT issues resolved within target times

■ 2017/18 ■ 2018/19 ■ 2019/20

Our people

We have been growing steadily to meet the increasing audit requirements, including large and complex new audits such as Scotland's new social security agency and fiscal commission.

At March 2020, our workforce was 291.1 WTE. A focus of our recruitment in the past year has been 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 43 trainees and staff working towards qualifications from the Institute of Chartered Accountants of Scotland.



Audit Scotland colleagues welcome prospective graduates at opening evening

Our gender pay gap results show that male staff on average earn 12.79 per cent more than female. In the past year we have continued to successfully attract more female applicants to our professional training scheme and entry-level professional roles. Over time this will support more women to fulfil promoted roles and help close the gender pay gap. At a senior level, three-quarters of our Management Team are women, 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,
Scottish Association for Mental Health (SAMH) .

So far, we have raised more than **£8,000**
for SAMH and other charities.



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 2019/20 were:



Delivering world-class audit



Being a world-class organisation

These strategic objectives provided the organising framework for our performance management arrangements, our strategic improvement programme and our risk management framework ([page 31](#)).

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.

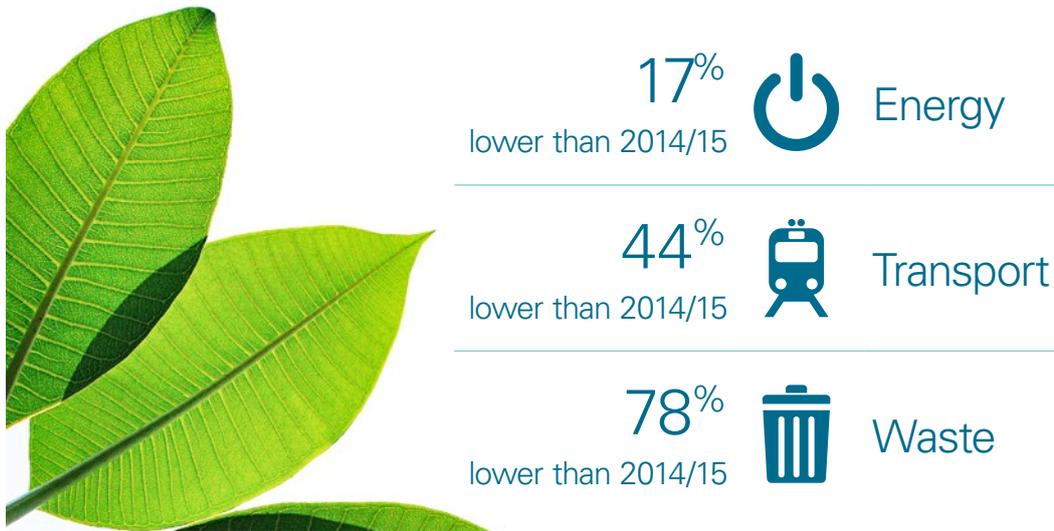
Continued cyber-attacks on organisations have highlighted the importance of, and reliance on, digital systems. Digital technology offers transformational opportunities, but also increases dependence on digital services for the delivery of our work. The importance of digital and cyber security and resilience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

Further information on the risks facing Audit Scotland is on [pages 31 – 34](#).

Climate change and sustainability

We have reduced our carbon footprint by 47 per cent against our 2014/15 baseline, and by more than 57 per cent 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 2020/21 targets:



Further details of these reductions are in our 2018/19 [Environment, Sustainability and Biodiversity annual report](#) .

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.

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 2019/20, we dealt with 231 items of correspondence (compared with 263 in 2018/19). 19 of these items came to us as prescribed persons under the Public Interest Disclosure Act 1998 (compared to 22 in 2018/19). These are often referred to as 'whistleblowers'. More information is available in our [Correspondence and whistleblowing annual report 2019/20](#)  on our website.

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 31 Freedom of Information requests (38 in 2018/19) and no Environmental Information requests (none in 2018/19).

We recorded a total of four complaints over the year, compared with five in 2018/19. Two complaints were investigated and not upheld.

Financial position

Financial overview

Expenditure

£22.1
million  expenditure on people costs

£4.5
million  fees and expenses paid to firms

£4.3
million  other operating expenditure¹

£0.9
million  net finance expenditure incl. Corporation Tax

£0.1
million  capital expenditure

Fees and funding

£18.6
million  audit fees and other income

£13.3
million  Scottish Parliament funding

Note: 1. More detailed analysis provided in [Note 4. Other operating expenditure \(page 63\)](#)

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 51 – 71](#).

Resource outturn

Our year in figures	2019/20			2018/19
	Actual £000	Budget £000	Variance £000	Actual £000
People costs	22,072	26,077	4,005	18,302
Fees and expenses paid to external firms	4,549	4,189	(360)	4,475
Other operating expenditure ¹	4,265	4,190	(75)	4,337
Total operating expenditure	30,886	34,456	3,570	27,114
Operating income	(18,627)	(17,980)	647	(18,085)
Net operating expenditure	12,259	16,476	4,217	9,029
Net finance expenditure ²	919	966	47	794
Corporation Tax payable	1	-	(1)	1
Net expenditure after tax	13,179	17,442	4,263	9,824
Capital expenditure	141	150	9	174
Total resource required from Parliament	13,320	17,592	4,272	9,998

Notes:

1. Other operating expenditure includes expenditure on property, information technology and travel. This is covered in [Note 4. Other operating expenditure \(page 63\)](#) 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 2019/20, Audit Scotland spent £30.9 million on services for the Auditor General and the Accounts Commission. Of these costs £18.6 million was recovered through charges to audited bodies and other income. The balance of £12.3 million net operating expenditure plus the net finance costs of £0.9 million was met from direct funding provided by the Scottish Parliament.

Overall the final net expenditure position of £13.2 million was £4.3 million better than the approved budget allocation for 2019/20. More detailed analysis based on the different funding streams highlights Operating and Direct Capital expenditure as being £0.1 million better than budget and Annually Managed Expenditure (AME) for non-cash pension costs being £4.2 million better than the approved budget limit.

People costs represent 71 per cent of Audit Scotland's total operating expenditure with the £4.0 million budget underspend arising due to the non-cash IAS 19 pension service costs being £4.2 million lower than plan and this is reduced by a £0.2 million overspend on staff and agency costs. The overspend is due to the requirement for temporary staff resource to meet in year resourcing pressures with this overspend being funded by additional income and savings within staff budget headings. Due to the high level of uncertainty and the large values associated with pension liability calculations, the 2019/20 Spring Budget Revision request was based on ensuring there was sufficient cover to meet the significant unknown past service pension costs associated with the McCloud judgement and Guaranteed Minimum Pension.

Fees and expenses paid to external firms were £0.4 million more than budget and this additional expenditure was funded by £0.5 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 worse than budget mainly due to increased expenditure on professional fees for best value audit work.

In 2019/20, we delivered £0.8 million in savings, three per cent of our £24.6 million Operating and Direct Capital expenditure budget. Most savings came from staffing costs, unfunded pension benefits, 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 2019-20 of £0.1 million supported our information technology systems.

Resources required for 2020/21

The 2020/21 budget has been approved by the Scottish Parliament with revenue resources totalling £27.1 million. Of these resources, £18.4 million will be recovered through charges to audited bodies and miscellaneous income. The £8.7 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.



Caroline Gardner
Accountable Officer

9 June 2020

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

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 \(page 27\)](#).

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



Board members



Ian Leitch CBE
Chair of the board



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



Dr Graham Sharp
Chair of the Accounts
Commission



Heather Logan
Independent
non-executive
member



Professor Alan Alexander OBE
Independent non-
executive member

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 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.

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 seven audits in 2019/20 achieved 'substantial assurance' in terms of design and operational effectiveness, the remaining two audits achieved 'reasonable assurance'. BDO's 2019 review of our risk management arrangements provided positive assurance and we achieved the highest risk maturity assessment available.

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 Alexander (chair), Graham Sharp, Heather Logan and Ian Leitch.

Attendance during 2019/20:

Committee	Ian Leitch	Caroline Gardner	Graham Sharp	Heather Logan	Alan Alexander
Board (6)	6	6	5	6	6
Audit committee (5)	-	-	3	5	5
Remuneration and human resources committee (2)	2	-	1	2	2

Management team:

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

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.

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 Accountants and Business Advisers.

The SCPA recommended the 2019/20 budget to the Finance and Constitution Committee.

In considering the 2020/21 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; efficiency and value for money; and audit quality. The Commission also explored staffing numbers, gender balance and flexible working policies. The SCPA recommended the 2020/21 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 which 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 two 2019/20 strategic objectives:

- Delivering world-class audit
- Being a world-class 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

At the time of writing, the full impact of the COVID-19 pandemic remains unclear. As the auditors of Scotland's public services our approach is to be pragmatic, flexible and consistent while still safeguarding the transparency, quality and integrity of audit. We are reviewing our work programme to ensure it is relevant in a changed world, and are acutely aware of the significant strain on public bodies and their limited capacity. This may impact on how and when we carry out our audit work.

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 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. The Code of Audit Practice and the rolling work programme are currently under review.

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 [Quality of public audit in Scotland: Annual report 2019/20](#) .

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.

There are also risks that 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 world-class 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. These risks are compounded and amplified in the current environment.

Our first priority in the current COVID-19 situation has been the health safety and wellbeing of our staff. This has resulted in the closure of our offices and colleagues working from home. We have a comprehensive programme of communications and support in place to support our colleagues.

We have also identified increased risks to our capacity, financial position and heightened risks around digital security, the delivery of some improvement projects and our reputation. These risks are being monitored and managed carefully.

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.

As noted above, the COVID-19 situation has increased the risk in this area as some people/organisations are seeking to exploit the situation. We have introduced enhanced digital security arrangements and we are monitoring the situation closely.

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 updated 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 2019/20 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 2020 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 2020 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)	2019/20 £000	2018/19 £000
Chair – Ian Leitch	10 – 15	10 – 15
Independent board member – Heather Logan	5 – 10	5 – 10
Independent board member – Alan Alexander (from 1 October 2018) ¹	5 – 10	0 – 5
Independent board member – Russel Griggs (until 30 September 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 (FReM) 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 12 (11 in 2018/19) and their remuneration was as follows:

Remuneration banding (Audited)	2019/20 £000	2018/19 £000
Chair – Graham Sharp	40 – 45	40 – 45
Deputy Chair – Ronnie Hinds (until 30 June 2019) ¹	0 – 5	15 – 20
Deputy Chair – Elma Murray (from 1 August 2019) ¹	10 – 15	-
Commission Members	5 – 10	5 – 10

Note: 1. The full year equivalent remuneration is £15k – £20k.

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 2020. Further information on the pensions payable to Audit Scotland staff, including senior management, can be found in [Note 3. Pension assets and liabilities \(page 58\)](#).

Single total remuneration (Audited)	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19
	Salary £000	Salary £000	Benefit in kind ¹ £	Benefit in kind ¹ £	Pension benefit ² £000	Pension benefit ² £000	Total £000	Total £000
Caroline Gardner Auditor General for Scotland	145 – 150	145 – 150	-	-	67	45	215 – 220	190 – 195
Diane McGiffen Chief Operating Officer	125 – 130	120 – 125	-	-	44	50	170 – 175	170 – 175
Fraser McKinlay Director of Performance Audit and Best Value and Controller of Audit	115 – 120	110 – 115	-	-	36	37	150 – 155	150 – 155
Fiona Kordiak Director of Audit Services	110 – 115	100 – 105	10,300	9,100	77	71	195 – 200	180 – 185

Notes:

1. The estimated value of benefits in kind relates to tax benefits associated with the provision of vehicles. Values to the nearest £100.
2. 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 (1.7 per cent) and are net of contributions made by the individual.

Pensions (Audited)	Accrued pension at 31 March 2020 £000	Accrued lump sum at 31 March 2020 £000	Real increase in annual pension £000	Real increase in lump sum £000	CETV at 31 March 2020¹ £000	CETV at 31 March 2019¹ £000	Real increase in CETV¹ £000
Caroline Gardner Auditor General for Scotland	90 – 95	NIL	2.5 – 5.0	NIL	1,407	1,299	43
Diane McGiffen Chief Operating Officer	50 – 55	75 – 80	2.5 – 5.0	0.0 – 2.5	965	850	65
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	369	301	59
Fiona Kordiak Director of Audit Services	50 – 55	85 – 90	2.5 – 5.0	2.5 – 5.0	989	844	134

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 2018/19). This was 3.2 times (3.3 times in 2018/19) the median remuneration paid to Audit Scotland's staff in 2019/20, which was £45,797 (£44,802 in 2018/19).

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 41 and 42](#) are covered by the audit opinion.

Staff report

2019/20		2018/19	2017/18
291	 People (WTE)	278	272
Female 58% Male 42%	 Gender	Female: 58% Male: 42%	Female: 53% Male: 47%
Female 40% Male 60%	 Board	Female: 40% Male: 60%	Female: 40% Male: 60%
Female 75% Male 25%	 Management team	Female: 75% Male: 25%	Female: 75% Male: 25%
4.97 days	 Absence CIPD benchmarks ¹ : 8 days public sector 4.3 days private services	4.8 days	4.4 days
6.32%	 Turnover rate CIPD benchmark: median rate of 16.56%	11.3%	12.8%
43	 Trainee auditors	42	42

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 2020, staff headcount was 306 (291.1 WTE), compared with a headcount of 290 (278 WTE) in 2019.

People costs and numbers

People costs	2020 £000	2019 £000
Salaries	13,178	12,179
Social Security and Employment Tax costs	1,489	1,424
Superannuation	2,363	2,187
Pensions in payment (note 3c)	25	24
Provision for early retirement and severance costs (note 14)	-	-
Movement in early retirement costs	(92)	127
Adjustment for retirement benefit scheme costs (see below)	4,938	2,198
	21,901	18,139
Accounts Commission members		
Salaries	143	136
National Insurance	7	9
Travel and subsistence	21	18
	171	163
	22,072	18,302

Analysis of local government retirement benefit scheme costs	2020 £000	2019 £000
Current service costs	5,950	5,172
Past service costs	2,148	-
	8,098	5,172
Less: Actual employees' contributions	(899)	(874)
Charge to revenue	7,199	4,298
Employer contributions	(2,261)	(2,100)
Adjustment for retirement benefit scheme costs	4,938	2,198

Temporary staff (Audited)

Included in the salaries costs for the year to 31 March 2020 is £521,000 (eleven 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 £135,000 (three WTE posts).

Learning and development

Audit Scotland runs one of the largest public financial audit training schemes in Scotland. We have 43 trainees and staff working towards an ICAS qualification. In 2019, we recruited 14 professional trainees and two school leaver trainees, and in 2020 we are anticipating 10 professional trainees and two school leaver trainees to join us in October 2020.

During 2019/20, 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 7.7 days formal learning and development per person.

Health, safety and wellbeing

The COVID-19 pandemic meant that in the final weeks of 2019/20 we were focused on safely moving our entire workforce to home working. This took place over two days, and we enacted the move to home working on Monday 16 March 2020 following advice from the Scottish Government that all businesses that could work from home should. This was of course followed by the official 'lockdown'. This involved providing significant mental health and emotional support to colleagues undergoing disruption in both their professional and personal lives, as well as ensuring all staff had the equipment and connectivity to effectively work from home. We had no health and safety incidents arising from the move to home working.

Prior to that, health and safety incidents continue to remain low with 5 events in 2019/20. One classed as an accident and four classed as 'lessons learned'. Our three offices were assessed as 'excellent' during the series of workplace inspections undertaken during 2019/20. 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 4.85 days per employee in 2018/19 to 4.97 days in 2019/20. 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 2020/21.

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 and 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 2019/20, we have continued to share 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 2020 there were no staff departures under a voluntary early release arrangement.

Further disclosure on early retirement and severance is set out in [Note 14. Provision for early retirement and severance \(page 68\)](#).

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 2019/20 are disclosed in the tables below.

Relevant union officials

Number of employees who were relevant union officials during the relevant period	13
Full-time equivalent employee number	12.52

Percentage of time spent on facility time

Percentage of time	Number of employees
0%	-
1% – 50%	13
51% – 99%	-
100%	-

Percentage of pay bill spent on facility time

Total cost of facility time	£45,122
Total pay bill	£16.453 million
Percentage of total pay bill spent on facility time	0.3%

Paid trade union activities

Time spent on paid trade union activities as a percentage of total paid facility time	6.3%
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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 [Mainstreaming equality and equality outcomes: progress report 2017-19](#) .

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 third [Audit Scotland: Gender pay gap](#)  report on 25 March 2020. The information is based on a snapshot date of 31 March 2019. Audit Scotland's workforce, at the snapshot date of 31 March 2019, comprises of 274 full pay employees 1:118 are males (43 per cent of the workforce) and 156 females (57 per cent of the workforce). Included in our overall headcount are 40 graduate trainees within our professional training scheme. The scheme is a key element in support of our talent development and long-term succession planning. Within the scheme, 13 trainees are male and 27 are 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 other charities.

Summary of Resource Outturn

Year ended 31 March 2020

	2020			2019
	Outturn	Estimate	Outturn compared to estimate	Outturn
	£000	£000	£000	£000
Revenue	13,179	17,442	4,263	9,824
Capital	141	150	9	174
Total Resources	13,320	17,592	4,272	9,998
Net Cash Requirement	7,267	7,269	2	5,673
Statement of Cash Flows (page 54)				

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



Caroline Gardner
Accountable Officer

9 June 2020

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 2020 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 2019/20 Government Financial Reporting Manual (the 2019/20 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 2020 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 2019/20 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

9 June 2020

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 2020

	Note	2020 £000	2019 £000
People costs	Staff report	22,072	18,302
Fees and expenses paid to external firms	4	4,549	4,475
Other operating expenditure	4	4,265	4,337
Total operating expenditure		30,886	27,114
Operating income	5	(18,627)	(18,085)
Net operating expenditure		12,259	9,029
Net finance expenditure	6	919	794
Net expenditure before tax		13,178	9,823
Corporation Tax payable		1	1
Net expenditure after tax		13,179	9,824
Other comprehensive net expenditure			
Net losses / (gains) on pension schemes	3	(10,438)	5,641
Comprehensive net expenditure / (income)		2,741	15,465

Statement of Financial Position

As at 31 March 2020

	Note	2020 £000	2019 £000
Non-current assets			
Property, plant and equipment	7	978	1,229
Intangible assets	8	69	43
Total non-current assets		1,047	1,272
Current assets			
Trade and other receivables	9	2,684	2,687
Cash and cash equivalents	10	1,208	1,206
Total current assets		3,892	3,893
Total assets		4,939	5,165
Current liabilities			
Trade and other payables	12	3,437	3,361
Provision for early retirement and severance	14	101	102
Total current liabilities		3,538	3,463
Non-current assets plus / less net current assets/liabilities		1,401	1,702
Non-current liabilities			
Deferred liabilities	13	(692)	(826)
Provision for early retirement and severance	14	(1,684)	(1,832)
Other provisions	16	(366)	(290)
Net funded pension (liability)	3	(30,632)	(35,253)
Total non-current liabilities		(33,374)	(38,201)
Assets less liabilities		(31,973)	(36,499)
Represented by:			
Taxpayers' equity			
Net funded pension (liability)	3	(30,632)	(35,253)
General fund		(1,341)	(1,246)
		(31,973)	(36,499)



Caroline Gardner
Accountable Officer
9 June 2020

Statement of Cash Flows

Year ended 31 March 2020

	Note	2020 £000	2019 £000
Cash flows from operating activities			
Net (expenditure) after tax		(13,179)	(9,824)
Adjustment for non-cash items:			
– Depreciation	7,8	356	369
– Pension scheme – net revenue debit		5,817	2,947
– Other non-cash items		10	-
Decrease in trade and other receivables		3	795
(Decrease)/Increase in trade / other payables / deferred liabilities		(60)	66
(Decrease)/Increase in provisions for early retirement		(149)	76
Increase in other provisions		76	72
Net cash outflow from operating activities		(7,126)	(5,499)
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(90)	(171)
Purchase of intangible assets	8	(51)	(3)
Less movement in accrued expenditure		-	-
		(141)	(174)
Cash flows from financing activities			
From Consolidated Fund (Supply)		7,269	6,700
Net (decrease) / increase in cash and cash equivalents in the period		2	1,027
Cash and cash equivalents at the beginning of period		1,206	179
Cash and cash equivalents at the end of period	10	1,208	1,206
Net cash requirement			
Cash flows from financing activities		7,269	6,700
Decrease / (increase) in cash		(2)	(1,027)
		7,267	5,673

Statement of Changes in Taxpayers' Equity

Year ended 31 March 2020

Changes in Taxpayers' equity	Note	Net funded pension £000	General fund £000	Total £000
Balance at 31 March 2018		(26,665)	(42)	(26,707)
Transfers between reserves:				
– Transfer to net funded pension liabilities (page 40)	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)
Transfers between reserves:				
– Transfer to net funded pension liabilities (page 40)	Staff Report	(4,938)	4,938	-
– Net return on funded pension assets	3	(879)	879	-
Net (losses) on pension schemes	3	10,438	-	10,438
Net (expenditure) after tax		-	(13,179)	(13,179)
Net funding from the Scottish Parliament	11	-	7,267	7,267
Balance at 31 March 2020		(30,632)	(1,341)	(31,973)

Notes to the accounts

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 2020/21 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 not yet effective

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

The standard will be adopted by the FRoM with effect from 1 April 2020. Assessment of the new standard concludes that Audit Scotland has significant leases relating to the use of property and vehicles.

Audit Scotland has short term leases for office space in Edinburgh, Glasgow and Inverness that will require an adjustment to the Statement of Financial Position for the recognition of a right of use asset and a liability for future lease payment commitments. The estimate at 1 April 2020 is that we will recognise a right of use asset and related liability of approximately £2.6 million for property leases.

In respect of vehicles Audit Scotland manages a closed scheme where eligible staff are able to lease a vehicle for a four-year period with Audit Scotland making an agreed annual contribution towards lease costs. The estimate at 1 April 2020 is that we will recognise a right of use asset and related liability of approximately £1.0 million for vehicle leases.

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

Operating income relates directly to the audit activities of Audit Scotland and income recognition is consistent with the principles of IFRS 15 Revenue from Contracts with Customers.

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 2020. 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) 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 financial statements also include the actuary estimate for the impact of the McCloud case on pension liabilities. The actual pension liability figure has been variable over time and [Note 3](#) provides more detail on the current net pension liability.

2. People costs and numbers

People costs comprise	2020 £000	2019 £000
Wages and salaries	13,342	12,333
Social Security and Employment Tax costs	1,496	1,433
Pension and early retirement / severance costs	7,234	4,536
	22,072	18,302

More details on staff numbers and related costs can be found in the Staff Report on [pages 41 and 42](#).

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 2020 were as follows:

	2020 %	2019 %
Salary increases	3.50	4.20
Pension increases	1.90	2.50
Discount rate	2.30	2.40

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 2020 have been prepared by Hymans Robertson LLP.

The movement in the funded part of the net pension liability for the year to 31 March 2020 is as follows:

	Period ending 31 March 2020		
	Assets £000	Obligation £000	Net (Liability)/ Asset £000
Fair value of employer assets	107,701	-	107,701
Present value of funded liabilities	-	142,954	(142,954)
Opening position as at 1 April 2019	107,701	142,954	(35,253)
Current service cost	-	5,051	(5,051)
Past service cost	-	2,148	(2,148)
Total service cost	-	7,199	(7,199)
Interest income on plan assets	2,597	-	2,597
Interest cost on defined benefit obligation	-	3,476	(3,476)
Total net interest	2,597	3,476	(879)
Total defined benefit cost recognised in Statement of Comprehensive Net Expenditure	2,597	10,675	(8,078)
Employee contributions	899	899	-
Employer contributions	2,261	-	2,261
Benefits Paid	(2,141)	(2,141)	-
Total cash flows	1,019	(1,242)	2,261
Expected closing position	111,317	152,387	(41,070)
Change in demographic assumptions	-	-	-
Change in financial assumptions	-	(16,926)	16,926
Other experience changes	-	(638)	638
Return on assets excluding amounts included in net interest	(7,126)	-	(7,126)
Total remeasurements recognised in Other Comprehensive Income	(7,126)	(17,564)	10,438
Fair value of employer assets	104,191	-	104,191
Present value of funded liabilities	-	134,823	(134,823)
Closing position as at 31 March 2020	104,191	134,823	(30,632)

Information in respect of the defined benefit obligation	£000	Liability split %	Duration Years
Active members	85,025	63.1	27.0
Deferred members	18,722	13.9	26.7
Pensioner members	31,076	23.0	13.0
Total	134,823	100.0	22.7

The decrease in net pension liabilities during 2019/20 was mainly due to a higher net discount rate which reduced the value placed on obligations. This was offset by investment returns, which have been significantly lower than expected (particularly in the last two months of the accounting period).

The movement in the funded part of the net pension liability for the year to 31 March 2019 was 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)

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

Asset Category	At 31 March 2020				At 31 March 2019			
	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	9,930.3	-	9,930.3	10	11,459.4	-	11,459.4	11
Manufacturing	15,026.8	-	15,026.8	14	13,251.5	-	13,251.5	12
Energy and Utilities	6,645.4	-	6,645.4	6	8,136.2	-	8,136.2	8
Financial Institutions	6,776.4	-	6,776.4	7	9,060.4	-	9,060.4	8
Health and Care	7,210.0	-	7,210.0	7	5,851.4	-	5,851.4	5
Information Technology	4,503.6	-	4,503.6	4	3,507.9	-	3,507.9	3
Other	7,606.8	-	7,606.8	7	10,501.5	-	10,501.5	10
Debt Securities:								
Corporate Bonds (investment grade)	1,745.1	3,834.6	5,579.7	5	-	-	-	0
Corporate Bonds (non-investment grade)	-	-	-	0	-	-	-	0
UK Government	6,414.3	-	6,414.3	6	10,943.0	-	10,943.0	10
Other	-	-	-	0	-	-	-	0
Private Equity:								
All	-	906.5	906.5	1	-	1,460.6	1,460.6	1
Real Estate:								
UK Property	1,198.4	5,628.8	6,827.2	7	-	7,294.7	7,294.7	7
Overseas Property	-	91.80	91.80	0	-	-	-	0
Investment funds and Unit trusts:								
Equities	1,275.7	-	1,275.7	1	1,063.9	-	1,063.9	1
Bonds	447.2	-	447.2	0	-	2,730.3	2,730.3	3
Commodities	-	-	-	0	-	-	-	0
Infrastructure	-	14,649.7	14,649.7	14	-	13,368.9	13,368.9	12
Other	-	-	-	0	-	-	-	0
Derivatives:								
Foreign exchange	212.6	-	212.6	0	27.2	-	27.2	0
Other	-	-	-	0	-	-	-	0
Cash and cash equivalents:								
All	10,087.0	-	10,087.0	10	9,044.1	-	9,044.1	8
Totals	79,080	25,111	104,191	100	82,847	24,855	107,701	100

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

Sensitivity analysis at March 2020	Approx.% increase to employer obligation	Approx. monetary amount £000
0.5% decrease in real discount rate	12	16,471
0.5% increase in salary increase rate	3	3,511
0.5% increase in pension increase rate	9	12,634

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

During the year ended 31 March 2020, Audit Scotland's contribution to the pension fund represented 18.2% (2019 – 17.7%) of contributing employees' pensionable pay. In addition, a lump sum payment of £77k (2019 – £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 2020/21 based on the new rate will be approximately £2,233k.

b) PCSPS 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 2020, Audit Scotland paid an employer's contribution of £104k (2019 – £87k) into the PCSPS at one of four rates in the range 26.6% to 30.3% 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 2019-20 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 2020/21 will continue at the rates in the range 26.6% to 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 2019/20, pension payments made totalled £25k (2018/19 – £24k).

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.

4. Other operating expenditure

	£000	2020 £000	2019 £000
Fees and expenses to appointed audit firms:			
Local authorities	2,246		2,270
National Health Service bodies in Scotland	900		929
Further education colleges	557		457
Scottish Government and sponsored bodies	846		819
		4,549	4,475
Other:			
Rent and rates	507		479
Other accommodation costs	436		437
Travel and subsistence	822		871
Legal and other professional fees	727		740
Stationery and printing	113		117
Training	457		464
Staff recruitment	114		135
Communications (telephone, postage)	63		82
Insurance	75		72
Information technology	501		470
Internal Audit	31		27
External Audit – financial accounts	29		29
Other	34		45
Non-cash items: Depreciation – tangible assets (note 7)	333		342
Depreciation – intangible assets (note 8)	23		27
		4,265	4,337
		8,814	8,812

Rent and rates includes £352k in respect of property leases (2018/19 – £349k) – [note 15](#).

5. Operating income

	2020 £000	2019 £000
Fees and charges payable by:		
Local authorities	12,078	11,576
National Health Service bodies in Scotland	2,850	2,980
Further education colleges	633	532
Scottish Government and sponsored bodies	3,036	2,944
	18,597	18,032
Miscellaneous income	30	53
	18,627	18,085

Audit Scotland applies 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 1g](#)). 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 £420k (2018/19 £450k) was included in the opening contract liability (payment on account).

At 31 March 2020 forecast future income on audits still in progress is £12,312k (31 March 2019 £12,185k). The typical audit cycle is a year and therefore we expect to recognise this income in 2020/21.

6. Net finance expenditure

	2020 £000	2019 £000
Interest income on pension scheme assets	2,597	2,647
Interest cost on pension scheme defined obligations	(3,521)	(3,445)
Bank interest	5	4
	(919)	(794)

7. Property plant and equipment

	Leasehold premises £000	Furniture and fittings £000	Computer equipment £000	Total £000
Cost				
At 1 April 2019	1,339	307	1,009	2,655
Reclassified in year	-	-	-	-
Additions	-	5	85	90
Disposals	-	(26)	(604)	(630)
At 31 March 2020	1,339	286	490	2,115
Depreciation				
At 1 April 2019	549	197	680	1,426
Charge for the year (note 4)	148	55	130	333
Depreciation on disposals	-	(26)	(596)	(622)
At 31 March 2020	697	226	214	1,137
Net Book Value				
At 31 March 2020	642	60	276	978
Analysis of asset financing				
Owned	642	60	276	978
Prior year				
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
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

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.

8. Intangible assets

	Software	
	2020	2019
	£000	£000
Cost		
At 1 April	427	424
Reclassified in year	-	-
Additions	51	3
Disposals for year	(344)	-
At 31 March	134	427
Depreciation		
At 1 April	384	357
Charge for the year (note 4)	23	27
Disposals for year	(342)	-
At 31 March	65	384
Net Book Value at 31 March	69	43

9. Trade and other receivables

	2020	2019
£000	£000	£000
Amounts falling due within one year:		
Trade receivables:		
Central Government bodies	273	8
Local authorities	69	278
NHS bodies in Scotland	124	101
Bodies external to government	-	6
	466	393
Work in progress in advance of billing	1,555	1,608
VAT	111	85
Prepayments	552	601
	2,684	2,687

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

10. Cash and cash equivalents

	2020 £000	2019 £000
Balance at 1 April	1,206	179
Net change in cash and cash equivalents	2	1,027
Balance at 31 March	1,208	1,206
The following balances at 31 March were held at:		
Commercial banks	1,208	1,206

11. Net funding from the Scottish Parliament

	2020 £000	2019 £000
Opening cash balance payable to the Consolidated Fund	1,206	179
Funding received from the Consolidated Fund	7,269	6,700
Closing cash balance payable to the Consolidated Fund	(1,208)	(1,206)
Net funding from the Scottish Parliament	7,267	5,673

12. Trade payables and other current liabilities

	£000	2020 £000	2019 £000
Amounts falling due within one year:			
Trade payables:			
Central Government	18		-
Local authorities	-		-
NHS bodies in Scotland	-		-
Bodies external to government	313		329
		331	329
Cash balance payable to Consolidated Fund		1,208	1,206
Deferred income		420	450
VAT		64	-
Corporation Tax		1	1
Accruals		338	385
Staff benefits – untaken holidays		916	831
Rent-free period on premises – current liability (note 13)		159	159
		3,437	3,361

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

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.

	2020 £000	2019 £000
Opening balance at 1 April		
Current	159	159
Deferred	826	839
	985	998
Additions	25	146
Released during year	(159)	(159)
Closing balance at 31 March	851	985
Whereof:		
Current	159	159
Deferred	692	826
	851	985

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:

	2020 £000	2019 £000
Opening balance at 1 April	1,934	1,858
Additions	-	-
Utilised in year	(101)	(100)
Revaluation	(48)	176
Closing balance at 31 March	1,785	1,934
Payable within 1 year	101	102
Payable after 1 year	1,684	1,832
	1,785	1,934
Discount rate used	2.3%	2.4%

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 2020 was £273k (31 March 2019 – £295k).

15. Commitments under leases

During the period to 31 March 2020, the amounts charged to revenue in respect of operating leases for premises and vehicles were as follows:

	2020 £000	2019 £000
Premises (note 4)	352	349
Vehicles	370	431
	722	780

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

	2020 £000	2019 £000
Premises		
Within one year	352	349
Later than one year and not later than five years	1,410	1,394
Later than five years	190	536
	1,952	2,279
Vehicles		
Within one year	337	287
Later than one year and not later than five years	582	245
	919	532

Audit Scotland has no finance leases.

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:

	2020 £000	2019 £000
Opening balance at 1 April	290	218
Provided in year	76	72
Released in year	-	-
Closing balance at 31 March	366	290
Payable after 1 year	366	290
	366	290

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.

18. Events after the reporting period

There have been no significant events after 31 March 2020 that require adjustment to, or disclosure in, the financial statements.

The financial statements were authorised for issue by the Auditor General for Scotland on 9 June 2020.

19. Contingent liabilities

At 31 March 2020, there were no contingent liabilities.

20. Capital commitments

At 31 March 2020, there were no contracted capital commitments payable in 2020/21.

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

2019/20

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