

Annual report and accounts

2017/18

Highlights



310

Accounts audited



18

national and local performance reports



£2.4m

efficiencies, cost reduction and additional income delivered



New

Audit Quality Framework introduced



72,904

visitors to our website

↑ up from 66,233



20,636

Twitter engagements – over 3,000 followers



4.4 days

Staff absence rate

↓ from 5.3 days



£6,000+

raised by our staff for good causes

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Overview

Chair's welcome



As the Auditor General notes in her report overleaf, this is a time of significant change for public bodies and the role of public audit is as crucial as ever. We have developed plans to respond to these changes by investing in our people and strengthening the audit quality regime.

Our role as a board is to oversee the exercise of all functions of Audit Scotland. Its key objectives are to support the Accounts Commission and the Auditor General to provide independent assurance to the people of Scotland that public money is spent properly and provides value for money.

We have met eight times during the year, and I especially welcome the fact that during this time we have opened our meetings to the public.

I am very grateful for the support of fellow board members. During the year we welcomed Graham Sharp, as new chair of the Accounts Commission and gave thanks to Ronnie Hinds for carrying out this role on an acting basis.

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

Finally, I would like to mention Russell Frith, Assistant Auditor General, who retired at the end of 2017. Russell has been with Audit Scotland since its inception in 2000. He played a major part in the setting up of the new body and has been instrumental in its development since. His knowledge and technical expertise will be missed and we wish him the best for the future.

Ian Leitch CBE
Chair of the Audit Scotland Board

Accountable Officer's report



Caroline Gardner
Accountable Officer and
Auditor General for Scotland

It's been another year of significant change for public bodies. We are seeing the roll-out of new financial powers for the Scottish Parliament and continuing financial pressures on the services we all rely on. On top of that we have uncertainties about EU withdrawal.

The Audit Scotland Management Team and I have been busy ensuring that Audit Scotland is in good shape to respond to these challenges.

Scotland has a world-leading public sector audit regime. Working for both the Auditor General and the Accounts Commission means that Audit Scotland is well placed to look across the public sector and audit is not constrained by organisational boundaries.

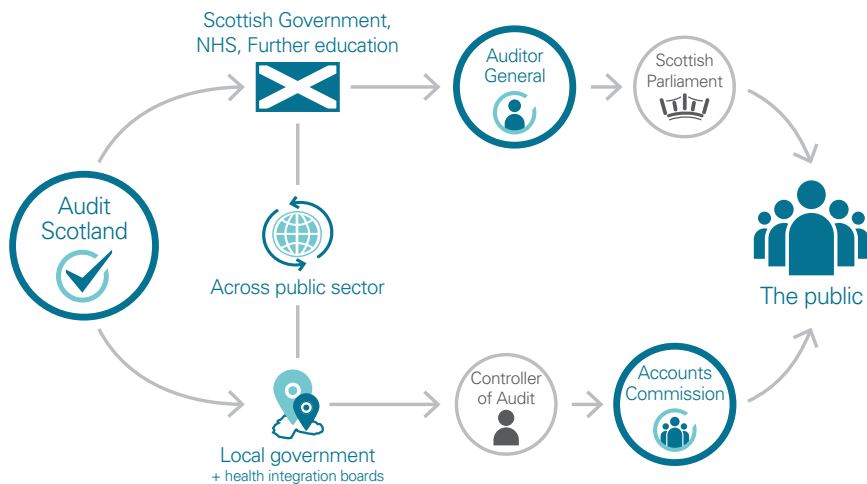
This gives us the flexibility to draw in expertise from different audit disciplines when needed – from financial core audit work reporting on more than 200 public bodies, to targeted performance audits in areas of public interest and importance, such as early learning and childcare.

We have maintained our focus on the impact of new powers for the Scottish Parliament. This is a critical area where Scotland's overall budget will be far more closely tied to the performance of the Scottish economy.

All of this has been underpinned by changes we have made internally to continually improve the quality, relevance and value of our work.

I am very grateful to all my talented colleagues in Audit Scotland for their unstinting efforts over the last year. We won't be resting on our laurels. Our ambition is to remain world class with high-quality audit reports which are clear and accessible and which help make a real difference to the value that the people of Scotland receive from their public services.

Who we are



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

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

About Audit Scotland

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.

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

There are three principles which guide our work:

- Auditors are independent of the organisations they audit.
- We report in public.
- We look at more than financial statements.

Above all, we support public scrutiny that is fair, equal and open, and that leads to better financial management and value for money.

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.



Our vision

To be a world-class audit organisation that improves the use of public money

Why we exist

To support the Auditor General for Scotland and the Accounts Commission.

To provide independent assurance to the people of Scotland that public money is spent properly and provides value for money.

What we do

We carry out relevant and timely audits on the efficiency and effectiveness of public services in Scotland.

We identify risks, report our findings in public, make clear recommendations and follow these up.



Risk assessments of public bodies and strategic themes



Annual audits of public bodies, Best Value audits, performance audits, national reports, statutory reports



Investigate and report on matters of public concern



Coordinate scrutiny and fraud investigation work



Support the scrutiny of the use of public money



Support improvement

Audit priorities



Financial management and governance



New financial powers



Social Security



Supporting parliamentary scrutiny



Preparedness for EU withdrawal



Public sector reform



Service delivery

Organisational priorities



Delivering world-class audit
Audit quality



Making a difference
Digital audit, follow-up, diversity and equality



Being a better organisation
Highly skilled workforce, working flexibly, delivering efficiency and effectiveness

Performance summary

We continued to deliver our core work of financial and performance audits highlighted on [page 25-27](#) and featured throughout this report.


This year we have increased our investment in audit quality; developed our approach to programming our work to ensure that it is focused on the key risks facing Scotland's public; and continued to adapt our approaches to developing areas around communications and digital technology.

Below are some highlights from these key performance areas this year.

Quality and professional organisational development

In 2017/18 we:



introduced a new [Audit Quality Framework](#)  which covers all audit work and restructured our assurance and professional support teams to improve audit quality



implemented a new strategic approach to managing and developing people




worked with our graduate trainees to improve the trainee scheme and ensure it is attractive to candidates, and provides the professional auditors of the future



carried out efficiency reviews on how we use our time and reviewed our performance management arrangements



published our [International work: Our strategy for 2017-20](#)  detailing our commitment to being a world-class audit organisation by sharing learning and best practice with other audit agencies from across the world.

Programme development and outputs

In 2017/18 we:



contributed to the revised scrutiny and accountability arrangements for Scotland's new tax and social security powers and published reports on the [implementation of the Scotland Acts](#)



implemented a new approach to auditing [Best Value](#) in local authorities on behalf of the Accounts Commission and produced six Best Value Assurance Reports



refreshed the [rolling five-year programme](#) of audit work based on extensive engagement with stakeholders and by focusing on the key risks facing Scotland's public sector



produced 18 performance audit reports on a wide range of topics from early learning and childcare to ferry services.

Communications and digital technology

In 2017/18 we:



enhanced our range of audit outputs available on our website, including [interactive data graphics](#), [animations](#) and [service user guides](#)

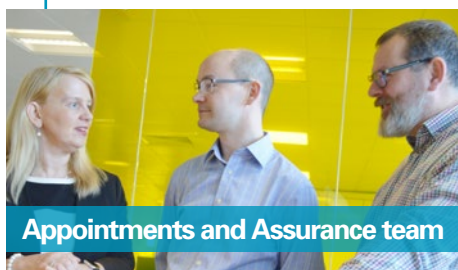


developed our use of social media to help get our messages out, share information and engage with stakeholders and the public



developed a [Digital Audit Strategy 2017](#) to guide how we audit digital services, harness analytics in the audit process and build our digital capacity.

Improving audit quality



Audit quality is the cornerstone of Audit Scotland's work. All of our work needs to be of the highest standard, meeting international audit standards as well as the requirements of the Auditor General and the Accounts Commission, as set out in the Code of audit practice 2016.

We introduced enhanced quality arrangements in 2017/18 to support independent scrutiny, assurance and provide professional support for the in-house teams and the appointed firms.

As part of this, we set up two new teams: Appointments and Assurance, and Professional Support.

One of the first tasks of our new Appointments and Assurance team was to establish a new quality framework and report on its delivery. This team is independent of staff working on audits. They produced the new ***Audit Quality Framework***  which applies to all audit work and providers.

The framework combines the highest professional and ethical standards with strengthened and more comprehensive arrangements for:

- internal quality reviews
- reporting on quality to the Audit Committee, the Auditor General, the Accounts Commission and to the public
- external quality reviews commissioned from the Institute of Chartered Accountants of Scotland (ICAS). They carry out independent reviews covering all aspects of our audit work and providers, including financial audit, best value audit and performance audit.



The results of the first year of this new approach are published in our [***Audit quality annual report 2017/18***](#) . The report concluded there is strong compliance with auditing standards and the Code of audit practice (the Code) and overall good levels of other evidence of audit quality with some limited improvements identified.

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

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


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

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



Audit quality annual report 2017/18  June 2018



Audit Quality Framework  December 2017

Audit support

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

16

technical guidance notes

4

technical bulletins

198

briefing notes on key documents

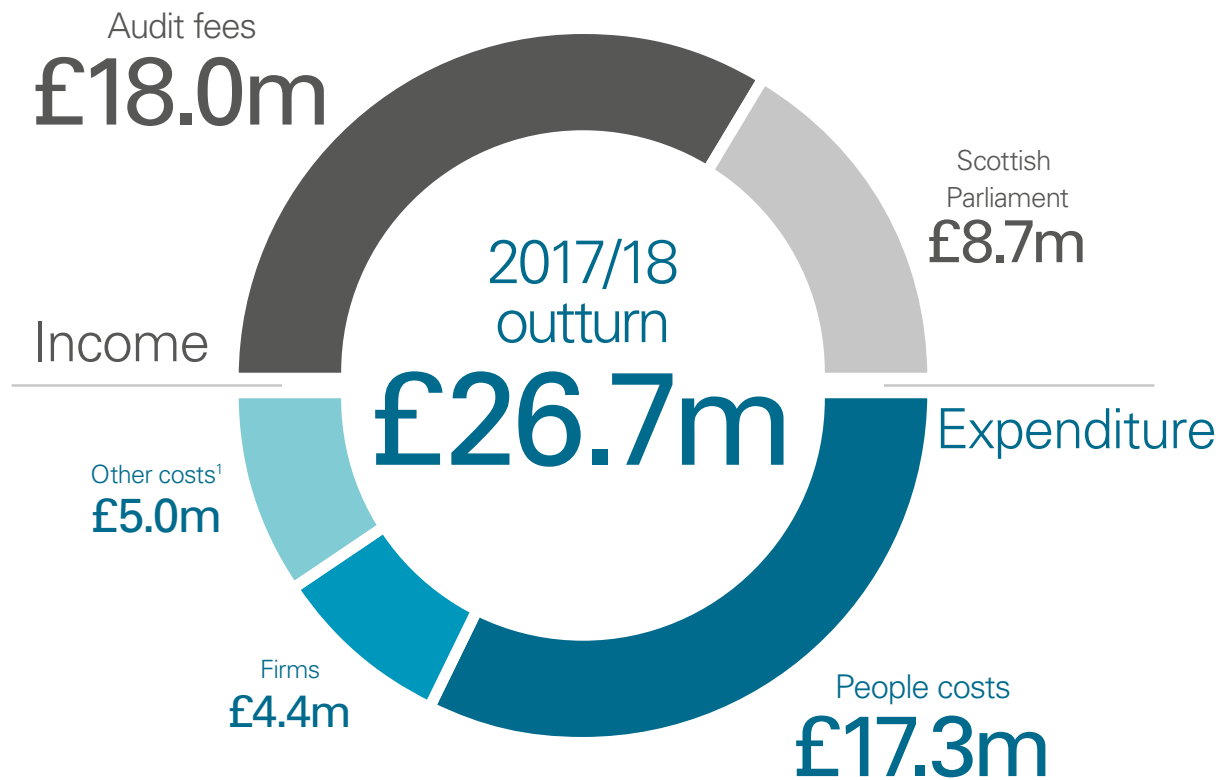
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responses to technical enquiries



[Technical guidance for auditors and bodies](#)

Financial summary



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

Key strategic objectives, issues and risks

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

Our strategic objectives are **Delivering world-class audit, Making a difference** and **Being a better organisation**. These strategic objectives provide the organising framework for our performance management arrangements, our strategic improvement programme ([pages 17–23](#)) and our risk management framework ([page 46](#)).

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 internal audit reports and annual accounts.

The key strategic risks for Audit Scotland are detailed on [pages 47–50](#). The context for these is summarised below.

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

To help ensure Audit Scotland is equipped to deal with these changes and cope with an increase in demand for our audit work, we have produced an updated workforce plan based on what the business requires. We continue to work through the implications for our resources of the new financial powers and EU withdrawal.

Cyber attacks on organisations over the last year have highlighted the importance of, and reliance on, digital systems. Digital technology offers transformational opportunities, but also increases dependence and the importance of digital and cyber security and resilience has never been higher.


Auditing in a changing environment

Identifying issues and key risks that lie ahead is an essential part of what we do. Because of the major implications of EU withdrawal and Scotland's new financial powers, we have set up an in-house team to work on the crucial areas of change.

Their priority is to map out changes, potential scenarios and possible consequences of actions, then put in place effective audit arrangements to enable the Parliament to receive independent assurance on new bodies and the implementation of policies.

This process was already under way for the new financial powers. These include new powers over borrowing and reserves, control over most income tax and responsibility for 11 social security benefits.

By 2020, the Scottish Parliament will be responsible for raising annual income of £22 billion – more than half the total budget for Scotland. A key change will be a much closer link between the strength of the Scottish economy and overall budgets available to spend.

We have taken several steps to provide a clearer picture through updated reports, a timeline and bringing material together on a [website hub](#) .

The Auditor General was a member of the group set up by the Parliament's Finance and Constitution Committee, to take a fundamental look at how the Parliament's budget process needs to develop if the new powers are to be used effectively.

Scotland and the UK face uncertainty during the EU withdrawal negotiations. We are keeping a close watch on issues as they develop, including identifying associated audit risks and ensuring they are reflected in our work programme and are considered in our audits of public bodies.



By 2020
£22bn
raised directly
in Scotland



Performance analysis

Our vision and strategic objectives

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

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

Our strategic objectives are:



These strategic objectives also provide the organising framework for our performance management arrangements, our risk management framework and our strategic improvement programme.

Over recent years, we've made organisational changes through our Becoming World Class improvement programme. This provides us with solid foundations on which to improve further as we pursue our vision to be a world-class audit organisation.

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

Delivering world-class audit

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



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

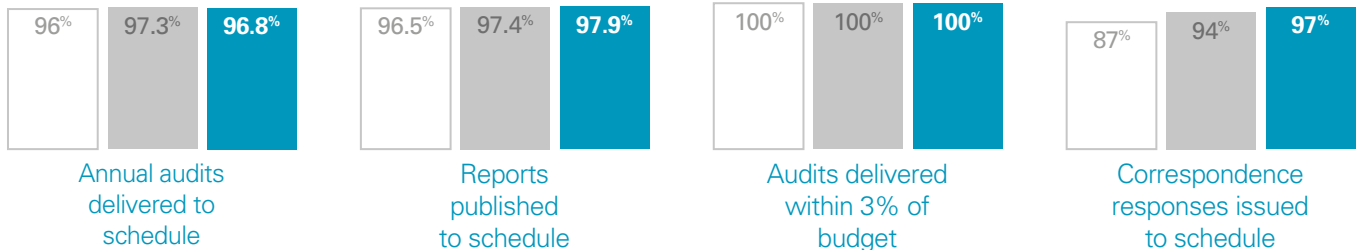
In a complex and challenging environment, it is important that independent, objective and authoritative public audit continues to support a strong and effective system of financial accountability and transparency.

In 2017/18 we:

- ✓ delivered 310 audits under the [Code of audit practice 2016](#) 
- ✓ introduced a new [Audit Quality Framework](#)  which covers all the audit work undertaken on behalf of the Auditor General and the Accounts Commission
- ✓ appointed ICAS to carry out independent external quality reviews across all areas of our audit work
- ✓ set up new teams to improve quality assurance and professional support
- ✓ contributed to the scrutiny and accountability arrangements around the new financial powers and fiscal framework and published reports on the [implementation of the Scotland Acts](#) 
- ✓ implemented a new approach to auditing [Best Value](#)  in local authorities on behalf of the Accounts Commission and published six Best Value Assurance Reports
- ✓ developed an [International work: Our strategy for 2017–20](#)  which sets out our approach to international work and how we share and learn from good practice around the world.

Key performance indicators

□ 2015/16 ■ 2016/17 ■ 2017/18



Our priorities for 2018/19:

- continue to deliver focused, insightful and timely audit work across the whole of Scotland's public sector
- expand our support for parliamentary scrutiny of the budget development process, financial management and the efficiency and effectiveness of public expenditure
- develop the audit arrangements and our capacity to scrutinise and provide assurance on the implementation of the new financial powers and responsibilities and social security
- closely monitor and, where appropriate, report on the extent to which organisations are considering the potential implications of EU withdrawal and their 'state of readiness' in what is a complex and rapidly changing environment
- focus on the quality of our audit work to ensure it meets the highest professional and ethical standards, adds value and supports improvement
- 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.

Making a difference

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.



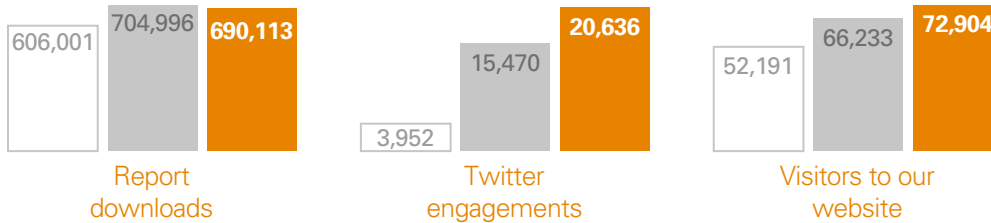
To do this we need to ensure that we are focused on the issues that matter most, provide insight into what works and what needs to improve and offer foresight on future risks and opportunities for improvement. We also need to ensure that we are getting our messages out effectively and that actions are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

In 2017/18 we:

- ✓ produced 18 national and local performance audits on a wide range of topics
- ✓ refreshed the [five-year rolling programme](#) of audit work for the Auditor General and Accounts Commission based on engagement with stakeholders and by focusing on the key risks and opportunities facing Scotland's public sector
- ✓ enhanced our range of audit outputs available on our website, including [interactive data graphics](#), [animations](#) and [service user guides](#) to make the work as accessible and useful as it can be
- ✓ developed our use of social media and a Social Media Strategy to help get our messages out, share information and engage with stakeholders and the public
- ✓ developed a [Digital Audit Strategy 2017](#) to guide how we audit digital services, harness analytics in the audit process and build our digital capacity
- ✓ implemented our communications and engagement strategy and engaged extensively with the Scottish Parliament, its committees and Scottish Parliament Information Centre (SPICe)
- ✓ refreshed our equality outcomes and further embedded equality in our work to highlight where Scottish public bodies can improve their practices and help reduce inequality.

Key performance indicators

□ 2015/16 ■ 2016/17 ■ 2017/18



Our priorities for 2018/19:

- 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
- support the Auditor General and the Accounts Commission's engagement with key stakeholders across the public sector and ensure our audit work is meeting the needs of the organisations we audit
- improve how we follow up on conclusions and recommendations
- make a step change in how we harness digital technology to inform what we audit, how we audit and how we get our messages out
- improve how we report across the 'whole system' of the public sector in Scotland to provide more insight on the use of public money – wherever it is spent
- promoting good practice in financial reporting
- further embed equality in our audit work, through consultation with stakeholders, the scoping of audits, our analysis of data and by improving the accessibility of reports.

Being a better 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.



Achieving our ambition is dependent upon having a flexible, engaged and highly skilled workforce able to deliver high-quality audit work.

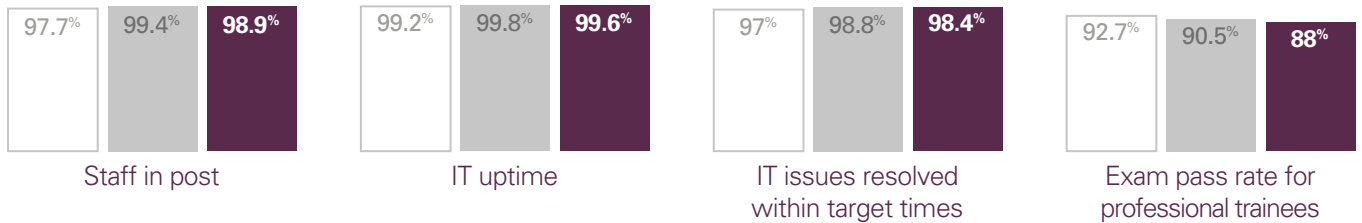
With our colleagues we created innovative approaches to how we attract, manage and develop our workforce. We now want to fully embed these arrangements so that we all get the benefit of a supportive, empowering and people-focused organisation.

In 2017/18 we:

- ✓ implemented a new strategic approach to recruitment, retention and managing and developing our people. This includes job roles, grading, pay and reward and career progression
- ✓ improved our approach to personal, organisational and leadership development
- ✓ implemented 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
- ✓ carried out an efficiency review of performance management and how we use our time.

Key performance indicators

□ 2015/16 ■ 2016/17 ■ 2017/18



Our priorities for 2018/19

- increase our capacity to meet the new audit responsibilities arising from the devolved financial powers, fiscal framework and social security service responsibilities
- fully embed and get the benefit from the new job role, grading and pay and reward arrangements
- continue to support colleagues as we shift our ways of working to increase flexibility, innovation and personal ownership of the work and career development
- 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 health and wellbeing of our colleagues
- continue to focus on our efficiency and effectiveness by implementing a new business intelligence led performance management framework
- further embed our approach to supporting equality and sustainability within Audit Scotland.

Giving something back

We are proud to have different perspectives provided by colleagues drawn from more than a dozen nationalities and ethnic minority groups.

We have a strong work ethic which binds us together around a common purpose. A variety of educational backgrounds also keeps our collective auditing brain sharpened. In our offices you'll find PhDs working with school leavers as well as arts, legal and medical graduates.

For our financial audits, accountancy remains the main discipline – every financial auditor undergoes rigorous professional training. We run one of the largest public financial audit training schemes in Scotland. We have 42 trainees and staff working towards CIPFA and ICAS qualifications.

We're also very proud of the achievements of our colleagues outside work.

Our colleagues choose our nominated charity. So far, we have raised more than £6,000 for the Brain Tumour Charity. Our colleagues have run relays in two marathons, taken to the stage at the Edinburgh International Festival, baked hundreds of cakes and hosted the annual football match between auditors from Edinburgh and Glasgow.

And it was a real thrill for us to see our colleague Asif Haseeb receive his OBE from Prince William, the Duke of Cambridge, at Buckingham Palace. This was for services to racial equality, education and health in Scotland and Pakistan, including the twinning of children's hospitals in Glasgow and Lahore.



Our work

Annual financial audits

This forms the largest part of our statutory work – an annual check on public bodies across Scotland.

Appointed auditors audit the annual financial accounts of public bodies in accordance with international standards on auditing and report whether, in their opinion, the accounts are free from material misstatement. Auditors may have to modify their opinion if material misstatements are not corrected by the body.

We audited 310 sets of accounts over the year. There were no modified opinions this year.

Auditors also report on other matters such as where a body has not met a prescribed financial objective. Auditors reported four such instances this year. These were all where local authority significant trading operations failed to achieve the statutory objective to break even over a three-year period (City of Edinburgh Council, Dumfries and Galloway Council, West Lothian Council and Tayside Contracts Joint Committee). Each of those bodies also failed to break even in 2015/16.

Audits are carried out by Audit Scotland's Audit Services Group and by firms of auditors appointed by the Auditor General and the Accounts Commission.

We also publish an audit plan for each body, which outlines the work we intend to carry out for each audit, and any other information which we think might be in the public interest.

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.

310

Audited accounts



188
Local
government



78
Central
government

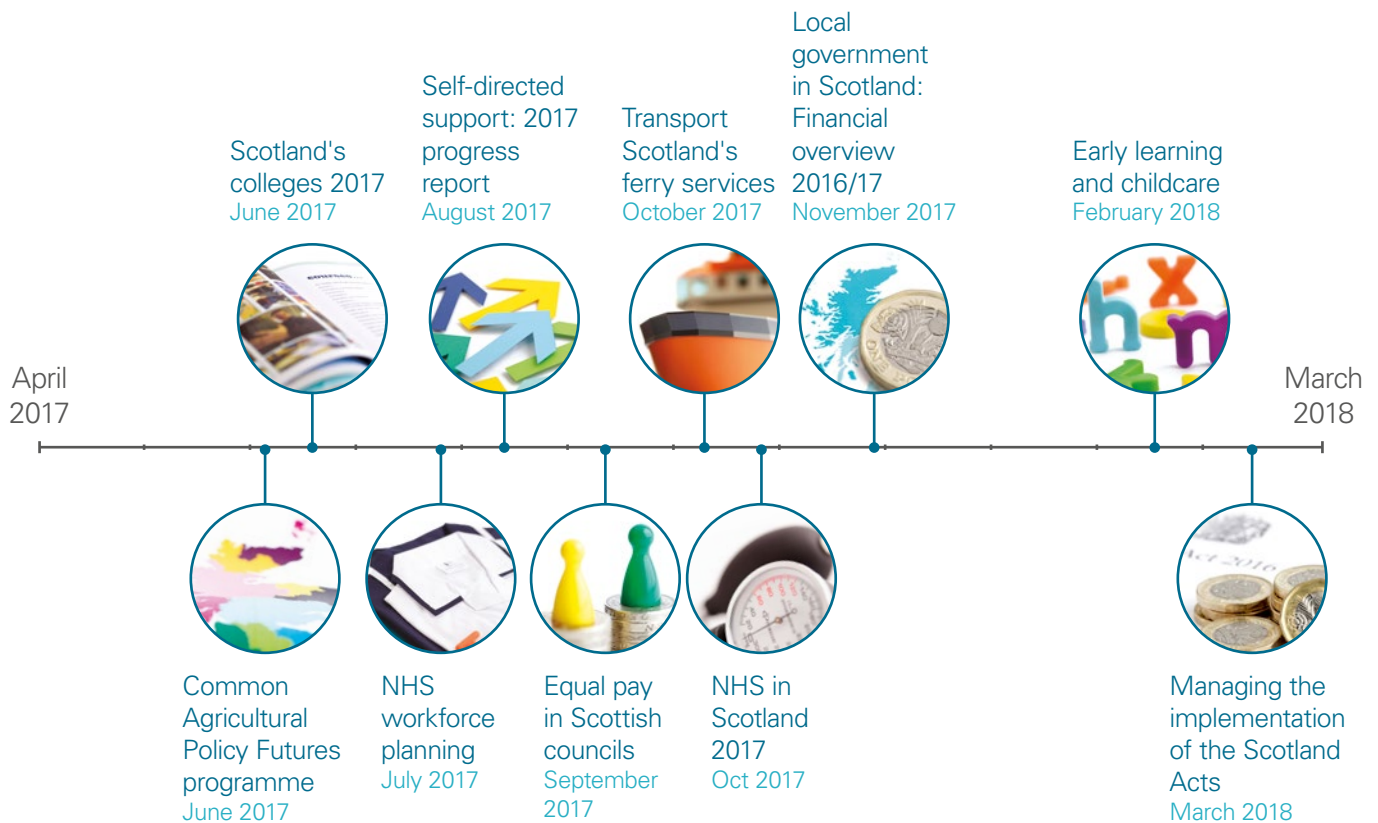


23
NHS



21
Further
education

Performance audit reports




We produced a wide range of high-profile performance audit reports – 10 in all – for the Auditor General and the Accounts Commission on issues which impact directly on the everyday life of people in Scotland.


We published a further update on the [Common Agricultural Policy Futures Programme](#) (June). This found that the legacy of an IT programme set up to deliver financial support to rural businesses continued to present significant risks and costs for the Scottish Government.


The annual overview of [Scotland's colleges 2017](#) (June 2017) found improved attainment in the past year but highlighted several financial challenges, and potential difficulties from a declining student population.

We looked in detail at the [NHS workforce planning](#) (July 2017). Spending on staff is increasing and overall staff numbers are at their highest level ever but there are urgent workforce challenges, and the Scottish Government and health boards have not planned effectively for the long term.


[***Self-directed support: 2017 progress report***](#)  (August 2017) followed up a previous report on this new care model which offers people more choice and control over their social care.


[***Equal pay in Scottish councils***](#)  (September 2017) looked at the long-standing issue of female workers being underpaid compared to men. It examined how effectively councils have implemented the 1999 Single Status Agreement to harmonise pay structures.

A report on [***Transport Scotland's ferry services***](#)  (October 2017) called for a new long-term plan by Transport Scotland for ferry services across the country.

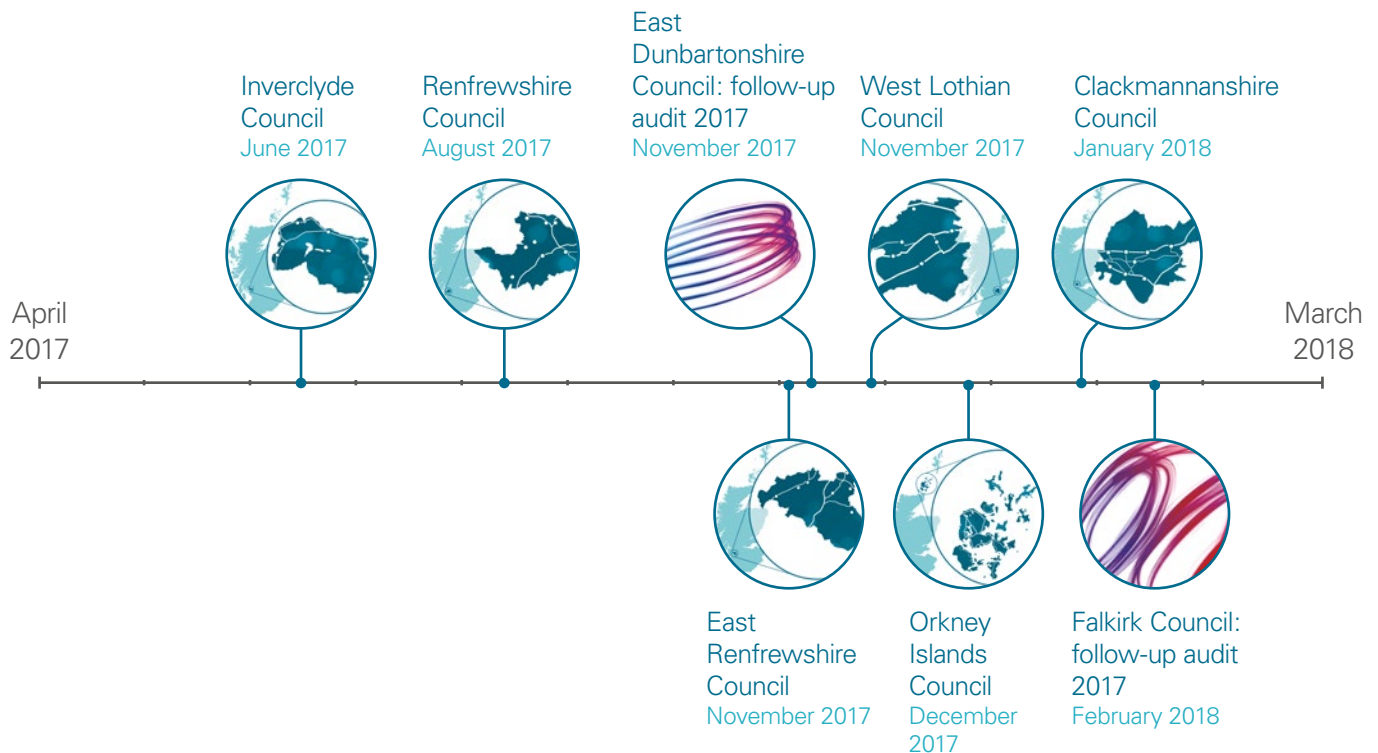
The [***NHS in Scotland 2017***](#)  (October 2017) said reform of the National Health Service was progressing but fundamental issues such as moving care into the community must be addressed if reform is to deliver the scale of transformation required.

The Accounts Commission's [***Local government in Scotland: Financial overview 2016/17***](#)  (November 2017) highlighted the continuing spending squeeze on councils.

[***Early learning and childcare***](#)  (February 2018) was a completely new audit topic for us. It revealed significant risks for the Scottish Government's ambition to double early learning and childcare hours by August 2020.

The Auditor General's report [***Managing the implementation of the Scotland Acts***](#)  (March 2018) on the roll-out of new powers from the Scotland Acts of 2012 and 2016 said the roll-out of social security powers was now at a critical point.

Reporting on Best Value in local government



The Accounts Commission is responsible for scrutinising Scotland's 32 councils. The Controller of Audit reports to the Commission, bringing matters of concern to its attention.

Over the last year, we supported the Commission on an important change in its core work as Best Value Assurance Reports (BVARs) were introduced after extensive consultation. Best Value means getting the most out of every pound spent. Councils have had a legal duty since 2003 to demonstrate Best Value and continuous improvement in what they do.

The new reports aim to provide:

- a more detailed and rounded insight for local people into how their council is performing – where it's doing well and where it needs to improve
- a more regular spotlight – at least once every five years for every council – looking beyond balance sheets to issues such as leadership, governance and performance
- a key foundation to help councils shape and improve services and build a picture of good practice across councils to drive improvement.

This wider focus on Best Value will also be part of the annual financial audits for every council. A review and independent research conducted on the first six BVARs found that councils generally felt the reports were fair and balanced, although the audit experience was varied.

The Commission also published Best Value follow-up reports on East Dunbartonshire Council (November 2017) and Falkirk Council (February 2018). In addition, it published one statutory report in March 2018 identifying serious issues of wider concern to all councils from a fraud at Dundee City Council.

Scrutiny coordination

We work closely with other scrutiny bodies (such as inspection 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. The plan is prepared by the Strategic Scrutiny Group which is chaired by the Accounts Commission and includes Audit Scotland and the agencies listed below.

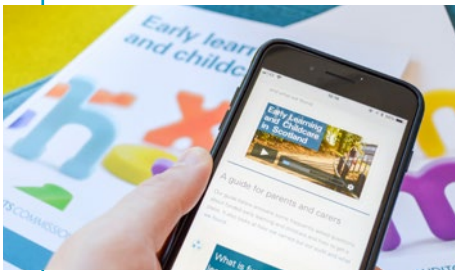


National scrutiny
plan 2018/19
[Download](#) April 2018





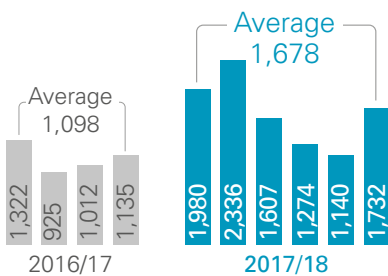
Making an impact



To achieve real impact, the messages from our audits must be clear to all our stakeholders.

We have made more use of graphics, video, and simple interactive tools to break down complex information as well as a wide range of social media. We have also taken steps to improve our links with the Parliament, voluntary bodies and a range of other agencies and groups to maximise the impact and usefulness of our work.

Best Value report downloads



A good example of this is our communications work on the new Best Value Assurance Reports for the Accounts Commission. We wanted to reach a range of community bodies in each council, so we provided posters for local community venues and electronic bulletins which are sent out to local stakeholders. This has contributed to a 20 per cent increase in the total number of web downloads for Commission reports over the year.

Each year we consult widely to determine our performance audit work programme. This year we took our first detailed look at three important areas which have a huge impact on people’s daily lives. Ferry services and Equal pay were followed by Early learning and childcare, a topic of intense interest to parents, grandparents as well as the next generation of youngsters.



One of the key early findings from that audit was that a lack of clear information was a major stumbling block. So we converted our findings into a checklist for parents and produced short videos, with a starring role for two-year-old Callum (above), to further share our knowledge.

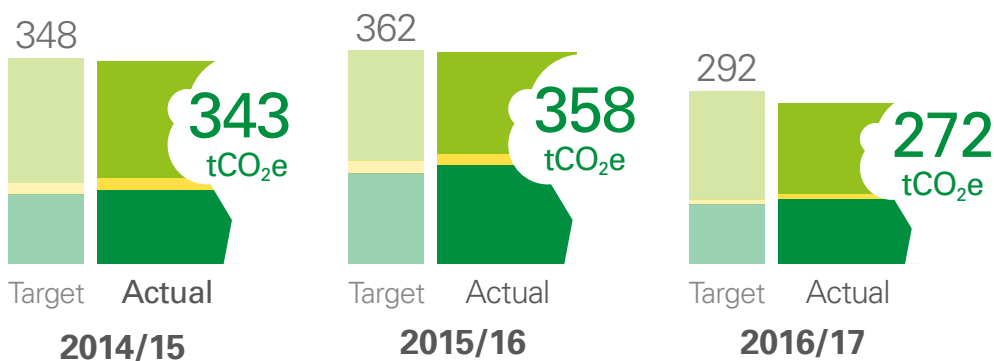
The work of our communications team was recognised in October at the Chartered Institute of Public Relations PRide Awards, taking the title of best public sector communications team in Scotland. Our Annual report 2016/17 was a finalist in the best publication category.

Other key aspects of our work

Climate change and sustainability

Improving our environmental performance is an important aspect of our world-class audit ambitions and providing effective leadership in this area is part of our 'making a difference' agenda.

We published our latest climate change report in November 2017 which showed that in 2016/17 we reduced our carbon emissions by 21 per cent (71 tCO₂e) to 272 tCO₂e compared to the baseline year (2014/15) of 343 (tCO₂e).



-  Transport
-  Waste
-  Energy

Our total emissions equate to 1 (tCO₂e) per whole-time equivalent employee or 0.14 (tCO₂e) per m² floor space we occupy.

Our emissions derive largely from transport (57 per cent) and energy (40 per cent). These decreased by 10.5 per cent and 34 per cent respectively last year and we continue to focus on ways to further reduce our emissions in these areas.



[Carbon Scrutiny Board annual report 2016/17](#)
 November 2017

By introducing principles to support our ethos that 'work is something that we do rather than a place we go to' and continuing to make choices about the way we travel, we have reduced the total miles travelled. Last year we further reduced our travel emissions by 61,000km for flights and 37,334km car mileage.

Our energy reduction is largely a consequence of reducing our estate from a total 2,369m² floor space to 1,889m², to investing in modern offices and to improvements made in IT infrastructure. Adopting energy-saving technologies in heating, lighting, printing and by increasing the use of virtual servers and online packages we will continue to reduce our energy emissions.




International work

To meet our aspirations of becoming world class, we believe it’s important that we understand and learn from what is happening in audit agencies beyond Scotland.

Learning from best practice across the world has been at the forefront of our approach to our international work this year. Equally we have been able to share some of our own knowledge and experience with audit professionals from other countries, including using communications technology to do this.

Highlights of our international work in 2017/18 include:



joining the [OECD Auditors Alliance](#) , designed to bring auditors from across the world together to share best practice, facilitate shared learning and support improved financial and performance auditing




obtaining access to an International Performance Audit Database that has been developed by audit colleagues in Canada. The information contained within it is invaluable for shaping our future work programme, providing examples of good practice and training material for upskilling our own colleagues



learning from outwith Scotland. We hosted delegates from seven audit institutions and public bodies spanning the globe including Indonesia, Japan and China. Our Director of Performance Audit and Best Value contributed to the IMPACT Conference in Australia



seeking ways to bring an international dimension to key areas of our work such as digital auditing. Our [Principles for a digital future](#)  report in May 2017 drew on case studies and international audit work and in October we presented our work at a EURORAI digital conference in Spain attended by 140 auditors from across Europe.




International work: annual report 2017/18

 June 2018




International strategy for 2017–20

 June 2017

Technology and social media have helped us interact with the audit world outside our offices. We used remote technology to communicate with fellow auditors in other countries such as Canada. More than 10,000 people have seen our [#GoingGlobal](#) tweets and since its launch in June 2017, visitors from 162 countries have viewed our [international webpage](#) .

Supporting the Scottish Parliament

Public audit plays a key role in promoting executive accountability to the Parliament and the public. The Auditor General for Scotland is an independent appointment by the Crown, on the recommendation of the Scottish Parliament. She reports in public to the [Scottish Parliament's Public Audit and Post-legislative Scrutiny Committee \(PAPLS\)](#) .

We have been strengthening our engagement with committees, MSPs and SPICe over the current session of Parliament to ensure that parliamentarians are aware of our audit work and using it to best effect to support effective parliamentary scrutiny.

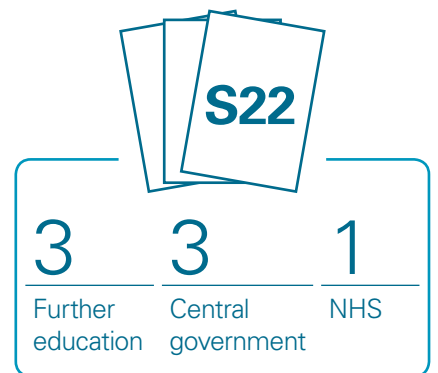
The Auditor General also prepares Section 22 (S22) reports to bring to the attention of Parliament important issues of concern identified through the annual audit process, or to report on progress against previously identified areas for improvement.

We issued seven S22 reports last year, three of them on Scotland's colleges (Edinburgh, Moray and Lews Castle) and the others on NHS Tayside, the Scottish Government's Consolidated Accounts, the Scottish Police Authority and Non-Domestic Rates Accounts.

The Auditor General and audit colleagues attended 26 meetings of the PAPLS Committee over the year to give evidence and answer questions.

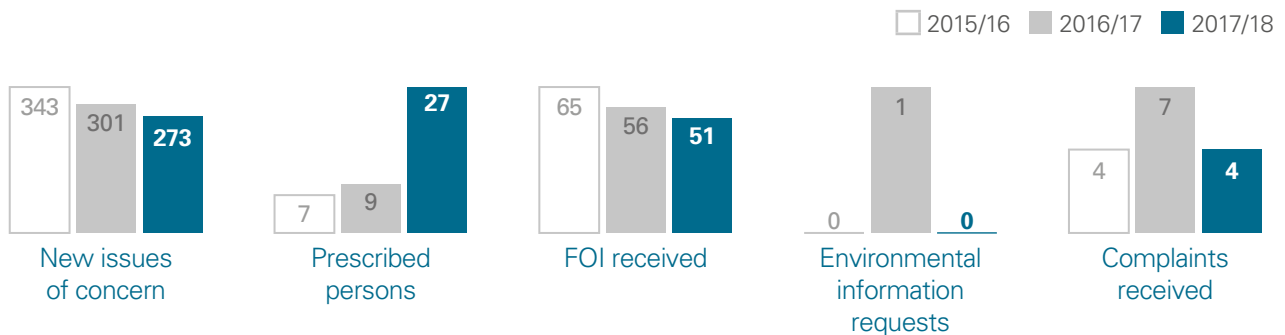
Auditors gave oral and written evidence to other parliamentary committees over the year, including supporting the Accounts Commission to present evidence to the Local Government and Communities Committee, and to PAPLS Committee. Auditors also briefed the Finance and Constitution Committee, Social Security Committee, Economy Jobs and Fair Work Committee, Rural Economy and Connectivity Committee, and Health and Sport Committee on audit work relevant to their areas of interest.

Alongside that formal reporting we have also responded to consultations and calls for evidence by parliamentary committees and provided a range of informal briefings to committees, clerking teams and SPICe.



 [Public Audit and Post-Legislative Scrutiny Committee meetings](#)

Responding to the public



We continue to 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 2017/18, we received 273 new issues of concern (compared with 301 in 2016/17). Twenty-seven of these items came to us as prescribed persons under the Public Interest Disclosure Act 1998 (compared to nine in 2016/17). These are often referred to as 'whistleblowers'.

We receive many routine requests for information daily. Where the requests are complex or submitted under the Freedom of Information (Scotland) Act 2002 or Environmental Information (Scotland) Regulations 2004, we record them. This year we received and recorded 51 Freedom of Information (56 in 2016/17) and no Environmental Information requests (one in 2016/17).

We recorded a total of four complaints over the year, compared to seven in 2016/17. One complaint was rejected as it was about audit judgements and these fall outside the complaints procedure. A second complaint was about correspondence not being replied to. This was not upheld as we provided evidence that we had responded. The third complaint was about a recruitment campaign process, this was upheld. The fourth complaint, on compliance with auditing standards, was not upheld.

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 68–89](#).

Resource outturn

Our year in figures	2017/18			2016/17
	Actual £000	Budget £000	Variance £000	Actual £000
People costs	17,293	17,208	(85)	16,286
Fees and expenses paid to external firms	4,355	3,952	(403)	4,987
Other operating expenditure ¹	3,927	4,292	365	4,102
Total operating expenditure	25,575	25,452	(123)	25,375
Operating income	(17,948)	(17,168)	780	(18,622)
Net operating expenditure	7,627	8,284	657	6,753
Net finance expenditure ²	886	868	(18)	590
Corporation Tax payable	1	5	4	7
Net expenditure after tax	8,514	9,157	643	7,350
Capital expenditure	197	200	3	197
Total resource required from Parliament	8,711	9,357	646	7,547

Notes:

1. Other operating expenditure includes expenditure on property, information technology and travel. This is covered in [Note 4 \(page 80\)](#) to the Accounts.
2. Net finance expenditure comprises bank interest and the expected interest income from the local government pension scheme assets less the interest payable on the scheme liabilities.

Net expenditure after tax

In 2017/18, Audit Scotland spent £25.6 million on services for the Auditor General and the Accounts Commission. Of these costs £18.0 million was recovered through charges to audited bodies and other income. The balance of £7.6 million net operating expenditure and net finance costs of £0.9 million was met from direct funding provided by the Scottish Parliament. This sum, £8.5 million, was £0.6 million less than the estimate (budget) for the year.

Slightly higher than budgeted people costs were more than offset by an increase in fee income for additional audit work and reduced other operating expenditure.

People costs were £0.1 million more than budget. Additional agency and seconded staff numbers employed in the year cost £0.3 million more than budget, with savings in pension charges of £0.2 million reducing the overall budget overspend.

Fees and expenses paid to external firms was £0.4 million more than budget and this additional expenditure was matched by the receipt of £0.4 million additional fee income in respect of chargeable work undertaken by the external firms.

Other administration costs were less than budget with lower expenditure on training and recruitment costs £0.1 million, printing and office costs £0.1 million and legal, professional and consultancy costs £0.1 million.

Operating income was £0.8 million more than budget. Fee income of £0.7 million more than budget is attributable to additional work undertaken in-house and by external audit firms. In-house fee income was £0.3 million more than budget mainly due to the expansion of the European Agricultural Fund audits. The fee income associated with external firm audits generated an additional £0.4 million. This related to increased complexity and additional work within the local government sector and is matched against the increased fee payments to external firms. Income recovered for staff on secondment to other public sector bodies increased operating income by £0.1 million.

In 2017/18, we delivered £2.4 million in efficiencies, cost reductions and additional income against a target of £1.8 million. This was 9.6 per cent of our total expenditure budget. Most savings came from revised external firms' audit contracts, staffing costs following organisational restructures, reduced consultancy expenditure and training costs.

Capital expenditure

In 2017/18, Audit Scotland invested £0.2 million to improve its business. The sum of £0.1 million was invested in the upgrade of the existing office facilities in Glasgow with the remaining balance of £0.1 million being used to support our Information Technology systems.

Resources required for 2018/19

Our budget for 2018/19 has been approved by the Scottish Parliament. Our revenue resources total £24.4 million. Of these resources, £17.4 million will be recovered through charges to audited bodies and miscellaneous income. The balance of expenditure of £7.0 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.

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: 99 per cent (98 per cent in 2016/17) 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 2017/18, 83 per cent (84 per cent in 2016/17) of trade invoices were paid within ten days.



Caroline Gardner
Accountable Officer

12 June 2018

Accountability report

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Corporate governance report

Directors' report

Directors

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

Register of interests

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

Auditor of Audit Scotland

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

Statement of Accountable Officer's responsibilities

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

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


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

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


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

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

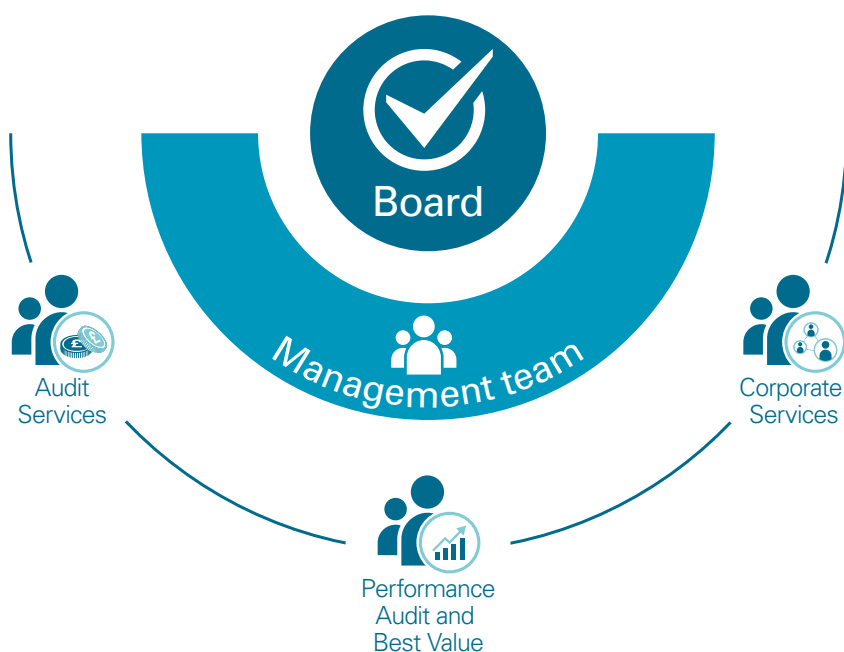
The Accountable Officer confirms that this annual report and accounts taken as a whole is fair, balanced and understandable. The Accountable Officer takes personal responsibility for the annual report and accounts and the judgements required for determining that it is fair, balanced and understandable.

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

Governance statement

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

Our governance and management



The board



Ian Leitch CBE
Chair of the board



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



Dr Graham Sharp
Chair of the Accounts
Commission
(from 1 November 2017)¹



Heather Logan
Independent non-executive
member



**Professor Russel
Griggs OBE**
Independent non-executive
member

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.

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

The board 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.

Note:

1. Ronnie Hinds joined the board as the acting chair of the Accounts Commission in March 2017 until the appointment of Graham Sharp in November 2017.

Board committees

The board has two standing committees:

Audit committee

This committee oversees the arrangements for internal control, risk and corporate governance, audit quality, internal and external audit, the annual accounts and the Standing Orders, Financial Regulations and Scheme of Delegation. It comprises Heather Logan (chair), Graham Sharp¹ and Russel Griggs.

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 2017/18 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), Graham Sharp,¹ Heather Logan and Ian Leitch.

Attendance during 2017/18:

Committee	Ian Leitch	Caroline Gardner	Graham Sharp ¹	Heather Logan	Russel Griggs	Ronnie Hinds ¹
Board (8)	8	8	2	8	6	4
Audit committee (5)	-	-	1	5	3	2
Remuneration and human resources committee (4)	4	-	2	4	4	1

Note:

1. Ronnie Hinds joined the board as the acting chair of the Accounts Commission in March 2017 until the appointment of Graham Sharp in November 2017.

Management team



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



Diane McGiffen
Chief Operating Officer



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



Fiona Kordiak
Director of Audit
Services

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

During 2017/18 Russel Frith, the Assistant Auditor General, retired. This reduced the management team from five to four and responsibilities were re-allocated.

Parliamentary accountability

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

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

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

In its report recommending our 2018/19 budget to the Finance and Constitution Committee, the SCPA recognised that the devolution of further powers would mean an increased workload for Audit Scotland and approved the additional resources sought in the 2018/19 budget proposal.

It welcomed the measures Audit Scotland takes to monitor pay ratios and the gender pay gap within the organisation and recommended that Audit Scotland report annually to the commission, as part of the budget process, with an updated position against these measures.

The commission also welcomed the commitment of Audit Scotland to ensuring audit quality and agreed the funding proposed to support this and recognised the commitment of Audit Scotland to generating efficiencies.

The SCPA was keen to obtain further information on the new approach to Best Value in local government; work arising from the Scotland Act 2016 and the EU referendum result; our voluntary release scheme; and pension fund investments. This was provided in our written response to the commission.

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 active and monitoring controls in place and the way in which the risk is monitored. The register also identifies any actions required to further reduce the risk. The risks are aligned to our strategic objectives and many of the mitigating actions form part of our Delivering world class audit improvement programme which is covered in more detail on [page 47](#).

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

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


The key strategic risks are summarised on [pages 47–50](#) and are grouped according to our three strategic objectives:

- delivering world-class audit
- making a difference
- being a better organisation.

Many of the risks are interlinked, for example a failure of quality would have a negative effect on our credibility and this would undermine the value and impact of the work. The audit committee explores specific risks through more detailed risk interrogations.

Delivering world-class audit

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

It is also vital that our work is relevant, that we focus on the right things and that we don't miss any significant issues. To mitigate these risks, we have enhanced our arrangements for monitoring areas of risk, implemented the [Code of audit practice 2016](#) , refreshed the rolling five-year programme of performance audits, and implemented 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 introduced a new [Audit Quality Framework](#)  which covers all of the audit work undertaken on behalf of the Auditor General and the Accounts Commission, appointed ICAS to carry out independent quality reviews, set up new teams to improve quality assurance and professional support and updated our audit planning guidance and audit management frameworks.

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




Delivering
world-class audit

Making a difference

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 approach, developed a social media strategy and taken a strategic approach to parliamentary engagement. We also have a range of monitoring arrangements in place to assess the views of stakeholders.

We have developed an extensive range of additional audit outputs. These include resources on our website, such as interactive data graphics, video links, blogs, briefings, checklists and animations.

There is a risk we do not fully take the opportunity to influence development of the scrutiny framework for the new financial powers and fiscal framework. There is also 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 and we have been engaging with the Parliament and the UK audit agencies. We have also developed an [e-hub](#)  on financial devolution.



Making a
difference

Being a better organisation

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

To mitigate these risks, we are in the process of building our capacity to respond to the additional audit responsibilities brought about by the devolved financial powers, fiscal framework and social security. We have also been engaging 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 arrangements for how we resource the audit work and we have carried out a programme of efficiency reviews.



Being a better organisation

Information security

High-quality digital resources are essential to our business. Over the period of our last corporate plan we made several important improvements to our core systems, digital hardware, and how we use mobile technology. These were designed to ensure that we have resilient and high-quality systems to support our audit work.

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

Training on data protection and information security is included in the induction process for all new staff. All staff receive periodic refresher training and are provided with data protection updates.

In 2017, we developed a new Digital Services Strategy, which focuses on two core objectives: resilience and innovation.

Cyber resilience and security feature prominently in our risk registers and form a standing item on the agenda of our Knowledge, Information and Technology Governance Group. We provide updates for the audit committee on a six-monthly basis.


During 2017/18, we have been closely monitoring the requirements of the General Data Protection Regulations (GDPR) and engaged with all staff through a set of briefings. New GDPR training has been rolled out to all staff.

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

Fraud, corruption and bribery

In 2017/18, we reviewed and updated our policies and procedures on fraud, corruption and bribery. These include the counter fraud policy; the staff and members' codes of conduct; the annual 'fit and proper review' which covers every member of staff; the terms and conditions for the supply of goods and services; and the broader financial governance arrangements.

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

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

We produce annual reports on fraud and bribery and hospitality and gifts. These are considered by the audit committee and this forms part of the annual assurance process. The 2017/18 report confirms that there were no instances of fraud or bribery identified or detected in Audit Scotland this year.

Review of effectiveness of internal control and risk management

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

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

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

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

The system has been in place for the year ended 31 March 2018 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 2018 and to the date of this statement no significant control weaknesses or issues have arisen, and no significant failures have arisen in the expected standards for good governance, risk management and control.

Remuneration and staff report

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	2017/18 £000	2016/17 £000
Chair – Ian Leitch	10 – 15	10 – 15
Independent board member – Heather Logan	5 – 10	5 – 10
Independent board member – Russel Griggs	5 – 10	5 – 10

Accounts Commission for Scotland

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

All Commission member appointments are part-time and non-pensionable. The average number of members of the Commission throughout the period was 11 (12 in 2016/17) and their remuneration was as follows:

Remuneration banding	2017/18 £000	2016/17 £000
Chair – Graham Sharp ¹	15 – 20	0 – 0
Deputy Chair – Ronnie Hinds ²	30 – 35	10 – 15
Chair – Douglas Sinclair ²	0 – 0	40 – 45
Commission members ³	5 – 10	5 – 10

Notes:

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

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.

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 2018. Further information on the pensions payable to Audit Scotland staff, including senior management, can be found in [Note 3. Pension assets and liabilities](#).

Single total remuneration	2017/18 Salary £000	2016/17 Salary £000	2017/18 Benefit in kind ¹ £	2016/17 Benefit in kind ¹ £	2017/18 Pension benefit ² £000	2016/17 Pension benefit ² £000	2017/18 Total £000	2016/17 Total £000
Caroline Gardner Auditor General for Scotland	145 – 150	140 – 145	-	-	38	56	180 – 185	200 – 205
Diane McGiffen Chief Operating Officer	115 – 120	115 – 120	-	-	42	38	160 – 165	150 – 155
Russell Frith Assistant Auditor General ³	95 – 100	115 – 120	-	-	7	27	105 – 110	140 – 145
Fraser McKinlay Director of Performance Audit and Best Value and Controller of Audit	110 – 115	105 – 110	-	-	37	35	145 – 150	140 – 145
Fiona Kordiak Director of Audit Services	95 – 100	90 – 95	6,700	5,200	34	33	135 – 140	130 – 135

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.
3. Russell Frith left Audit Scotland in December 2017 under the terms of our Voluntary Early Release Arrangements. A payment of £80k was made to the Principal Civil Service Pension Scheme to secure early access to pension benefits. No cash compensation was paid. The full year equivalent remuneration as at the date of leaving was £115k – £120k.

Pensions	Accrued pension at 31 March 2018 £000	Accrued lump sum at 31 March 2018 £000	Real increase in annual pension £000	Real increase in lump sum £000	CETV at 31 March 2018¹ £000	CETV at 31 March 2017¹ £000	Real increase in CETV¹ £000
Caroline Gardner Auditor General for Scotland	80 – 85	NIL	0.0 – 2.5	NIL	1,138	1,046	19
Diane McGiffen Chief Operating Officer	40 – 45	75 – 80	2.5 – 5.0	0.0 – 2.5	766	694	60
Russell Frith Assistant Auditor General ²	-	-	-	-	-	727	-
Fraser McKinlay Director of Performance Audit and Best Value and Controller of Audit	20 – 25	15 – 20	0.0 – 2.5	0.0 – 2.5	262	229	22
Fiona Kordiak Director of Audit Services	40 – 45	75 – 80	0.0 – 2.5	0.0 – 2.5	744	679	56

Note:

1. A CETV is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued because of their total membership of the scheme including any benefit transferred from another scheme and not just their service in a senior capacity to which the disclosure applies. The real increase in CETV reflects the increase in CETV effectively funded by the employer. It does not include the increase in accrued pension benefits due to inflation, contributions paid by the employee and uses common market valuation factors for the start and end of the period.
2. Russell Frith left Audit Scotland in December 2017 and secured early access to pension benefits from the Principal Civil Service Pension Scheme.

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 £145,000 to £150,000 (£140,000 to £145,000 in 2016/17). This was 3.4 times (3.4 times in 2016/17) the median remuneration paid to Audit Scotland's staff in 2017/18, which was £43,924 (£42,440 in 2017).

Pensions

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

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

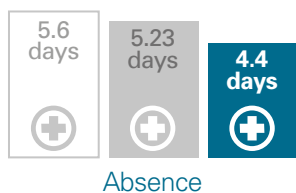
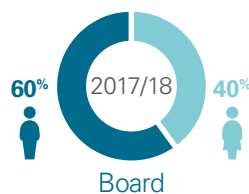
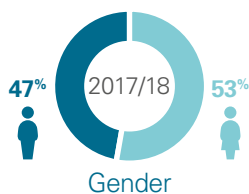
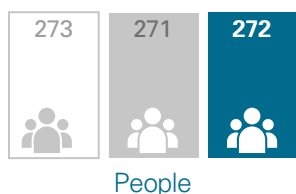
Employment contracts

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

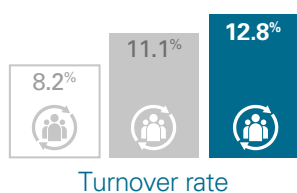
The information in the tables on [pages 51–54](#) is covered by the audit opinion.

Staff report

2015/16 2016/17 2017/18



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



CIPD¹ benchmark: 16.56%



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

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

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

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

In March 2018, staff numbers stood at 272 wte, compared with 271 wte in 2017. The average number of directly employed wte staff during the year was 275 (279 in 2017).

People costs and numbers

People costs comprise	2018 £000	2017 £000
Administrative staff		
Salaries	11,860	11,753
Social Security and Employment Tax costs	1,367	1,284
Superannuation	2,054	2,021
Pensions in payment (note 3c)	27	23
Provision for early retirement and severance costs (note 14)	1	177
Movement in early retirement costs	(96)	243
Adjustment for retirement benefit scheme costs (see below)	1,927	628
	17,140	16,129
Accounts Commission members		
Salaries	132	137
National Insurance	10	9
Travel and subsistence	11	11
	153	157
	17,293	16,286

The average number of directly employed wte staff during the period was 275 (279 in 2017).

Analysis of local government retirement benefit scheme costs	2018 £000	2017 £000
Current service costs	4,673	3,376
Past service costs	14	89
	4,687	3,465
Less: Actual employees' contributions	(822)	(820)
Charge to revenue	3,865	2,645
Employer contributions	(1,938)	(2,017)
Adjustment for retirement benefit scheme costs	1,927	628

Temporary staff

Included in the salaries costs for the year to 31 March 2018 is £387,000 (seven wte posts) for temporary agency and seconded staff who covered staff vacancies, maternity leave and supported peak audit workload. In the previous year expenditure totalled £381,000 (seven wte posts).

Learning and development

Audit Scotland runs one of the largest public financial audit training schemes in Scotland. We have 42 trainees and staff working towards CIPFA and ICAS qualifications. This year we recruited 15 professional trainees and one school leaver trainee. Nine trainees successfully completed their ICAS training to become qualified accountants. In June 2018, the programme will be opened again to a new generation of trainees that will help shape the growing future of Audit Scotland.

During 2017/18, we continued to provide technical audit training, and other core management and personal impact development areas.

Over the year, staff received an average of 7.4 days each of formal learning and development – an increase from the previous year.

Health, safety and wellbeing

Results from the Best Companies internal staff survey indicated that colleagues experience a good work-life balance at Audit Scotland. We continued to offer comprehensive health and wellness checks to all staff, and this year we had a good level of attendance. We engage and consult with colleagues about workplace changes affecting job roles and pay and reward.

Reportable health and safety incidents have remained at a very low level, with just three incidents reported in 2017/18, level with 2016/17 and down from six in 2015/16.

Staff turnover increased slightly compared with 2016/17, primarily due to a higher than usual number of retirements and voluntary redundancies.

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.

Organisational development

We implemented a new strategic approach to recruitment, retention and managing and developing our people. This includes job roles, grading, pay and reward and career progression.

We also refreshed our equality outcomes to promote, understand and support a diverse workforce.

Following the retirement of the Assistant Auditor General we took the opportunity to review our approach to quality. By reshaping our organisational structure, we have created two new teams: Appointment and Assurance and Professional Support (for more on this see feature on [page 12](#)).

Early retiral and severance

In the year to March 2018, five staff left under a voluntary early release arrangement. Under the arrangement staff were entitled to a termination payment and/or early access to pension. The total cost of the arrangements was £156,000.

Further disclosure on early retirement and severance is set out in [Note 14. Provision for early retirement and severance \(page 86\)](#).

	Number of arrangements	
	2018	2017
< £10,000	2	2
£10,000 – £25,000	-	3
£25,000 - £50,000	2	4
£50,000 - £100,000	1	3
Total number of arrangements	5	12
Total cost (£000)	156	368

Staff relations

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

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

Relevant union officials

Number of employees who were relevant union officials during the relevant period	11
Full-time equivalent employee number	10.42

Percentage of time spent on facility time

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

Percentage of pay bill spent on facility time

Total cost of facility time	£29,650
Total pay bill	£14.867 million
Percentage of total pay bill spent on facility time	0.2%

Paid trade union activities

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

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

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

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

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

We published our first [Audit Scotland: Gender pay gap](#)  report on 30 March 2018. The information is based on a snapshot date of 31 March 2017.

In the upper quartile (ie, more senior roles) there are more males than females (55.7 per cent against 44.3 per cent). However, 75 per cent of our management team is female.

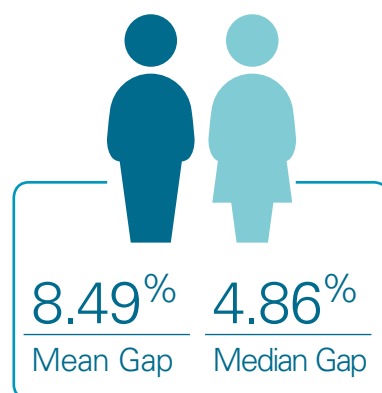
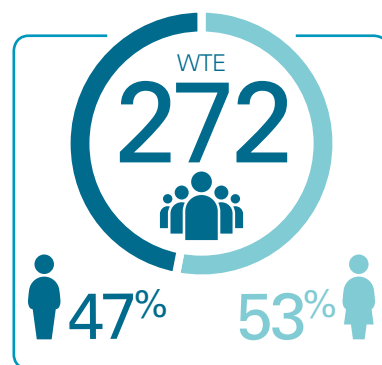
Community, social and human rights

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

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

Eighteen members of staff donated blood as part of World Blood Donor Day 2017.

Staff chose [The Brain Tumour Charity](#)  as our corporate charity. We have raised more than £6,000 through a series of events.



Summary of Resource Outturn

Year ended 31 March 2018

	2018			2017
	Outturn £000	Estimate £000	Outturn compared to estimate £000	Outturn £000
Revenue	8,514	9,157	643	7,350
Capital	197	200	3	197
Total Resources	8,711	9,357	646	7,547
Net Cash Requirement (see Cash flow statement)	6,771	6,134	(637)	5,294

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



Caroline Gardner
Accountable Officer

12 June 2018

Independent auditors' report

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

Opinion

We have audited the accounts of Audit Scotland for the year ended 31 March 2018 which comprise the Summary of Resource Outturn, Statement of Comprehensive Net Expenditure, Balance sheet, Cash flow statement, Statement of Changes in Taxpayers' Equity and the related notes 1 to 21. We have also audited the relevant disclosures in the Remuneration and staff report as required under the direction of the Scottish ministers. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the 2017/18 Government Financial Reporting Manual (the 2017/18 FReM) and directions made by Scottish ministers.

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

In our opinion the accounts:

- give a true and fair view of the state of Audit Scotland as at 31 March 2018 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 2017/18 FReM
- have been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and Directions by Scottish ministers issued thereunder.

Basis for Opinion

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

Conclusions Relating to Going Concern

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

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

Other Information

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

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

We have nothing to report in this regard.

Opinion on regularity

In our opinion in all material respects:

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

Opinion on other matters

In our opinion:

- the 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.

Responsibilities of the Accountable Officer

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

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

Auditor's Responsibilities for the audit of the accounts

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

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

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

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

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



Alexander Sloan
Accountants and Business Advisers
Glasgow

12 June 2018

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Statement of Comprehensive Net Expenditure

Year ended 31 March 2018

	Note	2018 £000	2017 £000
People costs	2	17,293	16,286
Fees and expenses paid to external firms	4	4,355	4,987
Other operating expenditure	4	3,927	4,102
Total operating expenditure		25,575	25,375
Operating income	5	(17,948)	(18,622)
Net operating expenditure		7,627	6,753
Net finance expenditure	6	886	590
Net expenditure before tax		8,513	7,343
Corporation Tax payable	1	7	
Net expenditure after tax		8,514	7,350
Other comprehensive net expenditure			
Net losses / (gains) on pension schemes	3	(7,569)	14,434
Comprehensive net expenditure / (income)		945	21,784

Statement of Financial Position

As at 31 March 2018

	Note	2018 £000	2017 £000
Non-current assets			
Property, plant and equipment	7	1,400	1,553
Intangible assets	8	67	90
Total non-current assets		1,467	1,643
Current assets			
Trade and other receivables	9	3,482	2,315
Cash and cash equivalents	10	179	1,450
Total current assets		3,661	3,765
Total assets		5,128	5,408
Current liabilities			
Trade and other payables	12	2,255	3,624
Provision for early retirement and severance	14	100	254
Total current liabilities		2,355	3,878
Non-current assets plus / less net current assets/liabilities		2,773	1,530
Non-current liabilities			
Deferred liabilities	13	(839)	(545)
Provision for early retirement and severance	14	(1,758)	(1,903)
Other provisions	16	(218)	(150)
Net funded pension (liability)	3	(26,665)	(31,465)
Total non-current liabilities		(29,480)	(34,063)
Assets less liabilities		(26,707)	(32,533)
Represented by:			
Taxpayers' equity			
Net funded pension (liability)	3	(26,665)	(31,465)
General fund		(42)	(1,068)
		(26,707)	(32,533)



Caroline Gardner
Accountable Officer

12 June 2018

Cash Flow Statement

Year ended 31 March 2018

	Note	2018 £000	2017 £000
Cash flows from operating activities			
Net (expenditure) after tax		(8,514)	(7,350)
Adjustment for non-cash items:			
– Depreciation	7,8	371	354
– Pension scheme – net revenue debit		2,769	1,193
– Other non-cash items		2	-
Decrease / (increase) in trade and other receivables		(1,167)	346
Increase in trade / other payables / deferred liabilities		216	329
Increase in provisions for early retirement		(299)	15
Increase / (decrease) in other provisions		68	36
Net cash outflow from operating activities		(6,554)	(5,077)
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(193)	(131)
Purchase of intangible assets	8	(4)	(66)
Less movement in accrued expenditure		(20)	(20)
		(217)	(217)
Cash flows from financing activities			
From Consolidated Fund (Supply)		5,500	5,000
Net (decrease) / increase in cash and cash equivalents in the period		(1,271)	(294)
Cash and cash equivalents at the beginning of period		1,450	1,744
Cash and cash equivalents at the end of period	10	179	1,450
Net cash requirement			
Cash flows from financing activities		5,500	5,000
Decrease / (increase) in cash		1,271	294
		6,771	5,294

Statement of Changes in Taxpayers' Equity

Year ended 31 March 2018

Changes in Taxpayers' equity	Note	Net funded pension £000	General fund £000	Total £000
Balance at 31 March 2016		(15,838)	(205)	(16,043)
Transfers between reserves:				
– Transfer to net funded pension liabilities (page 57)		(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	-	5,294	5,294
Balance at 31 March 2017		(31,465)	(1,068)	(32,533)
Transfers between reserves:				
– Transfer to net funded pension liabilities (page 57)		(1,927)	1,927	-
– Net return on funded pension assets	3	(842)	842	-
Net (losses) on pension schemes	3	7,569	-	7,569
Net (expenditure) after tax		-	(8,514)	(8,514)
Net funding from the Scottish Parliament	11	-	6,771	6,771
Balance at 31 March 2018		(26,665)	(42)	(26,707)

Notes to the accounts

1. Statement of accounting policies

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

a) Basis of accounting

The accounts have been prepared under the historical cost convention. 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 2018/19 has already been given and there is no reason to believe that future approvals will not be forthcoming. Accordingly, it is considered appropriate to adopt a going concern basis for the preparation of these financial accounts.

b) New accounting standards

A number of new accounting standards have been issued and amendments made to existing standards that come in to force in future accounting periods and have therefore not been applied. All new standards issued and amendments made to existing standards are reviewed by Financial Reporting and Advisory Board (FRAB) for subsequent inclusion in the FReM in force for the year in which the changes become applicable. The standards that are considered relevant to Audit Scotland and the anticipated impact on the accounts are as follows:

IFRS 15 - Revenue from contracts with customers

IFRS 15 adapted for the public sector is included in the 2018/19 FReM and is applicable for the 2018/19 financial year. On review of the standard it is not anticipated that this will have any effect on the accounts of Audit Scotland.

IFRS 16 - Leases

This standard comes into effect for accounting periods beginning after 1 January 2019 when the distinction between finance and operating leases is removed and all leases become on balance sheet. The impact of this standard will be assessed when it becomes clear how it will be adapted for the public sector.

c) 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.

d) Depreciation

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

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

e) Amortisation of rent-free periods

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

f) Operating income

Operating income relates directly to the audit activities of Audit Scotland. 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.

g) Work in progress

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

h) Operating leases

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

i) Value Added Tax (VAT)

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

j) Pension arrangements

Audit Scotland complies with the requirements of International Accounting Standard No 19 (IAS 19) for the year ended 31 March 2018. Audit Scotland makes pension provision for present and former employees through two pension schemes. Employees joining Audit Scotland after 1 April 2000, and those transferring to Audit Scotland from the Accounts Commission, have benefits provided through the Local Government Pension Scheme. Employees transferring to Audit Scotland at 1 April 2000 from the NAO are covered by the provisions of the Principal Civil Service Pension Scheme. The Auditor General for Scotland has benefits provided through the Principal Civil Service Pension Scheme.

k) Key sources of judgement and estimation uncertainty

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

- Revenue recognition is based on time charged to audits adjusted where applicable to reflect the stage at which completion of work is done. At the year-end an assessment is undertaken to consider the reasonableness of income recognised in the Statement of Comprehensive Expenditure. Income recognised in advance of invoices being raised is treated as Work in Progress ([note 9](#)). Invoices raised in advance of work being done is treated as Deferred Income ([note 12](#)).
- Provisions have been made where in the opinion of management it is more likely than not that a financial liability exists which cannot be accurately quantified at present ([notes 14 and 16](#)).

2. People costs and numbers

People costs comprise	2018 £000	2017 £000
Wages and salaries	12,003	11,901
Social Security and Employment Tax costs	1,377	1,293
Pension and early retirement / severance costs	3,913	3,092
	17,293	16,286

More details on staff numbers and related costs can be found in the [Staff Report \(pages 56 to 61\)](#).

3. Pension assets and liabilities

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

a) Local Government Pension Scheme

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

The following valuations have been provided by Hymans Robertson LLP, the independent actuaries to Lothian Pension Fund. The financial and actuarial assumptions used for the purposes of their IAS 19 calculations as at 31 March 2018 were as follows:

	2018 %	2017 %
Salary increases	4.10	4.40
Pension increases	2.40	2.40
Discount rate	2.70	2.60

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

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

Liabilities are valued on an actuarial basis using the projected unit method, which assesses the future liabilities of the fund discounted to their present value. The valuations at 31 March 2018 have been prepared by Hymans Robertson LLP.

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

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

Information in respect of the defined benefit obligation	£000	Liability split %	Duration Years
Active members	72,457	58.2	27.0
Deferred members	18,815	15.1	26.7
Pensioner members	33,193	26.7	13.0
Total	124,465	100.0	22.7

The decrease in net pension liabilities during 2017/18 was mainly due to the re-calibration of accounting figures following the formal actuarial valuation carried out by Hymans Robertson LLP every three years.

The movement in the funded part of the net pension liability for the year to 31 March 2017 was 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)

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

Asset Category	At 31 March 2018				At 31 March 2017			
	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	13,400.0	-	13,400.0	14	14,754.1	-	14,754.1	15
Manufacturing	14,560.2	-	14,560.2	15	14,898.3	-	14,898.3	15
Energy and Utilities	6,118.2	-	6,118.2	6	7,292.3	-	7,292.3	7
Financial Institutions	8,688.6	-	8,688.6	9	6,862.4	-	6,862.4	7
Health and Care	4,794.8	-	4,794.8	5	5,760.6	-	5,760.6	6
Information Technology	5,962.4	-	5,962.4	6	4,863.8	-	4,863.8	5
Other	6,137.3	-	6,137.3	6	6,772.1	-	6,772.1	7
Debt Securities:								
Corporate Bonds (investment grade)	-	-	-	0	-	-	-	0
Corporate Bonds (non-investment grade)	-	1,905.5	1,905.5	2	-	-	-	0
UK Government	9,481.5	-	9,481.5	10	9,868.3	-	9,868.3	10
Other	-	-	-	0	204.2	-	204.2	0
Private Equity:								
All	311.7	1,473.9	1,785.6	2	1,142.8	2,031.6	3,174.4	3
Real Estate:								
UK Property	-	6,285.9	6,285.9	6	-	6,630.8	6,630.8	7
Overseas Property	-	102.3	102.3	0	-	-	-	0
Investment funds and Unit trusts:								
Equities	940.0	-	940.0	1	-	-	-	0
Bonds	-	-	-	0	220.1	1,237.4	1,457.5	1
Commodities	-	-	-	0	288.2	-	288.2	0
Infrastructure	-	11,590.8	11,590.8	12	624.4	8,169.9	8,794.3	9
Other	-	223.4	223.4	0	-	2,096.5	2,096.5	2
Derivatives:								
Foreign exchange	45.0	-	45.0	0	-	-	-	0
Other	-	-	-	0	-	-	-	0
Cash and cash equivalents:								
All	5,778.5	-	5,778.5	6	4,558.3	-	4,558.3	5
Totals	76,218	21,582	97,800	100	78,110	20,166	98,276	100

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

Sensitivity analysis at March 2018	Approx.% increase to employer obligation	Approx. monetary amount £000
0.5% decrease in real discount rate	12	14,315
0.5% increase in salary increase rate	3	3,392
0.5% increase in pension increase rate	9	10,639

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 2018, Audit Scotland's contribution to the pension fund represented 17.2% (2017 – 17.2%) of contributing employees' pensionable pay. In addition, a lump sum payment of £77k (2017 – £77k) was paid to meet past service cost deficits. Under Superannuation Regulations, contribution rates are set to meet 100% of the overall liabilities of the fund. 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).

The latest triennial valuation undertaken by Hymans Robertson LLP as at 31 March 2017 recommended employers' contributions be set at 17.7% in 2018/19, 18.2% in 2019/20 and 18.7% in 2020/21 plus a lump sum of £77k in each year to meet past service deficits. The estimate for employer contributions in 2018/19 based on the new rate will be approximately £1,986k.

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 <http://www.civilservicepensionscheme.org.uk/about-us/resource-accounts/>.

During the year ended 31 March 2018, Audit Scotland paid an employer's contribution of £115k (2017 – £137k) into the PCSPS at rates between 20.0% and 24.5% of pensionable pay (2017 – 20.0% to 24.5%). Audit Scotland has been informed that contributions in 2018/19 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 2017/18, pension payments made totalled £27k (2017 – £23k). The 2017/18 total includes the back-dating of pension increases from April 2013.

d) Early departure costs

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

4. Other operating expenditure

	£000	2018 £000	2017 £000
Fees and expenses to appointed audit firms:			
Local authorities	2,246		2,409
National Health Service bodies in Scotland	900		1,161
Further education colleges	450		477
Scottish Government and sponsored bodies	759		940
		4,355	4,987
Other:			
Rent and rates	519		550
Other accommodation costs	420		346
Travel and subsistence	855		853
Legal and other professional fees	474		615
Stationery and printing	121		141
Training	429		484
Staff recruitment	128		109
Communications (telephone, postage)	26		37
Insurance	80		72
Information technology	414		413
Internal Audit	28		29
External Audit - financial accounts	27		27
Other	35		72
Non-cash items: Depreciation – tangible assets (note 7)	344		338
Depreciation – intangible assets (note 8)	27		16
		3,927	4,102
		8,282	9,089

Rent and rates includes £345k in respect of property leases (2016/17 – £343k) [\(note 15\)](#).

5. Operating income

	2018 £000	2017 £000
Fees and charges payable by:		
Local authorities	11,565	11,531
National Health Service bodies in Scotland	2,999	3,584
Further education colleges	515	540
Scottish Government and sponsored bodies	2,811	2,827
	17,890	18,482
Miscellaneous income	58	140
	17,948	18,622

6. Net finance expenditure

	2018 £000	2017 £000
Interest income on pension scheme assets	2,562	2,791
Interest cost on pension scheme defined obligations	(3,455)	(3,417)
Bank interest	7	36
	(886)	(590)

7. Property plant and equipment

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

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	
	2018 £000	2017 £000
Cost		
At 1 April	798	725
Reclassified in year	-	7
Additions	4	66
Disposals for year	(378)	-
At 31 March	424	798
Depreciation		
At 1 April	708	692
Charge for the year (note 4)	27	16
Disposals for year	(378)	-
At 31 March	357	708
Net Book Value at 31 March	67	90

9. Trade and other receivables

	£000	2018 £000	2017 £000
Amounts falling due within one year:			
Trade receivables:			
Central Government bodies	583		23
Local authorities	617		29
NHS bodies in Scotland	162		48
Bodies external to government	-		-
		1,362	100
Work in progress in advance of billing		1,610	1,718
VAT		2	-
Prepayments		508	497
		3,482	2,315

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

10. Cash and cash equivalents

	2018 £000	2017 £000
Balance at 1 April	1,450	1,744
Net change in cash and cash equivalents	(1,271)	(294)
Balance at 31 March	179	1,450
The following balances at 31 March were held at:		
Commercial banks	179	1,450

11. Net funding from the Scottish Parliament

	2018 £000	2017 £000
Opening cash balance payable to the Consolidated Fund	1,450	1,744
Funding received from the Consolidated Fund	5,500	5,000
Closing cash balance payable to the Consolidated Fund	(179)	(1,450)
Net funding from the Scottish Parliament	6,771	5,294

12. Trade payables and other current liabilities

	£000	2018 £000	2017 £000
Amounts falling due within one year:			
Trade payables:			
Central Government	7		-
Local authorities	10		-
NHS bodies in Scotland	-		-
Bodies external to government	224		127
		241	127
Cash balance payable to Consolidated Fund		179	1,450
Deferred income		585	812
VAT		-	36
Corporation Tax		1	7
Accruals		363	351
Staff benefits – untaken holidays		727	678
Rent-free period on premises – current liability (note 13)		159	163
		2,255	3,624

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

13. Deferred liabilities

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

	2018 £000	2017 £000
Opening balance at 1 April		
Current	163	165
Deferred	545	258
	708	423
Additions	451	450
Released during year	(161)	(165)
Closing balance at 31 March	998	708
Whereof:		
Current	159	163
Deferred	839	545
	998	708

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:

	2018 £000	2017 £000
Opening balance at 1 April	2,157	2,142
Additions	-	155
Utilised in year	(251)	(445)
Revaluation	(48)	305
Closing balance at 31 March	1,858	2,157
Payable within 1 year	100	254
Payable after 1 year	1,758	1,903
	1,858	2,157
Discount rate used	2.7%	2.6%

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 2018 was £289k (31 March 2017 – £300k).

15. Commitments under leases

During the period to 31 March 2018, the amounts charged to revenue in respect of operating leases for premises and vehicles were as follows:

	2018 £000	2017 £000
Premises (note 4)	345	343
Vehicles	437	469
	782	812

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

	2018 £000	2017 £000
Premises		
Within one year	345	343
Later than one year and not later than five years	1,381	1,371
Later than five years	863	915
	2,589	2,629
Vehicles		
Within one year	346	390
Later than one year and not later than five years	466	381
	812	771

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:

	2018 £000	2017 £000
Opening balance at 1 April	150	114
Provided in year	68	69
Released in year	-	(33)
Closing balance at 31 March	218	150
Payable after 1 year	218	150
	218	150

17. Related party transactions

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

18. Events after the reporting period

There have been no significant events after 31 March 2018 that require adjustment to, or disclosure in, the financial statements.

The financial statements were authorised for issue by the Auditor General for Scotland on 12 June 2018.

19. Contingent liabilities

At 31 March 2018, there were no contingent liabilities.

20. Capital commitments

At 31 March 2018, there were no contracted capital commitments payable in 2018/19.

21. Segmental reporting

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

Direction by the Scottish ministers

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

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

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

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

Signed by the authority of the Scottish ministers

17 January 2006

Annual report and accounts

2017/18

This report is available in PDF and RTF formats,
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