

# Annual report and accounts

2020/21



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# Introduction

## 2020/21 in numbers



**288** accounts audited

**13** national and local performance reports

**12** Covid-19 briefings, reports and technical guides

**£46.8bn** payments under Comptroller function

**106,547** visitors to our website

# Chair's introduction



The Covid-19 pandemic has underlined the crucial importance of public services and the people who deliver them. In common with many others, I am deeply grateful to everyone who has worked so hard to support us during this crisis, to protect the health of our communities and to prepare for the rebuilding that will be essential when the pandemic recedes.

As the public sector responded to the Covid-19 pandemic, Audit Scotland reshaped its priorities for public audit and for our organisation. Keeping colleagues safe so that they could continue, without interruption, to play their vital part in delivering public audit in Scotland involved rapid and fundamental change for everyone at Audit Scotland. Audit deadlines were revised, and auditors worked hard to complete the work, while also recognising the pressures on all parts of the public sector. Robust and independent audit is critical, and the assurance provided by this year's audits will help lay solid foundations for scrutinising public spending as we live and work through the pandemic and its impacts.

Pandemic apart, this has been a year of significant change at Audit Scotland. Having been on the board since 2018, I became chair in April 2020. I would like to pay tribute to my predecessor as chair, Ian Leitch CBE, whose advice, guidance and stewardship left us well prepared to adapt to the changes we have had to manage.

Caroline Gardner CBE completed her term of office as Auditor General for Scotland at the end of June, to be succeeded by Stephen Boyle. My thanks go to outgoing and incoming board members and especially to Caroline for her long-standing public service and her immeasurable contribution to the shaping of public audit in Scotland and beyond.

Graham Sharp was succeeded by Elma Murray OBE on an interim basis as chair of the Accounts Commission in August, and Heather Logan retired from the board in September. As the year progressed, the board was joined by two new independent members, Jackie Mann and Colin Crosby OBE, selected by the Scottish Commission for Public Audit. Our role as a board is to provide good governance, to ensure that Audit Scotland is well managed, looks to the future and delivers high-quality audit and scrutiny of the services that affect the daily lives of people in Scotland. We are dedicated to these tasks.

In my first year as chair, I have been grateful for the contribution of my fellow board members and to Stephen Boyle, the Auditor General, and Diane McGiffen, our chief operating officer, for their support and their leadership through this crisis, and for their care for the welfare of Audit Scotland's staff.

But first and last, I want to thank everyone who works for Audit Scotland, all of whom have had to adjust overnight to working remotely from home. Time and again over the past year I have been struck by their professionalism, empathy and good humour as they pulled together to deliver the audit, adapt and improve how we work, and support each other through extraordinary circumstances. All audits for 2019-20 were completed by early March 2021. That is the measure of their performance. The people of Scotland can be assured that the essential business of public audit is in good hands.

**Professor Alan Alexander**

Chair of the Audit Scotland Board

# Accountable Officer's report



Covid-19 is the biggest challenge facing Scotland's public sector in the two decades since devolution.

On behalf of Audit Scotland, I want to give my thanks and appreciation to key workers in the public sector and elsewhere for saving lives, supporting communities and helping Scotland adapt and rebuild. Many have put caring for and protecting others ahead of themselves. And more widely as a nation, we have all made significant sacrifices to help suppress the virus.

At Audit Scotland, our role in the pandemic has been to continue to provide independent, robust public audit, while also safeguarding the health and wellbeing of our colleagues. The pandemic has brought the need for significant extra funding for public bodies, on top of previous increases in public spending in recent years. The assurance that public money is being spent properly and the advice we give to help public services improve is more important than ever.

Against this backdrop, we have been flexible and pragmatic in our work, reflecting the demands on public bodies and their capacity. Across the public sector, prioritising wellbeing and maintaining services and standards has been a tough balance to achieve. It is no different at Audit Scotland, and we have made the safety of our workforce our priority.

In 2020/21, we delivered the financial audit of Scotland's more than 200 public bodies while managing major and fast-paced changes to how we work. We have had mixed results from the quality checks of a small number of financial audits, and we are addressing the issues raised while reinforcing the strengths highlighted. We have also reframed the work programme delivered on behalf of the Accounts Commission and myself to ensure we can report with agility and clarity on the pandemic's impacts as they unfold over the coming years, and effectively follow the pandemic pound.

None of this is possible without the resilience, commitment and professionalism of my Audit Scotland colleagues. Those qualities have shone through over the past year. As have the togetherness, empathy and support they have shown each other through the biggest upheaval to how we work and live in living memory.

I took post in the early months of the national lockdown. I would like to pay tribute to my predecessor Caroline Gardner for her incredible contribution to Scotland's public services as Auditor General and throughout her career. Personally, I also thank her for her support as I moved into the role in such unusual circumstances.

As we look forward, the pandemic has exacerbated existing inequalities, reinforced the economic impacts of the last decade's recession, and increased the pressures Scotland's public services were already facing. Audit Scotland will continue to change and grow in order to fulfil the broadening role Scotland will need from us in the future. This means increasing our capacity, developing our skills and evolving how we work and the working experience we offer. During 2020/21, we launched our ambitious improvement programme. We are grateful to the Scottish Parliament for the support it has given us as we seek to recover from the pandemic and build beyond it.

**Stephen Boyle**

Accountable Officer and  
Auditor General for Scotland

# About us



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

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

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

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

There are three principles which guide our work:

- The Auditor General and the Accounts Commission appoint auditors to public bodies, to ensure the appointment process is independent.
- We report in public.
- We look at more than financial statements.

## 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 year

## In this section of the report we set out:

- Covid-19: our response
- Our performance against our strategic objectives
- Our financial position

## Our objectives

Our Corporate Plan 2018-21 set the following strategic objectives:



Deliver world-class public audit



Be a world-class organisation

# Covid-19: our response



This year our work has reflected the initial impact of Covid-19 and its implications for the future on the public sector, services and spending.

We created a [Covid-19 e-hub](#) to give easy access to our work on Covid including our targeted Covid-19 work reports, a regular blog, briefings, guides to the financial timeline, future audit work and key risks for public bodies.

[Covid-19: what it means for public audit in Scotland](#) (January 2021) and [Covid-19: how public audit in Scotland is responding](#) (June 2020) detail the impact on our financial and performance audit work, our strategic considerations and our resources. They also describe the key themes we will explore in our future performance audits, namely: economic recovery and growth; policy priorities; inequalities; innovation and transformation; and governance and accountability. Aligned with this, the Accounts Commission has emphasised the goal of capturing citizens' experiences in our future work.

We produced two updates on the implications for Scotland's public finances. The [first report](#) (August 2020) gave an initial analysis, and our [update report](#) (February 2021) reviewed the funding and spending commitments made by the Scottish Government, including more than 170 Covid-19 spending announcements and £9.7 billion of additional funding.

We will continue to monitor Covid-19 spending in the years to come, as outlined in [Following the pandemic pound: our strategy](#).

Other pandemic-specific reports included [Emerging fraud risks](#), a [Strategic Scrutiny Group update](#), and technical guidance to auditors.

Throughout the past year we have amended our approach to reflect the pressures on public bodies, while maintaining our commitment to robust, independent audit.

Early in the pandemic, with the Auditor General and Accounts Commission, we adopted a set of key principles guiding our work and response to the pandemic, and these proved both effective and appropriate:

- Our approach to audit will be flexible, pragmatic and consistent.
- Sound financial management and effective governance are more important than ever.

- Audit has a key role in providing assurance and aiding scrutiny during these difficult circumstances, and we will prioritise quality and independence.
- Our work needs to reflect the impact of Covid-19 on public services but also maintain a focus on the other key challenges facing Scotland's public sector.
- We will prioritise the health and wellbeing of our colleagues.

We changed deadlines and issued amended guidance to allow auditors and public bodies to produce and audit high-quality accounts while working remotely. We received £1.5 million in extra funding from the Scottish Parliament as disruption to the audit work delayed our income from fees.

We delivered our annual audit of all 217 public bodies, with 82 per cent on time; a powerful reflection of the professionalism and commitment of both the audit teams and staff at public bodies [\(page 14\)](#).

We paused and reframed the [performance audit programme](#) we deliver for the Auditor General and Accounts Commission, including significant consultation with our stakeholders. This was to ensure we could focus on the emerging impacts of Covid-19 and the wider themes facing Scotland's public sector.

We have worked to support our colleagues, in their physical and mental health and ensuring they have been able to do their jobs. The investment we have made in recent years on our digital infrastructure and resilience, and our testing of business continuity processes helped ensure that we were able to continue our work remotely during periods of lockdown.

We have worked hard to maintain and strengthen our sense of community. This year we achieved our highest ever score in the annual Best Companies staff survey, with colleagues particularly commenting on the support they received from their teams and managers. We were named as one of the top 40 places to work in Scotland and the fourth best accountancy workplace in the UK.

We also launched Our Plan, our improvement programme covering all aspects of our response as a business to Covid-19 and the radical changes to work and society it has brought, this would not be possible without additional resources from the Parliament, for which we are grateful. Our Plan encapsulates our purpose, the work we do and how we work in future. It will guide how we recover and develop to ensure we continue to support the Auditor General for Scotland and the Accounts Commission to deliver independent, reliable and high-quality public audit, and remain a rewarding, supportive and innovative place to work.

# Delivering world-class public audit



We aim to ensure that public audit in Scotland applies the highest professional and ethical standards, that it is efficient, proportionate and risk based, and promotes transparency and accountability.

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

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

## In 2020/21 we:

- ✓ delivered 288 audits under the [Code of audit practice 2016](#), all delivered remotely and to updated guidance and deadlines
- ✓ paused and refreshed our forward work programme on behalf of the Auditor General and the Accounts Commission to reflect the pandemic's impact on public services and finances
- ✓ created our [Covid-19 e-hub](#) to provide timely updates, briefings and information, and provide a single site to access our Covid-19 related reports
- ✓ continued the work to audit and report on devolved financial powers and Scotland's new social security service
- ✓ continued to develop our draft new Code of Audit Practice, which will set the expectations of public audit for the next five years, and prepare for the next round of audit appointments
- ✓ continued the implementation of our Digital audit strategy to improve our use of technology, including rolling out data analytics and developing our approach to integrating analytics and graphical communication.

## Key performance indicators

	2018/19	2019/20	2020/21	
Annual audits delivered to schedule	98%	97%	<b>82%</b>	
Reports published to schedule	97.9%	91%	<b>86%</b>	
Correspondence responses issued to schedule	98%	94%	<b>96%</b>	

## Annual audits

This forms the largest part of our statutory work.



<b>169</b>	Local government
<b>75</b>	Central government
<b>23</b>	NHS
<b>21</b>	Further education

### Accounts audited in 2020/21

Audits are carried out by Audit Scotland's Audit Services Group and by audit firms appointed by the Auditor General and the Accounts Commission. Following international standards, auditors report whether they believe the accounts are true and fair, and free from material misstatement, and that money was spent in accordance with legislation and other relevant regulations.

We audited 288 sets of accounts this year. There are 217 public bodies, but some produce separate accounts for entities such as charity accounts. All accounts were judged to be true and fair, although we limited the scope of our true and fair judgement on Historic Environment Scotland's accounts. We also qualified Social Security Scotland's account for regularity reasons.

### Raising issues from annual audits

We highlight matters of concern we find in the annual audits of public bodies that are of significant public interest. The Auditor General has powers under Section 22 of the Public Finance and Accountability (Scotland) Act 2000 to bring matters relating to central government or health bodies directly to the attention of the Scottish Parliament. In local government, the Controller of Audit has powers under Section 102 of the Local Government (Scotland) Act 1973 to highlight issues directly to the Accounts Commission. These reports are known as 'Section 22' and 'Section 102' reports.

We issued six Section 22 reports in 2020/21. These covered City of Glasgow College, Social Security Scotland, NHS Tayside, the Scottish Police Authority, Scottish Water and the Scottish Government's Consolidated Accounts.

# Performance audits

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

During 2020, we paused and reframed our performance audit programme. This was partly to understand the emerging impacts of Covid-19, what new work was required and how existing planned work needed to be reshaped. This included consulting with key stakeholders on the [refreshed programme](#) we will deliver for the Auditor General and Accounts Commission.

We also aimed to minimise the audit demands on public bodies at a time when they were under increasing pressure, while not compromising the rigour of our work. Our refreshed programme takes a more flexible approach in order to both consider public bodies' capacity and to enable us to react to fast-changing circumstances.

## Performance audits 2020/21:

### Affordable housing

The Scottish Government's affordable housing supply target

### Highlands and Islands Enterprise

Management of Cairngorm Mountain and Funicular Railway

### NHS in Scotland 2020



During 2020/21, we published seven reports on behalf of the Auditor General and the Accounts Commission. Early in the financial year we were able to publish reports on audits completed before the pandemic. The first was [Affordable housing](#) (April), in which we found that good progress had been made to meet the Scottish Government's ambitious target of 50,000 new affordable homes between April 2016 and March 2021 but that serious risks remained to the government achieving this by its deadline.

The second was our review of Highland and Islands Enterprise's management of [Cairngorm Mountain and the funicular railway](#) (June). Our audit found HIE had acted appropriately when selecting a private company to manage the resort, but tough decisions on its future were now needed.

In February 2021, our [NHS in Scotland](#) focused on how the Scottish Government and NHS had responded to Covid-19 and the pandemic's wider impact on an already-pressured health service. The government and NHS acted quickly to prevent the service being overwhelmed, but we found the government could have been better prepared to respond to a pandemic.



## Performance audits 2020/21:

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### Local government in Scotland Overview 2020

### Local government in Scotland: Financial overview 2019/20

### Digital progress in local government

### Improving outcomes for young people through school education

Our overviews of local government also reviewed the existing challenges the sector faced prior to the pandemic as well as the emerging issues and key issues public bodies will need to consider when rebuilding. Our [review of key challenges and issues](#) (June) said financial sustainability, service reform and health and social care integration were more urgent than ever. Later in 2020/21, our [financial overview](#) (January) found that funding had increased significantly but Covid-19 will drive up costs and spending.

We also reviewed [local government's digital progress](#) (January), where the pandemic has accelerated the pace at which councils are using digital technology to deliver services.

Our joint report for the Auditor General and Accounts Commission, [Improving outcomes for young people through school education](#) (March), found limited progress in closing the poverty-related attainment gap between the most and least deprived school pupils in Scotland, wide variation in council's performance and a need for better data on educational achievement.



## Countering fraud

Audit plays a role in deterring and detecting fraud in public bodies, and in helping organisations prevent the loss of public money through mistakes. Audit Scotland coordinates the National Fraud Initiative, an exercise that matches datasets across the public sector to identify potential fraud and errors such as overpayments. In July we published our biennial NFI report, [The National Fraud Initiative in Scotland 2018/19](#).

The Covid-19 pandemic has brought its own fraud challenges to Scotland's public sector. We reported on these in a special report on [Covid-19: Emerging fraud risks](#), including guidance on how public bodies can reduce the risks.

We also published our annual [Fraud and irregularity update](#) on cases auditors reported on during 2019/20.

## Briefings and impact reports

We produce briefings to help people understand changes and developing issues in the public sector. We also report on the impact of our performance audits. These are available in the [reports section](#) of our website.



# Reporting on Best Value in local government

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

Over the past year, we continued to support the Commission's roll-out of Best Value Assurance Reports (BVARs). These aim to provide a more detailed and rounded insight for local people into how their council is performing; where it's doing well and where it needs to improve. This wider focus on Best Value is also part of the annual financial audits for every council. The [Accounts Commission's annual report 2020/21](#) provides further detail about the Best Value programme.



We published six Best Value reports in 2020/21:

**Argyll and Bute Council**

May 2020

**North Ayrshire Council**

June 2020

**Moray Council**

August 2020

**Dundee City Council**

September 2020

**Aberdeenshire Council**

October 2020

**The City of Edinburgh Council**

November 2020

# Supporting scrutiny

## Supporting the Scottish Parliament

Public audit plays a key role in helping the Scottish Parliament and policy-makers understand the key issues facing the public sector and how public money is spent. The Auditor General for Scotland is an independent appointment by the Crown, on the recommendation of the Scottish Parliament. He reports in public to the Scottish Parliament's Public Audit and Post-legislative Scrutiny Committee (PAPLS). This role has assumed greater importance over recent years as a consequence of Scotland's new financial powers.

In recent years we have strengthened our engagement with committees, MSPs and the Scottish Parliament Information Centre (SPICe) over the current session of Parliament to better help parliamentarians scrutinise the public sector's performance. Despite disruption as a result of the pandemic, we were still able to provide a high level of support to MSPs and committees. We met with and gave oral and written evidence to a wider range of parliamentary committees and briefings to MSPs, with a total of 43 parliamentary engagements over the year. This includes presenting to the following committees on relevant audit work: Education and Skills; Equalities and Human Rights; Finance and Constitution; Health and Sport; Justice; Local Government and Communities; Public Audit and Post-legislative Scrutiny Committee; and Social Security. Alongside that formal reporting, we have served on working groups, responded to consultations and calls for evidence by parliamentary committees and provided a range of informal briefings to committees, clerking teams and SPICe.

## Scrutiny coordination

We work closely with other scrutiny organisations such as inspection bodies to make sure that the scrutiny of local government is targeted and proportionate to identified risks. Audit Scotland sits on the Strategic Scrutiny Group, which is chaired by the Accounts Commission and produces a national scrutiny plan.

During 2020/21, on behalf of the group, we published the [Strategic Scrutiny Group's Covid-19 response](#), covering key risks areas and how the scrutiny bodies have adapted their approaches in response to the pandemic.

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

## Audit quality

Our quality assurance team independently reviews our audit work and our work is also subject to independent external review by ICAS. In a difficult year there were mixed results on audit quality, after several years of continuous improvement.

This year only four of the 11 financial audits we reviewed achieved our target standard of quality. Of the remainder, three were graded 'improvements required' and four were graded 'significant improvements required'. These results fall short of our expectations and we have implemented actions to address the issues identified. More information is in our [Quality of public audit in Scotland annual report](#) and our [Transparency report](#).

However, public bodies expressed high satisfaction with the usefulness of the audit and the performance of our audit teams. Internally, an increased proportion of staff thought they received enough time for training and development than in previous years, and 93 per cent believed they were encouraged to deliver high-quality work.

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

Our Professional Support team works closely with the AQA team to provide guidance, advice and support to auditors. We follow applicable standards from the international standards of auditing (ISAs), and from the International Organisation of Supreme Audit Institutions (INTOSAI). We comply with the [Code of audit practice 2016](#) and related guidance.

We are represented on, and engage with, a wide range of international and UK professional bodies and audit agencies where we can influence professional standards and learn from and share good practice. Audit Scotland also has reciprocal arrangements with other audit institutions in the UK and internationally.

We also support continuous improvement in audit quality by ensuring that auditors' technical judgements are made on an informed basis. We produced comprehensive [technical guidance](#) during the year.

## Ethical standards

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

Our ethics partner, Audit Services Director Fiona Kordiak, works to ensure compliance with ethical standards within the organisation, and advises our board on matters of ethics.

# Being a world-class organisation

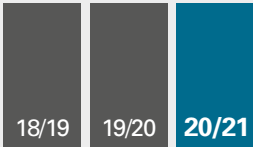
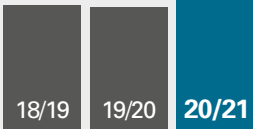
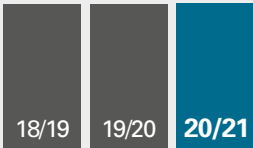
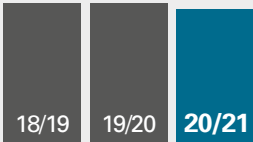


Our aim is to make Audit Scotland a great place to work by attracting and retaining highly skilled people, and making the best use of public resources.

## In 2020/21 we:

- ✓ supported all 291 colleagues to work remotely, through our digital infrastructure, workstation assessments of home work stations, provision of equipment, and support for physical and mental health and maintaining workplace relationships
- ✓ launched Our Plan, our improvement programme guiding our recovery from the pandemic and our building for the future, including consulting all staff on future working practices
- ✓ started recruitment more widely in order to build our capacity and strengthen our skills
- ✓ appointed seven new auditors, and 11 graduate and school-leaver trainees into our professional training schemes, helping develop the next generation of financial professionals and our workforce, and promoted 35 colleagues to new responsibilities
- ✓ achieved our highest ever score in the Best Companies staff engagement survey, for the third consecutive year, and were named as one of the top 40 employers in Scotland
- ✓ continued to deliver learning and development, and management and leadership training virtually to encourage and support our colleagues to learn and develop their skills
- ✓ continued to invest in the resilience and flexibility of our digital services, which has proved crucial over the past 12 months.

## Key performance indicators

	2018/19	2019/20	2020/21			
People in post	99.7%	99.8%	<b>100%</b>		18/19	19/20
Exam pass rate for professional trainees	85.7%	84%	<b>89%</b>		18/19	19/20
IT uptime	99.6%	99.4%	<b>99.8%</b>		18/19	19/20
IT issues resolved within target times	96.7%	96.7%	<b>92.5%</b>		18/19	19/20

## Our people

During 2020/21, we worked to build our capacity and skills to ensure we can perform the role Scotland needs from us in future.

At March 2021, our workforce was 294.3 WTE, an increase of 1.1 per cent from March 2020. A focus of our recruitment in the past year has been on supporting flexible approaches to work and increasing the diversity of background and life experience of applicants, as well as continuing to attract graduate trainees, supported by our comprehensive graduate training programme.

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 44 trainees and staff working towards qualifications from the Institute of Chartered Accountants of Scotland.

Our gender pay gap results show that male staff on average earn 10.7 per cent more than female. In the past year we have continued to successfully attract more female applicants to our professional training scheme and entry-level professional roles. Over time this will support more women to fulfil promoted roles and help close the gender pay gap. At a senior level, 50 per cent of our Management Team are women, as is 40 per cent of our board and more than half of our organisation-wide Leadership Group. We continue to monitor our approach to recruitment so that it follows good practice across all diversity and equality strands.



Our colleagues choose our nominated charity, Motor Neuron Disease (MND).  
**So far, we have raised more than £3,400.**

In focus:

# Resilience, wellbeing and community during a pandemic

The way we work and operate was transformed literally overnight in 2020



Over the past year we have operated as a virtual organisation, working from kitchens, lounges, spare rooms and bedrooms, and communicating through video meetings, phone calls and emails. For many, this new way of working came alongside taking on home-schooling and increased caring responsibilities.

From the start we made clear that wellbeing and safety were the priority. We helped colleagues assess their home work places and provided them with the equipment they needed to work safely. However, working life is also about professional and personal connections. We have worked to sustain the supporting, caring working environment of which we are proud, and tried many new ways to stay in touch.

We now have lively online groups on subjects ranging from home-schooling and working from home to pets and general conversation. There are online book clubs, virtual general knowledge quizzes and 'The Kitchen', our open-all-hours virtual space for catching up with workmates. Colleagues have also supported each other's specific needs through opportunities such as our carers' support and disability confident groups.



## In focus:

Our meetings and annual conference moved online, and we have brought all Audit Scotland together for briefings and discussions on important issues such as the pandemic, EU withdrawal, how we will work in future, and to provide opportunities for colleagues to talk to the Auditor General and our management team about what's on their mind. Some sessions have included more than 200 colleagues (and the occasional interloping toddler and pet).



We've said goodbye in online leaving functions, and meanwhile our board members, the Auditor General and directors have become regular vloggers.

It hasn't all been digital. When allowed under the restrictions, some colleagues have met up outdoors. Sometimes this had been through organised walks of people living the same area or just unexpected encounters. Colleagues have cycled across town to meet for annual development conversations over a coffee or at a picnic bench in a park, to catch up and support each other or even just to drop off a book about a mutual interest or flowers for a special occasion.

Like everywhere, it's been a year of ups and downs, of frustrations and difficult days. Through it we have supported each other, got to know each other better and tried to make the best of it. In our annual Best Company staff survey, colleagues returned our highest ever scores about their sense of team, the support from their managers and our organisation-wide commitment to each other's welfare.

“ I and members appreciate management prioritising staff wellbeing and the actions they have taken to support wellbeing since the start of the pandemic. ”

**Jim Cumming**  
Chair of PCS union  
at Audit Scotland

# Sustainability and engagement

## Climate change and sustainability

We have reduced our carbon footprint by 37 per cent against our 2014/15 baseline, and by more than 60 per cent since 2008/09.

Our total emissions equate to less than 1 (tCO<sub>2</sub>e) per WTE employee or 0.1 (tCO<sub>2</sub>e) per m<sup>2</sup> floor space we occupy, and we met our 2020/21 targets in previous year. Further details are in our [Environment, Sustainability and Biodiversity annual report](#).

## Responding to the public

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

In 2020/21, we received 119 items of correspondence, including 11 under the Public Interest Disclosure Act 1998 (or 'whistleblowing' legislation'), compared to 19 in 2019/20. These are often referred to as 'whistleblowers'. More information is in our [Correspondence and whistleblowing annual report](#).

This year we recorded 35 Freedom of Information requests (31 in 2019/20) and no Environmental Information requests (none in 2019/20).

We recorded a total of one complaint over the year, compared with four in 2019/20. The complaint was investigated and partially upheld.

## International work

Learning from good audit practice beyond Scotland is key to our ambition of being a world-class public audit organisation. It helps keep our work relevant and make a greater impact on improving public services.

During the past year, along with the other UK audit bodies we established the Home Nations Covid-19 group to facilitate joint working on the pandemic's impacts on public services. We also contributed virtually to international projects and events, including working with European and internal organisations such as the OECD.

Our approach is set out in our International strategy for 2017-20, and our [International work annual report](#) updates on our work this year.



less than  
**1 (tCO<sub>2</sub>e)**  
per WTE  
employee

# Financial position



## Financial overview

### Expenditure

**£20.5m** expenditure on people costs

**£5.2m** fees and expenses paid to firms

**£3.9m** other operating expenditure<sup>1</sup>

**£0.8m** net finance expenditure incl. Corporation Tax

**£0.1m** capital expenditure

### Fees and funding

**£17.8m** audit fees and other income

**£12.7m** Scottish Parliament funding

Note: 1. More detailed analysis provided in [Note 4. Other operating expenditure \(page 78\)](#)

## Sources of funding

The Public Finance and Accountability (Scotland) Act 2000 allows us to make reasonable charges to audited bodies in respect of the exercise of our functions. We must seek to ensure that, taking one year with another, the charges for certain types of work are broadly equivalent to expenditure. Where we cannot charge directly for the audit work, costs are met from the Scottish Consolidated Fund.

## Review of financial performance

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

The following sections provide a summary from the accounts. The financial statements are published on [pages 63 – 87](#).

## Resource outturn

Our year in figures	Note	2020/21			2019/20
		Actual £000	Budget £000	Variance £000	Actual £000
People costs	<a href="#">Staff report</a>	20,465	20,324	(141)	22,072
Fees and expenses paid to external firms	4	5,237	5,322	85	4,549
Other operating expenditure <sup>1</sup>	4	3,921	5,495	1,574	4,265
<b>Total operating expenditure</b>		<b>29,623</b>	<b>31,141</b>	<b>1,518</b>	<b>30,886</b>
Operating income	5	(17,832)	(18,693)	(861)	(18,627)
<b>Net operating expenditure</b>		<b>11,791</b>	<b>12,448</b>	<b>657</b>	<b>12,259</b>
Net finance expenditure <sup>2</sup>	6	767	767	-	919
Corporation Tax payable		-	-	-	1
<b>Net expenditure after tax</b>		<b>12,558</b>	<b>13,215</b>	<b>657</b>	<b>13,179</b>
Capital expenditure		139	150	11	141
<b>Total resource required from Parliament</b>		<b>12,697</b>	<b>13,365</b>	<b>668</b>	<b>13,320</b>

### Notes:

- Other operating expenditure includes expenditure on property, information technology and travel. This is covered in [Note 4. Other operating expenditure](#) to the Accounts.
- 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 2020/21, Audit Scotland spent £29.6 million on services for the Auditor General and the Accounts Commission. Of these costs £17.8 million was recovered through charges to audited bodies and other income. The balance of £11.8 million net operating expenditure plus net finance costs of £0.8 million were met from direct funding provided by the Scottish Parliament.

The final net expenditure position of £12.6 million was £0.6 million less than the approved budget allocation for 2020/21 of £13.2 million. The 2020/21 financial year has been extremely challenging, with Audit Scotland requiring an in-year budget adjustment of £1.5 million from the Scottish Parliament to meet a year-end projected shortfall. This was requested to ensure that Audit Scotland could meet its statutory obligation to deliver a balanced budget. The primary reason for the shortfall was the impact of Covid-19 on audit delivery timelines and the ability to recognise income for the financial audit work that has been completed. All in-house audit work during the year has been delivered through remote working.

People costs represent 69 per cent of Audit Scotland's total operating expenditure, with the year-end highlighting an overspend of £0.1 million. Staff salaries and on costs were underspent and agency and secondment costs were overspent. The combined position for these costs led to a planned overspend of £0.2 million. The use of agency staff ensured we were able to complete all 2019/20 financial audits and make better progress on 2020/21 audit work than projected. IAS 19 pension costs were £0.1 million better than budget, with the current service cost being slightly lower than the estimates provided last year.

Other operating expenditure was £1.6 million below budget, mainly due to significant reduced travel and subsistence expenditure (£0.5 million), training (£0.1 million), printing and office costs (£0.1 million) and legal, professional and consultancy (£0.1 million). There was also a budget saving of £0.7 million in management contingency. We relocated this budget to fund the shortfall in fee income recognition of £0.9 million, which has been expected as the year has progressed.

Fees and expenses paid to external firms were £0.1 million less than planned. This was mainly due to a significant reduction in travel and expenses, as all financial audit work by the firms was also delivered remotely. There was an overspend on payments to firms for additional work undertaken and this was funded by additional fee income recovered from the audited bodies following their agreement. Financial audit work in the year has resulted in increases of up to 25 per cent in respect of time and cost in some cases. Factors behind this include both the ability to deliver audit remotely, and the ability of the public bodies to produce financial accounts

and supporting documentation remotely. A financial provision of £0.9 million has been included in the resource outturn funded by an allocation from the £1.5 million in-year budget adjustment.

In 2020/21, we delivered £1 million in savings, three per cent of our £31.3 million Operating and Direct Capital expenditure budget. Most savings came from travel and subsistence, staffing costs, printing and office costs and training expenditure.

## Capital expenditure

In addition to a net revenue expenditure budget, Audit Scotland receives a capital budget to purchase assets that have a use beyond one year.

The capital investment in 2020/21 of £0.1 million supported our information technology systems. The primary focus was supporting colleagues to work from home securely and effectively during the pandemic.

## Resources required for 2021/22

The 2021/22 budget has been approved by the Scottish Parliament with revenue resources totalling £29.5 million. Of these resources, £18.7 million will be recovered through charges to audited bodies and miscellaneous income. The £10.8 million balance of expenditure will be met from direct funding provided by the Scottish Parliament.

Scottish Parliament funding has increased by £2.1 million from the original approved 2020/21 budget and this will enable us to implement a strategic improvement programme focussing on a multiyear recovery plan from the Covid-19 disruption in 2020 and 2021, and increasing our capacity, professional support and supporting the wellbeing of colleagues.

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



**Stephen Boyle**  
Accountable Officer  
8 June 2021

# Accountability report

## In this section of the report we set out:

- Our Corporate governance report; including the:
  - Directors' report
  - Statement of Accountable Officer's responsibilities
  - Governance statement
  - Governance framework
- Remuneration and staff report
- Summary of Resource Outturn
- Independent auditors' report

# Corporate governance report

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## Directors' report

### Directors

The Directors' report is presented by the Audit Scotland board members and the executive management team, whose details are set out in the [Governance statement \(page 34\)](#). The Auditor General and Accountable Officer is a member of both the board and the management team.

### 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. The SCPA used the option to extend the contract by a further year to undertake the 2020/21 audit.



# Statement of Accountable Officer's responsibilities

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

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

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

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

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

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

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

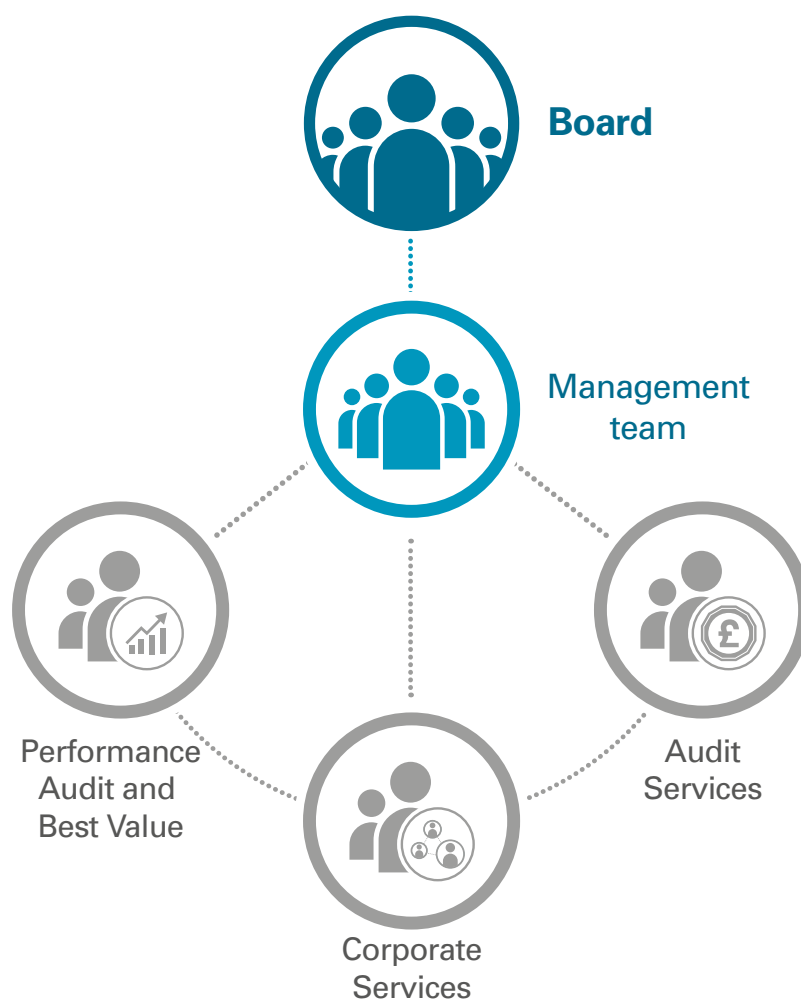
The responsibilities of the Accountable Officer (including the propriety and regularity of the public finances) for keeping proper records and for safeguarding assets are set out in the [Memorandum to Accountable Officers for Other Public Bodies](#).

# Governance statement

As Accountable Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of Audit Scotland's policies, aims and objectives.

I am also responsible for safeguarding the public funds and assets assigned to Audit Scotland, in accordance with the responsibilities set out in the [Memorandum to Accountable Officers for Other Public Bodies](#).

## Our governance and management framework



## Board members



**Professor Alan Alexander OBE**  
Chair of the board



**Stephen Boyle**  
Auditor General for Scotland and Accountable Officer for Audit Scotland (from 1 July 2020)



**Elma Murray OBE**  
Interim Chair of the Accounts Commission (from 1 August 2020)



**Colin Crosby OBE**  
Independent board member (from 1 October 2020)



**Jackie Mann**  
Independent board member (from 1 July 2020)

### Terms of office completed in 2020/21

**Caroline Gardner CBE** – Auditor General for Scotland and Accountable Officer for Audit Scotland (until 30 June 2020)

**Graham Sharp** – Chair of the Accounts Commission (until 30 July 2020)

**Heather Logan** – Independent non-executive member (until 30 September 2020)

## Management team



### Stephen Boyle

Auditor General  
for Scotland and  
Accountable Officer  
for Audit Scotland  
(from 1 July 2020)



### Diane McGiffen

Chief Operating  
Officer



### Fiona Kordiak

Director of  
Audit Services



### Fraser McKinlay

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



### Antony Clark

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

### Terms of office completed in 2020/21

**Caroline Gardner** – Auditor General for Scotland and Accountable Officer for Audit Scotland (until 30 June 2020)

**Fraser McKinlay** – Director of Performance Audit and Best Value and Controller of Audit. Left Audit Scotland on 16 April 2021 with his post being covered on an interim basis by Antony Clark, who took up post on 10 March 2021. (The remuneration report only includes Antony Clark's remuneration since becoming a member of Management team).

## The board

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

The board is made up of the Auditor General, the chair of the Accounts Commission and three independent board members appointed by the SCPA. The chair of the board and board's committees are independent members.

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

- The board meets in public and board papers are available on our [website](#).
- The board reviews the quality of board reports and the effectiveness of its meetings as a standing item at the end of every meeting.

## Board committees

The board has two standing committees:

### Audit committee

This committee oversees the arrangements for corporate governance, internal control, audit quality, risk and financial management and internal and external audit. This includes reviews of the Standing Orders, Scheme of Delegation, the Financial Regulations and the annual accounts. The audit committee submits an Annual Statement of Assurance to the board.

The audit committee comprises Colin Crosby (chair), Elma Murray and Jackie Mann.

The committee appoints the internal auditors and approves the internal audit plan. Internal audit services are provided by an external firm (BDO). Five of the six audits in 2020/21 achieved 'substantial assurance' in terms of design and operational effectiveness, the remaining audit achieved 'reasonable assurance'. BDO's 2019 review of our risk management arrangements provided positive assurance and we achieved the highest risk maturity assessment available.

## Remuneration and human resources committee

This committee sets and reviews the salaries of senior staff (excluding the Auditor General, whose salary is agreed by the Scottish Parliamentary Corporate Body) and the main terms and conditions for all staff. The committee takes advice from external advisors as required.

The committee comprises Jackie Mann (chair), Elma Murray, Colin Crosby and Alan Alexander.

### Attendance during 2020/21:

Committee	Board (7)	Audit committee (5)	Remuneration and human resources committee (4)
Alan Alexander	7	-	4
Caroline Gardner <sup>1</sup>	2	-	1
Stephen Boyle <sup>1</sup>	5	-	4
Graham Sharp <sup>2</sup>	2	2	1
Elma Murray <sup>2</sup>	5	2	3
Heather Logan <sup>4</sup>	4	3	2
Jackie Mann <sup>3</sup>	5	3	3
Colin Crosby <sup>4</sup>	5	2	2

#### Notes:

1. Caroline Gardner's appointment as Auditor General ended in June 2020 and Stephen Boyle became Auditor General with effect from 1 July 2020
2. Graham Sharp stood down from the Accounts Commission in July 2020 and Elma Murray was appointed as Interim Chair of the Accounts Commission from August 2020.
3. Jackie Mann was appointed to the board with effect from 1 July 2020. Jackie is Chair of the Human Resources and Remuneration Committee
4. Heather Logan's appointment ended in September 2020 and Colin Crosby joined the board with effect from 1 October 2020. Colin is Chair of the Audit Committee

## Management team

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

The management team is made up of the Auditor General for Scotland, who is the Accountable Officer, and three executive directors. It normally meets on a weekly basis, takes business decisions and considers regular reports from managers on the progress towards meeting the organisation's objectives.

In addition, Audit Scotland's Incident Management Team (IMT) has been in operation since March 2020 to manage our response to the pandemic through our Business Continuity Framework. The IMT is comprised of members of the Management Team and the Communications Manager and is supported by other senior managers. The IMT met daily in the early stages of the pandemic and has continued to meet on a weekly basis throughout 2020 and 2021.

## Parliamentary accountability

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

Our spending and use of resources are examined by the SCPA, a statutory body comprising five MSPs which meets in public and reports to the Parliament.

The SCPA appoints our independent board members and chair, scrutinises our budget, annual report and accounts, and produces reports on these. It appoints our external auditors, currently Alexander Sloan Accountants and Business Advisers.

In considering the 2021/22 budget proposal, the SCPA explored a number of areas including: the challenges facing public bodies and auditors due to the pandemic, the public audit funding model, the management contingency budget, auditing inequalities, recurring and non-recurring savings and legal and professional fees.

The SCPA recommended the 2021/22 budget to the Finance and Constitution Committee.

# Governance framework

As Accountable Officer, I have responsibility for reviewing the effectiveness of the systems of internal control.

The systems seek to identify the principal risks to the achievement of Audit Scotland's policies, aims and objectives. They are designed to manage rather than eliminate the risk of failure and they follow the guidance to public bodies as set out in the Scottish Public Finance Manual.

## Risk management and control

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

The board's audit committee has responsibilities for risk, control assurance, audit quality and governance. The committee recommends the appointment of our internal auditors and receives our annual accounts and internal and external audit reports.

We have a [Risk Management Framework](#) which includes a corporate risk register. We use this to identify the key risks facing the organisation, analyse the likelihood and impact of the risk crystallising and capture the active and monitoring controls in place and the way in which the risk is monitored. The register also identifies any actions required to further reduce the risk. The risks are aligned to our strategic objectives and many of the mitigating actions form part of our strategic improvement programme.

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

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

The key strategic risks are grouped according to our two 2020/21 strategic objectives:

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



The risk profile in 2020/21 was dominated by the Covid-19 pandemic and the challenges this posed to public services and to Audit Scotland. Over and above the arrangements outlined above Covid-19 was standing item for the weekly meetings of the Incident Management Team and Management Team to ensure that the situation was being monitored closely and regularly and that action was being taken as appropriate.

### **Delivering world-class public audit**

The key risks in 2020/21 under this objective were around any failure to deliver the audits (due to disruption in the public bodies and to Audit Scotland), not meeting stakeholder expectations and/ or the risk to the quality, independence, focus and impact of the audit work.

### **Being a world-class organisation**

The key risk under this objective was the health, safety and wellbeing of our colleagues and we prioritised this throughout 2020/21. The pandemic also heightened risks around our financial position, our digital infrastructure and our organisational capacity and how we deploy that capacity.

Many of the risks are interlinked; for example, risks to the health, safety and wellbeing of our staff have an impact on our organisational capacity to deliver the audit work. Similarly, a failure of quality would have a negative effect on our credibility and reputation, which would in turn undermine the value and impact of the work. As outlined on [page 20](#), we are implementing an improvement plan to address quality issues raised in a small number of audits.

## **Information security**

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

The Covid-19 situation has increased the risk in this area as some people and organisations are seeking to exploit the situation. We have introduced enhanced digital security arrangements and we are monitoring the situation closely. Continued cyber-attacks on organisations during the pandemic, including high profile attacks on public bodies, have highlighted the importance of, and reliance on, digital systems. Digital technology offers transformational opportunities, but also increases dependence on digital services for the delivery of our work. Digital security and resilience has never been more important.

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

We have privileged access to data and information to support the discharge of our audit function and ensure that reports to the Parliament and the Accounts

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

Training on data protection and information security is included in the induction process for all new staff. All staff receive periodic refresher training and are provided with data protection updates. Cyber resilience and security feature prominently in our risk registers and form a standing item on the agenda of our Knowledge, Information and Technology Governance Group. We provide updates for the management team and the audit committee on a six-monthly basis.

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

## Fraud, corruption and bribery

Audit Scotland has policies and procedures on fraud, corruption and bribery which were updated in June 2019. They include the counter-fraud policy; the staff and members' codes of conduct; the annual 'fit and proper review' which covers every member of staff; the terms and conditions for the supply of goods and services; and the broader financial governance arrangements.

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

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

We produce annual reports on fraud and bribery and hospitality and gifts. These are considered by the audit committee and this forms part of the annual assurance process. The 2020/21 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 2021 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 2021 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

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The sections marked (Audited) in this Remuneration and staff report are subject to a separate opinion by Alexander Sloan Accountants and Business Advisers. The other sections of the Remuneration and staff report were reviewed by Alexander Sloan Accountants and Business Advisers to ensure they were consistent with the financial statements.

## Remuneration policy

The costs of operating Audit Scotland's Board and the Accounts Commission for Scotland are met by and administered through Audit Scotland's annual budget and thus are detailed below.

### The Auditor General for Scotland

The Auditor General for Scotland is not an employee of Audit Scotland. He is a Crown appointment following nomination by Parliament. His appointment is for a fixed term of eight years from 1 July 2020 and his salary is determined by the Scottish Parliamentary Corporate Body.

### Audit Scotland Board

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

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

<b>Remuneration banding (Audited)</b>	<b>2020/21 £000</b>	<b>2019/20 £000</b>
Chair – Alan Alexander (from 1 April 2020)	10 – 15	-
Chair – Ian Leitch (until 31 March 2020)	-	10 – 15
Independent board member – Heather Logan (until 30 September 2020) <sup>1</sup>	0 – 5	5 – 10
Independent board member – Alan Alexander (until 31 March 2020)	-	5 – 10
Independent board member – Jackie Mann (from 1 July 2020) <sup>1</sup>	5 – 10	-
Independent board member – Colin Crosby (from 1 October 2020) <sup>1</sup>	0 – 5	-

Note: 1. The full year equivalent remuneration is £5k – £10k.

## Accounts Commission for Scotland

Members of the Accounts Commission are appointed by Scottish ministers who also set their remuneration. Commission members are not employed by Audit Scotland and detail of their remuneration is not required under the policy outlined in the Financial Reporting Manual (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 2019/20) and their remuneration was as follows:

<b>Remuneration banding</b>	<b>2020/21 £000</b>	<b>2019/20 £000</b>
Interim Chair – Elma Murray (from 1 August 2020) <sup>1</sup>	25 – 30	-
Chair – Graham Sharp (until 31 July 2020) <sup>1</sup>	10 – 15	40 – 45
Interim Deputy Chair – Tim McKay (from 1 August 2020) <sup>2</sup>	10 – 15	-
Deputy Chair – Elma Murray (until 31 July 2020) <sup>2</sup>	5 – 10	10 – 15
Commission Members	5 – 10	5 – 10

### Notes:

1. The full year equivalent remuneration is £40k – £45k.
2. The full year equivalent remuneration is £15k – £20k.

## Audit Scotland staff remuneration

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

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 2021. Further information on the pensions payable to Audit Scotland staff, including senior management, can be found in [Note 3. Pension assets and liabilities \(page 71\)](#).

Single total remuneration (Audited)	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20
	Salary £000	Salary £000	Benefit in kind <sup>1</sup> £	Benefit in kind <sup>1</sup> £	Pension benefit <sup>2</sup> £000	Pension benefit <sup>2</sup> £000	Total £000	Total £000
<b>Stephen Boyle<sup>3</sup></b> Auditor General for Scotland	105 – 110	-	-	-	42	-	150 – 155	-
<b>Caroline Gardner<sup>4</sup></b> Auditor General for Scotland	40 – 45	145 – 150	-	-	36	67	75 – 80	215 – 220
<b>Diane McGiffen</b> Chief Operating Officer	125 – 130	125 – 130	-	-	39	44	165 – 170	170 – 175
<b>Fraser McKinlay</b> Director of Performance Audit and Best Value and Controller of Audit	115 – 120	115 – 120	-	-	38	36	155 – 160	150 – 155
<b>Fiona Kordiak</b> Director of Audit Services	110 – 115	110 – 115	10,700	10,300	47	77	170 – 175	195 – 200
<b>Antony Clark<sup>5</sup></b> Interim Director of Performance Audit and Best Value and Controller of Audit	5 – 10	-	-	-	3	-	10 – 15	-

#### 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 (0.5 per cent) and are net of contributions made by the individual.
3. Full year equivalent salary £140,000 to £145,000.
4. Full year equivalent salary £150,000 to £155,000.
5. Full year equivalent salary £115,000 to £120,000.

<b>Pensions (Audited)</b>	<b>Accrued pension at 31 March 2021 £000</b>	<b>Accrued lump sum at 31 March 2021 £000</b>	<b>Real increase in annual pension £000</b>	<b>Real increase in lump sum £000</b>	<b>CETV at 31 March 2021<sup>1</sup> £000</b>	<b>CETV at 31 March 2020<sup>1</sup> £000</b>	<b>Real increase in CETV<sup>1</sup> £000</b>
<b>Stephen Boyle</b> Auditor General for Scotland	0 – 5	-	2.5 – 5.0	-	27	-	19
<b>Caroline Gardner<sup>2</sup></b> Auditor General for Scotland	95 – 100	-	0.0 – 2.5	-	1,467	1,407	26
<b>Diane McGiffen</b> Chief Operating Officer	55 – 60	80 – 85	2.5 – 5.0	-	1,026	965	47
<b>Fraser McKinlay</b> Director of Performance Audit and Best Value and Controller of Audit	30 – 35	15 – 20	0.0 – 2.5	0.0 – 2.5	407	369	26
<b>Fiona Kordiak</b> Director of Audit Services	55 – 60	90 – 95	2.5 – 5.0	0.0 – 2.5	1,060	989	60
<b>Antony Clark</b> Interim Director of Performance Audit and Best Value and Controller of Audit	25 – 30	15 – 20	0.0 – 2.5	0.0 – 2.5	415	369	38

#### Notes:

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. Caroline Gardner demitted office as Auditor General for Scotland on 30 June 2020 following the expiry of her eight-year fixed-term appointment.

## Salary multiples (Audited)

The highest paid member of the management team was the former Auditor General for Scotland. Her annualised remuneration before pension benefits was in the range £150,000 to £155,000 (£145,000 to £150,000 in 2019/20). This was 3.3 times (3.2 times in 2019/20) the median remuneration paid to Audit Scotland's staff in 2020/21, which was £45,909 (£45,797 in 2019/20).

## Pensions

Employees of the NAO transferring to Audit Scotland on 1 April 2000 and the former Auditor General for Scotland from 1 July 2012 to 30 June 2020 and current Auditor General from 1 July 2020 have pension benefits provided through the Principal Civil Service Pension Scheme (PCSPS). Audit Scotland makes payments of superannuation contributions to PCSPS at rates set by the Government Actuary.

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

## Employment contracts

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

The information in the tables on [page 50](#) are covered by the audit opinion.



# Staff report



	2018/19	2019/20	2020/21
<b>People (WTE)</b> as at 31 March	278	291	<b>292</b>
<b>Gender:</b>			
Female	58%	58%	<b>57%</b>
Male	42%	42%	<b>43%</b>
<b>Board:</b>			
Female	40%	40%	<b>40%</b>
Male	60%	60%	<b>60%</b>
<b>Management team:</b>			
Female	75%	75%	<b>50%</b>
Male	25%	25%	<b>50%</b>
<b>Absence</b>	4.8 days	4.97 days	<b>5.81 days</b>
<b>Turnover rate</b> CIPD benchmark: median rate of 16%	11.3%	6.32%	<b>5.09%</b>
<b>Trainee auditors</b>	42	43	<b>44</b>

## Note:

1. Chartered Institute of Personnel and Development (CIPD) As noted elsewhere in this report there are changes affecting the financing and organisation of Scotland's public services. We have taken steps to ensure as an organisation we are ready to cope with a corresponding change in demand for our services and to ensure the quality of our work in all areas.

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

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

In March 2021, staff headcount was 309 (292.4 WTE), compared with a headcount of 306 (291.1 WTE) in 2020.

## People costs and numbers

	2021 £000	2020 £000
<b>People costs</b>		
Salaries	13,855	13,178
Social Security and Employment Tax costs	1,584	1,489
Superannuation	2,578	2,363
Pensions in payment <a href="#">(note 3c)</a>	26	25
Provision for early retirement and severance costs <a href="#">(note 14)</a>	-	-
Movement in early retirement costs	126	(92)
Adjustment for retirement benefit scheme costs (see below)	2,145	4,938
	<b>20,314</b>	<b>21,901</b>
<b>Accounts Commission members</b>		
Salaries	142	143
National Insurance	6	7
Travel and subsistence	3	21
	<b>151</b>	<b>171</b>
	<b>20,465</b>	<b>22,072</b>

	2021 £000	2020 £000
<b>Analysis of local government retirement benefit scheme costs</b>		
Current service costs	5,574	5,950
Past service costs	-	2,148
	<b>5,574</b>	<b>8,098</b>
Less: Actual employees' contributions	(955)	(899)
<b>Charge to revenue</b>	<b>4,619</b>	<b>7,199</b>
Employer contributions	(2,474)	(2,261)
<b>Adjustment for retirement benefit scheme costs</b>	<b>2,145</b>	<b>4,938</b>

## Temporary staff (Audited)

Included in the salaries costs for the year to 31 March 2021 is £324,000 (six WTE posts) for temporary agency and seconded staff who covered staff vacancies, maternity leave and supported peak audit workload. In the previous year such expenditure totalled £521,000 (eleven WTE posts).

## Learning and development

Audit Scotland runs one of the largest public financial audit training schemes in Scotland. We have 44 trainees and staff working towards an ICAS qualification. In 2020, we recruited nine professional trainees and two school leaver trainees, and in 2021 we are anticipating 12 professional trainees and three school leaver trainees to join us during both June and October 2021.

During 2020/21 we increased our focus on technical audit training, and developed a range of new management development resources. We continued to support professional qualifications and offer a range of personal impact courses.

Over the year, staff received an average of 12.5 days formal learning and development per person.

## Health, safety and wellbeing

Audit Scotland closed its offices in March 2020 when our entire workforce began working from home. The safety of our people, their families and those that they care for has been paramount. Through Audit Scotland's Incident Management Team and in collaboration with colleagues across our business, including the Health, Safety & Wellbeing Committee, there has been a consistent message about the importance of our people staying safe, doing their personal and sustainable best in the circumstances and caring for their physical and emotional health. Practical support has been provided to the workforce and specific assistance has been offered to those with additional needs.

We have sought regular feedback from colleagues through various means and the data suggests that this approach has been successful in protecting our workforce while being able to deliver upon our audits. We have followed Scotland's public health measures and the Scottish Government's roadmap for employers.

Sickness absence at Audit Scotland in 2020/21 is broadly comparable with the other UK public audit agencies. An average of 5.81 days per employee was lost to sickness absence.

Our primary focus in 2021/22 is to continue supporting colleagues through the uncertainty brought about by Covid-19 and investing resources in making sure the work experience for colleagues is consistently positive.

## Organisational development

We continue to focus upon being a world-class organisation – where Audit Scotland is a consistently great place to work, attracts and retains the best people and where we support them to do their work.

We have an excellent working relationship with the Public and Commercial Services (PCS) union. We work collaboratively with PCS and have successfully concluded negotiations in connection with pay and involve PCS in a range of projects to improve the work experience of colleagues which focus upon how our work gets done.

## Early retiral and severance (Audited)

In the year to March 2021 there were no staff departures under a voluntary early release arrangement.

Further disclosure on early retirement and severance is set out in [Note 14. Provision for early retirement and severance \(page 84\)](#).

## Staff relations

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

The Trade Union (Facility Time Publication Requirements) Regulations 2017 came into force on 1 April 2017 and the information requirements of the Regulations for 2020/21 are disclosed in the tables on [page 53](#).

### Relevant union officials

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Number of employees who were relevant union officials during the relevant period	12
Full-time equivalent employee number	11.52

### Percentage of time spent on facility time

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Percentage of time	Number of employees
0%	-
1% – 50%	12
51% – 99%	-
100%	-

### Percentage of pay bill spent on facility time

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Total cost of facility time	£32,116
Total pay bill	£17.543 million
Percentage of total pay bill spent on facility time	0.2%

### Paid trade union activities

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Time spent on paid trade union activities as a percentage of total paid facility time	4.7%
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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.

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

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

Colleagues, including those from minority backgrounds, helped create our refreshed Equality Outcomes for the next few years. We also worked with specialist external advisors, Business in the Community.

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

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

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

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

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

## Community, social and human rights

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

We currently have two members of staff undertaking public duties such as serving on children's panels.

Our colleagues choose our nominated charity. So far, we have raised more than £3,400 for Scottish Motor Neurone Disease and other charities.

# Summary of Resource Outturn

Year ended 31 March 2021

	2021			2020
	Outturn £000	Estimate £000	Outturn compared to estimate £000	Outturn £000
Revenue	12,558	13,215	657	13,179
Capital	139	150	11	141
Total Resources	12,697	13,365	668	13,320
Net Cash Requirement	7,513	10,023	2,510	7,267

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



**Stephen Boyle**  
Accountable Officer

8 June 2021



# Independent auditors' report

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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 2021 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 2020/21 Government Financial Reporting Manual (the 2020/21 FReM) and directions made by Scottish ministers.

In our opinion the accounts:

- give a true and fair view of the state of Audit Scotland as at 31 March 2021 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 2020/21 FReM
- have been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and Directions by Scottish ministers issued thereunder.

## Basis for opinion

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

## Conclusions relating to going concern

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

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

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

## Other information in the annual accounts

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

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

We have nothing to report in this regard.

## Opinion on regularity

In our opinion in all material respects:

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

## Opinion on other matters

In our opinion:

- the sections of the Remuneration Report marked as audited have been properly prepared in accordance with the Direction by the Scottish ministers
- the information given in the Performance report and Accountability report is consistent with the accounts.

## Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

## Responsibilities of the Accountable Officer

As explained more fully in the Statement of Accountable Officer's responsibilities, the Accountable Officer is responsible for the preparation of the accounts in conformity with the Direction by the Scottish ministers and for being satisfied that they give a true and fair view. The Accountable Officer is responsible for the propriety and regularity of the public finances, for keeping proper books and for safeguarding assets, as set out in the Accountable Officer's Memorandum.

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

## Auditor's responsibilities for the audit of the accounts

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

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

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

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

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

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

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

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

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

- performed analytical procedures to identify any unusual or unexpected relationships;
- tested journal entries to identify unusual transactions;
- assessed whether judgements and assumptions made in determining the accounting estimates set out in Note 1 were indicative of potential bias; and
- investigated the rationale behind significant or unusual transactions.

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

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

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

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

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

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

## Use of Our Report

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



### Alexander Sloan

Accountants and Business Advisers  
Glasgow

8 June 2021

# Financial statements

## In this section of the report we set out:

- Statement of Comprehensive Net Expenditure
- Statement of Financial Position
- Statement of Cash Flows
- Statement of Changes in Taxpayers' Equity
- Notes to the accounts
- Direction by the Scottish ministers

# Statement of Comprehensive Net Expenditure

Year ended 31 March 2021

	Note	2021 £000	2020 £000
People costs	Staff report	20,465	22,072
Fees and expenses paid to external firms	4	5,237	4,549
Other operating expenditure	4	3,921	4,265
<b>Total operating expenditure</b>		<b>29,623</b>	<b>30,886</b>
Operating income	5	(17,832)	(18,627)
<b>Net operating expenditure</b>		<b>11,791</b>	<b>12,259</b>
Net finance expenditure	6	767	919
<b>Net expenditure before tax</b>		<b>12,558</b>	<b>13,178</b>
Corporation Tax payable		–	1
<b>Net expenditure after tax</b>		<b>12,558</b>	<b>13,179</b>
<b>Other comprehensive net expenditure</b>			
Net losses / (gains) on pension schemes	3	9,382	(10,438)
<b>Comprehensive net expenditure / (income)</b>		<b>21,940</b>	<b>2,741</b>



# Statement of Financial Position

As at 31 March 2021

	Note	2021 £000	2020 £000
<b>Non-current assets</b>			
Property, plant and equipment	7	811	978
Intangible assets	8	40	69
<b>Total non-current assets</b>		<b>851</b>	<b>1,047</b>
<b>Current assets</b>			
Trade and other receivables	9	2,721	2,684
Cash and cash equivalents	10	2,195	1,208
<b>Total current assets</b>		<b>4,916</b>	<b>3,892</b>
<b>Total assets</b>		<b>5,767</b>	<b>4,939</b>
<b>Current liabilities</b>			
Trade and other payables	12	5,351	3,437
Provision for early retirement and severance	14	102	101
Other provisions	16	1,106	-
<b>Total current liabilities</b>		<b>6,559</b>	<b>3,538</b>
<b>Non-current assets plus/less net current assets/liabilities</b>		<b>(792)</b>	<b>1,401</b>
<b>Non-current liabilities</b>			
Deferred liabilities	13	(533)	(692)
Provision for early retirement and severance	14	(1,745)	(1,684)
Other provisions	16	(443)	(366)
Net funded pension (liability)	3	(42,887)	(30,632)
<b>Total non-current liabilities</b>		<b>(45,608)</b>	<b>(33,374)</b>
<b>Assets less liabilities</b>		<b>(46,400)</b>	<b>(31,973)</b>
Represented by:			
<b>Taxpayers' equity</b>			
Net funded pension (liability)	3	(42,887)	(30,632)
General fund		(3,513)	(1,341)
		<b>(46,400)</b>	<b>(31,973)</b>



**Stephen Boyle**

Auditor General and Accountable Officer

8 June 2021

# Statement of Cash Flows

Year ended 31 March 2021

	Note	2021 £000	2020 £000
<b>Cash flows from operating activities</b>			
Net (expenditure) after tax		(12,558)	(13,179)
Adjustment for non-cash items:			
– Depreciation	7,8	335	356
– Pension scheme – net revenue debit		2,873	5,817
– Other non-cash items		–	10
(Increase)/decrease in trade and other receivables		(37)	3
(Decrease)/Increase in trade/other payables/deferred liabilities		768	(60)
(Decrease)/Increase in provisions for early retirement		62	(149)
Increase in other provisions		1,183	76
<b>Net cash outflow from operating activities</b>		<b>(7,374)</b>	<b>(7,126)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	7	(139)	(90)
Purchase of intangible assets	8	–	(51)
Less movement in accrued expenditure		–	–
		<b>(139)</b>	<b>(141)</b>
<b>Cash flows from financing activities</b>			
From Consolidated Fund (Supply)		8,500	7,269
<b>Net (decrease)/increase in cash and cash equivalents in the period</b>		<b>987</b>	<b>2</b>
Cash and cash equivalents at the beginning of period		1,208	1,206
Cash and cash equivalents at the end of period	10	2,195	1,208
<b>Net cash requirement</b>			
Cash flows from financing activities		8,500	7,269
Decrease/(increase) in cash		(987)	(2)
		<b>7,513</b>	<b>7,267</b>

# Statement of Changes in Taxpayers' Equity

Year ended 31 March 2021

<b>Changes in Taxpayers' equity</b>	Note	Net funded pension £000	General fund £000	Total £000
<b>Balance at 31 March 2019</b>		<b>(35,253)</b>	<b>(1,246)</b>	<b>(36,499)</b>
Transfers between reserves:				
– Transfer to net funded pension liabilities	Staff report	(4,938)	4,938	-
– Net return on funded pension assets	3	(879)	879	-
Net gains on pension schemes	3	10,438	-	10,438
Net (expenditure) after tax		-	(13,179)	(13,179)
Net funding from the Scottish Parliament	11	-	7,267	7,267
<b>Balance at 31 March 2020</b>		<b>(30,632)</b>	<b>(1,341)</b>	<b>(31,973)</b>
Transfers between reserves:				
– Transfer to net funded pension liabilities	Staff report	(2,145)	2,145	-
– Net return on funded pension assets	3	(728)	728	-
Net (losses) on pension schemes	3	(9,382)	-	(9,382)
Net (expenditure) after tax		-	(12,558)	(12,558)
Net funding from the Scottish Parliament	11	-	7,513	7,513
<b>Balance at 31 March 2021</b>		<b>(42,887)</b>	<b>(3,513)</b>	<b>(46,400)</b>

# 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 2021/22 has already been given and there is no reason to believe that future approvals will not be forthcoming. Accordingly, it is considered appropriate to adopt a going concern basis for the preparation of these financial accounts.

### b) New accounting standards not yet effective

Audit Scotland disclose accounting standards not yet applied and assesses the possible impact that initial application would have on the financial statements. There is one standard not yet effective that will have an impact on Audit Scotland's accounts which is IFRS 16 Leases. This standard requires all significant leases to be recognised in the Statement of Financial Position.

#### IFRS 16 – Leases

The standard has been adopted by the FReM and was planned to be effective from 1 April 2020. However, HM Treasury has agreed with the Financial Reporting Advisory Board (FRAB) to defer implementation of IFRS 16 Leases until 1 April 2022 due to the circumstances caused by the Covid-19 pandemic

Assessment of the new standard concludes that Audit Scotland has significant leases relating to the use of property and vehicles.

Audit Scotland has short term leases for office space in Edinburgh, Glasgow and Inverness that will require an adjustment to the Statement of Financial Position for the recognition of a right of use asset and a liability for future lease payment commitments. The current estimate is that we will need to recognise a right of use asset and related liability of approximately £2.0 million for property leases.

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

### c) Non-current assets

The minimum level of capitalisation for a non-current asset is £5,000 for individual or group purchases. Non-current assets are held at fair value. Depreciated historic cost has been used as a proxy for fair value due to the low value and short life of the assets held. All property occupied by Audit Scotland is leasehold.

### d) Depreciation

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

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

### e) Amortisation of rent-free periods

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

### f) Operating income

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

Operating income comprises fees for financial audit that are recognised on the basis of work undertaken for the year and charges for other work which are recognised evenly throughout the year.

### g) Work in progress

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

### h) Operating leases

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

### **i) Value Added Tax (VAT)**

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

### **j) Pension arrangements**

Audit Scotland complies with the requirements of International Accounting Standard No 19 (IAS 19) for the year ended 31 March 2021. 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, page 82](#)). Invoices raised in advance of work being done is treated as Deferred Income [\(Note 12, page 83\)](#).
- 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 [\(Notes 14, page 84 and 16, page 86\)](#).
- Estimation of the net pension liability is based on a number of complex judgements including the discount rate, salary increase rate, retirement ages, mortality rates and expected returns on pension fund assets. The financial statements also include the actuary estimate for the impact of the McCloud case on pension liabilities. The actual pension liability figure has been variable over time and [Note 3 \(page 71\)](#) provides more detail on the current net pension liability.

The global Covid-19 pandemic has had a significant impact on global financial markets and wider economies. This has led to a number of uncertainties that have been reflected in certain estimates and judgements.

## 2. People costs and numbers

	<b>2021</b>	<b>2020</b>
	<b>£000</b>	<b>£000</b>
Wages and salaries	14,000	13,342
Social Security and Employment Tax costs	1,590	1,496
Pension and early retirement / severance costs	4,875	7,234
	<b>20,465</b>	<b>22,072</b>

More details on staff numbers and related costs can be found in the Staff Report on [pages 49 – 55](#).

## 3. Pension assets and liabilities

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

### a) Local Government Pension Scheme

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

The following valuations have been provided by Hymans Robertson LLP, the independent actuaries to Lothian Pension Fund. The financial and actuarial assumptions used for the purposes of their IAS 19 calculations as at 31 March 2021 were as follows:

	<b>2021</b>	<b>2020</b>
	<b>%</b>	<b>%</b>
Salary increases	3.35	3.50
Pension increases	2.85	1.90
Discount rate	2.00	2.30

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

	<b>Male</b>	<b>Female</b>
	<b>years</b>	<b>years</b>
Current pensioners	20.5	23.3
Future pensioners	21.9	25.2

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 2021 have been prepared by Hymans Robertson LLP.

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

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



Information in respect of the defined benefit obligation	£000	Liability split	Duration
		%	Years
Active members	94,802	57.2	27.0
Deferred members	26,492	16.0	26.7
Pensioner members	44,588	26.9	13.0
<b>Total</b>	<b>165,882</b>	<b>100.0</b>	<b>22.7</b>

### Statement of Comprehensive Net Expenditure (SOCNE):

The charge to SOCNE is based on the financial conditions at the start of the year (ie, assumptions as at last year's Accounting Date). The Current Service Cost and net interest cost for this year is broadly in line with the projections made at last year's Accounting Date. The projected charge to SOCNE for next year is likely to significantly increase compared to the charge for this year as a result of the significantly lower real discount rate at the Accounting Date.

### Return on assets:

The starting position for this year's results rollforward is the asset position as at 31 March 2020 funding valuation. The remeasurements in the resulting asset rollforward to the Accounting Date is split into two separate parts to differentiate between 'excess asset returns above the previous assumptions' and 'other experience' (from re-calibrating the results to the newly calculated funding valuation positions).

In the period to the Accounting Date, investment returns have been significantly greater than expected (compared to last year's accounting discount rate assumption). This has led to a large positive item in 'Return on assets excluding amounts included in net interest' line within the Balance Sheet of the Results Schedule.

The size and nature of the 'Other experience' item on the assets following the funding valuation is broadly determined by the Employer's membership experience at the valuation. The valuation asset remeasurement is specific to each Employer.

### Obligations:

The starting position for this year's results rollforward is the liability position as at the 31 March 2020 funding valuation. The remeasurements in the resulting obligations rollforward are split into three separate parts to differentiate between 'Changes in financial assumptions', 'Changes in demographic assumptions' and 'Other experience' (from re-calibrating the results to the newly calculated funding valuation positions).

- As at the Accounting Date, the real discount rate (discount rate net of inflation) has fallen compared to the previous year's Accounting Date. This is due to the combination of a lower discount rate assumption and a significantly higher CPI assumption. In isolation, this will result in a significant loss on the balance sheet as at the Accounting Date, shown in the 'Changes in financial assumptions' within the Balance Sheet of the Results schedule.
- Using a more up-to-date longevity assumption at the Accounting Date leads to a small loss on the obligations. While the actual impact of this charge is Employer specific (due to the individual membership profile for each Employer), on average this could lead to an increase in obligations

in the order of 0-0.5% under the 'Changes in demographic assumptions'. A more significant impact arises as a result of updating the baseline longevity and other demographic assumptions from the 2020 funding valuation results.

- The size and nature of the 'Other experience' item on the obligations following the funding valuation is broadly determined by an Employer's membership experience at the valuation. The valuation obligations remeasurement is specific to each Employer in the Fund with the potential for a wide range of differences shown in the Results Schedule. It is not unusual or unexpected for the movement in closing obligation experience to be in the region of 10% (positive or negative).

### **Covid-19 impact:**

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

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

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

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

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

Asset Category	At 31 March 2021				At 31 March 2020			
	Quoted Prices in Active Markets £000	not quoted in Active Markets £000	Total £000	%	Quoted Prices in Active Markets £000	not quoted in Active Markets £000	Total £000	%
<b>Equity Securities:</b>								
Consumer	15,367.7	-	15,367.7	12	9,930.3	-	9,930.3	10
Manufacturing	17,958.8	-	17,958.8	15	15,026.8	-	15,026.8	14
Energy and Utilities	6,622.3	-	6,622.3	5	6,645.4	-	6,645.4	6
Financial Institutions	8,381.2	-	8,381.2	7	6,776.4	-	6,776.4	7
Health and Care	8,382.6	-	8,382.6	7	7,210.0	-	7,210.0	7
Information Technology	5,877.0	-	5,877.0	5	4,503.6	-	4,503.6	4
Other	9,874.1	-	9,874.1	8	7,606.8	-	7,606.8	7
<b>Debt Securities:</b>								
Corporate Bonds (investment grade)	-	66.9	66.9	0	1,745.1	3,834.6	5,579.7	5
UK Government	7,419.4	-	7,419.4	6	6,414.3	-	6,414.3	6
<b>Private Equity:</b>								
All	-	19,285.8	19,285.8	16	-	906.5	906.5	1
<b>Real Estate:</b>								
UK Property	-	6,428.6	6,428.6	5	1,198.4	5,628.8	6,827.2	7
Overseas Property	-	46.1	46.1	0	-	91.8	91.8	0
<b>Investment funds and Unit trusts:</b>								
Equities	1,768.9	-	1,768.9	1	1,275.7	-	1,275.7	1
Bonds	2,729.5	-	2,729.5	2	447.2	-	447.2	0
Infrastructure	-	98.7	98.7	0	-	14,649.7	14,649.7	14
<b>Derivatives:</b>								
Foreign exchange	(13.1)	-	(13.1)	0	212.6	-	212.6	0
<b>Cash and cash equivalents:</b>								
All	12,700.5	-	12,700.5	10	10,087.0	-	10,087.0	10
<b>Totals</b>	<b>97,069</b>	<b>25,926</b>	<b>122,995</b>	<b>100</b>	<b>79,080</b>	<b>25,111</b>	<b>104,191</b>	<b>100</b>

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

<b>Sensitivity analysis at March 2021</b>	<b>Approx.% increase to employer obligation</b>	<b>Approx. monetary amount £000</b>
0.5% decrease in real discount rate	11	18,976
0.5% increase in salary increase rate	2	2,733
0.5% increase in pension increase rate	10	15,775

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

During the year ended 31 March 2021, Audit Scotland's contribution to the pension fund represented 18.7% (2020 – 18.2%) of contributing employees' pensionable pay. In addition, a lump sum payment of £77k (2020 – £77k) was paid to meet past service cost deficits. Under Superannuation Regulations, contribution rates are set to meet 100% of the overall liabilities of the fund.

The latest triennial valuation undertaken by Hymans Robertson LLP as at 31 March 2020 recommended employers' contributions be set at 19.4% over the next three-year period from 2021/22 to 2023/24. The estimate for employer contributions in 2021/22 based on the new rate will be approximately £2,482k.

## **b) PCSPS scheme**

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

The PCSPS and CSOPS – known as 'Alpha' – are unfunded multi-employer defined benefit schemes but Audit Scotland is unable to identify its share of the underlying assets and liabilities.

The scheme actuary valued the PCSPS as at 31 March 2016. You can find details in the [resource accounts of the Cabinet Office: Civil Superannuation](#).

During the year ended 31 March 2021, Audit Scotland paid an employer's contribution of £104k (2020 – £104k) into the PCSPS at one of four rates in the range 26.6% to 30.3% of pensionable earnings, based on salary bands.

The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2020-21 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Audit Scotland has been advised that employer's contributions in 2021/22 will continue at the rates in the range 26.6% to 30.3%.

### c) By analogy scheme

Robert W Black retired as Auditor General for Scotland, on 30 June 2012. Until that time his pension benefits were provided by analogy to the Local Government Pension Scheme. In 2020/21, pension payments made totalled £26k (2019/20 – £25k).

### 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	2021 £000	2020 £000
<b>Fees and expenses to appointed audit firms:</b>			
Local authorities	2,139		2,246
National Health Service bodies in Scotland	904		900
Further education colleges	482		557
Scottish Government and sponsored bodies	826		846
Additional audit costs	886		–
		<b>5,237</b>	<b>4,549</b>
<b>Other:</b>			
Rent and rates	730		507
Other accommodation costs	377		436
Travel and subsistence	351		822
Legal and other professional fees	768		727
Stationery and printing	60		113
Training	367		457
Staff recruitment	164		114
Communications (telephone, postage)	41		63
Insurance	77		75
Information technology	566		501
Internal Audit	27		31
External Audit – financial accounts	31		29
Other	27		34
Non-cash items: Depreciation – tangible assets <a href="#">(note 7)</a>	306		333
Depreciation – intangible assets <a href="#">(note 8)</a>	29		23
		<b>3,921</b>	<b>4,265</b>
		<b>9,158</b>	<b>8,814</b>

Rent and rates includes £352k in respect of contractual property lease payments (2019/20 – £352k) – [note 15](#).

## 5. Operating income

	2021 £000	2020 £000
<b>Fees and charges payable by:</b>		
Local authorities	11,559	12,078
National Health Service bodies in Scotland	2,773	2,850
Further education colleges	597	633
Scottish Government and sponsored bodies	2,902	3,036
	<b>17,831</b>	<b>18,597</b>
Miscellaneous income	1	30
	<b>17,832</b>	<b>18,627</b>

Audit Scotland applies the requirements of IFRS 15 to income earned from fees and charges payable. There is no legal contract with audit clients but there is deemed to be a contract in accordance with the FReM adaptation of IFRS 15 that the definition of a contract is expanded to include legislation and regulations enabling an entity to receive income.

The performance obligations are satisfied over time rather than a point in time and Audit Scotland has a right to payment for performance completed to date.

Details on the contract asset (accrued income) calculation can be found in [Note 1g \(page 69\)](#). Payments received in advance of performance under the contract are recognised as a contract liability (payments on account). This is then recognised as revenue as the work is performed.

Fee income in the current period of £1,111k (2019/20 £420k) was included in the opening contract liability (payment on account).

At 31 March 2021 forecast future income on audits still in progress is £13,387k (31 March 2020 £12,312k). The typical audit cycle is a year and therefore we expect to recognise this income in 2021/22.

## 6. Net finance expenditure

	2021 £000	2020 £000
Interest income on pension scheme assets	2,406	2,597
Interest cost on pension scheme defined obligations	(3,174)	(3,521)
Bank interest	1	5
	<b>(767)</b>	<b>(919)</b>

## 7. Property plant and equipment

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



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

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	
	2021 £000	2020 £000
<b>Cost</b>		
At 1 April	134	427
Reclassified in year	–	–
Additions	–	51
Disposals for year	(5)	(344)
<b>At 31 March</b>	<b>129</b>	<b>134</b>
<b>Depreciation</b>		
At 1 April	65	384
Charge for the year <a href="#">(note 4)</a>	29	23
Disposals for year	(5)	(342)
<b>At 31 March</b>	<b>89</b>	<b>65</b>
<b>Net Book Value at 31 March</b>	<b>40</b>	<b>69</b>

## 9. Trade and other receivables

	£000	2021 £000	2020 £000
<b>Amounts falling due within one year:</b>			
Trade receivables:			
- Central Government bodies	27		273
- Local authorities	643		69
- NHS bodies in Scotland	58		124
- Bodies external to government	–		–
		<b>728</b>	<b>466</b>
Work in progress in advance of billing		1,287	1,555
VAT		150	111
Prepayments		556	552
		<b>2,721</b>	<b>2,684</b>

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

## 10. Cash and cash equivalents

	2021 £000	2020 £000
Balance at 1 April	1,208	1,206
Net change in cash and cash equivalents	987	2
<b>Balance at 31 March</b>	<b>2,195</b>	<b>1,208</b>
The following balances at 31 March were held at:		
- Commercial banks	2,195	1,208

## 11. Net funding from the Scottish Parliament

	2021 £000	2020 £000
Opening cash balance payable to the Consolidated Fund	1,208	1,206
Funding received from the Consolidated Fund	8,500	7,269
Closing cash balance payable to the Consolidated Fund	(2,195)	(1,208)
<b>Net funding from the Scottish Parliament</b>	<b>7,513</b>	<b>7,267</b>

## 12. Trade payables and other current liabilities

	£000	2021 £000	2020 £000
<b>Amounts falling due within one year:</b>			
Trade payables:			
- Central Government	–		18
- Local authorities	11		–
- NHS bodies in Scotland	–		–
- Bodies external to government	296		313
		<b>307</b>	<b>331</b>
- Cash balance payable to Consolidated Fund		2,195	1,208
- Deferred income		1,111	420
- VAT		108	64
- Corporation Tax		–	1
- Accruals		385	338
- Staff benefits – untaken holidays		1,086	916
- Rent-free period on premises – current liability ( <a href="#">note 13</a> )		159	159
		<b>5,351</b>	<b>3,437</b>

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

### 13. Deferred liabilities

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

	<b>2021</b> £000	<b>2020</b> £000
<b>Opening balance at 1 April</b>		
Current	159	159
Deferred	692	826
	<b>851</b>	<b>985</b>
Additions	–	25
Released during year	(159)	(159)
<b>Closing balance at 31 March</b>	<b>692</b>	<b>851</b>
Whereof:		
- Current	159	159
- Deferred	533	692
	<b>692</b>	<b>851</b>

### 14. Provision for early retirement and severance

The provision represents the actuarially computed liabilities for early retirement added years, pension strain (early payment of pension) and severance liabilities. The movement during the year was as follows:

	<b>2021</b> £000	<b>2020</b> £000
<b>Opening balance at 1 April</b>	<b>1,785</b>	<b>1,934</b>
Additions	–	–
Utilised in year	(104)	(101)
Revaluation	166	(48)
<b>Closing balance at 31 March</b>	<b>1,847</b>	<b>1,785</b>
Payable within 1 year	102	101
Payable after 1 year	1,745	1,684
	<b>1,847</b>	<b>1,785</b>
Discount rate used	2.0%	2.3%

## 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 2021 was £277k (31 March 2020 – £273k).

## 15. Commitments under leases

During the period to 31 March 2021, the amounts charged to revenue in respect of operating leases for premises and vehicles were as follows:

	2021 £000	2020 £000
Premises <a href="#">(note 4)</a>	352	352
Vehicles	386	370
	<b>738</b>	<b>722</b>

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

	2021 £000	2020 £000
<b>Premises</b>		
Within one year	352	352
Later than one year and not later than five years	1,135	1,410
Later than five years	108	190
	<b>1,595</b>	<b>1,952</b>
<b>Vehicles</b>		
Within one year	319	337
Later than one year and not later than five years	415	582
	<b>734</b>	<b>919</b>

Negotiations have commenced in respect of a rent review of the Edinburgh office and the Premises obligation details above are based on the existing contractual arrangements.

Audit Scotland has no finance leases.

## 16. Other provisions

Other provisions comprise potential additional remote audit costs due to the Covid-19 pandemic, rent review costs and property dilapidations.

### Remote audit:

The Covid-19 pandemic led to a national lockdown on 23 March 2020 and audit work has been carried out remotely since then. Indications from auditors suggest that remote audit has added approximately 25% to the time and cost of a large number of audits. Audit Scotland has commenced negotiations to agree a settlement for these additional unplanned costs and a provision has been included in the accounts as the financial liability cannot be accurately quantified at present.

### Rent review:

The West Port office in Edinburgh was scheduled for a rent review as part of the lease agreement on 1 April 2020. Due to the pandemic Audit Scotland has just received the landlords opening proposal and negotiations will now start to commence. There is a financial liability that is currently being negotiated at this early stage of the process and a provision has therefore been included within the account.

### Dilapidations:

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

The movement in the other provisions provision during the year were as follows:

	<b>2021</b>	<b>2020</b>
	<b>£000</b>	<b>£000</b>
<b>Opening balance at 1 April</b>	366	290
Provided in year	1,183	76
Released in year	–	–
<b>Closing balance at 31 March</b>	<b>1,549</b>	<b>366</b>
Payable within 1 year	1,106	–
Payable after 1 year	443	366
	<b>1,549</b>	<b>366</b>

## 17. Related party transactions

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

## 18. Events after the reporting period

There have been no significant events after 31 March 2021 that require adjustment to, or disclosure in, the financial statements.

The financial statements were authorised for issue by the Auditor General for Scotland on 8 June 2021.

## 19. Contingent liabilities

At 31 March 2021, there were no contingent liabilities.

## 20. Capital commitments

At 31 March 2021, there were no contracted capital commitments payable in 2021/22.

## 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

## 2020/21

This report is available in PDF and RTF formats,  
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