

Annual report and accounts

2014/15





Highlights 2014/15



20%

Reduction in costs since 2010/11



206k

Report downloads in 2014/15



Expanding workload and new audits in the pipeline



41%

Reduction in carbon footprint since 2010



14

Record number of new financial trainees



£8,000+

Raised by our staff for various good causes



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Welcome

Chair's welcome



Our job is to ensure public money is spent properly and effectively in Scotland on the key public services we all rely on every day – from schools to the NHS.

It is an important task. We audit 184 public bodies – from the smallest council or health board to the Scottish Government – with total annual spending of more than £40 billion. We provide assurance that this money is well spent and highlight areas for improvement.

The annual report demonstrates the strong foundations of the public audit model we have in Scotland. But we always need to be agile in responding to changing needs such as new devolved powers and integration of health and social work. All of this is set against a backdrop of reducing financial resources and rising demands which underlines the need for better longer-term financial planning across the public sector.

It was a great privilege for me to take over as board chair in October from Ronnie Cleland, who made an immense contribution over five years, leading the organisation through substantial change with skill and enthusiasm.

We were also pleased to welcome two new independent non-executive members, Ian Leitch and Heather Logan, who have already brought fresh insights to the board.

Finally, I pay tribute to the staff of Audit Scotland for their dedication and commitment. This report attests to the quality of their work.

John Maclean
Chair of Audit Scotland Board

Welcome to Audit Scotland's annual report for 2014/15



Accountable Officer's report



Looking back, it has been a momentous year for Scotland with the referendum campaign igniting debate across the country. Further devolution was already under way in the 2012 Scotland Act and we covered this in a detailed report on preparations for the transfer to the Scottish Parliament of stamp duty, landfill tax and the Scottish Rate of Income Tax.

The Smith Commission recommended that the Scottish Parliament should seek to expand and strengthen the independent scrutiny of public finances. The need for comprehensive, reliable and transparent financial reporting within a robust fiscal framework has never been stronger and we are supporting the Public Audit Committee as it considers what this means for its future role.

There have also been significant changes in how we carry out our work such as audits for the new single police and fire authorities.

Like all public bodies we need to continue to adapt, improve and become more efficient to respond to significant challenges. This provides the bedrock for our ambition to be a world-class audit organisation that improves the use of public money.

None of this would be possible without the efforts of our people – I am profoundly grateful to my colleagues and to fellow board members for all their hard work and continued support.

These are exciting times for Audit Scotland and we're ready to meet the opportunities and challenges that lie ahead.

Caroline Gardner
Accountable Officer

Scotland's public finances are on the cusp of significant change and audit must respond to this



Who we are

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

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

About us

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

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

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

Our resources



£17.4
million income

mainly audit fees
from public bodies

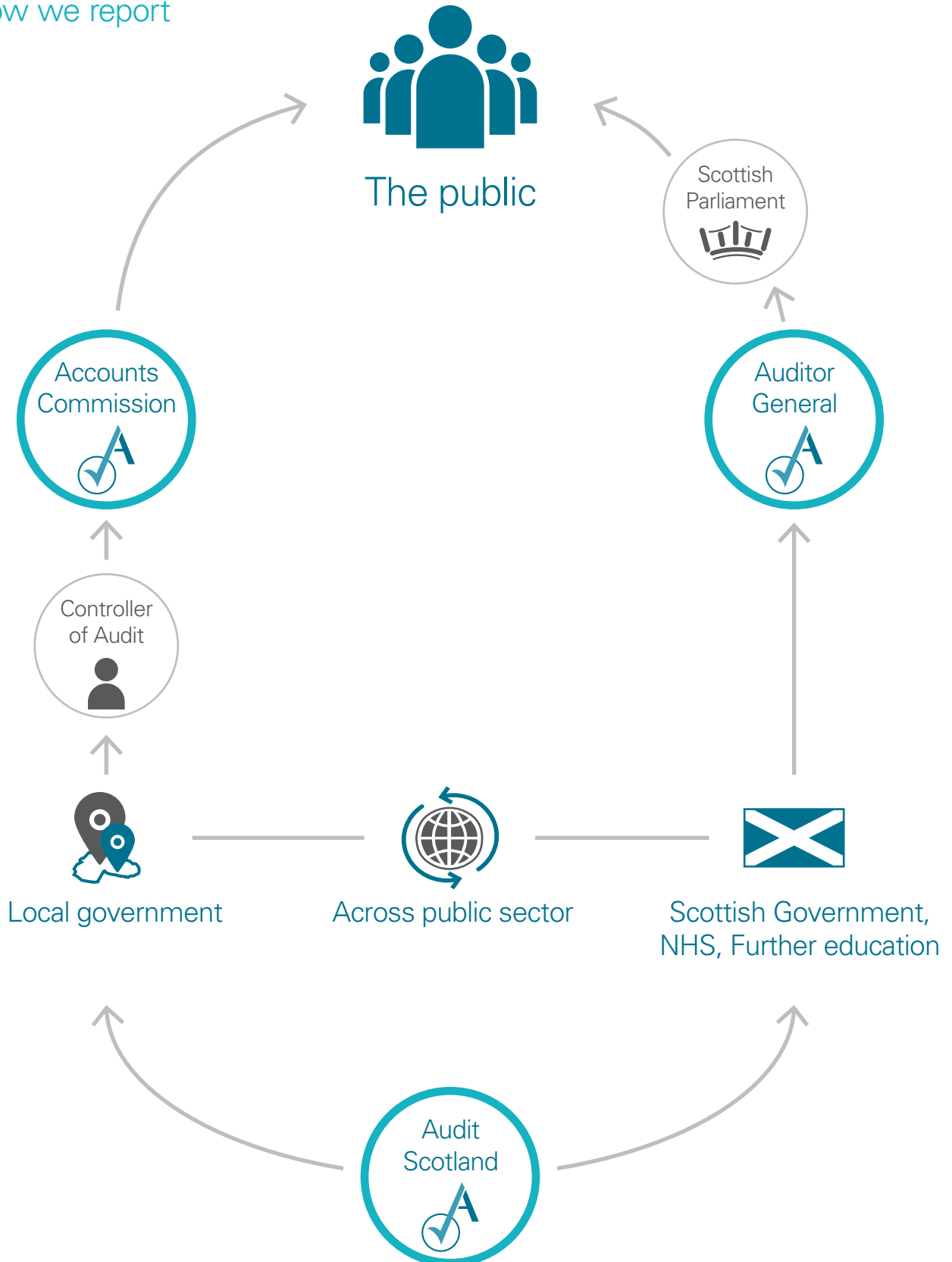


£7.1
million

direct funding from
the Scottish Parliament



How we report







Our work




Summary

The importance of transparent, comprehensive and reliable information about public finances is a key theme of our work. The need for openness has never been stronger given the financial risks and uncertainties in such a fast-changing environment, and this was underlined by the Smith Commission's recommendation that the Scottish Parliament should seek to expand and strengthen the independent scrutiny of public finances in Scotland.

This theme is the central foundation of all comprehensive financial audits we carry out for 184 bodies across the public sector to the highest auditing standards, providing independent assurance to the people of Scotland that public money is spent properly and provides value. It also featured in our performance and Best Value reports, particularly in two published in March 2015:

- [Update on developing financial reporting \[PDF\]](#)  set out the principles of good financial reporting and said that consolidated accounts for the whole of the Scottish public sector would help provide an overall picture of its financial position to strengthen understanding and transparency.
- The Accounts Commission's [Borrowing and treasury management in councils \[PDF\]](#)  recommended councils make better use of information to clearly set out the impact of borrowing in the longer term to help councillors make informed decisions and undertake their scrutiny roles.

Audit in the classroom

It's been virtually non-stop since June last year for the auditors who produced the [School education \[PDF\]](#)  report. They have travelled the length of the country to give councils a full briefing on the report, the first for the Accounts Commission to examine links between spending by local authorities and schools' attainment.



(L→R):











Graeme Greenhill, Nichola Williams, Mark Pentland and Sarah Pollock



Our performance

Our work changed and expanded over the course of the year:

- For the second year running we audited a significant number of local government charities.
- Our auditors have been preparing for the audit of new integrated health and social care joint boards and a significant extension of our work on European Agricultural Funds.
- We have reduced costs by 20 per cent since 2010/11 (after allowing for inflation).
- We have reduced baseline fees paid by the bodies we audit by 21 per cent since 2010/11 (after allowing for inflation).

Objectives	Achieved		
	2014/15	 13/14	 12/13
 Annual audit of public bodies	184	208	214
 10 – 12 performance audits	14	16	14
 5 – 8 Best Value audits	4	4	8
 Community Planning Partnership audits	5	0	4
 32 risk assessments in local government	32	32	32
 Coordinating scrutiny across local government	✓	✓	✓
 National Fraud Initiative (biennial)	✓	n/a	✓
 Housing benefit audits	✓	✓	✓



Financial audits 2014/15



Scottish Parliament

1



NHS

23



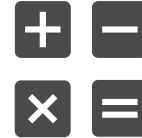
Central government

74



Local government

65



Further education

21

TOTAL
184

Financial auditors – both from Audit Scotland and those from the private firms of accountants appointed to carry out the annual audits – work closely with public bodies. As well as holding them to account for their use of public money, the auditors provide feedback and recommendations to support improvement.

Unqualified opinions by appointed auditors provide an assurance that an organisation’s financial statements offer a true and fair view of its financial position. However, where auditors disagree or wish to refer to any limit of scope of that opinion, they will qualify their opinion. This year, there were no qualifications in the accounts of any of the bodies audited.

Most accounts are prepared under International Financial Reporting Standards. We use International Standards on Auditing, the standards used in the private sector, and our work is undertaken in accordance with the Code of Audit Practice approved by the Auditor General and the Accounts Commission.

Auditors completed 98 per cent of the audits of health, central government, further education and local authority bodies on time.

13/14 12/13

Scottish Parliament	1	1
NHS	23	23
Central government	75	76
Local government	77	77
Further education	32	37
Total	208	214

Note: The fall in number of bodies audited reflects changes in the college sector and the new single police and fire authorities replacing local police and fire joint boards



Highlighting issues from accounts

We bring significant issues from the annual audits to the attention of the Scottish Parliament and the Accounts Commission. This helps to ensure effective scrutiny of the use of public funds.

The Auditor General can issue reports to the Scottish Parliament under section 22 of the Public Finance and Accountability (Scotland) Act 2000 highlighting matters raised in annual audits. This year we issued six section 22 reports arising from the 2013/14 audits of the Scottish Police Authority, NHS 24, NHS Orkney, NHS Highland, the Scottish Government's Consolidated Accounts and North Glasgow College.

For local authorities, the Controller of Audit issues statutory reports to the Accounts Commission and this year reported on South Ayrshire Council, the City of Edinburgh Council, Argyll and Bute Council, and the Comhairle nan Eilean Siar.

Identifying fraud and errors

Fraud and errors worth £16 million over two years were identified and stopped following the largest and most diverse detection exercise undertaken by Audit Scotland and more than 120 Scottish public bodies.

Our June 2014 report, [The National Fraud Initiative in Scotland \[PDF\]](#)  also revealed a total of £94 million of fraud and errors over the last decade.

The National Fraud Initiative (NFI) group coordinated by Audit Scotland includes councils, health boards and central government bodies, such as the Scottish Public Pensions Agency and the Student Awards Agency for Scotland.

Data was shared on benefit applicants, council tax, immigration and death records, public sector employees, pensioners and students to search for 'matches' that would indicate potential fraud or error.

A total of 1,862 housing benefit payments were stopped or reduced, 832 housing benefit frauds were identified and 92 prosecutions brought in this area. The exercise also resulted in 2,876 disabled parking blue badges being stopped or flagged for future checks.

We also studied the impact of welfare reforms on rent arrears in Scotland including the removal of the spare bedroom subsidy. We found that rent arrears had increased almost a quarter to £35.1 million compared to 2012/13.



Performance and Best Value audits 2014/15



Cross-sector (including CPPs)

9



NHS

2



Central government

4



Local government

4



Best Value in local government

4

TOTAL
23

We carry out performance audits across the entire public sector for the Auditor General and the Accounts Commission, and we report on these in public. This work helps highlight areas where services could improve and how bodies can better plan for the future. Reports for the Auditor General and joint reports for the Auditor General and the Accounts Commission are considered by the Scottish Parliament.

For a full list see [Reports published in 2014/15 \(page 20\)](#).

The [School education \[PDF\]](#) report for the Accounts Commission in June 2014 looked at links between councils' spending on education and levels of attainment. It found that pupils' performance was improving overall, but there were significant attainment gaps not only between councils but also within council areas and schools.


The report sparked considerable debate in political and educational circles. The report authors were invited to make presentations to several councils from Dumfries to Stornoway and Inverness. They gave evidence to the Scottish Parliament's education committee together with researchers from the Joseph Rowntree Foundation.

In March 2015, the Scottish Government announced its intention in the forthcoming Education Bill to place a statutory duty on councils to narrow the attainment gap and require councils and Scottish ministers to report on progress.

13/14 12/13



Cross-sector (including CPPs)	4	6
NHS	2	3
Central government	6	3
Local government	4	6
Best Value in local government	4	8
Total	20	26



The Commonwealth Games 2014 in Glasgow brought huge international attention to Scotland. We previously published two reports highlighting challenges and recommendations which the organisers took on board. Our [Commonwealth Games 2014: Third report \[PDF\]](#) , published in March 2015, concluded that it was a success and the cost to the public sector was £37.2 million less than budgeted. The project had strong leadership and organisations worked well together. Clear legacy plans are in place and the Scottish Government and Glasgow City Council now need to build on these to ensure long-term benefits are achieved.



Our reports aim to be topical and relevant and we examined the impact of recent major reforms:

- In [Self-directed support \[PDF\]](#) , we looked at the new legal duty on councils to offer people choice and control over the social care they receive. Councils spend £2.8 billion a year on social care services and although progress had been made, it was patchy across councils. The report offered a series of recommendations to help councils fully implement the policy over the coming years.
- [Police reform: Progress update 2013 \[PDF\]](#)  said the merger of Scotland's police forces into a single service had been achieved but urgent work was required on the financial strategy for achieving the £1.1 billion of savings expected from restructuring.


Audit in athletics

Fully fit and ready for sprint or marathon – our team which produced the 2014 Commonwealth Games report, concluding that the games were a success for both Glasgow and Scotland thanks to strong leadership and good working relationships.




(L→R):
Liz Ribchester, Tricia Meldrum,
Angela Cullen, Zahrah Mahmood
and Michael Oliphant





- [Scotland's colleges 2015 \[PDF\]](#)  concluded that colleges maintained sound finances and learning while undergoing significant reforms. The sector must now prepare to address future challenges as these changes continue to take effect.

The NHS also provided a key focus for our work:

- In May 2014, [Accident and emergency: Performance update \[PDF\]](#)  found a deterioration since 2009 although there had been improvements during 2013.
- [NHS in Scotland 2013/14 \[PDF\]](#) , published in October 2014, reported on increasing pressures from an ageing population, longer-term conditions and public expectations. A number of waiting targets had been missed. It recommended that the Scottish Government review whether its current financial and performances targets can be achieved at the same time as implementing national policies for health and social care.
- We also published three [section 22 reports](#)  on NHS Highland, NHS Orkney and NHS 24. These arose from issues identified in annual accounts relating to financial performance and an IT system.

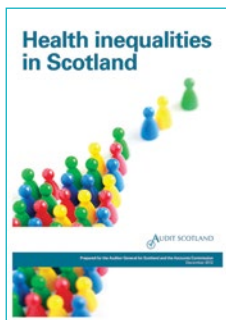
In our report [The Scottish Government's purchase of Glasgow Prestwick Airport \[PDF\]](#) , published in February 2015, we found that the process followed was reasonable. It recommended the Scottish Government should now develop comprehensive plans to clearly map out the potential future of the airport.

In December 2014, we published an audit on the Scottish Government's [Preparations for the implementation of the Scotland Act 2012 \[PDF\]](#) . This found that delays in hiring staff and procuring an IT system had increased the risk that new taxes for Scotland might not be effectively managed when they come into force. There was strong Parliamentary interest.

[Superfast broadband for Scotland: A progress report \[PDF\]](#) , published in February 2015, called for clearer information on the coverage and range of broadband speeds that will be delivered from March 2016. BT is delivering this through contracts with the Scottish Government and Highlands and Islands Enterprise.



Top 5 downloads in 2014/15



10,868

Health inequalities in Scotland



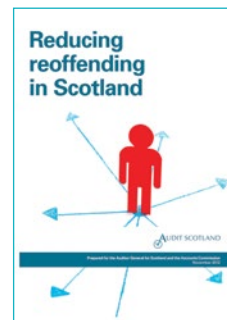
7,911

School education



6,778

Reshaping care for older people



4,891




Reducing reoffending in Scotland




4,653

An overview of local government in Scotland 2014

Last year posed particular financial challenges for councils across Scotland and provided the focus for three Accounts Commission reports:


- In March 2015, the annual [An overview of local government in Scotland 2015 \[PDF\]](#)  said councils had managed financial pressures well but faced increasingly difficult challenges and tough decisions to balance their budgets. This was echoed in the [Borrowing and treasury management in councils \[PDF\]](#)  report later that month, which underlined the need to set out the longer-term implications of borrowing and for better support for councillors to ask the right questions about this complex area.
- [Procurement in councils \[PDF\]](#) , published in April 2014, said improvements had been made in the way councils spent a total of £5.4 billion on procuring services but more needed to be done and the pace of change increased.

The Accounts Commission publishes a separate [annual report](#)  with fuller details of its work.



Scottish Parliament


A key part of our work is supporting the Scottish Parliament. It considers reports from the Auditor General and joint reports from the Auditor General and the Accounts Commission. This forms a central part of Parliament’s role ensuring that public bodies are subject to effective scrutiny.

The Auditor General attended 22 meetings of the [Public Audit Committee](#)  giving formal evidence on key reports and answering members’ questions.

Audit Scotland staff gave oral and written evidence to various other Parliamentary committees over the year, including supporting the Accounts Commission to present evidence to the Local Government Committee and jointly with the Auditor General to the Public Audit Committee.

Best Value

We continue to deliver Best Value audits on local authorities for the Controller of Audit. Work has been carried out at the request of the Accounts Commission to see what improvements can be made in this area, while retaining the core principles of Best Value.

Our work is targeted on annual risk assessments carried out in partnership with other scrutiny bodies. During 2014/15, the Accounts Commission published findings on four [Controller of Audit reports](#)  (South Ayrshire Council, Argyll and Bute Council, the City of Edinburgh Council and the Comhairle nan Eilean Siar).

Audit al fresco

Fieldwork has taken on a new meaning for our team working on the European Agricultural Funds accounts. The audit role has been extended to include physical checks on land, livestock and assets to ensure they conform to amounts claimed. This means donning wellies to make long treks across the mainland, from Canna to Orkney, accompanying Scottish Government inspectors. Working in all weathers has been hard work but new horizons and fresh pastures have made them a hardier breed of auditors.

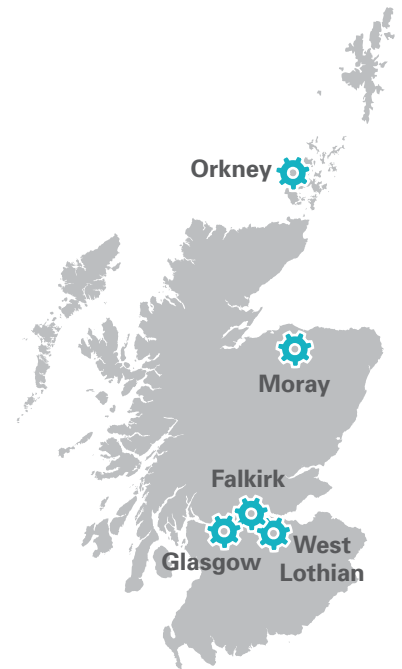


(L→R):
Tarryn Wilson-Jones, Gillian McCreadie and Colin Telford



Community Planning Partnerships

Our previous work continued with five audits on individual [Community Planning Partnerships](#) in Orkney, Glasgow, Moray, Falkirk and West Lothian. Conclusions from these audits fed into the [Community planning: Turning ambition into action \[PDF\]](#) report, published jointly by the Auditor General and the Accounts Commission in November 2014, which highlighted the need to turn the ambitions of community planning into action on the ground. This attracted Parliamentary interest as part of the wider issues of reforming public services and the Community Empowerment Bill. In March 2015, the chair of the Accounts Commission and the Auditor General gave evidence to the Finance Committee in connection with that Bill.



Scrutiny coordination

Audit Scotland, on behalf of the Accounts Commission, continues to work with other scrutiny bodies to make sure that the scrutiny of local government is better targeted and more proportionate to identified risks. The Accounts Commission is responsible for coordinating and facilitating scrutiny in local government.

This year, under a new streamlined approach, we produced local scrutiny plans for all 32 councils. These form the basis of the [National scrutiny plan 2015/16 \[PDF\]](#), showing the scrutiny required to ensure each council keeps on track and makes necessary improvements.

Quality

We regularly seek feedback from public bodies on the quality of our audit work. We had positive responses from a survey of health and further education bodies on the overall quality of our service. The survey also highlighted areas where we can do better, for example in allowing more time to consider reports and more support for audit committees.

Our business groups apply quality control processes to all their work and reports. These are subject to peer review by other UK audit agencies to identify areas for improvement. Financial audit work is subject to internal quality control and external review by the Institute of Chartered Accountants of Scotland.


More detail can be found in our [Transparency and quality: Annual report 2014/15 \[PDF\]](#).




Impact

Our audit work spans the length and breadth of Scottish public life. As well as supporting the bodies we audit to consider how to change and improve the way they work, we are committed to creating other opportunities across the sector for our work to make a real and positive difference to how public money is spent in Scotland.

We undertake a range of activities to give us an insight into the impact of our work. This year, we have seen our reports generate political and public debate, and act as a tool to support learning and improvement within audited bodies.

We use a range of methods to capture how we have made a difference, including impact reports on areas of our work and on specific audits, quality assessments, and surveys of audited bodies and other stakeholders. All of this work, and much more, is fed into [Making a difference: Annual impact report 2014/15 \[PDF\]](#) .

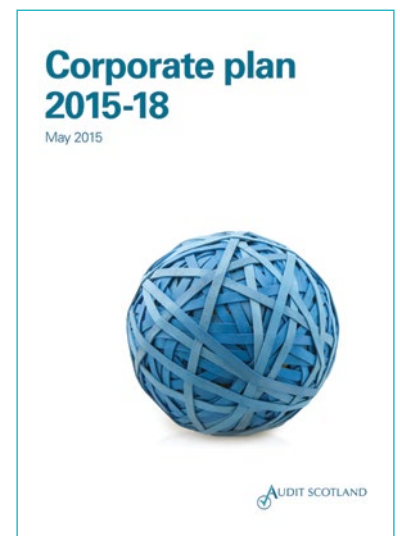
Our new [Corporate plan 2015-18 \[PDF\]](#)  sets out Audit Scotland's strategic priorities for the next three years. We have developed four strategic improvement workstreams under an overarching goal of becoming world class: Making a Difference; Building a Better Organisation; Securing World-Class Audit; and a Strategy for Public Audit.

Ethical standards

Independence is a fundamental principle of public audit and helps ensure its effectiveness. Audit Scotland has adopted the principles of the Financial Reporting Council's ethical standards for auditors. While the standards only apply to financial audit work, we apply them to all our work. The Assistant Auditor General performs the role of ethics partner and provides advice on applying the standards. All staff complete formal annual declarations of potential conflicts of interest and ethical issues, so that we can uphold the highest ethical standards and apply them across all our work. The Auditor General is a member of the International Ethics Standards Board for Accountants.

Technical guidance and assistance

Audit Scotland contributes to improvements in accounting, financial reporting and auditing in the public sector through the technical guidance and assistance we provide to appointed auditors. We also make this available via our website to finance professionals across the Scottish public sector. We published 15 in-depth guidance notes and four bulletins explaining technical developments.





We added 207 documents to our online technical reference library and responded to 744 technical enquiries from auditors and stakeholders. We also contributed to the preparation of externally produced codes and manuals.

Working with other countries

We value our work with other countries not only for what we can offer to support improvement overseas, but also for what useful insights we can learn from them.

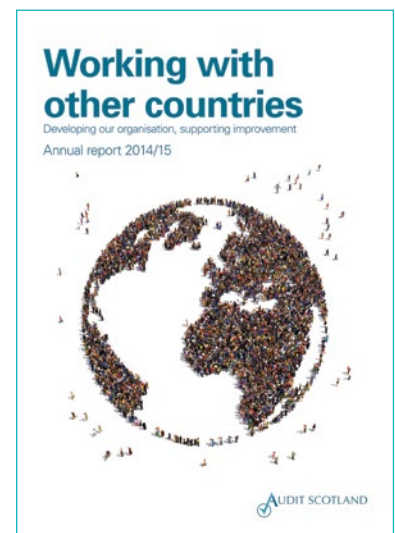
In 2014/15, we concluded our participation in the audit of the United Nations in partnership with the UK National Audit Office, continued to provide mentoring and technical advice to the Office of the Auditor General of Kosovo, and delivered a project to assist in the development of modern, accountable services at the Serbian Ministry of the Interior and Police. In October 2014, we participated in a seminar in Riga focused on financial reporting and the auditing framework for Latvian municipalities.

We hosted eight international delegations and presented a paper on audit procedures for evaluating local government finances to the April 2014 European Organisation of Regional External Public Finance Audit Institutions (EURORAI) conference. In October 2014, we organised our largest ever international event when we hosted the EURORAI conference in Edinburgh. About 120 delegates attended from across Europe to discuss the key theme of the challenges for public auditing in a period of austerity.

There is a separate report with more detail on our [Working with other countries: Annual report 2014/15 \[PDF\]](#) .

Audit in Europe

In October we hosted our largest international event – the EURORAI conference at Dynamic Earth. The central theme was the role of public audit in times of austerity. About 120 delegates from across Europe attended.





Reports published in 2014/15



Annual audits

- Scottish Parliament
- 23 NHS
- 74 Central government
- 65 Local government
- 21 Further education

Performance reports

- Borrowing and treasury management in councils
- Update on developing financial reporting
- Commonwealth Games 2014: Third report
- An overview of local government in Scotland 2015
- Superfast broadband for Scotland: A progress report
- The Scottish Government's purchase of Glasgow Prestwick Airport
- Preparations for the implementation of the Scotland Act 2012
- Community planning: Turning ambition into action
- Orkney Community Planning Partnership
- NHS in Scotland 2013/14



- West Lothian Community Planning Partnership
- Moray Community Planning Partnership
- School education
- Self-directed support
- Scotland's public finances: A follow-up audit
- Falkirk Community Planning Partnership
- Accident and Emergency: Performance update
- Glasgow Community Planning Partnership
- Procurement in councils

Section 22 reports for the Auditor General

- The 2013/14 audit of the Scottish Police Authority
- The 2013/14 audit of NHS 24: Management of an IT contract
- The 2013/14 audit of NHS Orkney: Financial management
- The 2013/14 audit of NHS Highland: Financial management
- The 2013/14 audit of the Scottish Government Consolidated Accounts: Common Agricultural Policy Futures programme
- The 2012/13 audit of North Glasgow College

Controller of Audit reports to the Accounts Commission

- South Ayrshire Council
- The City of Edinburgh Council: Follow-up report
- Argyll and Bute Council: Follow-up report
- The Comhairle nan Eilean Siar: Follow-up report

Scrutiny improvement

- National Scrutiny Plan for local government
- Assurance and improvement plans 2014-17 (one for each of the 32 councils)

Accounts Commission publications

- Annual report 2013/14
- Annual action plan: Progress report 2013/14
- Statutory Performance Indicators Direction 2014



Audit Scotland publications

- [The National Fraud Initiative in Scotland 2012/13](#)
- [Annual review 2013/14](#)
- [Annual Report and accounts 2013/14](#)
- [Transparency and quality: Annual report 2013/14](#)
- [Working with other countries: Annual report 2013/14](#)
- [Carbon scrutiny: Annual report 2013/14](#)
- [Impact: Annual report 2013/14](#)
- [Equalities update 2013/14](#)



Our organisation



whole-time
equivalent staff¹

266



Staff
turnover

6.89%



Sickness absence
per person²

4.59
days



Staff

Male 50.4%
Female 49.6%



Board
members

Male 60%
Female 40%



Senior
management

Male 40%
Female 60%

Our business

We have taken positive steps over the last twelve months to further our goal of being a world-class audit organisation that improves the use of public money.

This means listening. We greatly value feedback from others on what we do.

No organisation can afford to rest on its laurels. We are looking at our systems and processes to make improvements and ensure they meet current and future needs. Excellence and quality depend on continued investment in our people.

A lot of work has also been put in to prepare for the move later this year to a single Edinburgh office in the capital's West Port. This will bring significant long-term financial savings and exciting opportunities to develop new and more efficient ways of working.

Workforce planning and staff development

Workforce planning needs to be grounded on what the business requires and be able to cope with a rise in demand for services.

There has been a slight increase in staff numbers after a period of steady reductions. In March 2015, the total stood at 266 compared to 258 in 2014. The increase is due to additional work we are already undertaking, including more intensive audits for the European Agricultural Funds, continuing to audit local authority charities, and auditing new bodies such as Revenue Scotland, Food Standards Scotland and the new 30 integrated joint boards for health and social care.



Staff (whole-time equivalent) ¹	258	260
Staff turnover %	9.98	8.6
Sickness absence per person ²	5.99 days	5.95 days
Staff:		
Male %	49.3	50
Female %	50.7	50
Board members:		
Male %	60	60
Female %	40	40
Senior management:		
Male %	33.3	28.5
Female %	66.7	71.5

Notes:

- As at 31 March 2015.
- Public sector average 7.9 days and private sector 5.5 days, CIPD 2014 survey.



We continued our commitment to staff development and engaging with our people. During 2014/15, staff received an average of 5.36 days each of formal learning and development.

We also run one of the largest public sector accountancy training schemes in Scotland. We have 47 trainees and staff working towards CIPFA and ICAS qualifications. We recruited our first modern apprentice and a record number of 14 financial trainees who will make significant contributions to the needs of the business in the years ahead.

Staff health and wellbeing came under particular focus in the light of pressures to do more with less and from staff feedback. We introduced new health and wellness checks for staff, ran wellbeing sessions and consulted with managers and others on how it feels to work here. Staff turnover reduced last year and there was a significant reduction in staff sickness and absence rates which are well below the public sector average.

Employee feedback is helping to shape how we design jobs, reward and recognise staff, and manage performance. It also features strongly in planning for the new single office later in 2015 to ensure we have a flexible, modern working environment.

Audit in training

This year we took on a record 14 financial trainees. Regular meetings allow those at different stages to compare notes as they acquire the necessary skills and expertise to prepare them as our next generation of auditors.



(L→R):
Polly Reaves and Sobhan Afzal



Diversity and equality

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

- working with Independent Living in Scotland to host an event in November 2014 bringing together representatives of scrutiny bodies in Scotland and disabled people’s organisations, with whom we later discussed our forward work programme
- piloting a new approach in the efficiency of sheriff courts, due to be published in summer 2015, where the audit team has been working closely with a colleague from the Equalities and Human Rights Commission who is also a member of the project advisory group.

Our approach to diversity and equality is led by a steering group involving colleagues from all our business groups. This group regularly monitors progress against our equalities outcomes and published [Equality outcomes & mainstreaming: A progress report \[PDF\]](#)

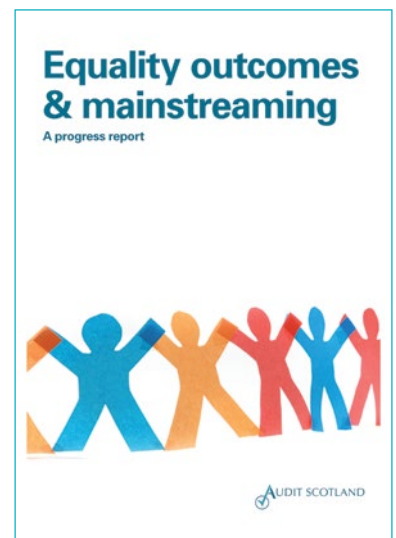
Community, social and human rights

We are committed to conducting our work to the highest standards and building positive relationships with communities across Scotland. Six colleagues have been involved over the year in the [Pilotlight](#) scheme to match skilled business leaders with charities and social enterprises, and more will take part next year.

We currently have five members of staff undertaking public duties such as serving on Children’s Panels.

Over the year, our staff raised more than £8,000 for various good causes. One hardy group of auditors donned fancy dress for a raft race on Loch Lomond, raising more than £4,400 for the Bobath charity which helps children with cerebral palsy.

Staff also choose a corporate charity which we fundraise for a year – currently [Alzheimer’s Research UK](#) – to support vital research to bring improved diagnosis, prevention and much-needed treatments for dementia closer.



Corporate charity






Engaging with the public

Audit Scotland receives enquiries from a wide range of people about the bodies we audit. Where appropriate, we may carry out further audit work in response. In 2014/15, we received 279 items of correspondence raising concerns (compared with 267 in 2013/14).

We receive many routine requests for information on a daily basis. Where the requests are complex or are submitted under the Freedom of Information (Scotland) Act 2002, we record them. This year we received and recorded 73 Freedom of Information requests (63 in 2013/14).

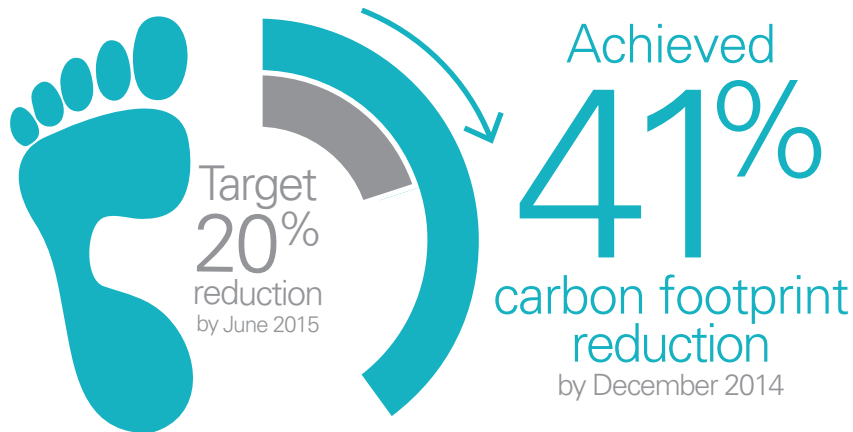
In the course of the year we reviewed the effectiveness of how we classify, record and deal with complaints about Audit Scotland from members of the public. We recorded a total of 11 complaints over the year, compared to three in 2013/14. The Scottish Public Services Ombudsman upheld one complaint against us.

The Public Services Reform (Scotland) Act 2010, which came into force in October 2010, places duties on public bodies to provide and publish information on certain expenditure and exercise of functions. We report on these on [our website](#) .

Audit in the auditorium

Auditors, by definition, are listeners but Aileen Campbell (pictured) has taken this one step further on her secondment to help evaluate the Big Noise, the project which aims to improve children's life chances through playing in orchestras at Raploch in Stirling and Govanhill in Glasgow.

As well as looking at the systems which support the Big Noise, she has also been helping some of the young musicians make a film of their experiences and assisting colleagues in Education Scotland whose report in January praised the project's exceptional achievement.



Managing our resources and sustainability

Audit Scotland set a target in June 2010 to reduce our carbon footprint by 20 per cent, or 107 tonnes of CO₂, within five years.

By December 2014, we had already achieved more than double this with a 41 per cent reduction in CO₂ emissions. This was due to rationalising offices, better use of technology, reducing car travel mileage and introducing a greener fleet.

The move from two older offices to a single Edinburgh headquarters in 2015 will bring significant long-term benefits.

We are now developing our carbon management plan for the next five years. Audit Scotland's Carbon Scrutiny Board has been working with Resource Efficient Scotland (RES) to ensure that this plan is evidence-based, reflects good practice, and ensures that we are able to meet our obligations under climate change legislation.

Internal audit and risk management

Audit Scotland's audit committee supports our board in its responsibilities for risk, control and governance, and associated assurance. The committee met five times in 2014/15 and considered seven internal audit and advisory reports.

Most internal audits in 2014/15 achieved 'substantial assurance', the highest standard available, from our internal auditors tiaa. A follow-up report showed that we were making excellent progress in applying previous recommendations.



Our governance and management

Board members



John Maclean

Chair of the board

(from 1 October 2014)



Ian Leitch

Independent non-executive member



Heather Logan

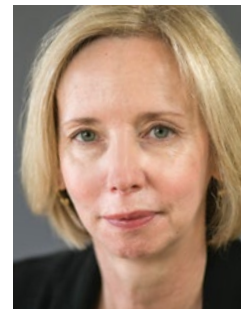
Independent non-executive member

(from 1 October 2014)



Douglas Sinclair

Chair of the Accounts Commission



Caroline Gardner

Auditor General and Accountable Officer for Audit Scotland

Our board

Our board sets and monitors the strategic direction of Audit Scotland, while overseeing Audit Scotland’s work and striving for high standards of governance and management.

The board has an audit committee which receives our annual accounts and internal audit reports. It comprises Heather Logan (chair), Douglas Sinclair and Ian Leitch. Heather Logan was a co-opted member of the audit committee until 30 September 2014, and was appointed a board member and chair of the audit committee from 1 October 2014. The committee recommended the appointment of taa as internal auditors to Audit Scotland.

The board met ten times during the year and the audit committee five times.

The board has a remuneration and human resources committee which 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. This committee met three times over the year. It comprises Ian Leitch (chair), Douglas Sinclair, Heather Logan and John Maclean.

Ronnie Cleland left the board on 30 September 2014



Senior management team



Russell Frith

Assistant Auditor General



Diane McGiffen

Chief Operating Officer



Fraser McKinlay

Director of Performance Audit and Best Value and Controller of Audit



Fiona Kordiak

Director of Audit Services

Senior management team also includes Caroline Gardner.

Lynn Bradley was a member of the senior management team as Director of Corporate Programmes and Performance until 31 July 2014

Our senior management

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

Scottish Commission for Public Audit

Audit Scotland is held to account by Parliament through statutory arrangements put in place by the Scotland Act 1998 and through the Public Finance and Accountability (Scotland) Act 2000. The Scottish Commission for Public Audit (SCPA) is central to these arrangements. The SCPA consists of five MSPs and meets in public. It appoints our non-executive board members and chair, scrutinises our budget, annual report and accounts, and produces reports on these. It appoints our external auditors, currently Alexander Sloan Chartered Accountants.



Resource accounts

2014/15



Directors' report

Statutory background

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

Basis of accounts

These are the accounts of Audit Scotland for the year ended 31 March 2015. The accounts have been prepared in compliance with a direction given by Scottish ministers in accordance with section 19(4) of the Public Finance and Accountability (Scotland) Act 2000.

Sources of funding

Audit Scotland may, under Part 2 of the Public Finance and Accountability (Scotland) Act 2000, make reasonable charges to audited bodies in respect of the exercise of its functions. Audit Scotland must seek to ensure that, taking one year with another, its charges for certain types of work are broadly equivalent to its expenditure. Any expenditure not met from charges is payable out of the Scottish Consolidated Fund.


Key achievements

2014/15 represented the final year of our four-year cost reduction plan covering the years 2011/12 to 2014/15. Compared with the 2010/11 baseline resource plan, Audit Scotland achieved a cost reduction of 20 per cent (after allowing for inflation) exceeding the target of 17 per cent. In the same period, baseline fees paid by the bodies we audit reduced by 21 per cent (after allowing for inflation). Audit Scotland achieved these savings through a restructure of its workforce and the ways we work, retendering the work carried by external audit firm providers, the introduction of new technology and the rationalisation of our properties.

At the same time as pursuing cost reductions, we worked to improve the quality and impact of our work. Further information on our work can be found in the Strategic report.

Review of financial performance

Audit Scotland is 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 section provides a summary from the accounts. The financial statements are published on [pages 43 to 66](#) and are available on [our website](#) .



A summary of income and expenditure

	Actual £000	2014/15 Budget £000	Actual £000	2013/14 Budget £000
Direct funding from Parliament				
Expenditure – total resource requirement	24,498	24,765	24,141	24,233
Income	17,397	16,648	17,493	16,851
Net Operating (Cost)	(7,101)	(8,117)	(6,648)	(7,382)

In 2014/15, Audit Scotland spent £24.5m on services for the Auditor General and the Accounts Commission. Of these costs, £17.4m were recovered through charges to audited bodies and miscellaneous income. The balance of expenditure £7.1m was met from direct funding provided by the Scottish Parliament.

In 2014/15, we delivered £0.9m of efficiency savings against a target of £0.3m. This was 3.7 per cent of our budget. The majority of savings came from staff costs and external consultancy support.

2014/15 financial results

In 2014/15, income earned from audited bodies and miscellaneous income was £17,397k. Expenditure in the same period was £24,498k. The resulting Net Operating Cost of £7,101k was £1,016k less than the estimated net resource requirement (budget) of £8,117k provided by the Scottish Parliament. Income earned in the year was £749k more than budget, while expenditure was £267k less than budget.

Analysis of expenditure

Expenditure	£000	2014/15 % total	£000	2013/14 % total
Staff and members' costs	14,987	61	14,755	61
Fees and expenses paid to appointed auditors	5,128	21	5,193	21
Buildings, rent and depreciation	1,571	6	1,625	7
Operating costs	2,804	12	2,560	11
Gross Administration costs	24,490	100	24,133	100
Corporation Tax	8	-	8	-
Total resource requirement	24,498	100	24,141	100

Sources of income

Income	£000	2014/15 % total	£000	2013/14 % total
Fees paid by local authorities	11,459	66	11,665	67
Fees paid by health bodies	3,777	22	3,750	21
Fees paid by further education colleges	509	3	629	4
Fees paid by Scottish Government and sponsored bodies	2,398	14	1,957	11
Total fee income	18,143	105	18,001	103
Bank interest	41	-	41	-
Miscellaneous	60	-	164	1
Other finance income (pensions) ¹	(847)	-5	(713)	-4
Total	17,397	100	17,493	100

Note: 1. Other finance income is comprised of the expected interest income from the local government pension scheme assets less the interest payable on the scheme liabilities.



Comparison with previous year

Increased audit workload in 2014/15 particularly for European Agricultural Funds resulted in a 1.5 per cent (£357k) rise in spending, taking the total to £24,498k. Last year's results included a one-off credit of £152k for a VAT refund and when this is excluded, expenditure in 2014/15 was £205k (0.8 per cent) higher. This rise was mainly due to an increase in staff (+5 w.t.e. +1.9 per cent) with costs £232k (1.6 per cent) higher than the previous year. Staff costs as a percentage of total costs remained at 61 per cent.

Total income in 2014/15 was £17,397k and was £96k less than 2013/14. Although fee income increased by £142k (0.8 per cent), this was more than offset by a reduction in miscellaneous income of £104k due to fewer staff secondments to other public sector bodies and an increased deficit in other finance income (£134k) caused by increased interest costs on pension liabilities.

Comparison with budget

Net operating costs were £1,016k less than budget. £195k of the underspend was the result of a reduced charge in respect of the current service cost of our staff who are part of the Local Government Pension Scheme.

Fee income, net of sums paid to appointed external audit firms, was £488k greater than budget as a result of an increase in agreed fees compared to budget, additional audit work that arose in the year that was not included in the budget and lower levels of expenses paid to external audit firms.

Further savings were recorded as a result of reduced use of external consultants and professional services providers (£209k), and ICT and web development expenditure (£140k).

Capital expenditure

Audit Scotland invested £199k (available budget £200k) in 2014/15 to improve its business operations. All expenditure related to IT hardware and included server replacements/upgrades and network switches, printer replacements for our offices in Glasgow and Inverness and at audit rooms, and the purchase of equipment to support the move to our new Edinburgh office.

Resources required for 2015/16

Our budget resources for 2015/16 have been approved by the Scottish Parliament. Our revenue resources total £24.5m. Of these resources £18.1m will be recovered through charges to audited bodies and miscellaneous income. The balance of expenditure £6.4m will be met from direct funding provided by the Scottish Parliament.

A capital resource of £1.5m will be provided by the Scottish Parliament. During 2015/16, the leases on our two offices in Edinburgh will end and we will relocate to a single site location within Edinburgh. The majority of the capital resource provided for 2015/16 will be used to fit-out this office. Over the ten-year lease of the new site, we anticipate revenue savings of £2.8m will be generated.

Post balance sheet events

There were no important events occurring after the year-end which fall under the definition of a post balance sheet event.

Pensions and early departure costs

Details of the organisation's pension and early retirement costs are included in the notes to these accounts.

Board and management

Details of the board and senior management team are in the Strategic report and the Remuneration report.

Staff relations

Audit Scotland recognises the importance of good industrial relations and effective communication with its staff. A Partnership Forum, which meets regularly, comprises members of Audit Scotland management and staff representatives of the Public & Commercial Services union (PCS) has been in place since 2002. During 2014, the Partnership Forum Agreement, which includes the guiding principles to support effective partnership working between Audit Scotland and the PCS Branch Executive Committee, was upgraded.



Payment to suppliers

In line with the CBI Prompt Payment Code, Audit Scotland has a policy to pay all invoices not in dispute in 30 days or the agreed contractual terms if otherwise specified: 99 per cent (2014 – 98 per cent) of all invoices for the year were paid on or before the due date.

We also monitor our performance against the Scottish Government's target of payment of trade invoices within ten days. In 2014/15, 87 per cent (2014 – 86 per cent) of trade invoices were paid within ten days.

Personal data related incidences

During 2014/15, there were no incidences of data loss which required to be notified to the Information Commissioner.

Auditors

Accounts prepared by Audit Scotland 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 Chartered Accountants, as auditors to Audit Scotland for a three-year period commencing March 2011. The contract has been extended on an annual basis for the past two years.

So far as I am aware, there is no relevant audit information of which Audit Scotland's auditors are unaware, and I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that Audit Scotland's auditors are aware of that information.

Caroline Gardner
Auditor General and Accountable Officer
9 June 2015



Remuneration report

Remuneration and human resources committee

The membership and remit of the committee are set out in Standing Orders as follows:

'The remuneration and human resources committee will consist of a member or members of the board who are not employees of Audit Scotland. The board may appoint persons who are not members of the board to be members of or advisers to the remuneration and human resources committee, and may pay them such remuneration and expenses as the board decided.'

In relation to members of Audit Scotland's Management Team, the responsibilities of the committee are to:

- review and approve all terms and conditions of employment, including job descriptions, all pay and benefit reward elements associated with each post
- ensure remuneration policy and strategy is aligned to the relevant public sector policies being implemented by the UK and Scottish Governments
- set and review the overall reward structure, including the value of pay ranges and general annual pay award strategy
- assure itself that effective arrangements are followed for performance assessments in respect of Audit Scotland's Management Team, including any changes to pay and benefits arising from the assessment of performance during the review period
- review talent management and succession planning arrangements
- approve remuneration packages for newly appointed members of the Management Team
- recommend appointments and changes affecting Management Team to the board
- decide on applications for early retirement and determine compensation payments for loss of office
- agree, oversee and review the operation of expenses policy and review the expense claims of the Accountable Officer on an annual basis.

In relation to other staff employed by Audit Scotland, responsibilities are to:

- determine the remuneration policy governing all terms and conditions of employment, including pay, benefits, retirement policy and other policies relating to compensation for loss of office
- ensure remuneration policy and strategy is aligned to the relevant public sector policies being implemented by the UK and Scottish Governments
- approve the parameters for the annual pay award cycle
- review, not less than annually, the application of remuneration policy
- assure itself about any issues relating to the overall performance of employees.

Although the salary and pension contributions of the Auditor General for Scotland are paid by Audit Scotland, they are set by the Scottish Parliamentary Corporate Body.

The members of the remuneration and human resources committee during the year were:

- Chair – Ian Leitch
- Member – Douglas Sinclair
- Member – John Maclean
- Member – Heather Logan (from 1 October 2014)
- Member – Caroline Gardner
- Member – Ronnie Cleland (until 30 September 2014).



In setting salary levels, the committee has regard to:

- the need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities
- the performance of individual managers
- regional/local variations in labour markets and their effects on recruitment and retention
- government policies for improving public services including the requirement to meet the output targets for the delivery of services and other relevant Government policies and targets
- the funds available subject to any expenditure limits.

The information on [pages 37 to 39](#) is covered by the audit opinion.

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 as follows:

Remuneration banding	2014/15 £000	2013/14 £000
Chair – Ronnie Cleland (until 30 September 2014)	5 – 10	10 – 15
Chair – John MacLean (from 1 October 2014)	5 – 10	-
Independent board members	5 – 10	5 – 10



Senior management

The salaries (excluding employer's superannuation and national insurance contributions), benefits in kind and pension entitlements of the Management Team are shown in the following tables. Information is presented for the whole year to 31 March 2015. Further information on the pensions payable to Audit Scotland staff, including senior management, can be found in [Note 3. Pension assets and liabilities \(page 50\)](#).

Single total remuneration	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14
	Salary £000	Salary £000	Benefit in kind ¹ £	Benefit in kind ¹ £	Pension benefit ² £000	Pension benefit ² £000	Total £000	Total £000
Caroline Gardner Auditor General for Scotland	140 – 145	135 – 140	-	-	52	55	190 – 195	190 – 195
Russell Frith Assistant Auditor General	110 – 115	110 – 115	-	-	30	9	140 – 145	120 – 125
Diane McGiffen Chief Operating Officer	110 – 115	105 – 110	-	-	42	17	150 – 155	126 – 130
Lynn Bradley ³ Director of Corporate Programmes and Performance	30 – 35	90 – 95	800	2,500	13	3	40 – 45	90 – 95
Fiona Kordiak Director of Audit Services	90 – 95	90 – 95	3,800	5,300	27	2	120 – 125	95 – 100
Fraser McKinlay Director of Performance Audit and Best Value and Controller of Audit	105 – 110	100 – 105	-	-	57	19	170 – 175	120 – 125

The highest paid member of senior management was the Auditor General for Scotland. Her annualised remuneration before pension benefits was 3.3 times the £42,865 median remuneration paid to Audit Scotland's staff in 2014/15 (2013/14 – 3.4 X £41,664).



Pensions	Accrued pension at 31 March 2015 £000	Accrued lump sum at 31 March 2015 £000	Real increase in annual pension £000	Real increase in lump sum £000	CETV at 31 March 2015⁴ £000	CETV at 31 March 2014⁴ £000	Real increase in CETV⁴ £000
Caroline Gardner Auditor General for Scotland	70 – 75	NIL	2.5 – 5.0	NIL	855	796	25
Russell Frith Assistant Auditor General	25 – 30	85 – 90	0 – 2.5	2.5 – 5.0	596	540	25
Diane McGiffen Chief Operating Officer	30 – 35	70 – 75	2.5 – 5.0	0 – 2.5	570	514	24
Fiona Kordiak Director of Audit Services	30 – 35	70 – 75	0 – 2.5	0 – 2.5	564	520	14
Fraser McKinlay Director of Performance Audit and Best Value and Controller of Audit	15 – 20	15 – 20	2.5 – 5.0	0 – 2.5	165	127	21

Notes:

1. The estimated value of benefits in kind relates to 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 and are net of contributions made by the individual.
3. Lynn Bradley left Audit Scotland in July 2014 under the terms of our Voluntary Early Release Arrangements. A payment of £273k was made to Lothian Pension Fund to secure early access to pension benefits. No cash compensation was paid.
4. A CETV is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular 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 as a consequence 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.



Service contracts

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

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

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. The following details are included for information and to assist the reader of the report.

The average number of members of the Commission throughout the period was 11 (2013/14 – 12) and their remuneration was as follows:

Remuneration banding¹	2014/15 £000	2013/14 £000
Chair – Douglas Sinclair (from 1 December 2013)	40 – 45	10 – 15 ²
Depute Chair – Douglas Sinclair (until 30 November 2013)	-	5 – 10
Depute Chair – Ronnie Hinds (from 1 October 2014)	5 – 10	-
Commission members	5 – 10	5 – 10

Notes:

1. All Commission appointments are part-time and non-pensionable.
2. Part year.

Caroline Gardner
Auditor General and Accountable Officer
9 June 2015



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 Scottish Commission for Public Audit 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 Scottish Commission for Public Audit.


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

- observe the accounts direction including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis
- make judgements and estimates on a reasonable basis
- state whether applicable accounting standards, as set out in the FReM, have been followed; and disclose and explain any material departures in the accounts
- prepare accounts on a going concern basis.

The responsibilities of the Accountable Officer, including responsibility for the propriety and regularity of the public finances for which an Accountable Officer is answerable, 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](#) .

Purpose of the system of internal control

The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of the organisation's policies, aims and objectives; to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. This process has been in place for the year ended 31 March 2015 and up to the date of approval of the annual report and accounts.

The system of internal control is 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 processes within the organisation have regard to the guidance to public bodies in Scotland issued by Scottish ministers and set out in the Scottish Public Finance Manual.

Governance framework

As Accountable Officer, I also have responsibility for reviewing the effectiveness of the systems of internal control. The following processes have been established to inform my review.

The board of Audit Scotland meets regularly to develop and monitor the plans and strategic direction of the organisation. The board which has three independent non-executive members, including the chair, also includes the Auditor General for Scotland and the Chair of the Accounts Commission for Scotland. The board has agreed a framework which sets out the principles of partnership working between the Auditor General for Scotland, the Accounts Commission and Audit Scotland. The board met ten times in 2014/15.

The board has an audit committee which recommends the appointment of our internal auditors and receives our annual accounts and internal audit reports. The audit committee considers the risk management arrangements, receives regular updates on the corporate risk register, and reviews the annual assurances provided by management. The audit committee undertakes an annual review of our principal governance policies (Standing Orders, Financial Regulations and Scheme of Delegation). The audit committee also considered annual assurance reports on Health and Safety, Information Risk and Security, Transparency and Quality, Hospitality and Gifts, Whistleblowing and Bribery and Fraud. In the first six months of the year, the audit committee was strengthened through the appointment of a co-opted member. This appointment ensured continuity of the committee's work during a period of change of members on the Audit Scotland Board. The co-opted member became a full board member and chair of the audit committee in October 2014. The audit committee, which is chaired by a non-executive board member, met five times in 2014/15. The chair of the audit committee submits an annual Statement of Assurance to the board.

The board also has a remuneration and human resources committee which sets and reviews the salaries and the main terms and conditions for all staff. The committee, which is chaired by a non-executive board member, met three times in 2014/15.

Audit Scotland has a Management Team which normally meets on a weekly basis. The Management Team comprises the Auditor General for Scotland as Accountable Officer and four executive directors of the organisation. It considers regular reports from the managers within the organisation on progress towards meeting the organisations' performance objectives.

Audit Scotland has a risk strategy and policy which sets out the approach to risk management in the organisation. The corporate risk register, which identifies the key risks facing the organisation, the likelihood and impact of the risk crystallising, the controls in place, the way in which the risk is monitored and any actions to further reduce the risk, is regularly reviewed by the Management Team and by the audit committee. Information risk is covered by the normal risk management arrangements and monitored by the Knowledge, Information and Technology Governance Group. In addition, Audit Scotland is committed to information management and security and improving our arrangements for data sharing.



The system of internal financial control is based on a framework of regular management information, administrative procedures and a system of delegation and accountability. In particular it 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.

Review of effectiveness of internal control and risk management

As Accountable Officer, I have responsibility for reviewing the effectiveness of the system 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. During the year, a new firm of internal auditors were appointed for a three-year period. 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.

During the financial year to 31 March 2015 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.

Information security

Audit Scotland has privileged and wide-ranging access to data and information to support the discharge of the audit function and ensure that reports to Parliament 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.

In order to reinforce the importance of this, training on data protection and information security is included in the induction process for all new staff. Also this year Audit Scotland produced and distributed data protection updates to staff.

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

Significant issues

I am able to report that there were no significant weaknesses in Audit Scotland's system of internal controls in 2014/15 which affected the achievement of Audit Scotland's key policies, aims and objectives.

Caroline Gardner
Auditor General and Accountable Officer
9 June 2015



Summary of Resource Outturn

Year ended 31 March 2015

	Note	2015 £000	2014 £000
Net Operating (Cost) – actual		(7,101)	(6,648)
Estimate – year to 31 March 2015		(8,117)	
Net Cash Requirement (<i>see Cash flow statement</i>)		6,505	7,326

Statement of Comprehensive Net Expenditure

Year ended 31 March 2015

	Note	2015 £000	2014 £000
Administration costs			
People costs	2	(14,987)	(14,755)
Other administration costs	4	(9,503)	(9,378)
Gross administration costs		(24,490)	(24,133)
Operating income	5	18,244	18,206
Other finance income	6	(847)	(713)
Net (expenditure)		(7,093)	(6,640)
Corporation Tax (payable)		(8)	(8)
Net operating (cost) and total comprehensive net (expenditure)		(7,101)	(6,648)



Balance sheet

As at 31 March 2015

	Note	2015 £000	2014 £000
Non-current assets			
Property, plant and equipment	7	621	704
Intangible assets	8	45	70
Total non-current assets		666	774
Current assets			
Trade and other receivables	9	2,305	2,632
Cash and cash equivalents	10	1,639	1,072
Total current assets		3,944	3,704
Total assets		4,610	4,478
Current liabilities			
Trade and other payables	12	3,405	2,703
Provision for early retirement	14	97	564
Other provisions	16	524	251
Total current liabilities		4,026	3,518
Non-current assets plus/less net current assets/liabilities		584	960
Non-current liabilities			
Deferred liabilities	13	(65)	(52)
Provision for early retirement	14	(1,876)	(1,796)
Other provisions	16	(43)	(279)
Net funded pension (liability)	3	(26,812)	(17,528)
Total non-current liabilities		(28,796)	(19,655)
Assets less liabilities		(28,212)	(18,695)
Represented by:			
Taxpayers' equity			
Net funded pension (liability)	3	(26,812)	(17,528)
General fund		(1,400)	(1,167)
		(28,212)	(18,695)

Caroline Gardner
Auditor General and Accountable Officer
9 June 2015



Cash flow statement

Year ended 31 March 2015

	Note	2015 £000	2014 £000
Cash flows from operating activities			
Net operating (cost)		(7,101)	(6,648)
Adjustment for non-cash items:			
- Depreciation	7, 8	304	365
- Pension scheme – net revenue debit		1,435	1,196
Decrease / (increase) in trade and other receivables		327	(436)
Increase / (decrease) in trade / other payables / deferred liabilities		686	(350)
(Decrease) in provisions for early retirement		(387)	(109)
Increase / (decrease) in other provisions		37	(38)
Adjustment for cash balance due to the Consolidated Fund	12	(1,639)	(1,072)
Net cash outflow from operating activities		(6,338)	(7,092)
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(199)	(212)
Purchase of intangible assets	8	-	(40)
Less movement in accrued expenditure		32	18
		(167)	(234)
Cash flows from financing activities			
Opening cash balance payable to the Consolidated Fund		1,072	1,199
From Consolidated Fund (Supply)		6,000	6,000
		7,072	7,199
Net increase / (decrease) in cash and cash equivalents in the period		567	(127)
Cash and cash equivalents at the beginning of period		1,072	1,199
Cash and cash equivalents at the end of period		1,639	1,072
Net cash requirement			
Cash flows from financing activities		7,072	7,199
(Increase) / decrease in cash		(567)	127
		6,505	7,326



Statement of Changes in Taxpayers' Equity

Year ended 31 March 2015

Changes in Taxpayers' equity for 2014/15	Note	Net funded pension £000	General fund £000	Total £000
Balance at 1 April 2014		(17,528)	(1,167)	(18,695)
Transfers between reserves				
- Transfer to net funded pension liabilities	2	(668)	668	0
- Net return on pension assets	3	(767)	767	0
Actuarial remeasurements (losses)	3	(7,849)	-	(7,849)
Net operating (cost)		-	(7,101)	(7,101)
Net funding from the Scottish Parliament	11	-	5,433	5,433
Balance at 31 March 2015		(26,812)	(1,400)	(28,212)



Notes to the accounts

1. Statement of accounting policies

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

a) Basis of accounting

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

In common with similar public bodies, the future financing of Audit Scotland's liabilities will be met by future grants of Supply and the application of future income, both to be approved annually by the Scottish Parliament. The approval of amounts for 2015/16 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) Non-current assets

All property occupied by Audit Scotland is leasehold. 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.

c) 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 – 9 years)
Furniture and fittings	5 years
Computer equipment	2 – 5 years
Software	2 – 5 years

d) 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.

e) Operating income

Operating income relates directly to the audit activities of Audit Scotland. It principally comprises fees and charges for services provided on a full cost basis to audited bodies.

f) Work in progress

Work in progress is valued on the basis of a proportion of the agreed fee 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.



g) 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.

h) 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.

i) Pension arrangements

Audit Scotland complies with the requirements of IAS 19 for the year ended 31 March 2015. 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.



2. People costs and numbers

	2015	2014
	£000	£000
People costs comprise		
Administrative staff		
Salaries	11,185	10,931
National Insurance	971	964
Superannuation	1,937	1,888
Pensions in payment (see note 3c)	23	23
Provision for early retirement and severance costs (see note 14)	1	350
Movement in early retirement costs	54	(105)
Adjustment for retirement benefit scheme costs (see below)	668	571
	14,839	14,622
Accounts Commission members		
Salaries	127	112
National Insurance	10	9
Travel and subsistence	11	12
	148	133
	14,987	14,755

The average number of directly employed whole time equivalent (w.t.e.) staff during the period was 267 (2014 – 262). The average number (w.t.e.) for agency and seconded staff used during the year was 11 (2014 – 9).

	2015	2014
	£000	£000
Analysis of local government retirement benefit scheme costs		
Current service costs	3,360	3,010
Past service costs	127	94
	3,487	3,104
Less: Actual employees' contributions	(762)	(731)
Charge to revenue	2,725	2,373
Employer contributions	(2,057)	(1,802)
Adjustment for retirement benefit scheme costs	668	571



3. Pension assets and liabilities

In accordance with International Accounting Standard No 19 (IAS 19), Audit Scotland is required to disclose certain information concerning assets, liabilities, income and expenditure related to pension schemes for its employees. Audit Scotland operates two main pension schemes: the Local Government Pension Scheme, administered by the Lothian Pension Fund, and the Principal Civil Service Pension Scheme (PCSPS). Audit Scotland is not required to record information related to the PCSPS as the scheme does not identify assets and liabilities by employer. In addition, until June 2012, Audit Scotland operated a 'by analogy' scheme for the previous Auditor General for Scotland.

a) Local Government Pension Scheme

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

The following valuations have been provided by Hymans Robertson LLP, the independent actuaries to Lothian Pension Fund. The financial and actuarial assumptions used for the purposes of their IAS 19 calculations as at 31 March 2015 were as follows:

	2015 %	2014 %
Salary increases	4.30	5.10
Pension increases	2.40	2.80
Discount rate	3.20	4.30
The assumed average life expectancy for a retiral at age 65 are as follows:		
	Male years	Female years
Current pensioners	22.1	23.7
Future pensioners	24.2	26.3

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 2015 have been prepared by Hymans Robertson LLP.



The movement in the funded part of the net pension liability for the year to 31 March 2015 is as follows:

	Period ending 31 March 2015		
	Assets £000	Obligation £000	Net (Liability)/ Asset £000
Fair value of employer assets	66,395	0	66,395
Present value of funded liabilities	0	83,923	(83,923)
Opening position as at 1 April 2014	66,395	83,923	(17,528)
Current service cost	0	2,598	(2,598)
Past service cost	0	127	(127)
Total service cost	0	2,725	(2,725)
Interest income on plan assets	2,876	0	2,876
Interest cost on defined benefit obligation	0	3,643	(3,643)
Total net interest	2,876	3,643	(767)
Total defined benefit cost recognised in Statement of Comprehensive Net Expenditure	2,876	6,368	(3,492)
Employee contributions	763	763	0
Employer contributions	2,057	0	2,057
Benefits Paid	(1,736)	(1,736)	0
Total cashflows	1,084	(973)	2,057
Expected closing position	70,355	89,318	(18,963)
Change in demographic assumptions	0	3,771	(3,771)
Change in financial assumptions	0	11,413	(11,413)
Other experience changes	0	(2,810)	2,810
Return on assets excluding amounts included in net interest	4,525	0	4,525
Total remeasurements recognised in Other Comprehensive Income	4,525	12,374	(7,849)
Fair value of employer assets	74,880	0	74,880
Present value of funded liabilities	0	101,692	(101,692)
Closing position as at 31 March 2015	74,880	101,692	(26,812)

Information in respect of the defined benefit obligation

Defined benefit Obligation information	£000	Liability split %	Duration Years
Active members	61,670	60.6	26.7
Deferred members	12,184	12.0	25.7
Pensioner members	27,838	27.4	12.4
Total	101,692	100.0	21.6

The increase in net pension liabilities during 2014/15 was mainly due to a reduction in the real discount rate used to value pension liabilities. The impact of increased liabilities was partly offset by increased asset values as a result of higher than expected investment returns.



The movement in the funded part of the net pension liability for the year to 31 March 2014 was as follows:

	Period ending 31 March 2014		
	Assets £000	Obligation £000	Net (Liability)/ Asset £000
Fair value of employer assets	61,499	0	61,499
Present value of funded liabilities	0	75,106	(75,106)
Opening position as at 1 April 2013	61,499	75,106	(13,607)
Current service cost	0	2,279	(2,279)
Past service cost	0	94	(94)
Total service cost	0	2,373	(2,373)
Interest income on plan assets	2,794	0	2,794
Interest cost on defined benefit obligation	0	3,419	(3,419)
Total net interest	2,794	3,419	(625)
Total defined benefit cost recognised in Statement of Comprehensive Net Expenditure	2,794	5,792	(2,998)
Employee contributions	725	725	0
Employer contributions	1,802	0	1,802
Benefits Paid	(1,339)	(1,339)	0
Total cashflows	1,188	(614)	1,802
Expected closing position	65,481	80,284	(14,803)
Change in financial assumptions	0	3,669	(3,669)
Other experience changes	0	(30)	30
Return on assets excluding amounts included in net interest	914	0	914
Total remeasurements recognised in Other Comprehensive Income	914	3,639	(2,725)
Fair value of employer assets	66,395	0	66,395
Present value of funded liabilities	0	83,923	(83,923)
Closing position as at 31 March 2014	66,395	83,923	(17,528)



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

Asset Category	At 31 March 2015				At 31 March 2014			
	Quoted Prices in Active Markets £000	Prices not quoted in Active Markets £000	Total £000	%	Quoted Prices in Active Markets £000	Prices not quoted in Active Markets £000	Total £000	%
Equity Securities:								
Consumer	10,502.0	0.0	10,502.0	14	10,061.5	0.0	10,061.5	15
Manufacturing	8,807.9	0.0	8,807.9	12	9,063.1	0.0	9,063.1	14
Energy and Utilities	7,481.9	0.0	7,481.9	10	7,388.1	0.0	7,388.1	11
Financial Institutions	6,169.3	0.0	6,169.3	8	4,624.8	0.0	4,624.8	7
Health and Care	5,102.4	0.0	5,102.4	7	4,529.8	0.0	4,529.8	7
Information Technology	4,683.0	0.0	4,683.0	6	4,319.2	0.0	4,319.2	7
Other	3,353.7	0.0	3,353.7	4	2,933.7	0.0	2,933.7	5
Debt Securities:								
Corporate Bonds (investment grade)	0.0	0.0	0.0	0	2,146.4	0.0	2,146.4	3
Corporate Bonds (non-investment grade)	0.0	0.0	0.0	0	322.8	0.0	322.8	0
UK Government	4,335.9	0.0	4,335.9	6	2,259.5	0.0	2,259.5	3
Other	1,846.6	0.0	1,846.6	2	56.7	0.0	56.7	0
Private Equity:								
All	0.0	8,682.7	8,682.7	12	541.1	7,513.2	8,054.3	12
Real Estate:								
UK Property	0.0	4,897.9	4,897.9	7	0.0	4,625.9	4,625.9	7
Overseas Property	0.0	759.3	759.3	1	0.0	537.9	537.9	1
Investment funds and Unit trusts:								
Equities	812.5	0.0	812.5	1	688.9	246.7	935.6	2
Bonds	215.1	0.0	215.1	0	0.0	283.6	283.6	0
Commodities	239.3	0.0	239.3	0	0.0	225.6	225.6	0
Infrastructure	450.0	0.0	450.0	1	0.0	0.0	0.0	0
Other	242.0	267.5	509.5	1	0.0	215.8	215.8	0
Derivatives:								
Foreign exchange	114.8	0.0	114.8	0	0.0	0.0	0.0	0
Other	0.0	0.0	0.0	0	7.0	0.0	7.0	0
Cash and cash equivalents:								
All	5,915.9	0.0	5,915.9	8	3,803.7	0.0	3,803.7	6
Totals	60,273	14,607	74,880	100	52,746	13,649	66,395	100



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

Sensitivity analysis at March 2015	Approx.% increase to employer obligation	Approx. monetary amount £000
0.5% decrease in real discount rate	12	12,411
1 year increase in member life expectancy	3	3,051
0.5% increase in salary increase rate	5	5,222
0.5% increase in pension increase rate	7	6,818

During the year ended 31 March 2015, Audit Scotland's contribution to the pension fund represented 14.4 per cent (2014 – 14.4 per cent) of contributing employees' pensionable pay. In addition a lump sum payment of £343k (2014 – £343k) was paid to meet past service cost deficits. Under Superannuation Regulations, contribution rates are set to meet 100 per cent of the overall liabilities of the fund. In their valuation, as of December 2014, Hymans Robertson LLP recommended employers' contributions be set at 17.2 per cent of pensionable pay plus an annual lump sum payment of £77k to meet past service cost deficits for 2015/16 to 2017/18. Hymans Robertson estimate that employer contributions in 2015/16 will be approximately £1,779k.

b) PCSP scheme

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

The PCSPS is an unfunded multi-employer defined benefit scheme but Audit Scotland is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2012. You can find details in the resource accounts of the Cabinet Office at www.civilservicepensionscheme.org.uk/about-us/resource-accounts

During the year ended 31 March 2015, Audit Scotland paid an employer's contribution of £155k (2014 – £177k) into the PCSPS at rates between 18.8 per cent and 24.3 per cent of pensionable pay (2014 – 18.8 per cent to 24.3 per cent). Audit Scotland has been informed that contributions in 2015/16 will be at rates between 20.0 per cent and 24.5 per cent. Employer contribution rates are reviewed every three years following a scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when costs are actually incurred, and they reflect past experience of the scheme.

c) By analogy scheme

Robert W Black retired as Auditor General for Scotland, on 30 June 2012. Until that time his pension benefits were provided by analogy to the Local Government Pension Scheme. In 2014/15, pension payments of £23k were made (2014 – £23k).

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 administration costs

	£000	2015 £000	2014 £000
Fees and expenses to appointed audit firms:			
Local authorities	2,479		2,600
National Health Service bodies in Scotland	1,190		1,199
Further education colleges	454		575
Scottish Government and sponsored bodies	1,005		819
		5,128	5,193
Other costs:			
Rent and rates	733		747
Other accommodation costs	535		513
Travel and subsistence	878		889
Legal and other professional fees	597		441
Stationery and printing	146		179
Training	464		527
Staff recruitment	127		148
Communications (telephone, postage)	59		61
Insurance	87		75
Information technology	335		277
Internal Audit	19		27
External Audit – financial accounts	29		25
Other	62		(89)
Non-cash items: Depreciation – tangible assets (see note 7)	279		344
Depreciation – intangible assets (see note 8)	25		21
		4,375	4,185
		9,503	9,378

Rent and rates includes £526k in respect of property leases (2013/14 – £542k) – see note 15.

Other includes a credit of £152k in 2013/14 in respect of refunds received for VAT charged to previous accounting periods.



5. Operating income

	2015 £000	2014 £000
Fees and charges payable:		
- by Local authorities	11,459	11,665
- by National Health Service bodies in Scotland	3,777	3,750
- by Further education colleges	509	629
- by Scottish Government and sponsored bodies	2,398	1,957
	18,143	18,001
Bank interest	41	41
Miscellaneous income	60	164
	18,244	18,206

6. Other finance income

	2015 £000	2014 £000
Interest income on pension scheme assets	2,876	2,794
Interest cost on pension scheme defined obligations	(3,723)	(3,507)
	(847)	(713)



7. Property plant and equipment

	Leasehold premises £000	Furniture and fittings £000	Computer equipment £000	Total £000
Cost				
At 1 April 2014	1,819	147	1,514	3,480
Additions	-	-	199	199
Disposals	(3)	-	(226)	(229)
At 31 March 2015	1,816	147	1,487	3,450
Depreciation				
At 1 April 2014	1,440	124	1,212	2,776
Charge for the year (note 4)	162	7	110	279
Depreciation on disposals	-	-	(226)	(226)
At 31 March 2015	1,602	131	1,096	2,829
Net Book Value				
At 31 March 2015	214	16	391	621
Analysis of asset financing				
Owned	214	16	391	621
Prior year				
Cost				
At 1 April 2013	1,815	147	1,306	3,268
Additions	4	-	208	212
At 31 March 2014	1,819	147	1,514	3,480
Depreciation				
At 1 April 2013	1,185	116	1,131	2,432
Charge for the year (note 4)	255	8	81	344
At 31 March 2014	1,440	124	1,212	2,776
Net Book Value				
At 31 March 2014	379	23	302	704
Analysis of asset financing				
Owned	379	23	302	704

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	
	2015 £000	2014 £000
Cost	£000	£000
At 1 April	720	680
Additions	-	40
At 31 March	720	720
Depreciation		
At 1 April	650	629
Charge for the year (note 4)	25	21
At 31 March	675	650
Net Book Value		
At 31 March	45	70

9. Trade and other receivables

	£000	2015 £000	2014 £000
Amounts falling due within one year:			
Trade receivables:			
- Central Government bodies	-		37
- Local authorities	-		13
- NHS bodies in Scotland	-		1
- Bodies external to government	-		40
		-	91
Work in progress in advance of billing		1,801	1,842
VAT		-	200
Prepayments		504	499
		2,305	2,632

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



10. Cash and cash equivalents

	2015 £000	2014 £000
Balance at 1 April	1,072	1,199
Net change in cash and cash equivalents	567	(127)
Balance at 31 March	1,639	1,072
The following balances at 31 March were held at:		
Commercial banks	1,639	1,072

11. Net funding from the Scottish Government

	2015 £000	2014 £000
Opening cash balance payable to the Consolidated Fund	1,072	1,199
Funding received from the Consolidated Fund	6,000	6,000
Closing cash balance payable to the Consolidated fund	(1,639)	(1,072)
Net funding from the Scottish Parliament	5,433	6,127



12. Trade payables and other current liabilities

	£000	2015 £000	2014 £000
Amounts falling due within one year:			
Trade payables:			
- Central Government	-	-	-
- Local authorities	-	-	-
- NHS bodies in Scotland	-	-	-
- Bodies external to government	167		236
		167	236
- Cash balance payable to Consolidated Fund		1,639	1,072
- Deferred income		526	445
- VAT		41	-
- Corporation Tax		8	8
- Accruals		331	276
- Staff benefits – untaken holidays		665	632
- Rent free period on premises – current liability (note 13)		28	34
		3,405	2,703

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 2003, 31 March 2012 and 31 March 2013 various leases were negotiated with rent-free periods.

	2015 £000	2014 £000
Opening balance at 1 April		
Current	34	36
Deferred	52	22
	86	58
Additions	41	64
Released during year	(34)	(36)
Closing balance at 31 March		
	93	86
Whereof:		
Current	28	34
Deferred	65	52
	93	86



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:

	2015 £000	2014 £000
Opening balance at 1 April	2,360	2,469
Additions	-	350
Utilised in year	(560)	(437)
Revaluation	173	(22)
Closing balance at 31 March	1,973	2,360
Payable within 1 year	97	564
Payable after 1 year	1,876	1,796
	1,973	2,360
Discount rate used	3.2%	4.3%

Early retiral and severance

In the year to March 2015, five staff left Audit Scotland under a voluntary early release arrangement. Under the arrangement, staff were entitled to a termination payment and/or early access to pension. The total cost of the arrangements was £369k.

	Number of arrangements	
	2015 £000	2014 £000
< £10,000	-	3
£10,000 – £25,000	2	3
£25,000 – £50,000	2	1
£50,000 – £100,000	-	2
£250,000 – £300,000	1	-
Total number of arrangements	5	9
Total cost	369	302

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 2015 was £301k (31 March 2014 – £280k).



15. Commitments under leases

During the period to 31 March 2015, the amounts charged to revenue in respect of operating leases for premises and vehicles were as follows:

	2015 £000	2014 £000
Premises (note 4)	526	542
Vehicles	463	473
	989	1,015

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

	2015 £000	2014 £000
Premises		
Within one year	688	490
Later than one year and not later than five years	1,321	426
Later than five years	1,504	199
	3,513	1,115
Vehicles		
Within one year	347	355
Later than one year and not later than five years	574	405
	921	760

Audit Scotland has no finance leases.



16. Other provisions

Other provisions comprise property dilapidations.

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

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

	2015 £000	2014 £000
Opening balance at 1 April	530	568
Provided in year	37	40
Utilised in year	-	(78)
Closing balance at 31 March	567	530
Payable within 1 year	524	251
Payable after 1 year	43	279
	567	530

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 management staff has undertaken any material transactions with related parties.

18. Contingent liabilities

At 31 March 2015, there were no contingent liabilities.

19. Capital commitments

At 31 March 2015, there were no contracted capital commitments payable in 2015/16.

20. 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



Independent auditors' report

To the Scottish Commission for Public Audit


(Under section 25(3) of The Public Finance Accountability (Scotland) Act 2000)

Audit Scotland

We have audited the accounts of Audit Scotland for the year ended 31 March 2015 which comprise the Summary of Resource Outturn, Statement of Comprehensive Net Expenditure, Balance sheet, Cash flow statement, Statement of Changes in Taxpayers' Equity and the related notes 1 to 20. We have also audited the relevant disclosures in the Remuneration Report as required under the direction of the Scottish ministers. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the 2014/15 Government Financial Reporting Manual (the 2014/15 FRoM) and directions made by Scottish ministers.

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

Respective responsibilities of directors and auditor

As explained more fully in the [Statement of Accountable Officer's responsibilities \(page 40\)](#), the Accountable Officer is responsible for the preparation of the accounts in conformity with the Directions of 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 [Memorandum to Accountable Officers for Other Public Bodies](#) .

Our responsibility is to audit and express an opinion on the accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

We report to you on the matters set out in section 22(1)(a) and (b) of the Public Finance and Accountability (Scotland) Act 2000 and our opinion as to whether the Resource Accounts give a true and fair view and are properly prepared in accordance with section 19(4) of that Act.

Scope of the audit of the accounts

An audit involves obtaining evidence about the amounts and disclosures in the accounts sufficient to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to Audit Scotland's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by Audit Scotland; and the overall presentation of the accounts.

In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect or inconsistent based on the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

We read the other information contained in the Governance statement, and consider whether it is consistent with the audited accounts. 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. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. Our responsibilities do not extend to any other information.



Opinion on the accounts

In our opinion the accounts:

- give a true and fair view of the state of Audit Scotland as at 31 March 2015 and of its net resource outturn for the year then ended
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2014/15 FReM
- have been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and Directions by Scottish ministers issued thereunder.

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 information specified by Scottish ministers on remuneration and other transactions has adequately been disclosed
- the information given in the Strategic report and Directors' report is consistent with the accounts.

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

Alexander Sloan
Chartered Accountants
Statutory Auditors
38 Cadogan Street
Glasgow G2 7HF
9 June 2015

Annual report and accounts

2014/15

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along with a podcast summary at:

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