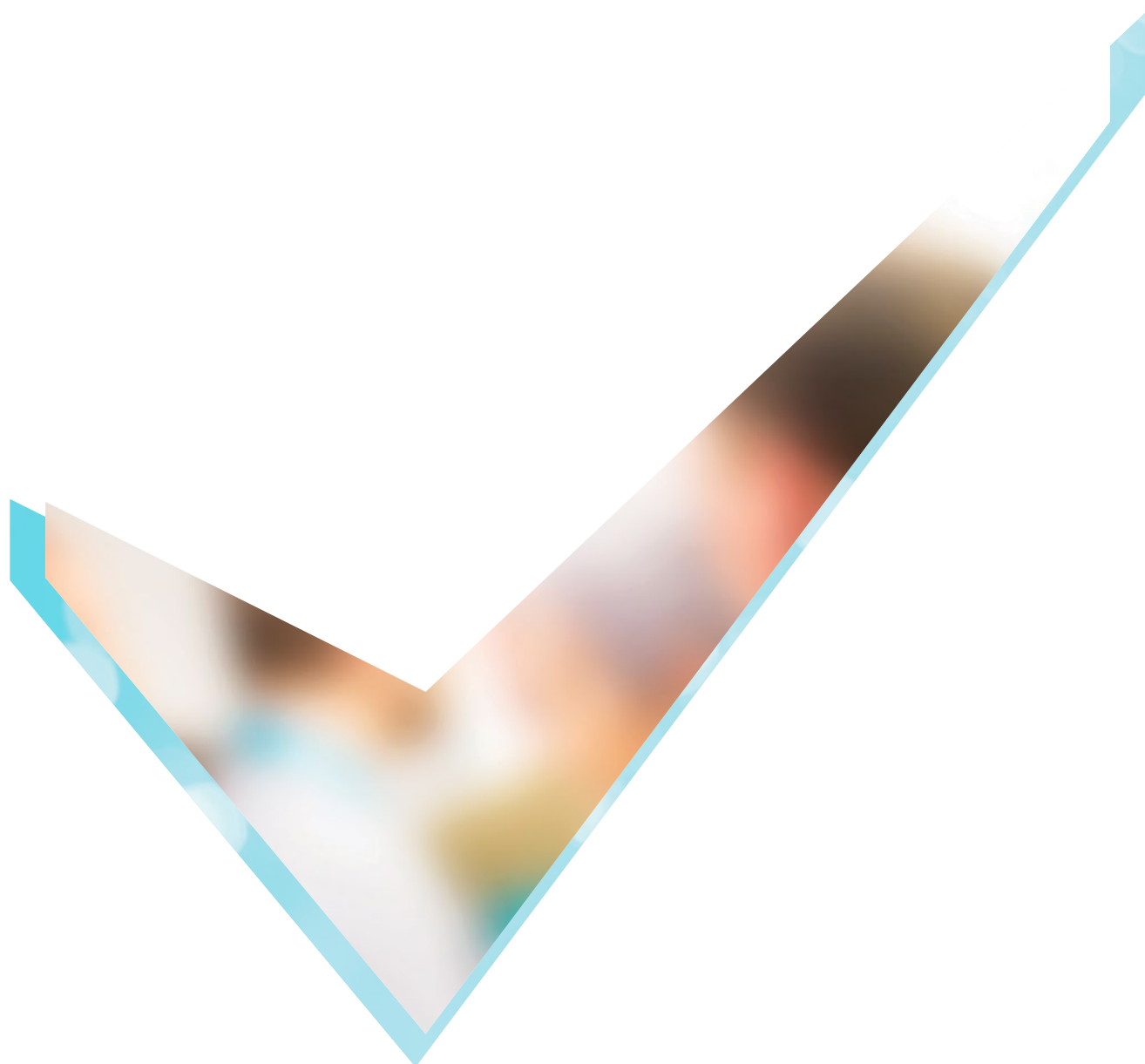


Annual report and accounts

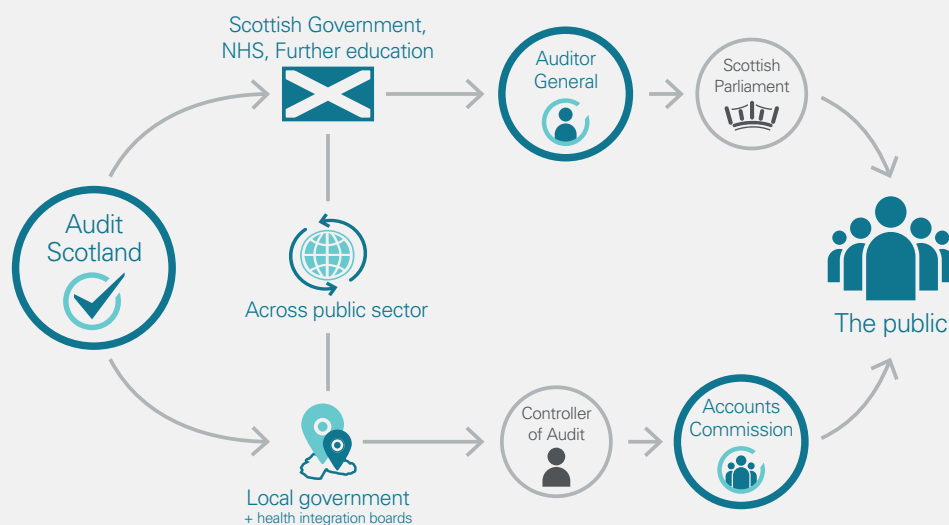
2016/17



Who we are

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

- **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.
- 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.



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.

Contents

Highlights	4
Welcome	5
Performance report	6
Overview	7
Performance analysis	12
Our work	16
Financial position	21
Accountability report	24
Corporate governance report	25
– Directors’ report	25
– Statement of Accountable Officer’s responsibilities	26
– Governance statement	27
Remuneration and staff report	34
Summary of Resource Outturn	40
Independent auditors’ report	41
Financial statements	44
Statement of Comprehensive Net Expenditure	45
Balance sheet	46
Cash flow statement	47
Statement of Changes in Taxpayers’ Equity	48
Notes to the accounts	49
Direction by the Scottish ministers	66

Highlights

16/17



329
Accounts audited



20
national and local
performance
reports



**Code of audit
practice**
for public audit in
Scotland published



**New auditors
appointed**
for five years –
saving approx
£1m per annum



6.7% reduction
in our average fees
for 2016/17 audits



6.5% reduction
of our expenditure
in budget proposal



£1 million
efficiency savings
in 2016/17



£13,000+
raised by our staff
for good causes



66,233 visitors
to our website –
up from 52,554



**over 700,000
downloads**
increase of 100,000



**15,470 Twitter
engagements**
– almost 2,500
followers



**launched 2
online e-hubs**
highlighting our work
in key areas of audit

Welcome



Chair's welcome

Our principal task as a board is to oversee Audit Scotland's operations, make sure it achieves its aims and objectives, and check that it stays on the right course to ensure public money is spent properly and effectively.

We have streamlined our own work to ensure we keep pace within wider changes in Scotland's public finances. Significant steps have been taken to improve the efficiency and relevance of our audits and ensure quality is maintained.

During the past year, we have delivered a new [Code of audit practice 2016](#) and the smooth transition of new audit appointments and auditors for the next five years. We also developed a new, simpler and more transparent system for determining audit fees to ensure that audited bodies, parliament and other stakeholders have assurance on the cost and quality of the services we provide. We have also continued to reduce annual fee levels.

The board was sad to hear of the recent death of Douglas Sinclair, who retired on health grounds in March. We much valued Douglas's contributions to the board during his many years as chair of the Accounts Commission.

I would like to welcome his successor, Ronnie Hinds, currently acting chair of the Accounts Commission.

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

Ian Leitch CBE

Chair of the Audit Scotland Board

Performance report



Local government

209

- 103** Charities
- 63** Joint boards/committees
- 32** Councils
- 11** Pension funds



99%



n/a



Central government

76

- 01** Scottish Government
- 48** NDPB
- 16** Other
- 09** Agency
- 01** Scottish Water
- 01** European Agricultural Fund

89.5%

02



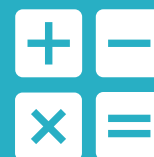
NHS

23

- 14** Territorial NHS region
- 09** Special health boards

95.7%

02



Further education

21

- 20** Colleges
- 01** Regional boards

100%

03



Audit reports by due date



Section 22 reports

2015/16

204 Local government

- 127 Charities
- 34 Joint boards/committees
- 32 Councils
- 11 Pension funds



100%



n/a

75 Central government

- 46 NDPB
- 18 Other
- 10 Agency
- 01 Scottish Water

96%

02

23 NHS

- 14 Territorial NHS region
- 09 Special health boards

100%

03

21 Further education

- 20 Colleges
- 01 Regional boards

90%

04

Overview



Accountable Officer's report

Unquestionably, a key theme for Audit Scotland over the past year has been monitoring the impact of Scotland's new financial powers.

By 2020, the Scottish Parliament will be responsible for raising income of £22 billion – more than half the total budget for Scotland.

Alongside this seismic shift in public finances we also have had the elections for the Scottish Parliament and local councils, the EU referendum, and the possibility raised of a second independence referendum.

Set against these changes and uncertainties, our role as public spending watchdog has never been more vital. We have maintained focus on our core work carrying out over 300 annual audits, and producing 20 national and local performance reports in key areas such as the NHS, social work and policing. On behalf of the Accounts Commission, we have also helped develop a new approach to the Best Value audit of local government.

All of this has been underpinned by internal changes and work to continually improve the quality, value, and relevance of what we do.








Audit Scotland still faces challenges, but we also have a great opportunity to create a world-class approach to Scotland's public finances.

Our organisation is full of talented people. I am grateful to my colleagues for all their hard work and continued support.

Caroline Gardner

Accountable Officer and
Auditor General for Scotland

Our vision

<p>Our vision</p> 	<p>To be a world-class audit organisation that improves the use of public money</p>
<p>Why we exist</p> 	<p>To support the Accounts Commission and the Auditor General</p> <p>To provide independent assurance to the people of Scotland that public money is spent properly and provides value for money</p>
<p>What we do</p> 	<p>We conduct relevant and timely audits on the efficiency and effectiveness of public services in Scotland</p> <p>We identify risks, report our findings and conclusions in public, make clear and relevant recommendations and follow these up</p> <ul style="list-style-type: none">  Risk assessments of public bodies and strategic themes  Annual audits and audits of performance, partnerships, housing benefit, Best Value and sectors  Investigate and report on matters of concern  Coordinate scrutiny and fraud investigation work  Support scrutiny of the use of public money  Support improvement
<p>Priorities for 2015-18</p> 	<div style="display: flex; justify-content: space-around; align-items: center;"> <div data-bbox="432 1653 687 1749">  <p>SECURING WORLD CLASS AUDIT</p> </div> <div data-bbox="756 1653 1007 1749">  <p>MAKING A DIFFERENCE</p> </div> <div data-bbox="1070 1653 1326 1749">  <p>BUILDING A BETTER ORGANISATION</p> </div> </div>






Statutory background

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

Performance summary

We continued to deliver high-quality audit services to the Auditor General and the Accounts Commission. 2016/17 was a busy and successful year for us.

In addition to the work highlighted on [page 6](#), we:

- published a new [Code of audit practice 2016](#)  for public audit in Scotland. The code requires auditors to comply with the highest professional standards including International Standards on Auditing and ethical standards
- supported the Auditor General and the Accounts Commission in their [appointment of auditors](#)  for the next five years. This process will deliver savings of approximately £1 million per annum
- ensured that there has been a smooth transition to the new audit appointments
- delivered a simpler and more transparent system for determining [audit fees](#)  within our broader funding arrangements to ensure that audited bodies, the Parliament and other stakeholders have assurance on the cost and quality of the services we provide. The fee strategy will reduce average fee levels for the 2016/17 audits by 6.7 per cent (8.6 per cent in real terms)
- secured approval for our [budget strategy](#)  for 2017/18 which will result in a reduction of 6.5 per cent in gross expenditure compared to the 2016/17 budget
- began implementing a new audit approach across all 32 councils following an Accounts Commission review of Best Value in local government. This will enhance the assurance that the Commission provides for the public
- produced 20 national and local performance audits on a wide range of current topics from social work to the maintenance of Scotland's roads
- developed an [International strategy](#)  which sets out our approach to international work that reflects our commitment to become a world-class audit organisation by sharing learning and best practice with other audit agencies from across the world.

Financial summary

Overall, we spent £25.4 million doing our job. The vast majority of our expenditure is on staff costs (£16.3 million). We also spent £0.2 million in capital investment in our IT systems and £0.6 million to meet net financing expenditure relating to pension schemes. Net expenditure was £0.1 million less than budget.

Most of this (£18.6 million) came from fee charges and other income, with the remainder (£7.6 million) in direct funding from the Scottish Parliament. Operating income was £0.4 million more than budget largely because we recovered more fees for additional audit work undertaken. We delivered £1.0 million of efficiency savings compared to our target of £0.4 million.

More details are available in the performance analysis on [pages 21–23](#) and in the financial statements on [pages 44–65](#).

Key issues and risk

The broader picture over the past year has been dominated by uncertainty following the EU referendum, and calls both for and against a second independence referendum.

Public finances in Scotland are already being transformed because of the 2012 and 2016 Scotland Acts. These legislative changes have created new audits and additional audit requirements.

We produced an updated workforce plan grounded on what the business requires and which will help us to cope with any change in demand for our work. We continue to work through the implications for our resources of the new financial powers and EU withdrawal.

Major changes are also taking place to how public services are provided, such as integrating health and social care services and greater community empowerment. Overall demand for public services continues to increase as finances are squeezed further.

Against this background the requirement for independent, objective and authoritative audit of public services in Scotland has never been greater. Nor has the need to maintain a strong and effective system of financial accountability and transparency.

The Audit Scotland Board sets the strategic direction for Audit Scotland in consultation with the Auditor General and the Accounts Commission. The board's audit committee has responsibilities for risk, control assurance and governance. The committee recommends the appointment of our internal auditors and receives our annual accounts and internal audit reports. The key strategic risks for Audit Scotland are summarised on [pages 31–33](#).



New audits in practice:

Angela Leitch (left) Chief Executive of East Lothian Council welcomes Gillian Woolman (right), engagement lead for the Audit Scotland team which will be auditing the council.


Audit quality and independence

Every five years the Auditor General and the Accounts Commission change the teams carrying out the audits of public sector bodies.

Regular rotation of roles and responsibilities is best practice in both the public and private sectors. In our case it helps ensure our independence and rigour, bringing fresh insights and building new relationships with the bodies we audit.

The Auditor General and the Accounts Commission deploy Audit Scotland staff for around 60 per cent of their audits and use accountancy firms for the remainder.

This year's changeover will yield approximately £1 million of savings per annum from the new appointments.

At the same time, the Auditor General and Accounts Commission brought in a new [Code of audit practice 2016](#)  updating what we expect from auditors. This includes a sharper emphasis on performance and quality of services for the public.

We are also pooling the expertise from financial and performance auditors to make reporting more useful and effective. This is embodied in the new Best Value Assurance Reports for the Accounts Commission from June 2017 which will provide updates on how councils are doing.

We are reviewing all of our audit quality control and monitoring arrangements to ensure that they operate in a consistent way across all types of audit, provide enhanced assurance on the quality of our work, and support the delivery of world-class audit.

Audit quality

We apply quality control processes to all our audits in line with international standards on auditing. Audit quality is also independently reviewed by other UK audit agencies and the Institute of Chartered Accountants of Scotland.




Audit quality:
Annual report
2016/17
 June 2017

Audit support

We improve audit quality by ensuring that auditors' technical judgements are made on an informed basis. We published:

- 17** in-depth guidance notes
- 4** bulletins
- 103** documents
- 690** responses to enquiries.

 [Technical guidance for auditors and bodies](#)


Performance analysis



Our vision and objectives

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

Our strategic objectives are grouped under three broad improvement headings: **Securing world class audit**, **Making a difference** and **Building a better organisation**.

Our [Corporate plan 2017/18 update](#)  details our strategic objectives for three years ahead and also charts progress over the course of the past year.



SECURING WORLD CLASS AUDIT

This objective includes ensuring that public audit in Scotland applies the highest professional and ethical standards, is efficient, proportionate and risk based, and promotes transparency and accountability.

In 2016/17 we:

- ✔ published a new [Code of audit practice 2016](#) for public audit in Scotland
- ✔ supported the Auditor General and the Accounts Commission in their [appointment of auditors](#) for the next five years and ensured there has been a smooth transition to the new audit appointments
- ✔ delivered a simpler and more transparent system for determining [audit fees](#) within our broader funding arrangements
- ✔ secured approval for our [budget strategy](#) for 2017/18 which will result in a reduction of 6.5 per cent in gross expenditure compared to the 2016/17 budget
- ✔ developed an [International strategy](#) which sets out our approach to international work.

Our priorities for 2017/18 are to:

- inform the development of the wider scrutiny and accountability arrangements required to support the new financial powers and fiscal framework
- develop the audit framework and our capacity to provide scrutiny and assurance of the implementation of the new powers and responsibilities
- enhance our audit quality assurance framework for the new five-year audit appointments to meet the requirements of the new *Code of audit practice 2016* and cover all of the audit work undertaken on behalf of the Auditor General and the Accounts Commission
- work collaboratively with our scrutiny partners to provide challenge and assurance on the effectiveness of public services
- streamline our audit work and benchmark and learn from our audit partners and others.

Key performance indicators

97.3% annual audits delivered to schedule

97.4% reports published to schedule

374 audit outputs in the year


100% audits delivered within 3% of budget

94% correspondence responses issued to schedule



Our overall objective sets out to maximise the difference our audit work makes to public services, the people they serve, the outcomes those people experience and the use of public money. This objective is about ensuring our work makes a positive difference to the use of public money and the way public services are delivered in Scotland.

In 2016/17 we:

- ✓ developed a new communications and engagement strategy and engaged extensively with the Scottish Parliament, committees and Scottish Parliament Information Centre (SPICe)
- ✓ supported the Accounts Commission in its development of a new approach to auditing Best Value
- ✓ refreshed the five-year rolling programme of performance audit work for the Auditor General and Accounts Commission based on extensive engagement and by focusing on the key risks and opportunities facing Scotland's public sector
- ✓ enhanced our range of audit outputs and products on our [website](#) 
- ✓ developed our use of social media to get clear messages out, share information and engage with stakeholders
- ✓ refreshed our equality outcomes and further embedded equality in our work to highlight where Scottish public bodies can improve their practices and help reduce inequality.

Our priorities for 2017/18 are to:

- embed and deliver the new approach to auditing Best Value
- ensure we have a good understanding of the policy priorities and issues facing the public sector by engaging with stakeholders to focus audit work where it adds most value
- ensure our audit work is meeting the needs of the Parliament and its committees, and is supporting effective parliamentary scrutiny
- improve how we follow up on conclusions and recommendations to assess whether they have been implemented and the effect they have had
- further embed the assessment of equality in our audit work.

Key performance indicators

704,996 report downloads
(606,001 in 2015/16)

15,470 Twitter engagements
(3,952 in 2015/16)

22 meetings of the Public Audit and Post-Legislative Scrutiny Committee attended



This objective recognises the need to continually improve the organisation. Our aim is to make Audit Scotland a great place to work by attracting and retaining a highly skilled workforce, and making the best use of public resources.

In 2016/17 we:

- ✔ agreed a new strategic approach to managing and developing our people, this includes job roles, grading, pay and reward and career progression
- ✔ improved our personal and leadership development approaches
- ✔ developed more flexible arrangements for working practices around time, place and travel
- ✔ simplified our HR processes and built flexibility and resilience into how we deploy our workforce
- ✔ refreshed our equality outcomes to promote, understand and support a diverse workforce.

Our priorities for 2017/18 are to:

- implement new job role, grading and pay and reward arrangements
- support colleagues as we shift our ways of working to increase innovation and personal ownership
- invest in further professional learning and development and enhance our specialist skills and capacity in key areas
- keep our workforce strategy under review to ensure we can respond to the changing audit responsibilities
- support the wellbeing of our colleagues and improve the working environment in our Glasgow office to provide a flexible and efficient workplace
- roll out a programme of Best Value and efficiency reviews
- further embed our approach to supporting equality within Audit Scotland.

Key performance indicators

99.4% staff in post
(97.7% in 2015/16)

5.3% absence rate
(5.6% in 2015/16)
Chartered Institute of Personnel and Development (CIPD) benchmarks for the public sector are 6.4% and the private sector 3.9%

11.1% turnover rate
(8.2% in 2015/16 and CIPD benchmark of 13.6%)

99.8% IT uptime
(99.2% in 2015/16)

98.8% IT issues resolved within target times
(97% in 2015/16)

89 in-house L&D events providing 1,367 places
(87 events, 1,410 places in 2015/16)

158 exams with 90.5% pass rate for professional trainees
(124, 92.7% in 2015/16)

Our work

Annual financial audits

This forms the largest part of our work – an annual check on public bodies across Scotland. We audited 329 sets of accounts over the year. There were seven auditor opinions modified this year – one in further education, two in central government, one in the NHS and three in local government.

Modified audit opinions are issued when an auditor concludes that the accounts do not show a true and fair view of the body's financial position, when significant expenditure has been incurred in breach of rules, or when reporting requirements have not been met.

The three local government modifications all related to local authorities not having achieved the statutory duty for significant trading operations to break even (City of Edinburgh Council, Dumfries & Galloway Council and Tayside Contracts Joint Committee), while the further education modification related to a failure to include required information on the pensions of senior staff (Ayrshire College).

Two of the modifications, one in the NHS (NHS Shetland) and one in central government (Scottish Police Authority), referred to inadequate records being kept throughout the year on property, plant and equipment, although the auditor was ultimately able to conclude that the final year end balances were materially correct.

The other modification was of the European Agricultural Fund Account to reflect uncertainty about the accuracy of disclosures.

National performance reports

These look at major issues of public concern across the country. We produced 16 over the course of the year for the Auditor General and the Accounts Commission.

Our report on the continuing problems in the system for EU payments to Scottish farmers attracted sustained interest. In February the First Minister told farmers the Scottish Government had accepted all our recommendations.

In July, we published our first ever report on higher education in Scottish Universities. This received widespread national attention in parliament and in the media.

The state of Scotland's roads also came under scrutiny. Roads authorities, locally and nationally, urgently need to be more innovative, develop robust ways to compare relative efficiency, and engage better with road users.



A report on social work in Scotland said that social work now stands at a watershed and an estimated £667 million a year would be needed, unless new ways of delivering services are implemented. We also said that the public and service users must be better involved in shaping services.

Our annual review of the NHS found that a combination of increasing costs, staffing pressures and unprecedented savings targets means Scotland's NHS boards are finding it difficult to balance demand for hospital care with investing in community-based services to meet future need.

In March 2017, a report detailed the failure of a national IT system for Scotland's national police force.

Supporting the Scottish Parliament

A key part of our work is supporting the Scottish Parliament in its role of ensuring that public bodies are subject to effective scrutiny. We use Section 22 reports to inform Parliament either when something doesn't appear right in the annual audits or when bodies have made good progress since a previous report.

National reports

May 2016

- Common Agricultural Policy Futures programme: an update

June 2016

- The National Fraud Initiative in Scotland

July 2016

- Audit of higher education in Scottish universities
- Supporting Scotland's economic growth

August 2016

- Maintaining Scotland's roads: a follow-up report
- Superfast broadband for Scotland: a progress update
- Scotland's colleges 2016

September 2016

- Social work in Scotland
- Scotland's new financial powers

October 2016

- NHS in Scotland 2016

November 2016

- How councils work – Roles and working relationships in councils
- Local government in Scotland: Financial overview 2015/16

February 2017

- Scotland's NHS workforce

March 2017

- Local government in Scotland: Performance and challenges 2017
- i6: a review
- Managing new financial powers: an update


We issued seven of these last year on: NHS 24, NHS Tayside, the Scottish Government's Consolidated Accounts, the Scottish Police Authority, Edinburgh College, Lews Castle College and Moray Collage.

We have tracked the performance of Scotland's police since its creation as a national force in 2013 following the merger of regional police forces. For the third year in a row the Auditor General issued a Section 22 report highlighting weak financial leadership and considerable budget pressures at the Scottish Police Authority and Police Scotland.

The Auditor General and her colleagues attended 22 meetings of the Public Audit and Post-Legislative Scrutiny Committee over the year to give evidence and answer questions.

Our auditors 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 and Regeneration Committee and the Public Audit and Post-Legislative Scrutiny Committee.

Reporting on Best Value in local government

The Accounts Commission is responsible for scrutinising Scotland's 32 councils and all other local authorities. The Controller of Audit reports to the Commission, bringing matters of concern to its attention. Last year it published four reports on individual councils and how they were meeting their statutory duty to deliver Best Value. The Commission publishes its own [Annual report 2016/17](#)  which gives more details of its work.

Responding to the public

We receive enquiries from a wide range of people about the bodies we audit. Where appropriate, we may carry out further audit work in response. In 2016/17, we received 301 items of correspondence raising concerns (compared with 343 in 2015/16). Nine of these items came to us as prescribed persons under the Public Interest Disclosure Act 1998.

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 or Environmental Information (Scotland) Regulations 2004, we record them. This year we received and recorded 56 Freedom of Information and one Environmental Information requests (65 in 2015/16).

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 seven complaints over the year, compared to four in 2015/16.

Reporting on Best Value in local government



South Ayrshire Council: Best Value audit report

 June 2016



Angus Council: Best Value audit report

 October 2016



Falkirk Council: Best Value audit report

 December 2016



East Dunbartonshire Council: Best Value audit report

 December 2016



Our new financial powers audit team:

(l-r): Anne Cairns, Mark Taylor, Rebecca Seidel, Gordon Smail and Morag Campsie

Tracking new financial powers

Scotland's finances are now being transformed by the new financial powers for the Scottish Parliament.

Changes brought in by the 2012 and 2016 Scotland Acts give the Parliament powers over various taxes, social security and borrowing.

By 2020, more than half (£22 billion) of the Scottish budget will be raised in Scotland, a fivefold increase over eight years.

We have already looked at the new powers and how they were being rolled out.

In a series of reports we suggested a more strategic approach to public financial management and reporting is required, including a medium-term financial strategy based on clear policies and principles. The Scottish Government needs to finalise and publish its approach to borrowing and reserves.

The scale and complexity of the challenge is illustrated by new social security powers where the Scottish Government expects to process as many transactions in one week as it now does in a year.

We will continue to report publicly on this developing area.



[Visit our online e-hub:](#)
Financial devolution in Scotland: the journey so far



Scotland's new financial powers

September 2016



Managing new financial powers: an update

March 2017

Other key aspects of our work

We publish a range of documents about various aspects of our work and our standards.



Scrutiny coordination

We work closely with other bodies to make sure that the scrutiny of local government is better targeted and more proportionate to identified risks. This is outlined in the National scrutiny plan and local plans for all 32 councils.



[National scrutiny plan 2017/18](#)



Ethical standards

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



Climate change and sustainability

Our Climate change plan has a target to reduce CO₂ emissions by 15 per cent by 2020 from its 2014/15 baseline. We have achieved a 31 per cent reduction over the previous six years. Our next report will be published in November 2017.



[Climate change plan 2015/16–2019/20](#)



International work

Our vision is to become a world-class audit organisation that improves the use of public money. This can only be achieved through learning from what works well elsewhere and challenging ourselves in the work we do. Our new *International Strategy for 2017-20* continues to help us to achieve this vision.

In 2016/17, we hosted seven international delegations and presented at two European audit seminars in France and Austria.



[International work: Annual report 2016/17](#)



[International Strategy for 2017-20](#)



Identifying fraud and errors

We coordinate the National Fraud Initiative in Scotland, a data-matching exercise to identify fraud and error across the public sector. In the last exercise, participating bodies identified nearly £17 million in fraud and errors.

During 2016/17, we issued eight housing benefit performance audit reports to councils, which highlighted 18 risks to continuous improvement.



[The National Fraud Initiative in Scotland](#)



[Housing Benefit: Performance Audit annual update 2016/17](#)

Financial position



Sources of funding

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

Review of financial performance

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

The following sections provide a summary from the accounts. The financial statements are published on [pages 44–65](#).

Resources

In 2016/17, Audit Scotland spent £25.4 million on services for the Auditor General and the Accounts Commission. Of these costs £18.6 million were recovered through charges to audited bodies and other income. The balance of operating expenditure £6.8 million together with net finance costs of £0.6 million and capital expenditure £0.2 million was met from direct funding provided by the Scottish Parliament. This sum, £7.6 million, was £0.1 million less than the estimate (budget) for the year.

People costs were £0.8 million more than budget. This was due to a number of factors, including increased pension charges in respect of unfunded pension liabilities £0.4 million; higher agency and seconded staff numbers employed in the year £0.2 million; and a provision of £0.2 million in respect of five staff who have accepted voluntary early retirement and severance. As a result, annual recurring savings of £0.3 million will accrue from April 2018. Other administration costs were £0.4 million less than budget as a result of: lower travel and subsistence costs £0.1 million; training and recruitment costs £0.1 million; property and office costs £0.1 million; and depreciation charges £0.1 million.

Operating income was £0.4 million more than budget. Fee income was £0.3 million more than budget as a result of additional work undertaken following further education college mergers, ongoing work in respect of Police Scotland and the expansion of European Agricultural Fund audits. Income recovered for staff on secondment to other public sector bodies increased operating income by £0.1 million.

In 2016/17, we delivered £1.0 million of efficiency savings against a target of £0.4 million. This was 4.0 per cent of our budget. The majority of savings came from revised external firms' audit contracts, property costs, travel and subsistence expenditure and training costs.

Capital expenditure

In 2016/17, Audit Scotland invested £0.2 million to improve its business. This investment was mainly to support our Information Technology systems. A sum of £20,000 was invested in new office facilities in Inverness.

Resources required for 2017/18

Our budget for 2017/18 has been approved by the Scottish Parliament. Our revenue resources total £23.5 million. Of these resources, £17.2 million will be recovered through charges to audited bodies and miscellaneous income. The balance of expenditure of £6.3 million will be met from direct funding provided by the Scottish Parliament.

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

Our year in figures	Actual £000	2016/17 Budget £000	Variance £000	2015/16 Actual £000
People costs	16,286	15,436	-850	15,772
Fees and expenses paid to external firms	4,987	5,012	25	5,051
Other operating expenditure	4,102	4,546	444	4,456
Total operating expenditure	25,375	24,994	-381	25,279
Operating income	(18,622)	(18,177)	445	(18,488)
Net operating expenditure	6,753	6,817	64	6,791
Net finance expenditure ¹	590	601	11	896
Corporation Tax payable	7	5	-2	8
Net expenditure after tax	7,350	7,423	73	7,695
Capital expenditure	197	200	3	1,405
Total resource required from Parliament	7,547	7,623	76	9,100

Note: 1. Net finance expenditure comprises bank interest and the expected interest income from the local government pension scheme assets less the interest payable on the scheme liabilities.

Payment to suppliers

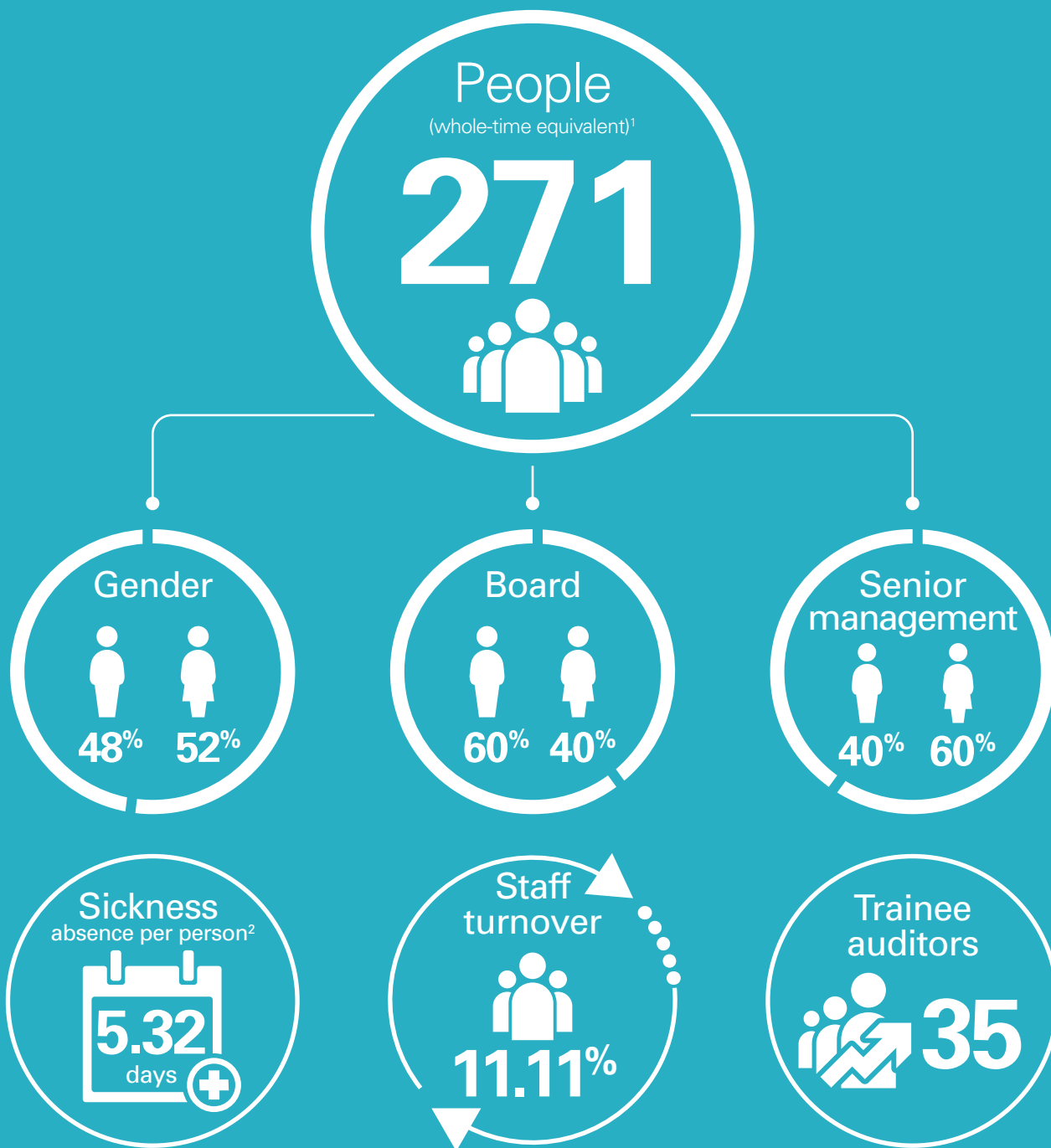
In line with the CBI Prompt Payment Code, we have a policy to pay all invoices not in dispute in 30 days or the agreed contractual terms if otherwise specified: 98 per cent (98 per cent in 2015/16) of all invoices for the year were paid on or before the due date.

We also monitor our performance against the Scottish Government's target of payment of trade invoices within ten days. In 2016/17, 84 per cent (84 per cent in 2015/16) of trade invoices were paid within ten days.



Caroline Gardner
Accountable Officer
13 June 2017

Accountability report



Notes:

1. As at 31 March 2017.

2. Public sector average 6.4 days and private sector 3.9 days, CIPD 2016 survey.

	People	Gender (%)	Board (%)	Management (%)	Sickness	Turnover (%)	Trainee auditors
2015/16	273 wte	49.5 50.5	60 40	40 60	5.6 days	8.2	39
2014/15	266 wte	50.4 49.6	60 40	40 60	4.59 days	6.89	47

Corporate governance report



Directors' report

Directors

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

Register of interests

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

Auditor of Audit Scotland

Our accounts must, under Section 19 of the Public Finance and Accountability (Scotland) Act 2000, be sent to the Scottish Commission for Public Audit (SCPA) for auditing. The SCPA appointed Alexander Sloan Chartered Accountants as auditors to Audit Scotland for a three-year period beginning in March 2011. The contract was extended on an annual basis for three years to March 2016. Under a new contract Alexander Sloan have been appointed as external auditors for a further period of four years starting with the year to March 2017.

Statement of Accountable Officer's responsibilities

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

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


The 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 has adopted the Financial Reporting Manual (FReM) and in particular has:


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

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

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

The responsibilities of the Accountable Officer (including the propriety and regularity of the public finances) for keeping proper records and for safeguarding assets are set out in the *Memorandum to Accountable Officers for Other Public Bodies* which is available at www.scotland.gov.uk/Resource/Doc/1069/0084581.doc .

Governance statement

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

Our governance and management



The board

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

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

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

Board members



Ian Leitch CBE
Chair of the board



Caroline Gardner
Auditor General and Accountable Officer for Audit Scotland



Ronnie Hinds
Acting chair of the Accounts Commission (from March 2017)¹



Heather Logan
Independent non-executive member



Professor Russel Griggs OBE
Independent non-executive member

Note: 1. In March 2017, Douglas Sinclair retired as chair of the Accounts Commission due to ill health. Ronnie Hinds was confirmed as the acting chair of the Accounts Commission and joined the board in March 2017.

Management team



Diane McGiffen
Chief Operating Officer



Russell Frith
Assistant Auditor General



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



Fiona Kordiak
Director of Audit Services

The management team also includes Caroline Gardner (pictured above)

The board met eight times during 2016/17. The attendance at meetings was:

Ian Leitch (Chair)	Caroline Gardner	Ronnie Hinds ¹	Heather Logan	Russel Griggs	Douglas Sinclair ¹
8	8	1	8	6	6

The board held a development workshop during 2016/17 and agreed new ways of working, and carries out a self-evaluation exercise on an annual basis. The board reviews the quality of board papers and the effectiveness of its meetings as a standing item at the end of every meeting.

Board committees

The board has two standing committees:

Audit committee

This committee oversees the arrangements for internal control, risk and corporate governance, internal and external audit, the annual accounts and the Standing Orders, Financial Regulations and Scheme of Delegation. It comprises Heather Logan (chair), Douglas Sinclair¹ and Russel Griggs. The Audit Committee met five times during the year. The attendance at meetings was:

Heather Logan (Chair)	Russel Griggs	Douglas Sinclair ¹
5	4	5

The audit committee receives the annual accounts, internal audit reports and a range of other management reports, including regular reports on financial management and risk. Most internal audits in 2016/17 achieved 'substantial assurance', the highest standard available, from our internal auditors. A follow-up report showed that we were making good progress in applying previous recommendations. The chair of the audit committee submits an annual Statement of Assurance to the board.

Remuneration and human resources committee

This committee sets and reviews the salaries of senior staff (excluding the Auditor General, whose salary is agreed by the Scottish Parliamentary Corporate Body) and the main terms and conditions for all staff.

It comprises Russel Griggs (chair), Douglas Sinclair,¹ Heather Logan and Ian Leitch. The committee met four times during 2016/17. The attendance at meetings was:

Russel Griggs (Chair)	Ian Leitch	Heather Logan	Douglas Sinclair ¹
3	4	4	3

Management team

Audit Scotland's management team oversees the day-to-day operations of Audit Scotland's work, with each member taking responsibility for a specific area. The management team is made up of the Auditor General for Scotland, who is the Accountable Officer, and four executive directors. It normally meets on a weekly basis and considers regular reports from managers on the progress towards meeting the organisation's objectives.

Note: 1. In March 2017, Douglas Sinclair retired as chair of the Accounts Commission due to ill health. Ronnie Hinds was confirmed as the acting chair of the Accounts Commission.




Parliamentary accountability

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.

Our spending and use of resources are examined by the Scottish Commission for Public Audit (SCPA), a statutory body comprising five MSPs which meets in public and reports to Parliament.

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

In its [report](#)  recommending our 2017/18 budget to the Finance and Constitution Committee the SCPA welcomed the work that had been undertaken to achieve efficiency savings and recognised our commitment to obtaining value for money whilst safeguarding the quality of audit. The SCPA noted the uncertainties in our operating environment which provide a wider context to the budget proposal and indicated it was looking forward to discussing these issues further in due course.

The SCPA was keen to obtain further information on the resourcing of development and planning work on the new financial powers and fiscal framework. The commission was particularly interested in our quality assurance arrangements. It noted the reassurances we offered while also stating that it continued to 'have significant concerns about the impact of a reduction in fees upon the quality of audit work' and sought 'further detail in relation to what measures Audit Scotland is putting in place to ensure quality'.

The commission approved our fee strategy including the change to the funding of NHS performance audit work and encouraged us to 'give further consideration as to how there could be a closer alignment between the fees charged to individual audited bodies and the cost of the actual audit service they receive'.


We will address these issues as part of our **Becoming world class** improvement programme.

Governance framework

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

Risk management and control

The board sets the strategic direction for Audit Scotland in consultation with the Auditor General and the Accounts Commission. The board's audit committee has responsibilities for risk, control assurance and governance. The committee recommends the appointment of our internal auditors and receives our annual accounts and internal audit reports.

We have a [Risk management framework](#)  which includes a corporate risk register. We use this to identify the key risks facing the organisation, analyse the likelihood and impact of the risk crystallising and capture the controls in place and the way in which the risk is monitored. The register also identifies any actions required to further reduce the risk. Many of these actions form part of our **Becoming world class** improvement programme which is covered in more detail on [pages 12–15](#) in this report.


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


The risk management framework was reviewed as part of the internal audit programme in 2016/17 and was assessed as providing substantial assurance in terms of design and operational effectiveness.

At the operational level, risks are managed by the management team of each business group and information risk is managed by the corporate knowledge, information and technology governance group.

The key strategic risks in 2016/17 are summarised below. The risks are grouped according to our strategic objectives and many are interlinked. For example a failure of quality would have a negative effect on our credibility and this would undermine the value of the work.



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

It is also vital that our work is relevant and that we focus on the right things and don't miss any significant issues. To mitigate these risks we have enhanced our arrangements for monitoring the operating environment and areas of risk to inform our audit work, introduced a new [Code of audit practice 2016](#) , developed a new five-year rolling programme of performance audits and developed a new approach to auditing Best Value.


We must also maintain high-quality standards as any failure here would undermine the credibility and impact of the audit work. We have initiated a review to further improve and extend our quality arrangements and also updated our audit planning guidance and audit management frameworks.



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

We have also developed an extensive range of additional value adding audit outputs to support effective scrutiny and insight. These include resources on our website, such as interactive data graphics, video links, blogs and briefings and checklists.

There is a risk we do not take the opportunity to influence development of the scrutiny framework for the new financial powers and fiscal framework and that we miss the opportunity to help shape robust scrutiny arrangements covering large areas of public taxation and expenditure.

The Auditor General is a member of the Parliament's budget process review group. We have also been engaging extensively with the Parliament and the UK audit agencies and developed an [e-hub](#)  on financial devolution.

There is also a risk that audit does not respond effectively to the impact on legislation and changes to the governance of the public sector arising from the outcome of the Brexit negotiations. To mitigate these risks we have established a working group focused on constitutional reform and have ongoing engagement with UK audit agencies.



Here the key risks are about us not having the right capacity to deliver the audit work, not making best use of the expertise in the organisation or that we do not deliver value for money. This would, in effect, be a failure to practice what we preach.

To mitigate these risks we have been engaging extensively with colleagues across the organisation through our **Building a better organisation** improvement programme. We have developed a new, simpler and more flexible approach to pay, reward, career progression and how we resource the audit work. In 2016/17, we developed a simpler and more transparent fees and funding strategy, reduced the cost of audit and have developed a programme of efficiency reviews for 2017/18.

Information security

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

Training on data protection and information security is included in the induction process for all new staff. All staff also receive periodic refresher training and are provided with data protection updates. There have been no incidents of personal data loss which required to be notified to the Information Commissioner.

Review of effectiveness of internal control and risk management

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

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

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

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

The system has been in place for the year ended 31 March 2017 and up to the date of approval of the annual report and accounts.

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

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

Significant issues

During the financial year to 31 March 2017 and to the date of this statement one issue was brought to my attention through the assurance framework and certificates of assurance process. During the year it was established that there had not been full compliance with Audit Scotland's record management policy and that some documents were not being retained for the appropriate time periods. Almost all of the documents were recovered and the appropriate retention periods subsequently applied. This issue has highlighted how we can strengthen our records management processes and practices, and we have taken action to do so. We are also undertaking a lessons learnt review.

No other significant control weaknesses or issues have arisen, and no significant failures have arisen in the expected standards for good governance, risk management and control.

Remuneration and staff report

Remuneration policy

The Auditor General for Scotland

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

Audit Scotland Board

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

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

Remuneration banding	2016/17 £000	2015/16 £000
Chair – Ian Leitch (from 1 October 2015) ¹	10 – 15	5 – 10
Independent board member – Heather Logan	5 – 10	5 – 10
Independent board member – Russel Griggs ²	5 – 10	0 – 5

Notes:

1. Ian Leitch was an independent board member in the period from 1 April 2014 to 30 September 2015.
2. Russel Griggs was appointed an independent board member on 1 October 2015.

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 (FRM). The following details are included for information only and to assist the reader of the report.

All Commission member appointments are part-time and non-pensionable. The average number of members of the Commission throughout the period was 12 (12 in 2015/16) and their remuneration was as follows:

Remuneration banding	2016/17 £000	2015/16 £000
Chair – Douglas Sinclair ¹	40 – 45	40 – 45
Deputy Chair – Ronnie Hinds	10 – 15	10 – 15
Commission members	5 – 10	5 – 10

Note: 1. In March 2017, Douglas Sinclair retired as chair of the Accounts Commission due to ill health. Ronnie Hinds was confirmed as the acting chair of the Accounts Commission.

Audit Scotland staff remuneration

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

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.’

The full responsibilities of the committee are set out in Standing Orders.

Management team

The salaries (excluding employer’s superannuation and national insurance contributions), benefits in kind and pension entitlements of the management team are shown in the following tables. Information is presented for the whole year to 31 March 2017. Further information on the pensions payable to Audit Scotland staff, including senior management, can be found in [Note 3. Pension assets and liabilities \(page 52\)](#).

	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16
Single total remuneration	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	140 – 145	-	-	56	68	200 – 205	210 – 215
Diane McGiffen Chief Operating Officer	115 – 120	110 – 115	-	-	38	47	150 – 155	160 – 165
Russell Frith Assistant Auditor General	115 – 120	110 – 115	-	-	27	24	140 – 145	135 – 140
Fraser McKinlay Director of Performance Audit and Best Value and Controller of Audit	105 – 110	105 – 110	-	-	35	37	140 – 145	140 – 145
Fiona Kordiak Director of Audit Services	90 – 95	90 – 95	5,200	4,500	33	40	130 – 135	135 – 140

Notes:

1. The estimated value of benefits in kind relates to tax benefits associated with the provision of vehicles. Values to the nearest £100.

2. The value of pension benefits accrued during the year is calculated as the real increase in pensions and applying the HMRC methodology multiplier of 20 plus the real increase in any lump sum. The real increases exclude increases due to inflation and are net of contributions made by the individual.

Pensions	Accrued pension at 31 March 2017 £000	Accrued lump sum at 31 March 2017 £000	Real increase in annual pension £000	Real increase in lump sum £000	CETV at 31 March 2017¹ £000	CETV at 31 March 2016¹ £000	Real increase in CETV¹ £000
Caroline Gardner Auditor General for Scotland	75 – 80	NIL	2.5 – 5.0	NIL	1,046	971	30
Diane McGiffen Chief Operating Officer	40 – 45	70 – 75	0 – 2.5	0 – 2.5	694	624	19
Russell Frith Assistant Auditor General	30 – 35	95 – 100	0 – 2.5	2.5 – 5.0	727	669	16
Fraser McKinlay Director of Performance Audit and Best Value and Controller of Audit	20 – 25	15 – 20	0 – 2.5	0 – 2.5	229	190	10
Fiona Kordiak Director of Audit Services	35 – 40	75 – 80	0 – 2.5	0 – 2.5	679	619	17

Note: 1. 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.

Salary multiples

The highest paid member of the management team was the Auditor General for Scotland. Her annualised remuneration before pension benefits was in the range £140,000 to £145,000 (£140,000 to £145,000 in 2016). This was 3.4 times (3.4 times in 2016) the median remuneration paid to Audit Scotland's staff in 2016/17, which was £42,440 (£42,002 in 2016).

Pensions

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

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

Employment contracts

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

The information in the tables on [page 34](#) and [pages 35–36](#) is covered by the audit opinion.

Staff report

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

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

There has been a slight decrease in staff numbers this year. In March 2017, the total stood at 271 wte compared to 273 wte in 2016. Information about staff numbers, sickness and turnover is highlighted on [page 24](#).

Learning and development

Our graduate trainee scheme continues to strengthen, and we remain committed to staff development and engaging with our people more widely.

During 2016/17, we increased our technical audit training, and began expanding other core management and personal impact development areas.

Over the year, staff received an average of 4.7 days each of formal learning and development.

Audit Scotland runs one of the largest public sector accountancy training schemes in Scotland. We have 35 trainees and staff working towards CIPFA and ICAS qualifications. This year we recruited eight financial trainees and eight trainees successfully completed their ICAS training to become qualified accountants. In June 2017, the programme will be opened again to a new generation of trainees that will help shape the growing future of Audit Scotland. We are also recruiting two school leavers to the new ICAS/CIPFA scheme.

We were delighted with the success of Sobhan Afzal and Brian Gillespie in awards this year.

Health, safety and wellbeing

Results from the Best Companies internal staff survey indicated an improvement in how colleagues view our staff health, safety and wellbeing. We continued to offer comprehensive health and wellness checks to all staff. We engage and consult closely with colleagues around workplace changes affecting job roles and pay and reward.

Reportable health and safety incidents continue to fall with three incidents reported in 2016/17, down from six in 2015/16, and eleven in 2014/15.

Staff turnover increased last year, mainly due to a number of fixed-term contracts coming to an end.

There was a decrease in staff sickness absence rates. When benchmarked with the wider public sector, our sickness absence rates continue to remain significantly lower.



Sobhan Afzal

Trainee auditor Sobhan Afzal (right) achieved top marks in the UK to win the ICAS Test of Professional Skills Prize for Advanced Finance. Pictured receiving his award from ICAS President Ken McHattie.



Brian Gillespie

Auditor Brian Gillespie (right) won the DR Bishop Prize awarded by CIPFA to the top scoring Scottish student overall in the CIPFA final examinations. Pictured receiving his award from Mark White, CIPFA Scotland branch chair.

Organisational development

We have introduced a new reward package that replaces contribution-based pay with a simple, broad-banded pay structure, along with new flexible working arrangements.

Temporary staff

In the year to 31 March 2017, £381,000 (seven wte posts) was spent on temporary agency and seconded staff to cover staff vacancies and maternity leave and to support peak audit workload. In the previous year expenditure totalled £331,000 (eight wte posts).

Early departures

Ongoing business restructuring meant that between January and March 2017, Audit Scotland staff were offered access to voluntary early release and voluntary redundancy with a termination payment and/or early access to pensions. By the end of March, business cases supported five colleagues' requests to accept terms to leave by December 2017. Further disclosure on early retirement and severance is set out in [Note 14. Provision for early retirement and severance \(page 63\)](#).

Staff relations

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

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. We recently developed two new equality outcomes, supporting our vision to be a world-class organisation, linking in with our corporate plan and our values. They are:

- Audit work will reflect how public services meet the diverse needs of all citizens and communities.
- Audit Scotland will promote, understand and support a diverse and inclusive workforce.

More information is available in our [Equality Outcomes 2017-19](#)  report.

We established an Equality and Human Rights Advisory Group, which included people from a range of external stakeholder organisations representing all the protected characteristics.

Community, social and human rights

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

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

Twenty members of staff donated blood as part of World Blood Donor Day 2016.

We changed our corporate charity from Alzheimer's Research UK to the Brain Tumour Charity. During the year we raised £1847.79 for Alzheimer's Research UK, bringing the total over the past three years to £7698.45.

Fundraising for the Brain Tumour Charity has started well with over £800 being raised. In addition, our staff were involved in a range of external activities to raise a further £11,000 for various good causes.



Generation jump:
This group from Young Scot brought some audit exuberance to our Edinburgh office

Engaging with others

It's important that we are trusted by our stakeholders and build with them a programme of work that is relevant and has impact. This year we revamped some of our engagement activities.

It's mainly through the Parliament that we are accountable to the people of Scotland. The focus of this remains with the Public Audit and Post-Legislative Scrutiny Committee but we have also made efforts to improve our links with the health, education, justice and economy committees.

We also want to hear the voices of other groups of users and public services. This includes young people - the next generation of citizens and taxpayers.

We learned a lot from four workshops led by Young Scot. These focused on young people's areas of concern – apprenticeships, work experience and colleges and how we could better involve young people in how we plan our audits.

This approach extends to others directly affected by our reports. We have used social media to carry out specific surveys to get users' experience both of early years and childcare and self-directed support. Feedback so far has been very encouraging and this is helping frame our approach to auditing these key areas.



Social media campaign:
@AuditScotland

Summary of Resource Outturn

Year ended 31 March 2017

	2017			2016
	Outturn £000	Estimate £000	Outturn compared to estimate £000	Outturn £000
Revenue	7,350	7,423	73	7,695
Capital	197	200	3	1,405
Total Resources	7,547	7,623	76	9,100
Net Cash Requirement (see Cash flow statement)	5,294	6,170	876	6,895

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



Caroline Gardner
Accountable Officer
13 June 2017

Independent auditors' report

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

Audit Scotland

We have audited the accounts of Audit Scotland for the year ended 31 March 2017 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 and staff report as required under the direction of the Scottish ministers. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the 2016/17 Government Financial Reporting Manual (the 2016/17 FReM) and directions made by Scottish ministers.

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

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Accountable Officer's responsibilities, the Accountable Officer is responsible for the preparation of the accounts in conformity with the 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 Accountable Officer's Memorandum.

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 2017 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 2016/17 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 Performance report and Accountability report is consistent with the accounts.

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

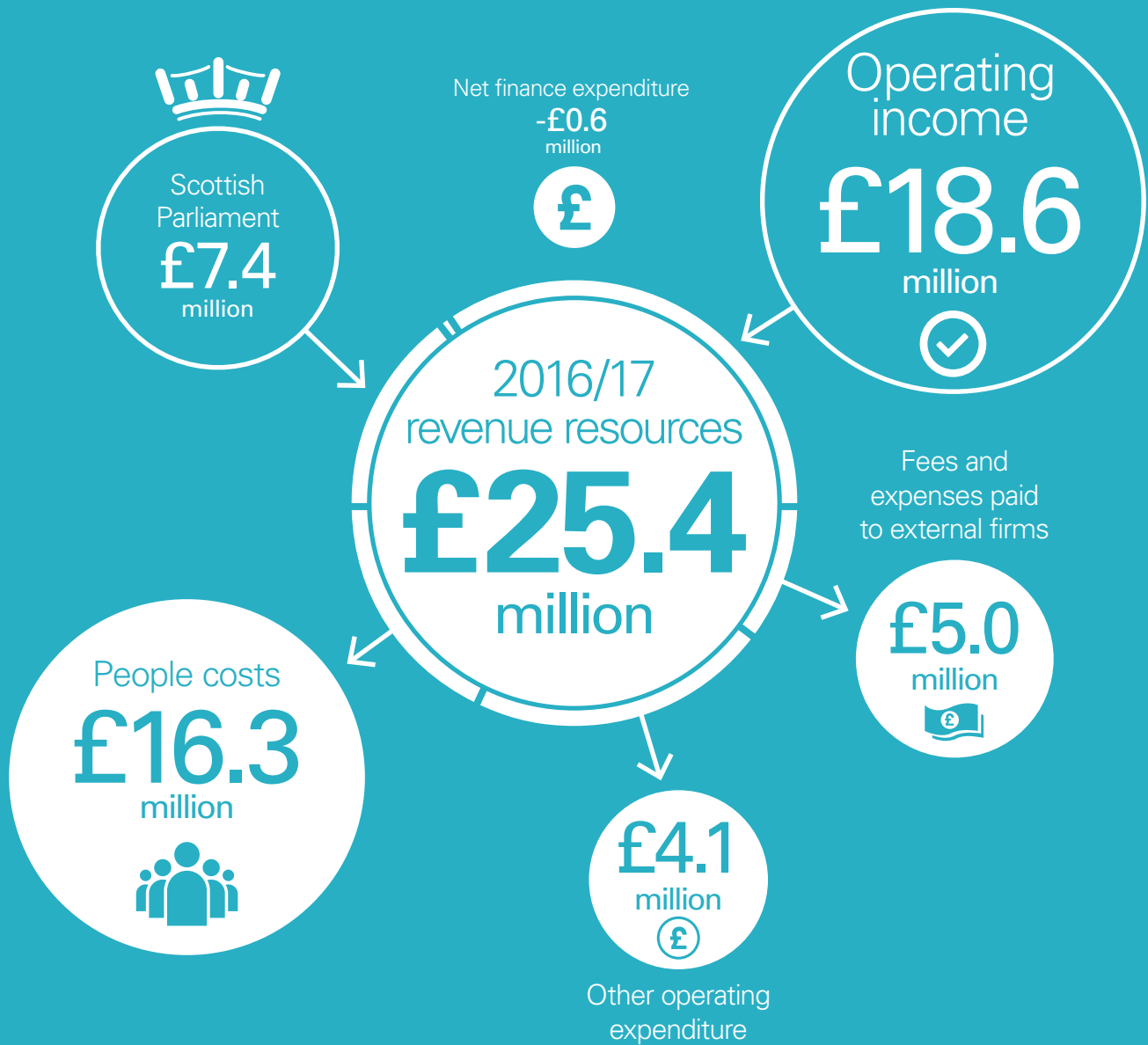









Alexander Sloan
Chartered Accountants

Statutory Auditors
38 Cadogan Street
Glasgow
G2 7HF

13 June 2017

Financial statements



	 Revenue resources	 Operating income	 Scottish Parliament	 Net finance expenditure	 People costs	 Fees and expenses	 Other expenditure
(£million)	Revenue resources	Operating income	Scottish Parliament	Net finance expenditure	People costs	Fees and expenses	Other expenditure
2015/16	25.3	18.5	7.7	-0.9	15.8	5.0	4.4
2014/15	24.5	18.2	7.1	-0.8	15.0	5.1	4.4

Statement of Comprehensive Net Expenditure

Year ended 31 March 2017

	Note	2017 £000	2016 £000
People costs	2	16,286	15,772
Fees and expenses paid to external firms	4	4,987	5,051
Other operating expenditure	4	4,102	4,456
Total operating expenditure		25,375	25,279
Operating income	5	(18,622)	(18,488)
Net operating expenditure		6,753	6,791
Net finance expenditure	6	590	896
Net expenditure before tax		7,343	7,687
Corporation Tax payable	7	8	
Net expenditure after tax		7,350	7,695
Other comprehensive net expenditure			
Net losses / (gains) on pension schemes	3	14,434	(12,969)
Comprehensive net expenditure / (income)		21,784	(5,274)

Balance sheet

As at 31 March 2017

	Note	2017 £000	2016 £000
Non-current assets			
Property, plant and equipment	7	1,553	1,767
Intangible assets	8	90	33
Total non-current assets		1,643	1,800
Current assets			
Trade and other receivables	9	2,315	2,661
Cash and cash equivalents	10	1,450	1,744
Total current assets		3,765	4,405
Total assets		5,408	6,205
Current liabilities			
Trade and other payables	12	3,624	3,896
Provision for early retirement and severance	14	254	444
Other provisions	16	-	33
Total current liabilities		3,878	4,373
Non-current assets plus/less net current assets/liabilities		1,530	1,832
Non-current liabilities			
Deferred liabilities	13	(545)	(258)
Provision for early retirement and severance	14	(1,903)	(1,698)
Other provisions	16	(150)	(81)
Net funded pension (liability)	3	(31,465)	(15,838)
Total non-current liabilities		(34,063)	(17,875)
Assets less liabilities		(32,533)	(16,043)
Represented by:			
Taxpayers' equity			
Net funded pension (liability)	3	(31,465)	(15,838)
General fund		(1,068)	(205)
		(32,533)	(16,043)



Caroline Gardner
Accountable Officer
13 June 2017

Cash flow statement

Year ended 31 March 2017

	Note	2017 £000	2016 £000
Cash flows from operating activities			
Net (expenditure) after tax		(7,350)	(7,695)
Adjustment for non-cash items:			
– Depreciation	7, 8	354	271
– Pension scheme – net revenue debit		1,193	1,995
Decrease / (increase) in trade and other receivables		346	(356)
Increase in trade / other payables / deferred liabilities		329	569
Increase in provisions for early retirement		15	169
Increase / (decrease) in other provisions		36	(453)
Net cash outflow from operating activities		(5,077)	(5,500)
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(131)	(1,400)
Purchase of intangible assets	8	(66)	(5)
Less movement in accrued expenditure		(20)	10
		(217)	(1,395)
Cash flows from financing activities			
From Consolidated Fund (Supply)		5,000	7,000
Net (decrease) / increase in cash and cash equivalents in the period		(294)	105
Cash and cash equivalents at the beginning of period		1,744	1,639
Cash and cash equivalents at the end of period	10	1,450	1,744
Net cash requirement			
Cash flows from financing activities		5,000	7,000
Decrease / (increase) in cash		294	(105)
		5,294	6,895

Statement of Changes in Taxpayers' Equity

Year ended 31 March 2017

Changes in Taxpayers' equity for 2016/17	Note	Net funded pension £000	General fund £000	Total £000
Balance at 1 April 2016		(15,838)	(205)	(16,043)
Transfers between reserves:				
– Transfer to net funded pension liabilities	2	(628)	628	-
– Net return on funded pension assets	3	(565)	565	-
Net (losses) on pension schemes	3	(14,434)	-	(14,434)
Net (expenditure) after tax		-	(7,350)	(7,350)
Net funding from the Scottish Parliament	11,17	-	5,294	5,294
Balance at 31 March 2017		(31,465)	(1,068)	(32,533)

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 2017/18 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 – 10 years)
Furniture and fittings	5 years
Computer equipment	3 – 5 years
Software	3 – 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 comprises fees for financial audit that are recognised on the basis of work undertaken for the year and charges for other work which are recognised evenly throughout the year.

f) Work in progress

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

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 2017. 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

People costs comprise	2017 £000	2016 £000
Administrative staff		
Salaries	11,753	11,298
National Insurance	1,284	988
Superannuation	2,021	1,978
Pensions in payment (note 3c)	23	23
Provision for early retirement and severance costs (note 14)	177	346
Movement in early retirement costs	243	(140)
Adjustment for retirement benefit scheme costs (see below)	628	1,119
	16,129	15,612
Accounts Commission members		
Salaries	137	136
National Insurance	9	10
Travel and subsistence	11	14
	157	160
	16,286	15,772

The average number of directly employed whole-time equivalent (wte) staff during the period was 279 (273 in 2016).
The average number (wte) for agency and seconded staff used during the year was seven (eight in 2016).

Analysis of local government retirement benefit scheme costs	2017 £000	2016 £000
Current service costs	3,376	3,709
Past service costs	89	-
	3,465	3,709
Less: Actual employees' contributions	(820)	(774)
Charge to revenue	2,645	2,935
Employer contributions	(2,017)	(1,816)
Adjustment for retirement benefit scheme costs	628	1,119

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 2017 were as follows:

	2017 %	2016 %
Salary increases	4.40	4.20
Pension increases	2.40	2.20
Discount rate	2.60	3.50
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 2017 have been prepared by Hymans Robertson LLP.

The movement in the funded part of the net pension liability for the year to 31 March 2017 is as follows:

	Period ending 31 March 2017		
	Assets £000	Obligation £000	Net (Liability)/ Asset £000
Fair value of employer assets	79,353	-	79,353
Present value of funded liabilities	-	95,191	(95,191)
Opening position as at 1 April 2016	79,353	95,191	(15,838)
Current service cost	-	2,556	(2,556)
Past service cost	-	89	(89)
Total service cost	-	2,645	(2,645)
Interest income on plan assets	2,791	-	2,791
Interest cost on defined benefit obligation	-	3,356	(3,356)
Total net interest	2,791	3,356	(565)
Total defined benefit cost recognised in Statement of Comprehensive Net Expenditure	2,791	6,001	(3,210)
Employee contributions	820	820	-
Employer contributions	2,017	-	2,017
Benefits Paid	(1,942)	(1,942)	-
Total cash flows	895	(1,122)	2,017
Expected closing position	83,039	100,070	(17,031)
Change in demographic assumptions	-	-	-
Change in financial assumptions	-	29,609	(29,609)
Other experience changes	-	62	(62)
Return on assets excluding amounts included in net interest	15,237	-	15,237
Total remeasurements recognised in Other Comprehensive Income	15,237	29,671	(14,434)
Fair value of employer assets	98,276	-	98,276
Present value of funded liabilities	-	129,741	(129,741)
Closing position as at 31 March 2017	98,276	129,741	(31,465)

Information in respect of the defined benefit obligation	£000	Liability split %	Duration Years
Active members	87,228	67.2	26.7
Deferred members	14,807	11.4	25.7
Pensioner members	27,706	21.4	12.4
Total	129,741	100.0	21.6

The increase in net pension liabilities during 2016/17 was mainly due to a decrease in the real discount rate used to value pension liabilities which 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 2016 is as follows:

	Period ending 31 March 2016		
	Assets £000	Obligation £000	Net (Liability)/ Asset £000
Fair value of employer assets	74,880	-	74,880
Present value of funded liabilities	-	101,692	(101,692)
Opening position as at 1 April 2015	74,880	101,692	(26,812)
Current service cost	-	2,935	(2,935)
Past service cost	-	-	-
Total service cost	-	2,935	(2,935)
Interest income on plan assets	2,408	-	2,408
Interest cost on defined benefit obligation	-	3,284	(3,284)
Total net interest	2,408	3,284	(876)
Total defined benefit cost recognised in Statement of Comprehensive Net Expenditure	2,408	6,219	(3,811)
Employee contributions	774	774	-
Employer contributions	1,816	-	1,816
Benefits Paid	(1,831)	(1,831)	-
Total cash flows	759	(1,057)	1,816
Expected closing position	78,047	106,854	(28,807)
Change in demographic assumptions	-	-	-
Change in financial assumptions	-	(10,709)	10,709
Other experience changes	-	(954)	954
Return on assets excluding amounts included in net interest	1,306	-	1,306
Total remeasurements recognised in Other Comprehensive Income	1,306	(11,663)	12,969
Fair value of employer assets	79,353	-	79,353
Present value of funded liabilities	-	95,191	(95,191)
Closing position as at 31 March 2016	79,353	95,191	(15,838)

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

Asset Category	At 31 March 2017				At 31 March 2016			
	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	14,754.1	-	14,754.1	15	12,084.9	-	12,084.9	15
Manufacturing	14,898.3	-	14,898.3	15	9,359.1	-	9,359.1	12
Energy and Utilities	7,292.3	-	7,292.3	7	6,303.3	-	6,303.3	8
Financial Institutions	6,862.4	-	6,862.4	7	6,721.0	-	6,721.0	8
Health and Care	5,760.6	-	5,760.6	6	5,274.9	-	5,274.9	7
Information Technology	4,863.8	-	4,863.8	5	4,754.3	-	4,754.3	6
Other	6,772.1	-	6,772.1	7	4,542.0	-	4,542.0	6
Debt Securities:								
Corporate Bonds (investment grade)	-	-	-	-	-	-	-	-
Corporate Bonds (non-investment grade)	-	-	-	-	-	-	-	-
UK Government	9,868.3	-	9,868.3	10	5,106.5	-	5,106.5	6
Other	204.2	-	204.2	-	2,007.4	-	2,007.4	3
Private Equity:								
All	1,142.8	2,031.6	3,174.4	3	890.6	2,579.7	3,470.3	4
Real Estate:								
UK Property	-	6,630.8	6,630.8	7	-	6,787.8	6,787.8	9
Overseas Property	-	-	-	-	-	-	-	-
Investment funds and Unit trusts:								
Equities	-	-	-	-	-	-	-	-
Bonds	220.1	1,237.4	1,457.5	1	213.0	430.0	643.0	1
Commodities	288.2	-	288.2	-	220.1	-	220.1	-
Infrastructure	624.4	8,168.9	8,794.3	9	441.6	4,836.2	5,277.8	7
Other	-	2,096.5	2,096.5	2	-	1,901.2	1,901.2	2
Derivatives:								
Foreign exchange	-	-	-	-	(4.6)	-	(4.6)	-
Other	-	-	-	-	-	-	-	-
Cash and cash equivalents:								
All	4,558.3	-	4,558.3	5	4,904.0	-	4,904.0	6
Totals	78,110	20,166	98,276	100	62,818	16,535	79,353	100

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


Sensitivity analysis at March 2017	Approx.% increase to employer obligation	Approx. monetary amount £000
0.5% decrease in real discount rate	17	16,602
0.5% increase in salary increase rate	7	6,547
0.5% increase in pension increase rate	10	9,485

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

During the year ended 31 March 2017, Audit Scotland's contribution to the pension fund represented 17.2% (17.2% in 2016) of contributing employees' pensionable pay. In addition a lump sum payment of £77k (£77k in 2016) was paid to meet past service cost deficits. Under Superannuation Regulations, contribution rates are set to meet 100% of the overall liabilities of the fund. In their valuation, as of December 2014, Hymans Robertson LLP recommended the employers' contributions for 2016/17 and 2017/18 be set at the rates applicable for 2015/16 (17.2% of pensionable pay plus an annual lump sum payment of £77k to meet past service cost deficits). Hymans Robertson estimate that employer contributions in 2017/18 will be approximately £1,879k.

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 2017, Audit Scotland paid an employer's contribution of £137k (£152k in 2016) into the PCSPS at rates between 20.0% and 24.5% of pensionable pay (20.0% to 24.5% in 2016). Audit Scotland has been informed that contributions in 2017/18 will be at rates between 20.0% and 24.5%. 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 2016/17, pension payments of £23k were made (£23k in 2016).

d) Early departure costs

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

4. Other operating expenditure

	£000	2017 £000	2016 £000
Fees and expenses to appointed audit firms:			
Local authorities	2,409		2,411
National Health Service bodies in Scotland	1,161		1,201
Further education colleges	477		533
Scottish Government and sponsored bodies	940		906
		4,987	5,051
Other:			
Rent and rates	550		950
Other accommodation costs	346		348
Travel and subsistence	853		844
Legal and other professional fees	615		557
Stationery and printing	141		209
Training	484		440
Staff recruitment	109		121
Communications (telephone, postage)	37		44
Insurance	72		84
Information technology	413		461
Internal Audit	29		27
External Audit - financial accounts	27		29
Other	72		71
Non-cash items: Depreciation – tangible assets (note 7)	338		254
Depreciation – intangible assets (note 8)	16		17
		4,102	4,456
		9,089	9,507

Rent and rates includes £343k in respect of property leases (£686k in 2015/16) – [note 15](#).

5. Operating income

	2017 £000	2016 £000
Fees and charges payable by:		
Local authorities	11,531	11,582
National Health Service bodies in Scotland	3,584	3,778
Further education colleges	540	605
Scottish Government and sponsored bodies	2,827	2,489
	18,482	18,454
Miscellaneous income	140	34
	18,622	18,488

6. Net finance expenditure

	2017 £000	2016 £000
Interest income on pension scheme assets	2,791	2,408
Interest cost on pension scheme defined obligations	(3,417)	(3,345)
Bank interest	36	41
	(590)	(896)

7. Property plant and equipment

	Leasehold premises £000	Furniture and fittings £000	Computer equipment £000	Total £000
Cost				
At 1 April 2016	1,270	251	869	2,390
Reclassified in year	-	-	(7)	(7)
Additions	6	20	105	131
Disposals	-	-	(58)	(58)
At 31 March 2017	1,276	271	909	2,456
Depreciation				
At 1 April 2016	128	34	461	623
Charge for the year (note 4)	135	51	152	338
Depreciation on disposals	-	-	(58)	(58)
At 31 March 2017	263	85	555	903
Net Book Value				
At 31 March 2017	1,013	186	354	1,553
Analysis of asset financing				
Owned	1,013	186	354	1,553
Prior year				
Cost				
At 1 April 2015	1,816	147	1,487	3,450
Additions	1,000	225	175	1,400
Disposals	(1,546)	(121)	(793)	(2,460)
At 31 March 2016	1,270	251	869	2,390
Depreciation				
At 1 April 2015	1,602	131	1,096	2,829
Charge for the year (note 4)	72	24	158	254
Depreciation on disposals	(1,546)	(121)	(793)	(2,460)
At 31 March 2016	128	34	461	623
Net Book Value				
At 31 March 2016	1,142	217	408	1,767
Analysis of asset financing				
Owned	1,142	217	408	1,767

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	
	2017 £000	2016 £000
Cost		
At 1 April	725	720
Reclassified in year	7	-
Additions	66	5
At 31 March	798	725
Depreciation		
At 1 April	692	675
Charge for the year (note 4)	16	17
At 31 March	708	692
Net Book Value		
At 31 March	90	33

9. Trade and other receivables

	£000	2017 £000	2016 £000
Amounts falling due within one year:			
Trade receivables:			
Central Government bodies	23		10
Local authorities	29		32
NHS bodies in Scotland	48		25
Bodies external to government	-		-
		100	67
Work in progress in advance of billing		1,718	2,064
VAT		-	-
Prepayments		497	530
		2,315	2,661

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

10. Cash and cash equivalents

	2017 £000	2016 £000
Balance at 1 April	1,744	1,639
Net change in cash and cash equivalents	(294)	105
Balance at 31 March	1,450	1,744
The following balances at 31 March were held at:		
Commercial banks	1,450	1,744

11. Net funding from the Scottish Parliament

	2017 £000	2016 £000
Opening cash balance payable to the Consolidated Fund	1,744	1,639
Funding received from the Consolidated Fund	5,000	7,000
Closing cash balance payable to the Consolidated Fund	(1,450)	(1,744)
Net funding from the Scottish Parliament	5,294	6,895

12. Trade payables and other current liabilities

	£000	2017 £000	2016 £000
Amounts falling due within one year:			
Trade payables:			
Central Government	-		-
Local authorities	-		-
NHS bodies in Scotland	-		-
Bodies external to government	127		128
		127	128
Cash balance payable to Consolidated Fund		1,450	1,744
Deferred income		812	784
VAT		36	46
Corporation Tax		7	8
Accruals		351	390
Staff benefits – untaken holidays		678	631
Rent-free period on premises – current liability (note 13)		163	165
		3,624	3,896

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

13. Deferred liabilities

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

	2017 £000	2016 £000
Opening balance at 1 April		
Current	165	28
Deferred	258	65
	423	93
Additions	450	495
Released during year	(165)	(165)
Closing balance at 31 March		
	708	423
Whereof:		
Current	163	165
Deferred	545	258
	708	423

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:

	2017 £000	2016 £000
Opening balance at 1 April	2,142	1,973
Additions	155	346
Utilised in year	(445)	(98)
Revaluation	305	(79)
Closing balance at 31 March	2,157	2,142
Payable within 1 year	254	444
Payable after 1 year	1,903	1,698
	2,157	2,142
Discount rate used	2.6%	3.5%

Early retiral and severance

Between January and March 2017, Audit Scotland offered colleagues access to a voluntary early release arrangement and voluntary redundancy terms as part of a business restructuring programme. Staff were offered a termination payment and/or early access to pensions. As at 31 March 2017, five staff had indicated a willingness to accept terms to leave Audit Scotland in the period between April and December 2017. A provision of £155k has been made in the accounts for the year ended 31 March 2017 to meet the costs of these departures.

In the year to March 2017, eleven staff left under a voluntary early release arrangement and one under voluntary redundancy terms. Under the arrangement, staff were entitled to a termination payment and/or early access to pension. The total cost of the arrangements was £368k.

	Number of arrangements	
	2017	2016
< £10,000	2	-
£10,000 – £25,000	3	-
£25,000 – £50,000	4	-
£50,000 – £100,000	3	-
Total number of arrangements	12	-
Total cost (£000)	368	-

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 2017 was £300k (£274k in 31 March 2016).

15. Commitments under leases

During the period to 31 March 2017, the amounts charged to revenue in respect of operating leases for premises and vehicles were as follows:

	2017 £000	2016 £000
Premises (note 4)	343	686
Vehicles	469	425
	812	1,111

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

	2017 £000	2016 £000
Premises		
Within one year	343	338
Later than one year and not later than five years	1,371	1,310
Later than five years	915	1,176
	2,629	2,824
Vehicles		
Within one year	390	403
Later than one year and not later than five years	381	576
	771	979

Audit Scotland has no finance leases.

16. Other provisions

Other provisions comprise property dilapidations.

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

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

	2017 £000	2016 £000
Opening balance at 1 April	114	567
Provided in year	69	71
Utilised in year	-	(239)
Released in year	(33)	(285)
Closing balance at 31 March	150	114
Payable within 1 year	-	33
Payable after 1 year	150	81
	150	114

17. Related party transactions

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

18. Contingent liabilities

At 31 March 2017, there were no contingent liabilities.

19. Capital commitments

At 31 March 2017, there were no contracted capital commitments payable in 2017/18.

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

Annual report and accounts

2016/17

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