

# Annual report and accounts

2021/22



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# Introduction

## 2021/22 in numbers

**226**

Accounts audited

**10**

National and local performance reports

**8**

Covid-19 briefings, reports and technical guides

**£45.7bn**

Payments under Comptroller function

**112k**

Visitors to our website

## Our objectives

Our Corporate Plan sets the following strategic objectives:

**Delivering world-class public audit**



**Being a world-class organisation**



# Chair's introduction



Over the past year, Scotland's public services have addressed the twin tasks of managing the ongoing Covid-19 pandemic and beginning the recovery of Scotland's communities, services and economy.

As public bodies tackled these challenges, Audit Scotland reshaped its approach to ensure we continued to deliver high quality, independent public audit, at a time when public bodies were under more pressure than they have ever experienced. This has meant learning new ways of delivering audit, as well as refocusing our work to ensure that it addresses the key issues, is flexible and timely, and has the impacts that Scotland needs. We continue to live in uncertain and volatile times, so the assurance and clarity that robust, relevant and objective audit can provide has never been more crucial.

Audit Scotland is also changing. Through our strategic improvement programme, we are working to ensure we focus on the priorities and that we have the skills and capacity to do the job Scotland needs from us. We have also experienced changes in our leadership team, with Diane McGiffen and Fiona Kordiak leaving after lengthy periods of exemplary service to both the organisation and to Scotland's public sector. On behalf of the board, I thank them for all they have contributed to public audit, and for their support, advice and good humour no matter the pressures of our operating environment.

Elma Murray OBE finished her term as interim chair of the Accounts Commission in December and was succeeded by Dr William Moyes as Chair of the Accounts Commission and as a member our board. Our role, as a board, is to provide good governance, to ensure that 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. We are dedicated to these tasks.

Lastly, I want to thank everyone who works for Audit Scotland. They have continued to show their professionalism, resilience, commitment and empathy over the past year. Like everybody else, they have dealt with significant uncertainty and fast-moving disruptions, and yet have continued to provide Scotland with a high-quality public audit service.

**Professor Alan Alexander OBE**  
Chair of the Audit Scotland Board

# Accountable Officer's report



Over the past year, some of the wider and long-lasting impacts of the Covid-19 pandemic have begun to show themselves in the pressures on public services and public spending.

On behalf of Audit Scotland, I want to thank Scotland's key workers for saving lives and supporting communities. We're also grateful for everything they have done to help us start returning to some of the ways of life we enjoyed before the pandemic.

At Audit Scotland, the impact of Covid-19 on public bodies came through in our work as we audited the first full year of public services being delivered under pandemic conditions. Public bodies were under significant stress to deliver front-line services as well as govern and account for significant additional amounts of public money. Public spending in Scotland has risen by more than a quarter, and large sums of money have moved at pace through the system in order to support communities and the economy. The assurance that we provide on how well public money is being spent and the recommendations we make to help public services improve are central to our work.

It's important that public audit is reliable. During the past year we have prioritised the quality and resilience of our audit work, including delivering on a quality improvement programme, addressing issues raised in a small number of audits in previous years and providing more in-house support and expertise to help our teams deliver our aim of world-class public audit.

Audit Scotland has also delivered an agile and responsive performance audit programme on behalf of both myself as Auditor General and the Accounts Commission. This has resulted in a wide-ranging work programme and a broad range of audit products. Our aim is that our work reaches a diverse audience and achieves impact in both improving public services and the stewardship of public money.

None of this is possible without the strength, commitment and professionalism of my Audit Scotland colleagues. Those qualities continue to shine through, as well as their kindness, support and decency as we develop new ways of delivering audit and being a world class place to work.

Over the past year we have built our capacity, skills and resources so that we can both deliver the job Scotland requires of us and that we have the resilience as an organisation in an unpredictable environment. We are grateful to the Scottish Parliament for its ongoing support.

We are now reshaping our leadership to ensure we have the strategic capacity we need following the departure of much valued colleagues, Diane McGiffen and Fiona Kordiak, who left Audit Scotland during the year after long terms of outstanding service to public audit and this organisation. I want to thank them for their contribution to shaping Audit Scotland as a high-quality organisation and a supportive, inclusive and caring workplace.

**Stephen Boyle**  
Auditor General for Scotland  
and Accountable Officer

# About us

Audit Scotland is Scotland's national public audit agency. We provide the Auditor General and the Accounts Commission with the services they need to give independent assurance to the people of Scotland that public money is spent properly, efficiently and effectively.

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

Three principles 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, and examine areas such as financial management, financial sustainability, vision, leadership and governance, use of resources to improve outcomes, and Best Value in local government..

## Statutory background

Audit Scotland was formed on 1 February 2000 (and began operations on 1 April 2000), under the Public Finance and Accountability (Scotland) Act 2000. Part 2 of this Act established Audit Scotland as a body corporate.

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.

# Our year

## Delivering world-class public 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, made more complicated by the pandemic, it is important that independent, objective and authoritative public audit continues to support a strong and effective system of financial accountability and transparency.

## In 2021/22 we:

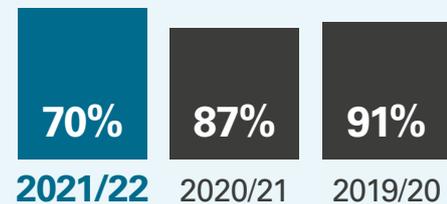
- ✓ delivered 226 audits under the [Code of audit practice](#), all delivered remotely and to updated guidance and deadlines
- ✓ delivered our refreshed performance audit programme, including our 'following the pandemic pound' work and our flexible and diverse audit outputs and products
- ✓ continued to develop our auditing and reporting on devolved financial powers and Scotland's new social security service
- ✓ published our new [Code of audit practice](#), which will set the expectations of public audit for the next five years
- ✓ concluded the procurement of external firms to deliver a portion of annual audits under our mixed-market [audit appointment](#) approach
- ✓ continued the implementation of our digital audit strategy to improve our use of technology, including rolling out data analytics and developing our approach to integrating analytics and graphical communication.

## Key performance indicators

Annual audits delivered to schedule



Reports published to schedule



Correspondence responses issued to schedule



# Annual audits

This forms the largest part of our statutory work.



## Accounts audited in 2021/22

**104**

Local  
government

**78**

Central  
government

**23**

NHS

**21**

Further  
education

### Accounts audited in 2021/22

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, and that money was spent in accordance with legislation and other relevant regulations.

We audited 226 sets of accounts this year. There are 222 public bodies, and some produce separate accounts for entities such as pension funds and charity accounts. All accounts were judged to be true and fair, although we qualified Social Security Scotland's accounts for regularity reasons, and disclaimers of audit opinion were issued on the accounts of Scottish Environment Protection Agency and Scottish Canals.

### Raising issues from annual audits

We highlight any 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 ten Section 22 reports and one Section 102 from audits completed in 2021/22. These covered: Bord na Gaidhlig, the Commissioner for Ethical Standards in Public Life in Scotland, the Crofting Commission, NHS Highland, NHS National Services Scotland, National Records of Scotland, Orkney and Shetland Valuation Joint Board, Scottish Environment Protection Agency, Scottish Canals, the Scottish Government's Consolidated Accounts and South Lanarkshire College.

## Making a difference: Annual audits



### Avoiding material misstatements in published financial statements



We helped ensure that more than £300 million of spending on personal protective equipment was properly recognised in NHS National Services Scotland's accounts, and that NHS Greater Glasgow and Clyde did not lose £48 million of additional funding aimed at helping manage waiting lists.

### Providing technical views on accounting and reporting issues

South Lanarkshire Council increased its reserves by £4.5 million and reduced its annual debt repayments by the same amount after following our recommendations. Similarly, Dundee and Angus College is changing its approach to recognising assets, and Forestry and Land Scotland is updating its accounting practices to reflect its change from its predecessor organisation.

# Performance audits

On behalf of the Auditor General and the Accounts Commission we produce performance audits and overview reports on issues which have a direct impact on people’s daily lives.

## Products published in 2021/22

**2**

Performance  
Audit reports

**3**

Overview  
reports

**10**

Statutory  
reports

**29**

Other  
reports



At the start of the pandemic, we initially paused our performance audit programme in order to avoid putting pressure on public bodies that were focused on tackling the impacts of Covid-19. We used this time to reframe our programme, and to understand the emerging impacts of Covid-19, what new work was required and how existing planned work needed to be reshaped. This included consulting with key stakeholders on the [refreshed programme](#) we will deliver for the Auditor General and the Accounts Commission.

During 2021/22 we delivered on the refreshed programme, which takes a more flexible approach in order to both consider public bodies’ capacity and to enable us to react to fast-changing circumstances. This more agile approach was reflected in the broad range of diverse products we published in 2021/22, including briefing papers, update reports, statements and blogs, as well as longer detailed performance audit reports. We supplemented our more traditional audit reports with a variety of supporting products, such as more use of videos and animations, to reach a wider audience.

The impact of the pandemic and the public sector’s response were understandably recurring themes in much of our work this year.

We published a number of specific Covid-19 reports, starting with our [Following the pandemic pound strategy](#) (May).

## Making a difference: Performance audits



### Significant impact in important public services



Our report on [improving outcomes for young people through school education](#) helped inform a new approach to Scottish Attainment Challenge funding across Scotland, as well as the Scottish Government's National Improvement Framework reporting on how the government was putting the report's other recommendations into action.

The Scottish Government and COSLA refreshed Scotland's national digital strategy following our January 2021 [Digital progress in local government](#) audit, and the report is also being used widely across Scottish local government.

In June, we published a review of how the Scottish Government and NHS managed the procurement and distribution of [personal protective equipment](#), or PPE, stating that a longer-term approach was needed. This was followed in September with an update on [the impact of Covid-19 on Scotland's public finances](#) and a briefing that found that [Scotland's vaccination programme](#) was making excellent progress. In October, we looked at Covid's impact on [community empowerment](#), and in March we updated on how public money had been used to [support businesses during the pandemic](#), including finding that £4 billion of funding was not being monitored.

In February 2022, our [NHS overview](#) said reforming health and social care services was key to address growing costs and recovery from the pandemic.

The two overviews of local government reviewed how councils are responding and the key issues they were facing. The [performance overview](#) (May) said councils and communities were working well together but that Covid-19 was exacerbating inequalities and other existing issues. Later in 2021/22, the [financial overview](#) (March) found councils faced a financially uncertain future, with reducing budgets and ongoing challenges from the pandemic.

Our performance audits also looked at the [planning for Scotland's workforce skills](#) (January) and the commissioning of [two new ferries](#) (March) for island communities. The former found that urgent action needs to be taken, while the second prompted significant public and political debate about how decisions were made in a project running several years late and millions of pounds over-budget.

Our shorter briefing reports gave updates on subjects we have previously reported on or intend exploring further in our audit work. In July, we reported that the Scottish Government wasn't achieving its aim of having more offenders serve [sustainable alternatives to custody](#). We also reported on [the sustainability of social care](#) (January), and on the need for a clear plan for Scotland's complex [drug and alcohol services](#), as the country wrestles with the highest drug-related death rate in Europe.

We published 13 [blogs](#) on subjects including the financial state of the college sector, cyber security, climate change, children and young people's mental health services, digital exclusion and housing benefits. Both the Auditor General and Accounts Commission also reflected on the influential Christie Commission report of 2011, saying that a decade on its call for reforming public services was more imperative than ever.

## 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. In July, we published our annual [Fraud and irregularity update](#) on cases auditors reported on during 2020/21.

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. We publish reports on the NFI biennially, and our next report is planned for late summer 2022.

### Fraud and irregularity 2020/21



July 2021



# Reporting on Best Value in local government

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



## BVARs published on behalf of the Commission during 2021/22

### **Aberdeen City Council**

June 2021

### **East Dunbartonshire Council**

September 2021

### **South Ayrshire Council**

October 2021

### **Falkirk Council**

January 2022

### **Moray Council – progress report**

March 2022

Over the past year, we continued to support the Commission's roll-out of Best Value Assurance Reports (BVARs). These provide a 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.

The Accounts Commission's annual report 2021/22 provides further detail about the Best Value programme.

## Making a difference: Best Value Assurance Reports



The Accounts Commission's Best Value programme aims to ensure there is good governance and effective resource management at councils, and also focuses on how they can improve. During the past year we found that councils were making progress against our recommendations, although this had sometimes been affected by the pandemic.

In June we published the [Aberdeen City BVAR](#), saying the council's performance had significantly improved but that more work was needed in housing and education. The council produced and publicly announced its action plan to implement our recommendations. Meanwhile, we have used the council's progress in implementing its digital strategy as a case study to help other councils.

# Supporting scrutiny

## 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. He reports in public to the Scottish Parliament's Public Audit Committee (PAC). This role has assumed greater importance over recent years as a consequence of Scotland's new financial powers.



In recent years 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. Despite disruption as a result of the pandemic and changing methods of holding Parliamentary meetings, we were still able to provide a high level of support to MSPs and committees. We met with, and gave oral and written evidence to, a wide range of parliamentary committees and briefings to MSPs, with a total of 40 parliamentary engagements over the year. 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.

## Scrutiny coordination

We work closely with other scrutiny organisations 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.

## Audit quality

Our quality assurance team independently reviews the audit work, and it also undergoes independent external review by the Institute of Chartered Accountants of Scotland (ICAS).

During 2021/22, we undertook and invested in an improvement programme aimed at addressing recommendations from last year's reviews. This was aimed at maintaining and strengthening the quality of our audits. The latest quality reviews have found improved results across many areas, and reflect the hard work of the audit teams and our in-house professional support unit in making strong progress here. More information is in our [Quality of public audit in Scotland annual report](#) and our [Transparency report](#).

Public bodies continue to express high satisfaction with the usefulness of the audit and the performance of our audit teams. Internally, staff thought they received enough time for training and development than in previous years, and believed they were encouraged to deliver high-quality work. However, they also told us that delivering audits was challenging under the Covid-19 restrictions in place during 2021/22 and that resources were stretched.



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

We also contract ICAS to conduct independent reviews of a selection of our work, checking for quality and for compliance with auditing standards and other regulatory and professional requirements. We use the results of the AQA and ICAS reviews to inform our quality improvement activity.

Our Professional Support team works closely with the AQA team to provide guidance, advice and support to auditors. We follow all of the applicable standards from the international standards of auditing (ISAs), and from the International Organisation of Supreme Audit Institutions (INTOSAI). We comply with the [Code of audit practice](#) and related guidance.

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. Audit Scotland also has reciprocal arrangements with other audit institutions in the UK and internationally.

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.

## Ethical standards

Independence is a fundamental principle of public audit and helps ensure its effectiveness. We use the Financial Reporting Council's (FRC) Ethical Standards for auditors, not just for financial audits but for all our work. We updated our ethical policy during the year to reflect to changes in the standards.

Our ethics partner works to ensure compliance with ethical standards within the organisation, and advises our board on matters of ethics. This role was performed by Director of Audit Services Fiona Kordiak until her retirement in February 2022. Gillian Woolman has undertaken the role on an interim basis until the appointment of our new permanent Executive Team.

# 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 2021/22 we:

- ✓ undertook a major campaign to build our capacity and strengthen our skills and ensure we can continue to support the Auditor General and Accounts Commission and perform the role Scotland will require from us in future
- ✓ supported all colleagues to work remotely, through our digital infrastructure, assessments of home work stations, provision of equipment, and support for physical and mental health and maintaining workplace relationships
- ✓ developed our approach to hybrid working through organisation-wide events, discussions and guidance
- ✓ continued the implementation of our strategic improvement programme, including finalising the new Code of Audit Practice and the tender process for the next round of audit appointments starting in late 2022
- ✓ retained our status as a one star organisation in the Best Companies staff engagement survey.

## Key performance indicators

### People in post



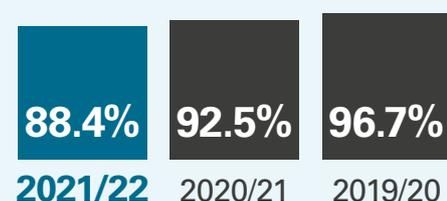
### Exam pass rate for professional trainees



### IT uptime



### IT issues resolved within target times



# Our people

During 2021/22, we worked to build our capacity and skills to ensure we can perform the role Scotland needs from us in future.

## Our workforce in 2021/22

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**313.2**

Whole Time  
Equivalent (WTE)

**7.1%**

increase  
from 2021

**51**

Trainees



At March 2022, our workforce was 313.2 WTE, an increase of 7.1 per cent from March 2021. This followed a major recruitment campaign to increase our capacity to deliver audits and provide expert support functions. Another focus of our recruitment in the past year has been on supporting flexible approaches to work and increasing the diversity of background and life experience of applicants, as well as continuing to attract graduate trainees, supported by our comprehensive graduate training programme.

During 2021/22, we began work to strengthen and reshape our leadership team. This is to ensure we have the strategic capacity, appropriate skill-mix and necessary resilience in our senior leadership, as well as replace some of our leaders who left the organisation during the year due to other opportunities and retirement. We will continue this process during 2022/23.

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 51 trainees working towards qualifications from the Institute of Chartered Accountants of Scotland.

Our gender pay gap results show that men on average earn 10.4 per cent more than women at Audit Scotland. We are confident that many women currently beginning their professional careers with Audit Scotland will develop and progress into senior roles in future years. This is because our pay structure, pay progression, flexible working policies and development opportunities are free of gender bias and have been Equality Impact Assessed (EQIA). We continue to monitor our approach to recruitment so that it follows good practice across all diversity and equality strands.

For much of 2021/22 we remained a 'virtual organisation'. We reopened our offices in November on a restricted phased basis, but closed them again shortly after in response to the sharp increase in Covid-19 infections due to the Omicron variant. We reopened again in March, again on a phased basis guided by our four principles of wellbeing and safety, effectiveness, equity and inclusion, and sustainability.

### Audit Scotland: Gender pay gap 2021



March 2022



For the second successive year, we were named a one star organisation in the annual Best Companies workplace survey, making us a 'very good' place to work. The results were largely positive, however colleagues also clearly stated that the difficult conditions and challenging working circumstances of the past two years is having an impact on wellbeing and on people feeling under pressure.





## Learning and sharing together while apart



Our colleagues spent much of the past year (as in the previous year) working from their kitchens, lounges, spare rooms and bedrooms. In such circumstances, being able to bring colleagues from across Audit Scotland together to discuss the issues facing public bodies, our professions and our own organisation proved challenging.

In June 2021 we launched 'Audit Scotland 2021: Shaping our future', a diverse and ambitious virtual programme of events and activities based around the three themes of our strategic improvement programme: our purpose, what we do, and how we work.

The aim was to engage with the different groups of people across Audit Scotland on topics relevant to their work, and create opportunities to bring everyone together to consider the external environment in which we operate. We also wanted to hear from individuals and organisations with experience of delivering and receiving public services in Scotland, in line with helping us make our work more people-centred. We also included activities based on professional development and personal wellbeing.

### Over a seven-month period, we delivered:

#### 5 keynote events

featuring 11 guest speakers, including a joint session with the UK's four Auditor Generals to staff from all four agencies

#### 32 insight events

including events with 25 external contributors as speakers and panellists

#### 14 perspectives

from colleagues, the Auditor General for Scotland and Accounts Commission members

#### Central hub

on our corporate intranet containing all event materials and recordings



**Colleagues have responded positively to Audit Scotland 2021, with 96 per cent saying they would welcome a similar programme in 2022.**

# Sustainability and engagement

## Climate change and sustainability

Since 2008/09 we have reduced our carbon footprint by more than 69 per cent, and by 52 per cent against baselines we set in 2014/15.

Our total emissions equate to less than 1 tonnes of carbon dioxide equivalent (tCO<sub>2</sub>e) per WTE employee or 0.1 (tCO<sub>2</sub>e) per m<sup>2</sup> floor space we occupy. Updated details of our 2021/22 performance will be in our Environment, Sustainability and Biodiversity annual report, published in November 2022.

We also set out how we will address the public sector's response to climate change through our audit work.

**Environment,  
Sustainability  
and Biodiversity  
annual report  
2020/21**



November 2021



## Responding to the public

We welcome enquiries from a wide range of people about the bodies we audit. Where appropriate, we may carry out further audit work in response to the issues raised.

In 2021/22, we received 264 items of correspondence, including 13 under the Public Interest Disclosure Act 1998) compared to 11 in 2019/20. These are often referred to as 'whistleblowers'. More information is in our [Correspondence and whistleblowing annual report](#).

This year we recorded 37 Freedom of Information requests (35 in 2020/21) and no Environmental Information requests (none in 2020/21).

We recorded a total of three complaints over the year, compared with one in 2020/21. The complaints were investigated and none was upheld.

**Correspondence  
and whistleblowing  
Annual report  
2021/22**



June 2022



## 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.

More information on our approach is on the [Going global](#) page of our website, and our [International work annual report](#) updates on our work this year. In response to the war in Ukraine, we joined European counterparts in endorsing a joint statement by the European Organisation of Regional Audit Institutions condemning the invasion and suspending all cooperation with Russian counterparts, as well as pledging support to Ukrainian public audit organisations.

**International  
work 2021/22**



June 2022



# Financial position

## Financial overview

### Expenditure

---

**£23.9**  
million

Expenditure on  
people costs

**£4.5**  
million

Fees and  
expenses paid  
to firms

**£3.9**  
million

Other operating  
expenditure<sup>1</sup>

**£0.9**  
million

Net finance  
expenditure incl.  
Corporation Tax

**£0.6**  
million

Capital  
expenditure

### Fees and funding

---

**£17.9**  
million

audit fees and  
other income

**£15.9**  
million

Scottish  
Parliament  
funding



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

## 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 58 – 82](#).

## Resource outturn

Our year in figures	Note	2021/22			2020/21
		Actual £000	Budget £000	Variance £000	Actual £000
People costs	Staff report	23,902	25,564	1,662	20,465
Fees and expenses paid to external firms	4	4,481	4,554	73	5,237
Other operating expenditure	4	3,871	4,145	274	3,921
<b>Total operating expenditure</b>		<b>32,254</b>	<b>34,263</b>	<b>2,009</b>	<b>29,623</b>
Operating income	5	(17,922)	(18,737)	(815)	(17,832)
<b>Net operating expenditure</b>		<b>14,332</b>	<b>15,526</b>	<b>1,194</b>	<b>11,791</b>
Net finance expenditure	6	939	938	(1)	767
Corporation Tax payable		-	-	-	-
<b>Net expenditure after tax</b>		<b>15,271</b>	<b>16,464</b>	<b>1,193</b>	<b>12,558</b>
Capital expenditure		600	600	-	139
<b>Total resource required from Parliament</b>		<b>15,871</b>	<b>17,064</b>	<b>1,193</b>	<b>12,697</b>

## Net expenditure after tax

In 2021/22, Audit Scotland spent £32.2 million on operating expenditure to provide services for the Auditor General and the Accounts Commission. Of these costs £17.9 million was recovered through charges to audited bodies and other income. The balance of £14.3 million net operating expenditure plus net finance costs of £0.9 million were met from direct funding provided by the Scottish Parliament.

The 2021/22 financial year continued to be extremely challenging as we continued to deliver audit remotely. The additional funding approved for 2021/22 (£1.5 million) enabled us to implement a strategic improvement programme where we focused on developing a multiyear recovery plan from the Covid-19 disruption and invested in increasing capacity, professional support and providing ongoing support to colleagues wellbeing.

In the Spring Budget Revision 2021/22 we requested additional Annually Managed Expenditure funding of £6 million to meet the projected additional non-cash costs arising from the annual IAS 19 pension exercise. This also enabled us to arrange for a budget transfer of £0.3 million from projected revenue savings into the capital investment budget.

**People costs** represent 75 per cent of Audit Scotland's total operating expenditure, with the year-end highlighting an underspend to budget of £1.7 million. Included in this saving is £0.6 million in respect of IAS 19 non-cash pension expenditure. The balance of £1.1 million is mainly due to our phased approach to recruitment as we looked to use the additional funding to build the capacity required to develop a future operating model. While this generated timing savings in the financial year the additional funding has been fully committed on an annual basis. In addition to this we have been carrying a number of unplanned vacancies where we now have appointed candidates or we are in the process of identifying successful candidates.

**Fees and expenses paid to external firms** were £0.1 million less than planned. This was mainly due to a significant reduction in travel and expenses (£0.3 million) as all financial audit work by the firms continued to be delivered remotely. There was also a credit generated by releasing the remote audit provision balance from 2020/21 (£0.5 million). Payments to firms for additional work undertaken led to an overspend (£0.7 million) and this was funded by additional fee income recovered from the audited bodies following their agreement.

**Other operating expenditure** was £0.3 million below budget due to the continued significant reduction in travel and subsistence expenditure as audit work was done remotely. Overspends in ICT, recruitment and depreciation (£0.2 million) were fully funded by savings in property, other costs and legal, professional and consultancy. The ICT overspend was due to the requirement of additional software licences following the increase in staff numbers and the purchase of low value hardware to reconfigure office workstations. Recruitment costs were higher than budget as we look to recruit to senior positions within the organisation and depreciation was more than budget due to increased capital expenditure on shorter asset life equipment.

**Operating income** was £0.8 million less than budget due to a £1.3 million provision being raised in respect of potential fee refunds following the significant reductions in travel and expenses incurred by the firms and Audit Scotland. This provision is funded by the savings identified in Fees and expenses paid to external firms and Other operating expenditure. The actual outturn, excluding this provision adjustment, is £0.5 million better than budget.

In 2021/22, we delivered £1.6 million in savings, 4.6 per cent of our £35.8 million gross expenditure budget. Most savings came from travel and subsistence, staffing costs, printing and office costs and training 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 budget for 2021/22 was originally set at £0.3 million and following approval for the transfer of £0.3 million revenue budget to capital it increased to £0.6 million. Capital investment in 2021/22 was £0.6 million which supported our digital strategy for equipment to have enhanced cyber security and enabled us to invest in a cloud-based integrated business management system.

## Resources required for 2022/23

The 2022/23 budget has been approved by the Scottish Parliament with revenue resources totalling £30.6 million. Of these resources, £19.2 million will be recovered through charges to audited bodies and miscellaneous income. The £11.4 million balance of expenditure will be met from direct funding provided by the Scottish Parliament.

Scottish Parliament additional funding continues to support our strategic improvement programme.

A capital resource of £0.3 million will also be provided by the Scottish Parliament.

**Stephen Boyle**  
Accountable Officer

6 June 2022

# 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
- Independent auditors' report

# Corporate governance report

## Directors' report

### Directors

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

### Register of interests

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

### Auditor of Audit Scotland

Our accounts must, under Section 19 of the Public Finance and Accountability (Scotland) Act 2000, be sent to the Scottish Commission for Public Audit (SCPA) for auditing. The SCPA appointed Alexander Sloan Accountants and Business Advisers as external auditors for a period of four years starting with the year to March 2022.

# 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 (FRoM) 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 FRoM, 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 he is aware there is no relevant audit information of which Audit Scotland's auditors are unaware, and that he has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that Audit Scotland's auditors are aware of that information.

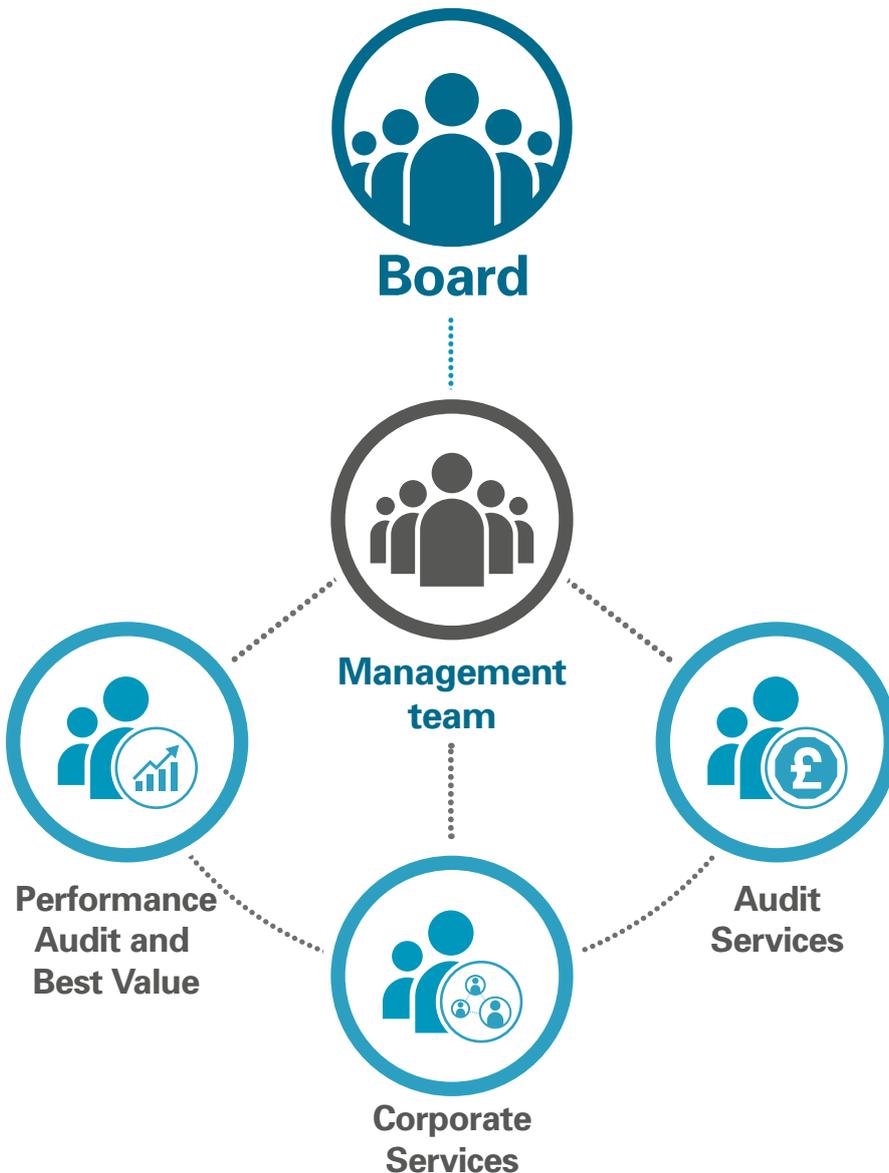
The Accountable Officer confirms that this annual report and accounts taken as a whole is fair, balanced and understandable. The Accountable Officer takes personal responsibility for the annual report and accounts and the judgements required for determining that it is fair, balanced and understandable.

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



**Professor Alan Alexander OBE**

Chair of the board



**Stephen Boyle**

Auditor General for Scotland and Accountable Officer for Audit Scotland



**Dr William Moyes**

Chair of the Accounts Commission (from January 2022)



**Colin Crosby OBE**

Independent non-executive member and Chair of the Audit Committee



**Jackie Mann**

Independent non-executive member and Chair of the Human Resources and Remuneration Committee



**Elma Murray OBE**

Interim Chair of the Accounts Commission (until December 2021)

## 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 Colin Crosby (chair), William Moyes and Jackie Mann.

The committee appoints the internal auditors and approves the internal audit plan. Internal audit services are provided by an external firm (BDO). Six of the seven audits in 2021/22 achieved 'substantial assurance' in terms of design and operational effectiveness, the remaining audit achieved 'reasonable assurance'.

### 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. Its other duties include reviewing the measures for assessing the Management Team's performance, recommending Management Team appointments, assessing early retirement requests and overseeing Audit Scotland's expenses policy. The committee takes advice from external advisors as required.

The committee comprises Jackie Mann (chair), William Moyes, Colin Crosby and Stephen Boyle.

## Attendance during between 1 April 2021 and 31 March 2022

### Board

Six meetings across the year: May 2021, June 2021, September 2021, November 2021, January 2022, 5 April 2022

- Alan Alexander (attended all)
- Stephen Boyle (attended all)
- Colin Crosby (apologies for November 2021 Board meeting)
- Jackie Mann (attended all)
- Elma Murray (attended all with exception of Jan 2022 and Apr 2022 – both covered by William Moyes)
- William Moyes (attended Jan 2022 and April 2022)

## Audit Committee

Five meetings across the year: May 2021, June 2021, September 2021, November 2021, March 2022

- Alan Alexander (not a member, but attended all as an observer)
- Stephen Boyle (not a member)
- Colin Crosby (attended all)
- Jackie Mann (attended all)
- Elma Murray (attended May 2021, June 2021, September 2021 and submitted apologies for Nov 2021)
- William Moyes (attended March 2022)

## 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.

During 2021/22, the management team was 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.

In considering the 2022/23 budget proposal, the SCPA explored a number of areas including: the challenges facing public bodies and auditors due to the pandemic, the public audit funding model, the management contingency budget, auditing inequalities, recurring and non-recurring savings and legal and professional fees.

The SCPA recommended the 2022/23 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.

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 2021/22 strategic objectives:

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

The risk profile in 2021/22 was dominated by the Covid-19 pandemic and the challenges this posed to public services and to Audit Scotland. In addition to the arrangements outlined above, Covid-19 was a standing item for the weekly meetings of the Incident Management Team and Management Team to ensure that the situation was being monitored closely and regularly and that action was being taken as appropriate.

## Delivering world-class public audit

The key risks in 2021/22 under this objective were around any failure to deliver the audits (due to disruption in the public bodies and to Audit Scotland), not meeting stakeholder expectations and/or the risk to the quality, independence, focus and impact of the audit work.

## Being a world class organisation

The key risk under this objective was the health, safety and wellbeing of our colleagues and we prioritised this throughout 2021/22. The pandemic also heightened risks around our financial position, our digital infrastructure and our organisational capacity and how we deploy that capacity.

Many of the risks are interlinked; for example, risks to the health, safety and wellbeing of our staff have an impact on our organisational capacity to deliver the audit work. Similarly, a failure of quality would have a negative effect on our credibility and reputation, which would in turn undermine the value and impact of the work.

## Information security

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

As noted above, the Covid-19 situation has increased the risk in this area as some people and organisations are seeking to exploit the situation. We have introduced enhanced digital security arrangements and we are monitoring the situation closely. Continued cyber-attacks on organisations during the pandemic, including high-profile attacks on public bodies, 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. Digital security and resilience has never been more important.

Our [Digital Services Strategy 2021-24](#) focuses on three core objectives: enhancing our cyber security, providing systems and services for a virtual business and digital transformation.

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, and reviewed in May 2022. 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 2021/22 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 2022 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 2022 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. He is a Crown appointment following nomination by Parliament. His appointment is for a fixed term of eight years from 1 July 2020 and his 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:

<b>Remuneration banding (Audited)</b>	<b>2021/22 £000</b>	<b>2020/21 £000</b>
Chair – Alan Alexander	10 – 15	10 – 15
Independent board member – Jackie Mann (from 1 July 2020)	5 – 10	5 – 10
Independent board member – Colin Crosby <sup>1</sup> (from 1 October 2020)	5 – 10	0 – 5
Independent board member – Heather Logan <sup>1</sup> (until 30 September 2020)	-	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 11 (11 in 2020/21) and their remuneration was as follows:

<b>Remuneration banding (Audited)</b>	<b>2021/22 £000</b>	<b>2020/21 £000</b>
Chair – William Moyes (from 01 January 2022) <sup>1</sup>	10 – 15	-
Interim Chair – Elma Murray (until 12 December 2021) <sup>1</sup>	30 – 35	25 – 30
Interim Deputy Chair – Tim McKay	15 – 20	10 – 15
Commission members	5 – 10	5 – 10

Note: 1. The full year equivalent remuneration is £45k – £50k

## 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



### Stephen Boyle

Auditor General for Scotland and Accountable Officer for Audit Scotland



### Diane McGiffen

Chief Operating Officer  
(until 4 January 2022)



### Fiona Kordiak

Director of Audit Services  
(until 8 April 2022)



### Fraser McKinlay

Director of Performance Audit and Best Value and Controller of Audit  
(until 16 April 2021)



### Antony Clark

Interim Director of Performance Audit and Best Value and Controller of Audit  
(from 10 March 2021)



### Martin Walker

Interim Director of Corporate Services  
(from 18 November 2021)

Following the departure of senior managers within the organisation, the Accountable Officer and Board are in the process of recruiting to these vacant positions. Interim arrangements have been put in place until the vacancies have been filled on a permanent basis.

The salaries (excluding employer's superannuation and national insurance contributions), benefits in kind and pension entitlements of the management team are shown on [pages 41-42](#). Information is presented for the whole year to 31 March 2022. Further information on the pensions payable to Audit Scotland staff, including senior management, can be found in [Note 3. Pension assets and liabilities \(page 65\)](#).

Single total remuneration (Audited)	2021/22	2020/21	2021/22	2020/21	2021/22	2020/21	2021/22	2020/21
	Salary £000	Salary £000	Benefit in kind <sup>1</sup> £	Benefit in kind <sup>1</sup> £	Pension benefit <sup>2</sup> £000	Pension benefit <sup>2</sup> £000	Total £000	Total £000
<b>Stephen Boyle</b> <sup>3</sup> Auditor General for Scotland	140 – 145	105 – 110	-	-	56	42	200 – 205	150 – 155
<b>Caroline Gardner</b> <sup>4</sup> Auditor General for Scotland (until 30 June 2020)	-	40 – 45	-	-	-	36	-	75 – 80
<b>Diane McGiffen</b> <sup>5</sup> Chief Operating Officer	95 – 100	125 – 130	-	-	-	39	95 – 100	165 – 170
<b>Fraser McKinlay</b> <sup>6</sup> Director of Performance Audit and Best Value and Controller of Audit	0 – 5	115 – 120	-	-	-	38	0 – 5	155 – 160
<b>Fiona Kordiak</b> Director of Audit Services	110 – 115	110 – 115	9,200	10,700	-	47	120 – 125	170 – 175
<b>Antony Clark</b> <sup>6</sup> Interim Director of Performance Audit and Best Value and Controller of Audit	115 – 120	5 – 10	-	-	144	3	260 – 265	10 – 15
<b>Martin Walker</b> <sup>7</sup> Interim Director of Corporate Services	40 – 45	-	-	-	37	-	75 – 80	-

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 (3.1 per cent) and are net of contributions made by the individual.
3. 2020/21 full year equivalent salary £140,000 to £145,000.
4. 2020/21 full year equivalent salary £150,000 to £155,000.
5. 2021/22 full year equivalent salary £125,000 to £130,000.
6. 2020/21 and 2021/22 full year equivalent salary £115,000 to £120,000.
7. 2021/22 full year equivalent salary £110,000 to £115,000.

<b>Pensions (Audited)</b>	<b>Accrued pension at 31 March 2022</b> £000	<b>Accrued lump sum at 31 March 2022</b> £000	<b>Real increase in annual pension</b> £000	<b>Real increase in lump sum</b> £000	<b>CETV at 31 March 2022<sup>1</sup></b> £000	<b>CETV at 31 March 2021<sup>1</sup></b> £000	<b>Real increase in CETV<sup>1</sup></b> £000
<b>Stephen Boyle</b> Auditor General for Scotland	5 – 10	NIL	2.5 – 5.0	NIL	63	27	26
<b>Diane McGiffen</b> Chief Operating Officer	55 – 60	80 – 85	0.0 – 2.5	–	1,083	1,026	47
<b>Fraser McKinlay</b> Director of Performance Audit and Best Value and Controller of Audit	30 – 35	15 – 20	-	-	422	407	14
<b>Fiona Kordiak</b> Director of Audit Services	45 – 50	85 – 90	-	-	-	1,060	-
<b>Antony Clark</b> Interim Director of Performance Audit and Best Value and Controller of Audit	30 – 35	25 – 30	5.0 – 7.5	5.0 – 7.5	564	415	137
<b>Martin Walker</b> Interim Director of Corporate Services	40 – 45	60 – 65	2.5 – 5.0	5.0 – 7.5	764	654	102

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.

## Fair pay disclosure (Audited)

Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid director in their organisation and the lower quartile, median and upper quartile remuneration of the organisation's workforce.

Total remuneration includes salary, non-consolidated performance-related pay and benefits-in-kind. It does not include severance payments, employer pension contributions or the CETV of pensions.

	2021/22	2020/21
Remuneration banding for highest paid individual	£140,000 – £145,000	£150,000 – £155,000
Percentage change from previous financial year for highest paid individual	-6.6%	+3.4%
Average percentage change from previous financial year for employees	-1.8%	+3.7%
Lower quartile remuneration	£31,103	£32,722
Lower quartile ratio	4.6	4.7
Median remuneration	£45,197	£45,909
Median ratio	3.2	3.3
Upper quartile remuneration	£57,257	£57,136
Upper quartile ratio	2.5	2.7
Remuneration range	£18,500 – £140,000 to £145,000	£18,000 – £150,000 to £155,000

The reduction in percentage change for the highest paid individual is due to a change of Auditor General for Scotland on 1 July 2020. The reduction in average percentage change for employees is due to the increase in full time equivalent staff (FTE) within the Band 1 pay scale being significantly higher proportionately compared to the rest of Audit Scotland. Following the FReM guidance the FTE used to calculate the average in this pay scale was 118.1 in 2020/21 and increased to 148.9 in 2021/22.

## Pensions

Employees of the NAO transferring to Audit Scotland on 1 April 2000 and the Auditor General for Scotland 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 [page 46](#) are covered by the audit opinion.

# Staff report

	2021/22	2020/21	2019/20
<b>People (WTE)</b>	313.2	292	291
<b>Gender</b>	57% Female 43% Male	57% Female 43% Male	58% Female 42% Male
<b>Board<sup>1</sup></b>	40% Female 60% Male	40% Female 60% Male	40% Female 60% Male
<b>Management team</b>	50% Female 50% Male	50% Female 50% Male	75% Female 25% Male
<b>Absence</b> CIPD benchmarks <sup>2</sup> 8 days public sector 4.3 days private services	5.75 days	5.82 days	4.97 days
<b>Turnover rate<sup>3</sup></b> CIPD benchmark: median rate of 16%	9.4%	5.09%	6.32%
<b>Trainee auditors</b>	51	44	43

Note:

1. Board changed in January 2022, to 20% female and 80% male.
2. Chartered Institute of Personnel and Development (CIPD).
3. 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 2022, staff headcount was 327 (313.23 WTE), compared with a headcount of 309 (292.34 WTE) in 2021.

## People costs and numbers

<b>People costs</b>	<b>2021/22</b> £000	<b>2020/21</b> £000
Wages and salaries	14,384	13,531
Social Security costs	1,716	1,584
Superannuation	2,783	2,578
Temporary staff <sup>1</sup>	139	324
Pensions in payment <a href="#">(note 3c)</a>	15	26
Provision for early retirement and severance costs	114	-
Movement in early retirement costs	(33)	126
Adjustment for retirement benefit scheme costs (see below)	4,643	2,145
	<b>23,761</b>	<b>20,314</b>
<b>Accounts Commission members</b>		
Salaries	135	142
National Insurance	6	6
Travel and subsistence	-	3
	<b>141</b>	<b>151</b>
	<b>23,902</b>	<b>20,465</b>

Notes:

1. Equivalent to 3 WTE in 2021/22 and 6 WTE in 2020/21.

<b>Analysis of local government retirement benefit scheme costs</b>	<b>2021/22</b> £000	<b>2020/21</b> £000
Current service costs	8,337	5,574
Past service costs	119	-
	<b>8,456</b>	<b>5,574</b>
Less: Actual employees' contributions	(1,021)	(955)
<b>Charge to revenue</b>	<b>7,435</b>	<b>4,619</b>
Employer contributions	(2,792)	(2,474)
<b>Adjustment for retirement benefit scheme costs</b>	<b>4,643</b>	<b>2,145</b>

## Learning and development

Audit Scotland runs one of the largest public financial audit training schemes in Scotland. We have 51 trainees and staff working towards an ICAS qualification.

Sickness absence at Audit Scotland in 2021/22 is broadly comparable with the other UK public audit agencies. An average of 5.7 days per employee was lost to sickness absence.

Our primary focus in 2022/23 is to continue supporting colleagues as we develop our new hybrid operating model of working and investing in our resources to support our upcoming work on digital auditing, climate auditing and development of our colleague's skills to support these changes.

## Organisational development

We continue to focus upon being a world-class organisation – where Audit Scotland is a consistently 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.

## Early retiral and severance (Audited)

In the year to March 2022, one member of staff left under a voluntary early release arrangement where they were entitled to early access to pension. Under this arrangement Audit Scotland are required to meet the additional costs and not the Local Government Pension Scheme.

Exit package cost band	Number of arrangements	
	2021/22	2020/21
<£10,000	-	-
£10,001 – £25,000	-	-
£25,001 – £50,000	-	-
£50,001 – £75,000	-	-
£75,001 – £100,000	-	-
£100,001 – £125,000	1	-
Total costs disclosed in financial statements (£000)	114	-

## 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 2021/22 are disclosed in the tables below.

### Relevant union officials

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Number of employees who were relevant union officials during the relevant period	11
Full-time equivalent employee number	10.62

### Percentage of time spent on facility time

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Percentage of time	Number of employees
0%	-
1% – 50%	11
51% – 99%	-
100%	-

### Percentage of pay bill spent on facility time

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Total cost of facility time	£34,480
Total pay bill	£18.922 million
Percentage of total pay bill spent on facility time	0.2%

### Paid trade union activities

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Time spent on paid trade union activities as a percentage of total paid facility time	5.3%
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## Diversity, equality and inclusion

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

Audit Scotland is committed to eliminating discrimination, valuing and promoting equality, diversity and inclusion among our workforce. We are actively working to increase the diversity of our workforce. It is our policy to treat all job applicants and employees equitably regardless of age, disability, sex, gender reassignment status, marriage or civil partnership status, maternity or pregnancy, race, religion or belief or sexual orientation. More information about our commitment can be found in our [Equality Outcomes Report 2021-25](#). This includes clear commitments that we have made to increasing diversity, equality and inclusion, how we will seek to achieve this and the means by which we will measure our success.

During this last year we have worked with colleagues across Audit Scotland to better understand their experiences of working here, including those from minority groups and with the protected characteristics within the Equalities Act. Our aim has been to listen and agree action which will increase representation and better ensure that all colleagues have a consistently great experience at work. We have helped establish or strengthen several colleague network groups.

Colleagues, including those from minority backgrounds, helped create our refreshed Equality Outcomes for the next few years. We also worked with specialist external advisors, [Business in the Community](#) to obtain great 'outside-in' thinking.

We published our [Audit Scotland: Gender pay gap](#) report on 31 March 2022. The information is based on a snapshot date of 31 March 2021. Audit Scotland's workforce, at the snapshot date of 31 March 2021, comprises of 300 full pay employees, 128 men (42.67 per cent of the workforce) and 172 females (57.33 per cent of the workforce). Included in our overall headcount are 44 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, 21 trainees are male and 23 are female.

Human rights and equalities considerations must be central to how we assess the delivery of public services. We can and will do more to integrate these into our thinking from the outset and are committed to ensuring that the experience of service users is reflected in our audit and reporting.

In April 2021, we published our three new equality outcomes for 2021-25, the first of which states: Our work supports the public sector to address inequalities including protected characteristics and socio-economic disadvantage, and to protect human rights.

Work to deliver our outcome will involve an emphasis on continuing to build knowledge of inequalities and human rights issues among staff, to support thinking about how these can most consistently and impactfully be integrated into our work. We will also focus on evolving how we assess human rights implications and capture the user voice. Progress will be shaped and overseen by our internal Equality and Human Rights Steering Group (EHRSG), attended by colleagues from across our business.

Ongoing engagement with stakeholders will be invaluable in helping to inform and challenge our approach. This will include dialogue with our external Equalities and Human Rights Advisory Group (EHRAG), which has representation from a range of equality and human rights organisations.

Our [Mainstreaming Equality and Equality Outcomes 2019-21](#) outlines the progress we have made to date.

## **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 £3,400 for Scottish Motor Neurone Disease and other charities.

# 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 2022 which comprise the Summary of Resource Outturn, Statement of Comprehensive Net Expenditure, Statement of Financial Position, Statement of Cash Flows, 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 UK, and as interpreted and adapted by the 2021/22 Government Financial Reporting Manual (the 2021/22 FReM) and directions made by Scottish ministers.

In our opinion the accounts:

- give a true and fair view of the state of Audit Scotland as at 31 March 2022 and of its net resource outturn for the year then ended
- have been properly prepared in accordance with IFRSs as adopted by the UK, as interpreted and adapted by the 2021/22 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

In auditing the financial statements, we have concluded that the accountable officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on Audit Scotland's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the accountable officer with respect to going concern are described in the relevant sections of this report.

## 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 our 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 Board and staff 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

### The extent to which the audit was considered capable of detecting irregularities including fraud

Our approach to identifying and assessing the risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, was as follows:

- the engagement partner ensured that the engagement team collectively had the appropriate competence, capabilities and skills to identify or recognise non-compliance with applicable laws and regulations
- we gained an understanding of the legal and regulatory framework applicable to Audit Scotland through discussions with management, and from our wider knowledge and experience

- we focused on specific laws and regulations which we considered may have a direct material effect on the financial statements or the operations of Audit Scotland, including The Financial Reporting Manual, Public Finance and Accountability (Scotland) Act 2000, Directions by Scottish ministers and other laws and regulations applicable to Audit Scotland. We also considered the risks of non-compliance with the other key legislation and we considered the extent to which non-compliance might have a material effect on the financial statements
- we assessed the extent of compliance with the laws and regulations identified above through making enquiries of management and inspecting legal correspondence
- identified laws and regulations were communicated within the audit team regularly and the team remained alert to instances of non-compliance throughout the audit.

We assessed the susceptibility of Audit Scotland's financial statements to material misstatement, including obtaining an understanding of how fraud might occur, by:

- making enquiries of management as to where they considered there was susceptibility to fraud, their knowledge of actual, suspected and alleged fraud
- considering the internal controls in place to mitigate risks of fraud and non-compliance with laws and regulations.

To address the risk of fraud through management bias and override of controls, we:

- performed analytical procedures to identify any unusual or unexpected relationships
- tested journal entries to identify unusual transactions
- assessed whether judgements and assumptions made in determining the accounting estimates set out in the Notes were indicative of potential bias
- investigated the rationale behind significant or unusual transactions.

In response to the risk of irregularities and non-compliance with laws and regulations, we designed procedures which included, but were not limited to:

- agreeing financial statement disclosures to underlying supporting documentation
- attending audit committee meetings during the year and reviewing the minutes of meetings of those charged with governance

- enquiring of management as to actual and potential litigation and claims
- enquiring of management as to whether there has been any legal correspondence.

There are inherent limitations in our audit procedures described above. The more removed that laws and regulations are from financial transactions, the less likely it is that we would become aware of non-compliance. Auditing standards also limit the audit procedures required to identify non-compliance with laws and regulations to enquiry of the accountable officer and other management and the inspection of regulatory and legal correspondence, if any.

Material misstatements that arise due to fraud can be harder to detect than those that arise from error as they may involve deliberate concealment or collusion.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). The description forms part of our audit report.

## Use of our report

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.

## Alexander Sloan

Accountants and Business Advisers  
Edinburgh  
6 June 2022

# 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 2022

	Note	2022 £000	2021 £000
People costs	Staff report	23,902	20,465
Fees and expenses paid to external firms	4	4,481	5,237
Other operating expenditure	4	3,871	3,921
<b>Total operating expenditure</b>		<b>32,254</b>	<b>29,623</b>
Operating income	5	(17,922)	(17,832)
<b>Net operating expenditure</b>		<b>14,332</b>	<b>11,791</b>
Net finance expenditure	6	939	767
<b>Net expenditure before tax</b>		<b>15,271</b>	<b>12,558</b>
Corporation Tax payable		-	-
<b>Net expenditure after tax</b>		<b>15,271</b>	<b>12,558</b>
<b>Other comprehensive net expenditure</b>			
Net (gains) / losses on pension schemes	3	(25,238)	9,382
<b>Comprehensive net (income) / expenditure</b>		<b>(9,967)</b>	<b>21,940</b>

# Statement of Financial Position

As at 31 March 2022

	Note	2022 £000	2021 £000
<b>Non-current assets</b>			
Property, plant and equipment	7	969	811
Intangible assets	8	161	40
<b>Total non-current assets</b>		<b>1,130</b>	<b>851</b>
<b>Current assets</b>			
Trade and other receivables	9	2,823	2,721
Cash and cash equivalents	10	3,101	2,195
<b>Total current assets</b>		<b>5,924</b>	<b>4,916</b>
<b>Total assets</b>		<b>7,054</b>	<b>5,767</b>
<b>Current liabilities</b>			
Trade and other payables	12	6,431	5,351
Provision for early retirement and severance	14	105	102
Other provisions	16	1,320	1,106
<b>Total current liabilities</b>		<b>7,856</b>	<b>6,559</b>
<b>Non-current assets plus/less net current assets/liabilities</b>		<b>(802)</b>	<b>(792)</b>
<b>Non-current liabilities</b>			
Deferred liabilities	13	(374)	(533)
Provision for early retirement and severance	14	(1,640)	(1,745)
Other provisions	16	(543)	(443)
Net funded pension (liability)	3	(23,195)	(42,887)
<b>Total non-current liabilities</b>		<b>(25,752)</b>	<b>(45,608)</b>
<b>Assets less liabilities</b>		<b>(26,554)</b>	<b>(46,400)</b>
Represented by:			
<b>Taxpayers' equity</b>		(23,195)	(42,887)
Net funded pension (liability)	3	(3,359)	(3,513)
General fund			
		<b>(26,554)</b>	<b>(46,400)</b>

**Stephen Boyle**

Accountable Officer

6 June 2022

# Statement of Cash Flows

Year ended 31 March 2022

	Note	2022 £000	2021 £000
<b>Cash flows from operating activities</b>			
Net (expenditure) after tax		(15,271)	(12,558)
Adjustment for non-cash items:			
– Depreciation	7,8	321	335
– Pension scheme – net revenue debit		5,546	2,873
Decrease/(increase) in trade and other receivables		(102)	(37)
(Decrease)/Increase in trade / other payables / deferred liabilities		15	768
(Decrease)/Increase in provisions for early retirement		(102)	62
Increase in other provisions		314	1,183
<b>Net cash outflow from operating activities</b>		<b>(9,279)</b>	<b>(7,374)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	7	(467)	(139)
Purchase of intangible assets	8	(133)	–
		<b>(600)</b>	<b>(139)</b>
<b>Cash flows from financing activities</b>			
From Consolidated Fund (Supply)		10,785	8,500
<b>Net (decrease)/increase in cash and cash equivalents in the period</b>		<b>906</b>	<b>987</b>
Cash and cash equivalents at the beginning of period		2,195	1,208
Cash and cash equivalents at the end of period	10	3,101	2,195
<b>Net cash requirement</b>			
Cash flows from financing activities		10,785	8,500
Decrease / (increase) in cash		(906)	(987)
		<b>9,879</b>	<b>7,513</b>

# Statement of Changes in Taxpayers' Equity

Year ended 31 March 2022

<b>Changes in Taxpayers' Equity</b>	Note	<b>Net funded pension £000</b>	<b>General fund £000</b>	<b>Total £000</b>
<b>Balance at 31 March 2020</b>		<b>(30,632)</b>	<b>(1,341)</b>	<b>(31,973)</b>
Transfers between reserves:				
– Transfer to net funded pension liabilities	Staff report	(2,145)	2,145	-
– Net return on funded pension assets	3	(728)	728	-
Net (losses) on pension schemes	3	(9,382)	-	(9,382)
Net (expenditure) after tax		-	(12,558)	(12,558)
Net funding from the Scottish Parliament	11	-	7,513	7,513
<b>Balance at 31 March 2021</b>		<b>(42,887)</b>	<b>(3,513)</b>	<b>(46,400)</b>
Transfers between reserves:				
– Transfer to net funded pension liabilities	Staff report	(4,643)	4,643	-
– Net return on funded pension assets	3	(903)	903	-
Net gains on pension schemes	3	25,238	-	25,238
Net (expenditure) after tax		-	(15,271)	(15,271)
Net funding from the Scottish Parliament	11	-	9,879	9,879
<b>Balance at 31 March 2022</b>		<b>(23,195)</b>	<b>(3,359)</b>	<b>(26,554)</b>

# 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 (FReM) applicable for the year. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM 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. Figures are presented in pounds sterling and are rounded to the nearest £1,000. 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 2022/23 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 has been adopted by the FReM and was planned to be effective from 1 April 2020. However, HM Treasury has agreed with the Financial Reporting Advisory Board (FRAB) to defer implementation of IFRS 16 Leases until 1 April 2022 due to the circumstances caused by the Covid-19 pandemic.

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 current estimate is that we will need to recognise a right of use asset and related liability of approximately £2.3 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 current estimate is that we will need to recognise a right of use asset and related liability of approximately £0.3 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 2022. 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 Net Expenditure. Income recognised in advance of invoices being raised is treated as Work in Progress ([Note 9](#)). Invoices raised in advance of work being done is treated as Deferred Income ([Note 12](#)).
- Provisions have been made where in the opinion of management it is more likely than not that a financial liability exists which cannot be accurately quantified at present ([Notes 14](#) and [16](#)).
- Estimation of the net pension liability is based on a number of complex judgements including the discount rate, salary increase rate, retirement ages, mortality rates and expected returns on pension fund assets. The actual 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

	<b>2022</b> £000	<b>2021</b> £000
Wages and salaries	14,658	14,000
Social Security and Employment Tax costs	1,722	1,590
Pension and early retirement / severance costs	7,522	4,875
	<b>23,902</b>	<b>20,465</b>

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

## 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 a former 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 2022 were as follows:

	<b>2022</b> %	<b>2021</b> %
Salary increases	3.70	3.35
Pension increases	3.20	2.85
Discount rate	2.70	2.00

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

	<b>Male</b> years	<b>Female</b> years
Current pensioners	20.3	23.1
Future pensioners	21.6	25.0

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 2022 have been prepared by Hymans Robertson LLP.

The movement in the funded part of the net pension liability for the year to 31 March 2022 is as follows:

	<b>Period ending 31 March 2022</b>		
	<b>Assets</b>	<b>Obligation</b>	<b>Net</b>
	<b>£000</b>	<b>£000</b>	<b>(Liability)/</b>
			<b>Asset</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Fair value of employer assets	122,995	-	122,995
Present value of funded liabilities	-	165,882	(165,882)
<b>Opening position as at 1 April 2021</b>	<b>122,995</b>	<b>165,882</b>	<b>(42,887)</b>
Current service cost	-	7,316	(7,316)
Past service cost	-	119	(119)
<b>Total service cost</b>	<b>-</b>	<b>7,435</b>	<b>(7,435)</b>
Interest income on plan assets	2,472	-	2,472
Interest cost on defined benefit obligation	-	3,375	(3,375)
<b>Total net interest</b>	<b>2,472</b>	<b>3,375</b>	<b>(903)</b>
<b>Total defined benefit cost recognised in Statement of Comprehensive Net Expenditure</b>	<b>2,472</b>	<b>10,810</b>	<b>(8,338)</b>
Employee contributions	1,021	1,021	-
Employer contributions	2,792	-	2,792
Benefits Paid	(2,423)	(2,423)	-
<b>Total cashflows</b>	<b>1,390</b>	<b>(1,402)</b>	<b>2,792</b>
<b>Expected closing position</b>	<b>126,857</b>	<b>175,290</b>	<b>(48,433)</b>
Change in demographic assumptions	-	(968)	968
Change in financial assumptions	-	(13,103)	13,103
Other experience changes	-	283	(283)
Return on assets excluding amounts included in net interest	11,450	-	11,450
<b>Total remeasurements recognised in Other Comprehensive Income</b>	<b>11,450</b>	<b>(13,788)</b>	<b>25,238</b>
Fair value of employer assets	138,307	-	138,307
Present value of funded liabilities	-	161,502	(161,502)
<b>Closing position as at 31 March 2022</b>	<b>138,307</b>	<b>161,502</b>	<b>(23,195)</b>

<b>Information in respect of the defined benefit obligation</b>	<b>£000</b>	<b>Liability split %</b>	<b>Duration Years</b>
Active members	95,103	58.9	27.0
Deferred members	24,571	15.2	26.7
Pensioner members	41,828	25.9	13.0
<b>Total</b>	<b>161,502</b>	<b>100.0</b>	<b>22.7</b>

**Statement of Comprehensive Net Expenditure (SOCNE):** The net charge to SOCNE of £5,546k is based on the financial conditions at the start of the year (ie, assumptions as at last year's Accounting Date). The Current Service Cost and net interest cost for this year is broadly in line with the projections made at last year's Accounting Date. The projected charge to SOCNE for next year is likely to decrease compared to the charge for this year as a result of the higher net discount rate at the Accounting Date.

**Return on assets:** In the period to the Accounting Date, investment returns have been £11,450k greater than expected (compared to last year's accounting discount rate assumption). This has led to a positive 'Return on assets excluding amounts included in net interest' line within the Results Schedule.

**Obligations:** The remeasurements in the obligations roll-forward are split into three separate parts to differentiate between 'Changes in financial assumptions', 'Changes in demographic assumptions' and 'Other experience'.

As at the Accounting Date, the net discount rate (discount rate net of inflation) has increased compared to the previous year's Accounting Date. The discount rate assumption has increased by more than the increase in CPI assumption. In isolation, this resulted in a gain on the balance sheet as at the Accounting Date of £13,103k, shown in the 'Changes in financial assumptions' within the Balance Sheet of the Results schedule. As a medium duration LGPS employer, this is in the order of 6%-8% of obligations.

Using a more up-to-date longevity assumption at the Accounting Date leads to a gain on the obligations of £968k. Whilst the actual impact of this charge is Employer specific (due to the individual membership profile for each Employer), on average this leads to a decrease in obligations in the order of 0.5% under the 'Changes in demographic assumptions'.

The 'Other experience' item captures the small loss of £283k by applying the actual Pensions Increase Order for April 2022 of 3.1%, as it is slightly higher than the pension increase rate assumption built into the obligations at the start of the accounting period.

**Covid-19:** The main impacts of the Covid-19 pandemic, and subsequent lockdowns, on the accounting figures are summarised as follows:

- Asset returns and values have followed the market movements prompted by the pandemic and lockdowns, among other factors, which affected the asset share value.
- Bond yields and inflation expectations have also followed market movements, which has affected the obligations value.
- Life expectancy assumptions:
  - The baseline longevity tables have not been updated due to the lack of relevant mortality data and analysis from the period of the pandemic for the Fund or Employer
  - Future longevity trends assumption for Covid-19 specifically has not been amended as the data is not yet available to make an evidence-based assessment on the pandemic's impact on long term longevity.

**Ukraine War:** The effect of the Ukraine war on the accounting position is quite small. In summary:

- In the immediate aftermath of the invasion, there was a significant fall in the Fund's asset values. However, over the remainder of March 2022, the Fund's assets will have broadly recovered to similar levels to before the invasion.
- Some LGPS Funds had a direct Russian investment exposure which may have been written down, however these typically are a very small proportion (<0.2%) of the Fund's overall assets.
- The accounting assumptions (bond yields and inflation) are based on market expectations at 31 March 2022, which were shaped by all global events including the war in Ukraine, and will therefore affect the value placed on obligations.

The movement in the funded part of the net pension liability for the year to 31 March 2021 was as follows:

	<b>Period ending 31 March 2021</b>		
	<b>Assets</b>	<b>Obligation</b>	<b>Net</b>
	<b>£000</b>	<b>£000</b>	<b>(Liability)/</b>
			<b>Asset</b>
			<b>£000</b>
Fair value of employer assets	104,191	-	104,191
Present value of funded liabilities	-	134,823	(134,823)
<b>Opening position as at 1 April 2020</b>	<b>104,191</b>	<b>134,823</b>	<b>(30,632)</b>
Current service cost	-	4,619	(4,619)
Past service cost	-	-	-
<b>Total service cost</b>	<b>-</b>	<b>4,619</b>	<b>(4,619)</b>
Interest income on plan assets	2,406	-	2,406
Interest cost on defined benefit obligation	-	3,134	(3,134)
<b>Total net interest</b>	<b>2,406</b>	<b>3,134</b>	<b>(728)</b>
<b>Total defined benefit cost recognised in Statement of Comprehensive Net Expenditure</b>	<b>2,406</b>	<b>7,753</b>	<b>(5,347)</b>
Employee contributions	955	955	-
Employer contributions	2,474	-	2,474
Benefits Paid	(2,461)	(2,461)	-
<b>Total cashflows</b>	<b>968</b>	<b>(1,506)</b>	<b>2,474</b>
<b>Expected closing position</b>	<b>107,565</b>	<b>141,070</b>	<b>(33,505)</b>
Change in demographic assumptions	-	(7,306)	7,306
Change in financial assumptions	-	33,809	(33,809)
Other experience changes	703	(1,691)	2,394
Return on assets excluding amounts included in net interest	14,727	-	14,727
<b>Total remeasurements recognised in Other Comprehensive Income</b>	<b>15,430</b>	<b>24,812</b>	<b>(9,382)</b>
Fair value of employer assets	122,995	-	122,995
Present value of funded liabilities	-	165,882	(165,882)
<b>Closing position as at 31 March 2021</b>	<b>122,995</b>	<b>165,882</b>	<b>(42,887)</b>

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

Asset Category	At 31 March 2022				At 31 March 2021			
	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	%
<b>Equity Securities:</b>								
Consumer	17,014.9	-	17,014.9	12	15,367.7	-	15,367.7	12
Manufacturing	18,304.5	-	18,304.5	13	17,958.8	-	17,958.8	15
Energy and Utilities	7,635.3	-	7,635.3	6	6,622.3	-	6,622.3	5
Financial Institutions	7,971.2	-	7,971.2	6	8,381.2	-	8,381.2	7
Health and Care	9,580.5	-	9,580.5	7	8,382.6	-	8,382.6	7
Information Technology	6,284.6	-	6,284.6	5	5,877.0	-	5,877.0	5
Other	10,311.2	-	10,311.2	7	9,874.1	-	9,874.1	8
<b>Debt Securities:</b>								
Corporate Bonds (investment grade)	-	-	-	0	-	66.9	66.9	0
UK Government	12,078.1	-	12,078.1	9	7,419.4	-	7,419.4	6
Other	2,594.2	-	2,594.2	2	-	-	-	0
<b>Private Equity:</b>								
All	14.5	635.8	650.3	0	-	19,285.8	19,285.8	16
<b>Real Estate:</b>								
UK Property	1,287.7	6,023.8	7,311.5	5	-	6,428.6	6,428.6	5
Overseas Property	-	39.0	39.0	0	-	46.1	46.1	0
<b>Investment funds and Unit trusts:</b>								
Equities	2,377.4	106.9	2,484.3	2	1,768.9	-	1,768.9	1
Bonds	2,599.1	3,877.5	6,476.6	5	2,729.5	-	2,729.5	2
Infrastructure	-	14,022.8	14,022.8	10	-	98.7	98.7	0
<b>Derivatives:</b>								
Foreign exchange	6.6	-	6.6	0	(13.1)	-	(13.1)	0
<b>Cash and cash equivalents:</b>								
All	15,541.4	-	15,541.4	11	12,700.5	-	12,700.5	10
<b>Totals</b>	<b>113,601</b>	<b>24,706</b>	<b>138,307</b>	<b>100</b>	<b>97,069</b>	<b>25,926</b>	<b>122,995</b>	<b>100</b>

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

<b>Sensitivity analysis at March 2022</b>	<b>Approx.% increase to employer obligation</b>	<b>Approx. monetary amount £000</b>
0.1% decrease in real discount rate	2	3,568
1 year increase in member life expectancy	4	6,460
0.1% increase in salary increase rate	0	502
0.1% increase in pension increase rate	2	3,036

During the year ended 31 March 2022, Audit Scotland's contribution to the pension fund represented 19.4% (2021 – 18.7%) of contributing employees' pensionable pay. In addition, a lump sum payment of £77k was paid in 2021 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 2020 recommended employers' contributions be set at 19.4% over the next three-year period from 2021/22 to 2023/24. The estimate for employer contributions in 2022/23 based on the new rate will be approximately £2,678k.

#### **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 2016. You can find details in the [resource accounts of the Cabinet Office: Civil Superannuation](#).

During the year ended 31 March 2022, Audit Scotland paid an employer's contribution of £104k (2021 – £104k) 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 2021-22 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 2022/23 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. Pension payments made in 2021/22 reduced to £15k (2020/21 – £26k) following the death of Mr Black in October 2021.

#### **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	2022 £000	2021 £000
<b>Fees and expenses to appointed audit firms:</b>			
Local authorities	2,371		2,139
National Health Service bodies in Scotland	903		904
Further education colleges	598		482
Scottish Government and sponsored bodies	1,106		826
Additional audit costs <a href="#">(note 16)</a>	(497)		886
		<b>4,481</b>	<b>5,237</b>
<b>Other:</b>			
Rent and rates	487		730
Other accommodation costs	431		377
Travel and subsistence	323		351
Legal and other professional fees	636		768
Stationery and printing	78		60
Training	452		367
Staff recruitment	235		164
Communications (telephone, postage)	54		41
Insurance	94		77
Information technology	666		566
Internal Audit	26		27
External Audit – financial accounts	30		31
Other	38		27
Non-cash items: Depreciation – tangible assets <a href="#">(note 7)</a>	309		306
Depreciation – intangible assets <a href="#">(note 8)</a>	12		29
		<b>3,871</b>	<b>3,921</b>
		<b>8,352</b>	<b>9,158</b>

Rent and rates includes £333k in respect of contractual property lease payments (2020/21 – £352k) [\(Note 15\)](#). The Edinburgh office rent review has been agreed based on current market conditions in Edinburgh and a backdated payment effective from the review date of 1 April 2020 is included in this total. The accounts reflect this payment less the provision raised in 2020/21 [\(Note 16\)](#).

## 5. Operating income

	2022 £000	2021 £000
<b>Fees and charges payable by:</b>		
- Local authorities	12,509	11,559
- National Health Service bodies in Scotland	3,053	2,773
- Further education colleges	703	597
- Scottish Government and sponsored bodies	2,966	2,902
- Rebate <a href="#">(note 16)</a>	(1,320)	0
	<b>17,911</b>	<b>17,831</b>
Miscellaneous income	11	1
	<b>17,922</b>	<b>17,832</b>

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 £1,271k (2020/21 £1,111k) was included in the opening contract liability (payment on account).

At 31 March 2022 forecast future income on audits still in progress is £13,887k (31 March 2021 £13,387k). The typical audit cycle is a year and therefore we expect to recognise this income in 2022/23.

## 6. Net finance expenditure

	2022 £000	2021 £000
Interest income on pension scheme assets	2,472	2,406
Interest cost on pension scheme defined obligations	(3,412)	(3,174)
Bank interest	1	1
	<b>(939)</b>	<b>(767)</b>

## 7. Property plant and equipment

	Leasehold premises £000	Furniture and fittings £000	Computer equipment £000	Total £000
<b>Cost</b>				
At 1 April 2021	1,339	286	629	2,254
Reclassified in year	-	-	-	-
Additions	-	-	467	467
Disposals	-	-	(4)	(4)
<b>At 31 March 2022</b>	<b>1,339</b>	<b>286</b>	<b>1,092</b>	<b>2,717</b>
<b>Depreciation</b>				
At 1 April 2021	845	265	333	1,443
Charge for the year <a href="#">(note 4)</a>	149	10	150	309
Depreciation on disposals	-	-	(4)	(4)
<b>At 31 March 2022</b>	<b>994</b>	<b>275</b>	<b>479</b>	<b>1,748</b>
<b>Net Book Value</b>				
At 31 March 2022	345	11	613	969
<b>Analysis of asset financing</b>				
Owned	345	11	613	969

<b>Prior year</b>	<b>Leasehold premises £000</b>	<b>Furniture and fittings £000</b>	<b>Computer equipment £000</b>	<b>Total £000</b>
<b>Cost</b>				
At 1 April 2020	1,339	286	490	2,115
Reclassified in year	-	-	-	-
Additions	-	-	139	139
Disposals	-	-	-	-
<b>At 31 March 2021</b>	<b>1,339</b>	<b>286</b>	<b>629</b>	<b>2,254</b>
<b>Depreciation</b>				
At 1 April 2020	697	226	214	1,137
Charge for the year <a href="#">(note 4)</a>	148	39	119	306
Disposals	-	-	-	-
<b>At 31 March 2021</b>	<b>845</b>	<b>265</b>	<b>333</b>	<b>1,443</b>
<b>Net Book Value</b>				
At 31 March 2021	494	21	296	811
<b>Analysis of asset financing</b>				
Owned	494	21	296	811

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	
	2022 £000	2021 £000
<b>Cost</b>		
At 1 April	129	134
Reclassified in year	-	-
Additions	133	-
Disposals for year	-	(5)
<b>At 31 March</b>	<b>262</b>	<b>129</b>
<b>Depreciation</b>		
At 1 April	89	65
Charge for the year <a href="#">(note 4)</a>	12	29
Disposals for year	-	(5)
<b>At 31 March</b>	<b>101</b>	<b>89</b>
<b>Net Book Value at 31 March</b>	<b>161</b>	<b>40</b>

## 9. Trade and other receivables

	£000	2022 £000	2021 £000
<b>Amounts falling due within one year:</b>			
Trade receivables:			
- Central Government bodies	60		27
- Local authorities	355		643
- NHS bodies in Scotland	137		58
- Bodies external to government	3		-
		<b>555</b>	<b>728</b>
Work in progress in advance of billing		1,532	1,287
VAT		142	150
Prepayments		594	556
		<b>2,823</b>	<b>2,721</b>

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

## 10. Cash and cash equivalents

	2022 £000	2021 £000
Balance at 1 April	2,195	1,208
Net change in cash and cash equivalents	906	987
<b>Balance at 31 March</b>	<b>3,101</b>	<b>2,195</b>
The following balances at 31 March were held at:		
- Commercial banks	3,101	2,195

## 11. Net funding from the Scottish Parliament

	2022 £000	2021 £000
Opening cash balance payable to the Consolidated Fund	2,195	1,208
Funding received from the Consolidated Fund	10,785	8,500
Closing cash balance payable to the Consolidated Fund	(3,101)	(2,195)
<b>Net funding from the Scottish Parliament</b>	<b>9,879</b>	<b>7,513</b>

## 12. Trade payables and other current liabilities

	£000	2022 £000	2021 £000
<b>Amounts falling due within one year:</b>			
Trade payables:			
- Central Government	-		-
- Local authorities	-		11
- NHS bodies in Scotland	-		-
- Bodies external to government	392		296
		<b>392</b>	<b>307</b>
- Cash balance payable to Consolidated Fund		3,101	2,195
- Deferred income		1,271	1,111
- VAT		77	108
- Corporation Tax		-	-
- Accruals		378	385
- Staff benefits – untaken holidays		1,053	1,086
- Rent-free period on premises – current liability ( <a href="#">note 13</a> )		159	159
		<b>6,431</b>	<b>5,351</b>

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 2013, 31 March 2015 and 31 March 2018 various leases were negotiated with rent-free periods.

	2022 £000	2021 £000
<b>Opening balance at 1 April</b>		
Current	159	159
Deferred	533	692
	<b>692</b>	<b>851</b>
Additions	-	-
Released during year	(159)	(159)
<b>Closing balance at 31 March</b>	<b>533</b>	<b>692</b>
Whereof:		
- Current	159	159
- Deferred	374	533
	<b>533</b>	<b>692</b>

### 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:

	2022 £000	2021 £000
<b>Opening balance at 1 April</b>	<b>1,847</b>	<b>1,785</b>
Additions	-	-
Utilised in year	(105)	(104)
Revaluation	3	166
<b>Closing balance at 31 March</b>	<b>1,745</b>	<b>1,847</b>
Payable within 1 year	105	102
Payable after 1 year	1,640	1,745
	<b>1,745</b>	<b>1,847</b>
Discount rate used	2.7%	2.0%

## 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 2022 was £259k (31 March 2021 – £277k).

## 15. Commitments under leases

During the period to 31 March 2022, the amounts charged to revenue in respect of operating leases for premises and vehicles were as follows:

	2022 £000	2021 £000
Premises <a href="#">(note 4)</a>	333	352
Vehicles	347	386
	<b>680</b>	<b>738</b>

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

	2022 £000	2021 £000
<b>Premises</b>		
Within one year	453	352
Later than one year and not later than five years	1,056	1,135
Later than five years	38	108
	<b>1,547</b>	<b>1,595</b>
<b>Vehicles</b>		
Within one year	278	319
Later than one year and not later than five years	277	415
	<b>555</b>	<b>734</b>

Audit Scotland has no finance leases.

## 16. Other provisions

Other provisions comprise additional remote audit costs and expenses, rent review costs and property dilapidations.

**Remote audit and expenses:** Indications from auditors in financial year 2020/21 suggested that remote audit added approximately 25% to the time and cost of a large number of audits and a provision of £886k was raised to meet this additional unplanned expenditure. Following detailed review of the estimated costs Audit Scotland concluded negotiations and agreed a final settlement of £389k with the £497k balance of the provision released in 2021/22. A new provision of £1,320k has been raised to meet a legal obligation to rebate audit fees for an element of our 'pooled costs' charges. This arises due to the significant reduction in cost of in-house and firm's expenses in relation to travel and subsistence. Further analysis is required to quantify this financial liability accurately and a provision has therefore been included within the accounts.

**Rent review:** The West Port office in Edinburgh was scheduled for a rent review on 1 April 2020 as part of the lease agreement. Due to the pandemic Audit Scotland received the landlord's opening proposal during the closure of the 2020/21 accounts. There was a financial liability that could not be accurately quantified at the time and a provision was therefore raised. A settlement for the rent review was agreed in December 2021 and this provision has subsequently been released in the 2021/22 accounts.

**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 other provisions during the year were as follows:

	2022 £000	2021 £000
<b>Opening balance at 1 April</b>	1,549	366
Provided in year	1,420	1,183
Released in year	(1,106)	–
<b>Closing balance at 31 March</b>	<b>1,863</b>	<b>1,549</b>
Payable within 1 year	1,320	1,106
Payable after 1 year	543	443
	<b>1,863</b>	<b>1,549</b>

## 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 2022 that require adjustment to, or disclosure in, the financial statements.

The financial statements were authorised for issue by the Auditor General for Scotland on 6 June 2022.

## 19. Contingent liabilities

At 31 March 2022, there were no contingent liabilities.

## 20. Capital commitments

At 31 March 2022, there was a capital commitment of £15,922 (including VAT not recoverable) on the contract for the Business Management System.

## 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 2021/22

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit: [www.audit-scotland.gov.uk/accessibility](http://www.audit-scotland.gov.uk/accessibility)

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