

# Annual report and accounts

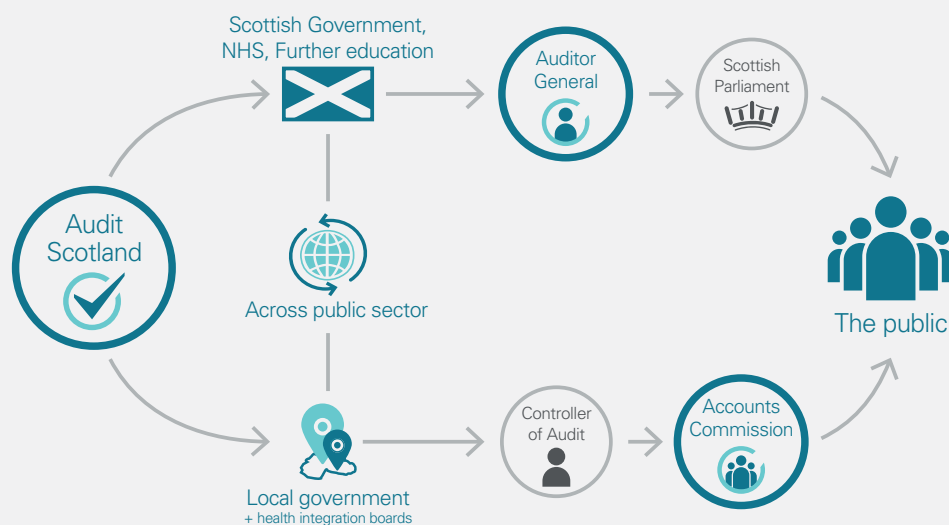
2015/16



# Who we are

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

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



## About us

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

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

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

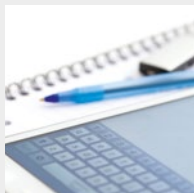
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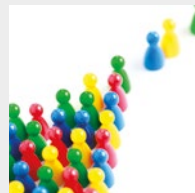
# Highlights



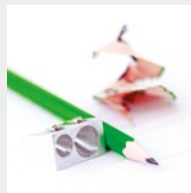
## Top downloads 2015/16



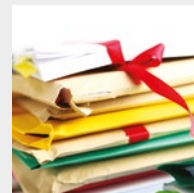
**8,010**  
Scotland's colleges 2015  
**April 2015**



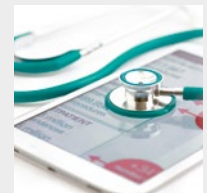
**7,675**  
Health inequalities in Scotland  
**December 2012**



**6,614**  
School education  
**June 2014**



**5,337**  
An overview of Scotland's criminal justice system  
**September 2011**



**4,704**  
NHS in Scotland 2013/14  
**October 2014**

# Welcome



## Chair's welcome

It was a privilege for me to take over as board chair in October from my distinguished predecessor John Maclean. We were also pleased to welcome Professor Russel Griggs OBE as our new independent non-executive board member.

Our role as a board is to support Audit Scotland to achieve its key objective: to help ensure public money is spent properly and effectively on the key public services everyone in Scotland relies on.

This annual report makes reference to significant political and economic changes and challenges over the last year for public bodies. These reinforce the need for us to continue to keep a sharp focus and be able to adapt. Looking forward, there are substantial new financial powers for the Scottish Parliament which bring greater policy choices over tax and spending – and additional responsibilities for us.

Our corporate plan sets out how we intend to meet these challenges, for example with a new Code of audit practice and the Accounts Commission's new approach to auditing Best Value in local government. We are also making sure we organise ourselves to be flexible enough to respond to the challenges ahead. We already have a strong organisation to build on and I pay tribute to the staff of Audit Scotland for all their hard work and commitment throughout the year.

Ian Leitch CBE

Chair of the Audit Scotland Board



Corporate plan  
2016/17 update

↓ May 2016



Code of audit  
practice 2016

↓ May 2016

# Performance report



**204**

Local government



**75**

Central government



**23**

NHS



**21**

Further education

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

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

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

- 20** Colleges
- 01** Regional boards



Audit reports by due date



Section 22 reports



# Foreword



## Accountable Officer's report

Like all public bodies we need to continue to change, improve and become more efficient in what we do.

**Caroline Gardner**  
Accountable Officer

Our strategy for doing exactly that is captured in a series of development projects under the banner becoming world class. I believe we are making good progress in many areas, while also recognising we have more to do. We have now updated our corporate plan to ensure we continue to perform well.

At the same time as driving change in the organisation, we have successfully carried out our core work – producing over 300 annual audit reports, 17 national and local performance audits and all the accompanying media and engagement work that we do, with the Scottish Parliament and the Public Audit Committee in particular.

I would also like to draw attention to some of the themes highlighted in this report: working with the new financial powers; managing public sector reform; and transforming public services.

Audit Scotland is fortunate to be full of talented people. I am grateful to my colleagues for all their hard work and continued support in what has been a testing year. We know there are challenges ahead but we're ready to meet them and play our part in the wider shared ambition to improve the lives of the Scottish people.

# Overview

## Operating context

Political changes over the past year – and in the coming years – are set to transform key aspects of how public money is raised and spent in Scotland. In our planning, we are well aware of the new responsibilities and powers of the Scottish Parliament and the role that audit will have in helping to ensure these are used wisely.

We have put resources into ensuring we are prepared for additional work connected to the new financial powers, and in continuing to be able to support a new Scottish Parliament following the elections in May 2016.

At the same time, financial pressures on public services are likely to continue while demand and expectations for these services grow.

Audit Scotland has an important role to play in helping the Auditor General and the Accounts Commission to ensure proper scrutiny of new powers for Holyrood and other developments such as new joint boards for health and social care.

The 323 annual financial audits we completed provide the foundation for all our work. They go to the heart of what's happening in public bodies across Scotland and provide the basis for further detailed scrutiny – for example in the Section 22 reports we presented to Parliament on colleges, the Scottish Police Authority and the NHS. We also completed more intensive audits in areas such as the European Agricultural Fund.

Carrying out the annual audits demands a great deal of time and effort by our auditors. But it is through them that the people of Scotland can be reassured that we are checking that the money they pay in taxes is being spent effectively to deliver the key services we all depend on.

This is what audit does – as well as raising issues that Parliament and the people need to know about.





## Working with the new financial powers

Nowhere was change more sharply focused than in new financial powers and responsibilities for the Scottish Parliament.

Our December 2015 report found good progress by Revenue Scotland in delivering the new land and buildings and landfill taxes under The Scotland Act 2012.

Much wider powers over income and other taxes, borrowing and social security were set out in The Scotland Act 2016. In March 2016, the Auditor General set out the role of Audit Scotland to support Parliament in developing a new fiscal framework for Scotland for these powers.

However, there remains a lack of transparency and clarity about current government expenditure. Commenting on the Scottish Government's accounts in October 2015, the Auditor General underlined the need for more information on public sector spending as a whole in Scotland to give a fuller picture of how money is spent. For example, gaps currently exist in aggregate pension liabilities and there is no clear overall picture of the commitments arising from investment in assets such as hospitals and schools.

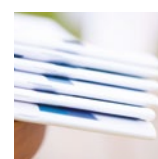


(L▶R):  
Mark Taylor and Gordon Smail  
of our new financial powers  
review team



Implementing the  
Scotland Act 2012:  
an update

December 2015



**News article:**  
Auditor General  
sets out support  
for Parliament in  
scrutinising new  
fiscal framework

March 2016

# Performance analysis

Overall, we spent £25.3 million to do our job. Most of this (£17.6 million) came from fee charges and other income, with the remainder (£7.7 million) in direct funding from the Scottish Parliament. It also provided £1.4 million in capital for the move to our new Edinburgh office, which will bring £2.8 million in revenue savings over ten years.

Operating costs were down £0.7 million on budget and we also delivered £0.9 million of efficiency savings – more than twice the target. Operating income was £0.4 million more than budget because of additional audit work undertaken.

More details are available in the [Directors' report \(pages 19–21\)](#).

## Annual financial audits 2015/16

This forms the largest part of our work – an annual check on public bodies across Scotland. We audited 323 sets of accounts over the year. There were seven auditor opinions qualified this year – two in further education, one in central government and four in charities.

## Supporting the Scottish Parliament

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




We published nine of these last year on: the Scottish Police Authority, NHS 24, NHS Tayside, NHS Highland, the Scottish Government's Consolidated Accounts, Glasgow Clyde College, Edinburgh College, Glasgow Colleges Regional Board and one from the 2013/14 audit of Coatbridge College.

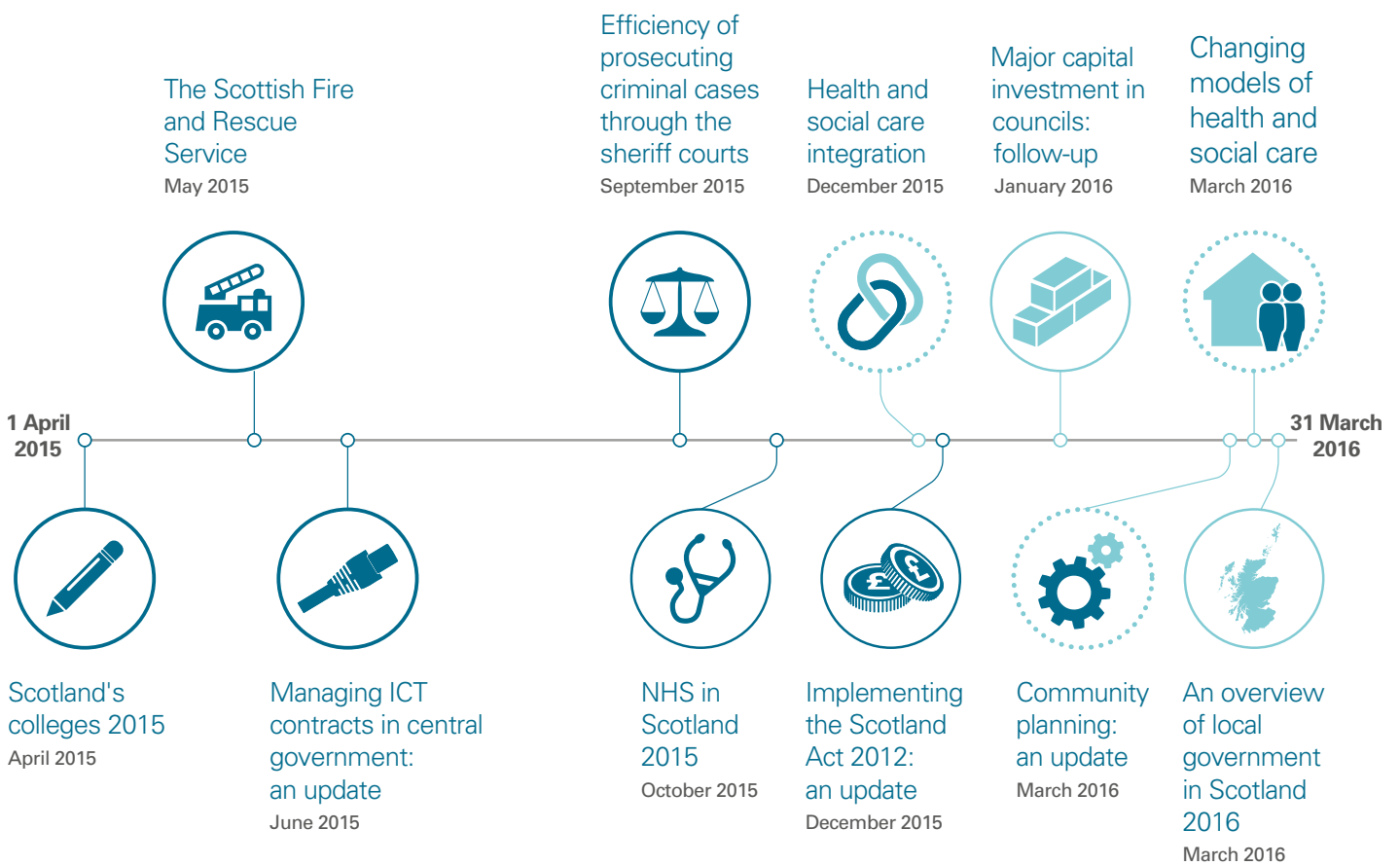
The Auditor General also attended most of the 21 meetings of the Public Audit Committee over the year to give evidence or answer questions.

Our auditors gave oral and written evidence to various other Parliamentary committees over the year, including supporting the Accounts Commission to present evidence to the Local Government and Regeneration Committee.

## National reports

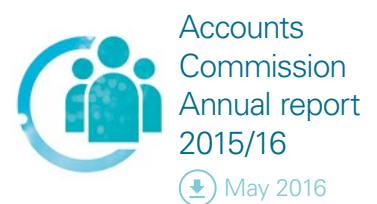
These look at major issues of public concern across the country. We produced 11 over the course of the year. These are published by the Auditor General and the Accounts Commission, and jointly in areas where both have a responsibility.

-  Auditor General
-  Accounts Commission
-  Joint report



## Local government reports

The Accounts Commission is responsible for scrutinising Scotland's 32 councils. The Controller of Audit oversees auditors' work and reports to the Commission, bringing matters of concern to its attention. Last year it published five national reports, three jointly with the Auditor General, and six on individual councils and how they were meeting their statutory duty to deliver Best Value. The Commission publishes its own annual report which gives more details of its work.





## Managing public sector reform



We examined the impact of previous reforms which led to the creation of single police and fire bodies.

Our report concluded that the Scottish Police Authority and Police Scotland must collectively provide stronger leadership in strategic and operational financial management. There is a need to improve a number of aspects of governance arrangements and financial statements.

Overall, Scotland's colleges had coped well with mergers as we reported in April 2015. However, serious issues were identified in governance, financial management and lack of transparency at individual colleges. As a result, we produced four Section 22 reports highlighting various issues in this sector.

The Public Audit Committee conducted its own inquiry and several evidence sessions following a report on severance payments to senior staff at Coatbridge College, whose failures the Auditor General described as the most egregious she had seen.



The 2014/15 audit of the Scottish Police Authority

December 2015



Scotland's colleges 2015

April 2015



The 2013/14 audit of Coatbridge College: Governance of severance arrangements

June 2015



## Transforming public services

New partnerships bring together councils and health boards to transform health and social care. This is one of the most far-reaching public service reforms since the establishment of the Scottish Parliament.

The Accounts Commission has been given the responsibility of auditing the new joint partnership boards.

We took a themed approach to see how this was progressing. Our first report found significant risks for the new bodies over agreeing budgets and planning, ahead of formal introduction in April 2016.

A second report concluded that innovative models of care and new ways of working would be needed to deliver better outcomes for users. There was also uncertainty about how governance and strategic planning would work in practice.

All of this is set against a backdrop of tighter public finances highlighted in our NHS overview, which said fundamental changes and new ways of delivering healthcare are required now to ensure the NHS is able to continue providing high-quality services in the future.

The overview of local government found that while councils were generally coping well, they are facing starker choices which will not be met simply by continuing to cut staff and services.



Carol Calder, Corinne Forsyth, Jillian Matthew and Gordon Neill who worked on our new series of health and social care reports



Health and social care integration

📄 December 2015



Changing models of health and social care

📄 March 2016



NHS in Scotland 2015

📄 October 2015

## Other key aspects of our work

We publish a range of documents about various aspects of our work and our standards. Here is a summary:



### Community planning

Our third report on Community Planning Partnerships said they needed stronger national leadership and support to reach their full potential. We will continue to take an interest in wider issues around community planning.

[!\[\]\(73002692dd5e7a64e60946be3158e719\_img.jpg\) Community planning: an update](#)



### Scrutiny coordination

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

[!\[\]\(104fbf564e2e5a8fbd84f31656d114c7\_img.jpg\) National scrutiny plan 2016/17](#)



### Audit quality

We apply quality control processes to all our audits. Audit quality is also independently reviewed by other UK audit agencies and the Institute of Chartered Accountants of Scotland.



### Audit support

We also improve audit quality by ensuring that auditors' technical judgements are made on an informed basis. We published 21 in-depth guidance notes and four bulletins, added 115 documents to our online library and responded to 735 technical inquiries.

[!\[\]\(111c5272ee3f91361f0d2e3665dd6ad0\_img.jpg\) Technical guidance](#)



### Ethical standards

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



### Working with other countries

We value our work with other countries. In 2015/16, we hosted five international delegations, attended the European Organisation of Regional External Public Finance Audit Institutions conference in Dresden and helped it revise guidelines for regional audit bodies.



### Climate change and sustainability

Our Climate change plan has a target to reduce CO<sub>2</sub> emissions by 15 per cent by 2020. We have achieved a 31 per cent reduction over the previous six years.



### Identifying fraud and errors

We coordinate the National Fraud Initiative in Scotland, a data-matching exercise to identify fraud and error across the public sector. We also found Scottish councils had made improvements in dealing with housing benefit fraud and error.

[!\[\]\(7f7ceb95e119107bb8f141b3a39179cf\_img.jpg\) National Fraud Initiative in Scotland](#)

[!\[\]\(a1c316f9470c4156616ce6ee54e71d17\_img.jpg\) Housing benefit audit](#)

## Improving our performance

We carried out extensive consultation to get feedback on what we do. We spoke to organisations we audit and those we report to, scrutiny partners, professional bodies and the public at large.

They told us they valued clear, concise reports; independent and authoritative analysis of data; clear recommendations for improvement; and assessments of the impact of our work.

The consultation framed the principles of *Public audit in Scotland* published in May 2015 and it feeds into our annual reviews of our corporate plan.



Public audit  
in Scotland

May 2015

## Strategic objectives

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

Our corporate plan details our strategic objectives for three years ahead and also charts progress over the course of the past year.

Here is a summary of our performance against these objectives:



Corporate plan  
2016/17 update

May 2016

## Securing world class audit

This objective includes ensuring that public audit in Scotland applies the highest professional and ethical standards, is efficient, proportionate and risk based, and promotes transparency and accountability. We achieved the following 2015/16 objectives, by:

- developing a new Code of audit practice for public audit in Scotland. This has a focus on financial sustainability and management, governance and transparency, and value for money and will apply from the 2016/17 audits
- consulting on and developing a new approach to auditing Best Value
- introducing improved [arrangements for investigating matters of concern](#) raised by members of the public
- developing a new fees strategy, which will be implemented during 2016.





Code of audit  
practice 2016

May 2016

We also met our objective to support the Auditor General and the Accounts Commission in their procurement of appointed auditors for the next five years.

## Making a difference

Our overall objective sets out to maximise the difference our audit work makes to public services, the people they serve, the outcomes those people experience and the use of public money. We achieved this in 2015/16, by:

- publishing 17 national and local performance audit reports
- developing a [strategic and longer-term programme of work](#)  focused on key risks and challenges facing Scotland's public sector
- launching a new [website](#)  for easier public access to our work and developing our use of social media to share information with wider communities.



## Building a better organisation

This seeks to make Audit Scotland a great place to work to attract and retain a highly skilled workforce, and make the best use of public resources. We met our 2015/16 objectives, by:

- conducting a strategic review of our job design and roles to ensure we have the capacity to carry out current and future work
- preparing for additional work by taking on 15 more trainee auditors, a pool of talent that we aim to develop into the technical experts, managers and leaders of the future
- deploying our workforce more flexibly across business groups
- becoming a Living Wage employer
- rationalising our office provision in Edinburgh to deliver savings and offer a better working environment.



**Caroline Gardner**  
Accountable Officer

7 June 2016





## Building a better organisation

Presiding Officer of the Scottish Parliament, Tricia Marwick formally opened our new office in Edinburgh in March 2016 with a musical backdrop from young musicians in Raploch's Rinconada string orchestra.

This is one of Sistema Scotland's Big Noise projects which aim to help disadvantaged children develop their full potential through musical performance. We provided early support to help them measure the impact of their work through a secondment for one of our auditors, Aileen Campbell.

Bringing our Edinburgh colleagues together – not only in one building but also on a single floor in a modern and practical environment – will yield savings of £2.8 million over ten years.

Feedback has been very positive from our 180 colleagues who moved. The new office will over time bring a significant reduction in our carbon footprint and also provides a home for the Accounts Commission's public meetings and seminars with stakeholders.



Presiding Officer, Tricia Marwick at the opening ceremony

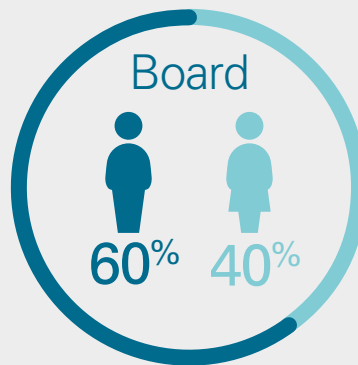
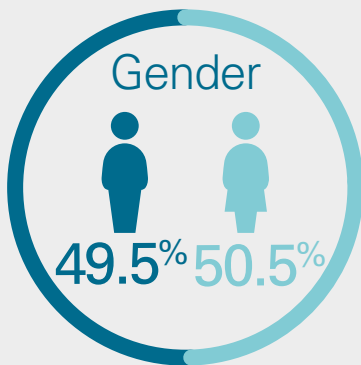


### Blog: The Big Noise

Aileen Campbell

June 2015

# Accountability report



	People	Gender	Board	Management	Sickness	Staff turnover	Trainee auditors
<b>2014/15</b>	266 wte	50.4   49.6	60   40	40   60	4.59 days	6.89%	14
<b>2013/14</b>	258 wte	49.3   50.7	60   40	33.3   66.7	5.99 days	9.98%	10

Notes:  
 1. As at 31 March 2016.  
 2. Public sector average 8.1 days and private sector 3.7 days, CIPD 2015 survey.

# Directors' report

## 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.

## Directors

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

## Register of interests

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

## Auditor of Audit Scotland

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

The directors who held office at the date of the accountability report confirm so far as they are each aware there is no relevant audit information of which Audit Scotland's auditors are unaware, and each director has taken all the steps that they ought to have taken to make them aware of any relevant audit information and to establish that Audit Scotland's auditors are aware of that information.

## Sources of funding

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

## Pensions and early departure costs

Details of the organisation's pension and early retirement costs are set out in the [Remuneration and staff report \(pages 28–32\)](#) and in notes 1i, 3, and 14 of the financial statements.

## Post balance sheet events

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

## Payment to suppliers

In line with the CBI Prompt Payment Code, we have a policy to pay all invoices not in dispute in 30 days or the agreed contractual terms if otherwise specified: 98 per cent (99 per cent in 2014/15) of all invoices for the year were paid on or before the due date.

We also monitor our performance against the Scottish Government's target of payment of trade invoices within ten days. In 2015/16, 84 per cent (87 per cent in 2014/15) of trade invoices were paid within ten days.

## Personal data-related incidences

During 2015/16 there were no incidences of data loss which required to be notified to the Information Commissioner.

## 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 provides a summary from the accounts. The financial statements are published on [pages 41–63](#).

## Resources

In 2015/16, Audit Scotland spent £25.3 million on services for the Auditor General and the Accounts Commission. Of these costs £17.6 million were recovered through charges to audit bodies and other income. The balance of expenditure £7.7 million together with capital expenditure of £1.4 million was met from direct funding provided by the Scottish Parliament. This sum, £9.1 million, was £0.8 million less than the estimate (budget) for the year.

Our net operating costs were £0.7 million less than budget. Of this, £0.1 million related to favourable movements on unfunded pension provisions as a result of changes in actuarial assumptions.

Operating income was £0.4 million more than budget as a result of additional work undertaken following further education college mergers, the establishment of Police Scotland and the expansion of European Agricultural Fund audits. People costs were £0.2 million more than budget mainly because of a provision of £0.3 million made for 11 staff who have accepted voluntary early retirement and severance – as a result, annual recurring savings of £0.3 million will accrue from April 2017. Other administration costs were £0.5 million less than budget, with the majority of the savings arising from property costs as a result of settling dilapidation liabilities on closed offices in Edinburgh at £0.3 million less than the provision held together with savings in respect of travel and subsistence £0.2 million.

In 2015/16, we delivered £0.9 million of efficiency savings against a target of £0.4 million. This was 3.6 per cent of our budget. The majority of savings came from staff costs, travel and subsistence and property.

<b>Our year in figures</b>	<b>Actual £000</b>	<b>2015/16 Budget £000</b>	<b>Variance £000</b>	<b>2014/15 Actual £000</b>
People costs	15,772	15,581	-191	14,987
Other administration costs	9,507	9,972	465	9503
Corporation Tax payable	8	6	-2	8
<b>Total Expenditure</b>	<b>25,287</b>	<b>25,559</b>	<b>272</b>	<b>24,498</b>
Operating income	(18,529)	(18,092)	437	(18,244)
Other finance income <sup>1</sup>	937	937	-	847
<b>Total Income</b>	<b>(17,592)</b>	<b>(17,155)</b>	<b>437</b>	<b>(17,397)</b>
<b>Net Operating Cost</b>	<b>7,695</b>	<b>8,404</b>	<b>709</b>	<b>7,101</b>
Capital expenditure	1,405	1,530	125	199
<b>Total resource required from Parliament</b>	<b>9,100</b>	<b>9,934</b>	<b>834</b>	<b>7,300</b>

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

## Capital expenditure

In 2015/16, Audit Scotland invested £1.4 million to improve its business. This was mainly due to fitting out expenditure following our move to a single Edinburgh headquarters. The move, which formed the last part of our property rationalisation programme, will save an estimated £2.8 million in revenue costs over the ten-year period of the lease. This investment was £0.125 million less than the available budget as a result of a competitive tender process to appoint a fit-out contractor and tight cost control during the project.

## Resources required for 2016/17

Our budget resources for 2016/17 have been approved by the Scottish Parliament. Our revenue resources total £24.6 million. Of these resources, £18.2 million will be recovered through charges to audited bodies and miscellaneous income. The balance of expenditure of £6.4 million will be met from direct funding provided by the Scottish Parliament.

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

# Statement of Accountable Officer's responsibilities


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

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


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

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

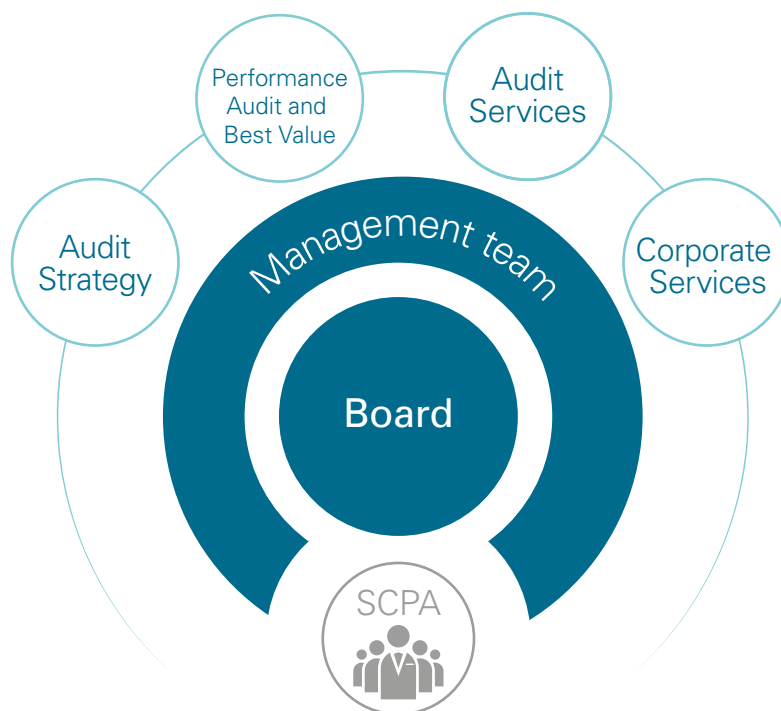
- observe the accounts direction including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis
- make judgements and estimates on a reasonable basis
- state whether applicable accounting standards, as set out in the FReM, have been followed;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

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

# Governance statement

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

## Our governance and management



### The board

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

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

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

## Board members



**Ian  
Leitch CBE**

Chair of the board  
(from 1 October 2015)<sup>1</sup>



**Douglas  
Sinclair CBE**

Chair of the  
Accounts  
Commission



**Caroline  
Gardner**

Auditor General and  
Accountable Officer  
for Audit Scotland



**Professor  
Russel  
Griggs OBE**

Independent  
non-executive  
member  
(from 1 October 2015)



**Heather  
Logan**

Independent  
non-executive  
member

## Board committees

The board has two standing committees:

### Audit committee

This committee oversees the arrangements for internal control, risk and corporate governance, internal and external audit, the annual accounts and the Standing Orders, Financial Regulations and Scheme of Delegation.

It comprises Heather Logan (chair), Douglas Sinclair and Russel Griggs. Ian Leitch was a member of the audit committee until 30 September 2015 and was appointed chair of the board from 1 October 2015.

The audit committee receives the annual accounts, internal audit reports and a range of other management reports, including regular reports on financial management and risk. It met five times in 2015/16 and recommended the appointment of BDO as internal auditors to Audit Scotland. Most internal audits in 2015/16 achieved 'substantial assurance', the highest standard available, from our internal auditors. A follow-up report showed that we were making excellent progress in applying previous recommendations. The chair of the audit committee submits an annual Statement of Assurance to the board.

### Remuneration and human resources committee

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

It comprises Russel Griggs (chair), Douglas Sinclair, Heather Logan and Ian Leitch and it met five times in 2015/16.

Note: 1. John Maclean was chair of the board until 30 September 2015 when he left the board.



## Management team



**Russell  
Frith**

Assistant Auditor  
General



**Diane  
McGiffen**

Chief Operating  
Officer



**Fraser  
McKinlay**

Director of Performance  
Audit and Best Value  
and Controller of Audit



**Fiona  
Kordiak**

Director of Audit  
Services

The management  
team also includes  
Caroline Gardner  
(pictured on page 24)

## Executive directors


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

## Parliamentary accountability

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

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


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

In its [report](#)  approving our 2016/17 budget, the SCPA welcomed our commitment to enhance openness and transparency around audit fees but expressed disappointment in the extended delay of the revised fee strategy, despite previous assurances. This had in part been due to changes to the membership of Audit Scotland's board leading to consideration of additional issues including whether each sector was paying appropriate costs for audits. A revised timetable had been submitted for implementation of the fee strategy during 2016.

The SCPA also noted work undertaken by Audit Scotland in preparation for its new responsibilities in relation to Revenue Scotland, HMRC and the Scottish Rate of Income Tax. However, in the light of the significant forthcoming changes in financial powers, it was concerned that no assessment has been made to ensure Audit Scotland's governance framework remains fit for purpose. We are seeking to address this concern.

## 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 met eight times in 2015/16.

The board has an audit committee which has responsibilities around risk, control assurance and governance. The committee recommends the appointment of our internal auditors and receives our annual accounts and internal audit reports.

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

The board reviews our risk management framework on an annual basis. The framework includes the corporate risk register which we use to identify the key risks facing the organisation, analyse the likelihood and impact of the risk crystallising, capture the controls in place and the way in which the risk is monitored, and highlight any actions required to further reduce the risk.

The register is regularly reviewed by the management team and by the audit committee who also examine selected risks in closer detail. Key risks from 2015/16 included: failure to deliver our strategic vision; our independence as an audit agency; relevance, focus and scope, reputation, quality, impact and influence; innovation; operating flexibility across business groups; and value for money and capacity. Plans and improvement actions are in place to manage these risks.

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.

## Information security

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

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

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

## Review of effectiveness of internal control and risk management

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

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

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

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 2016 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 2016 and to the date of this statement, no significant control weaknesses or issues have arisen, and no significant failures have arisen in the expected standards for good governance, risk management and control.

# Remuneration and staff report

## Remuneration policy

### The Auditor General for Scotland

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

### Audit Scotland Board

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

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

Remuneration banding	2015/16 £000	2014/15 £000
Chair – Ian Leitch (from 1 October 2015) <sup>1</sup>	5 – 10	-
Chair – John Maclean (1 October 2014 to 30 September 2015)	5 – 10	5 – 10
Independent board members	5 – 10	5 – 10

Note: 1. Ian Leitch was an independent board member in the period from 1 April 2014 to 30 September 2015.

### Accounts Commission for Scotland

Members of the Accounts Commission are appointed by Scottish ministers who also set their remuneration. Commission members are not employed by Audit Scotland and detail of their remuneration is not required under the policy outlined in the Financial Reporting Manual. The following details are included for information and to assist the reader of the report.

All Commission member appointments are part-time and non-pensionable. The average number of members of the Commission throughout the period was 12 (11 in 2014/15) and their remuneration was as follows:

Remuneration banding	2015/16 £000	2014/15 £000
Chair – Douglas Sinclair	40 – 45	40 – 45
Deputy Chair – Ronnie Hinds (from 1 October 2014)	10 – 15	5 – 10 <sup>1</sup>
Commission members	5 – 10	5 – 10

Note: 1. Part year.

## Audit Scotland staff

Audit Scotland has a remuneration and human resources committee that sets the remuneration and terms and conditions of employment of Audit Scotland staff.

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

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

The responsibilities of the committee are to:

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

In respect of Audit Scotland's management team, the committee has the following additional responsibilities:

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

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

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

- Chair – Russel Griggs (from 1 October 2015)
- Member – Ian Leitch (chair until 30 September 2015)
- Member – Douglas Sinclair
- Member – John Maclean (until 30 September 2015)
- Member – Heather Logan.

In setting salary levels, the committee has regard to:

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

## Management team

The salaries (excluding employer's superannuation and national insurance contributions), benefits in kind and pension entitlements of the management team are shown in the following tables. Information is presented for the whole year to 31 March 2016. Further information on the pensions payable to Audit Scotland staff, including senior management, can be found in [Note 3. Pension assets and liabilities \(pages 49–53\)](#).

	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15
<b>Single total remuneration</b>	<b>Salary £000</b>	<b>Salary £000</b>	<b>Benefit in kind<sup>1</sup> £</b>	<b>Benefit in kind<sup>1</sup> £</b>	<b>Pension benefit<sup>2</sup> £000</b>	<b>Pension benefit<sup>2</sup> £000</b>	<b>Total £000</b>	<b>Total £000</b>
Caroline Gardner Auditor General for Scotland	140 – 145	140 – 145	-	-	68	52	210 – 215	190 – 195
Russell Frith Assistant Auditor General	110 – 115	110 – 115	-	-	24	30	135 – 140	140 – 145
Diane McGiffen Chief Operating Officer	110 – 115	110 – 115	-	-	47	42	160 – 165	150 – 155
Fiona Kordiak Director of Audit Services	90 – 95	90 – 95	4,500	3,800	40	27	135 – 140	120 – 125
Fraser McKinlay Director of Performance Audit and Best Value and Controller of Audit	105 – 110	105 – 110	-	-	37	57	140 – 145	160 – 165

	Accrued pension at 31 March 2016 £000	Accrued lump sum at 31 March 2016 £000	Real increase in annual pension £000	Real increase in lump sum £000	CETV at 31 March 2016 <sup>3</sup> £000	CETV at 31 March 2015 <sup>3</sup> £000	Real increase in CETV <sup>3</sup> £000
Caroline Gardner Auditor General for Scotland	70 – 75	NIL	2.5 – 5.0	NIL	971	855	34
Russell Frith Assistant Auditor General	30 – 35	90 – 95	0 – 2.5	2.5 – 5.0	669	596	22
Diane McGiffen Chief Operating Officer	35 – 40	70 – 75	2.5 – 5.0	0 – 2.5	624	570	26
Fiona Kordiak Director of Audit Services	35 – 40	70 – 75	0 – 2.5	0 – 2.5	619	564	22
Fraser McKinlay Director of Performance Audit and Best Value and Controller of Audit	15 – 20	15 – 20	2.5 – 5.0	0 – 2.5	190	165	10

**Notes:**

1. The estimated value of benefits in kind relates to the provision of vehicles. Values to the nearest £100.
2. The value of pension benefits accrued during the year is calculated as the real increase in pensions and applying the HMRC methodology multiplier of 20 plus the real increase in any lump sum. The real increases exclude increases due to inflation and are net of contributions made by the individual.
3. A CETV is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the scheme including any benefit transferred from another scheme and not just their service in a senior capacity to which the disclosure applies. The real increase in CETV reflects the increase in CETV effectively funded by the employer. It does not include the increase in accrued pension benefits due to inflation, contributions paid by the employee and uses common market valuation factors for the start and end of the period.

## Salary multiples

The highest paid member of the management team was the Auditor General for Scotland. Her annualised remuneration before pension benefits was in the range £140,000 to £145,000 (£140,000 to £145,000 in 2015). This was 3.4 times (3.3 times in 2015) the median remuneration paid to Audit Scotland's staff in 2015/16, which was in the range £40,000 to £45,000 (£40,000 to £45,000 in 2015).

## Pensions

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

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

## Employer contributions to partnership pensions

None of the management team benefited from such contributions in the year.

## Employment contracts

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

The information in the tables on [page 28](#) and on [pages 31-32](#) is covered by the audit opinion.





## Our people

### Staff report

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

There has been a slight increase in staff numbers this year. In March 2016, the total stood at 273 wte compared to 266 wte in 2015. The increase is due to additional work including more intensive audits for the European Agricultural Funds, integrated joint boards for health and social care, Revenue Scotland and Foods Standards Scotland and to assess the audit requirements of the 2015 Scotland Bill.

Information about staff numbers, sickness and turnover is highlighted on [page 18](#).

### Learning and development

We are a people business. We are also a relatively young organisation with about 60 per cent of our colleagues under the age of 45, which partly reflects our training role. We remain committed to staff development and engaging with our people. During 2015/16, staff received an average of five days each of formal learning and development.



Caroline Gardner and  
trainee auditors

Audit Scotland runs one of the largest public sector accountancy training schemes in Scotland. We have 39 trainees and staff working towards CIPFA and ICAS qualifications. This year we recruited 15 financial trainees and nine trainees successfully completed their ICAS training to become qualified accountants. In May 2016, the programme opened again to a new generation of trainees that will help shape the growing future of Audit Scotland.

## Health and wellbeing

Staff health and wellbeing came under particular focus in the light of pressures to do more with less and from staff feedback. We continued with the new health and wellness checks for staff that were introduced in 2014/15, ran wellbeing sessions and consulted with managers and others on how it feels to work here. Staff turnover increased last year and there was a slight increase in staff sickness and absence rates, but these continued to be well below the public sector average.

## Organisational development

Employee feedback is helping to shape how we design jobs, reward and recognise staff, and manage performance. This year staff voted to suspend contribution-based pay and came together to create a refreshed organisational structure and new role profiles. Work is under way to consider how staff are rewarded.

## Temporary staff

In the year to 31 March 2016, £331,000 (eight wte posts) was spent on temporary agency and seconded staff to cover staff vacancies and maternity leave, to support peak audit workload and to facilitate the move to our new Edinburgh offices. In the previous year expenditure totalled £458,000 (11 wte posts).

## Early departures

Ongoing business restructure meant that between January and March 2016, Audit Scotland staff were offered access to voluntary early release with a termination payment and/or early access to pensions. By the end of March, 11 colleagues had indicated willingness to accept terms to leave between April and December 2016. Further disclosure on early retirement and severance is set out in [Note 14. Provision for early retirement and severance \(page 60\)](#).

## Staff relations

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

## Diversity and equality

We actively strive to improve diversity and equality, not only in Audit Scotland but also across the public sector through our audit work. Our approach to diversity and equality is led by a steering group whose work is highlighted in our equalities update for 2015/16.

Initiatives over the last year include:

- active consideration of equalities in developing our forward work programme of performance audits
- inclusion of equalities assessment in social work services by asking providers, users, carers and social workers for their views on equalities issues.

We took the opportunity to make our new Edinburgh office inclusive, accessible and energy efficient. We incorporated diversity and equality into the design through space layout, selection of fixtures and fittings and furniture, installation of hearing loops and adjustable ICT equipment, unisex showers and accessible washrooms, and provision of a quiet space to support individuals' religion, beliefs and culture.

In 2015, we obtained the Scottish Living Wage accreditation demonstrating our public commitment to the Living Wage and tackling in-work poverty in Scotland. We achieved re-accreditation of the Two Ticks disability symbol to recognise our commitment to encouraging job applications from disabled people and supporting our employees who have a disability.



## Community, social and human rights

We are committed to conducting our work to the highest standards and building positive relationships with communities across Scotland. Three colleagues have been involved over the year in the Pilotlight scheme to match skilled business leaders with charities and social enterprises. This meant working with a designated charity for 12 months to help with real issues and problems. It also helps our managers to develop their skills, coaching, business planning, strategic thinking and communication.

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

Staff choose a corporate charity every year. We raised more than £5,000 this year for [Alzheimer's Research UK](#)  to support research to bring improved diagnosis, prevention and much-needed treatments for dementia closer. In addition, our staff were involved in a range of activities to raise more than £8,000 for various good causes.




## Responding to the public

We receive enquiries from a wide range of people about the bodies we audit. Where appropriate, we may carry out further audit work in response. In 2015/16, we received 343 items of correspondence raising concerns (compared with 279 in 2014/15). Seven of these items came to us as prescribed persons under the Public Interest Disclosure Act 1998.

We receive many routine requests for information on a daily basis. Where the requests are complex or are submitted under The Freedom of Information (Scotland) Act 2002, we record them. This year we received and recorded 65 Freedom of Information requests (73 in 2014/15).

In the course of the year we reviewed the effectiveness of how we classify, record and deal with complaints about Audit Scotland from members of the public. We recorded a total of four complaints over the year, compared to 11 in 2014/15.

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

# Summary of Resource Outturn

Year ended 31 March 2016

	2016			2015
	Outturn £000	Estimate £000	Outturn compared to estimate £000	Outturn £000
Revenue	7,695	8,404	709	7,101
Capital	1,405	1,530	125	199
<b>Total Resources</b>	<b>9,100</b>	<b>9,934</b>	<b>834</b>	<b>7,300</b>
<b>Net Cash Requirement (see Cash flow statement)</b>	<b>6,895</b>	<b>7,692</b>	<b>797</b>	<b>5,433</b>

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



**Caroline Gardner**  
Accountable Officer

7 June 2016

# Independent auditors' report

To the Scottish Commission for Public Audit

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

## Audit Scotland

We have audited the accounts of Audit Scotland for the year ended 31 March 2016 which comprise the Summary of Resource Outturn, Statement of Comprehensive Net Expenditure, Balance sheet, Cash flow statement, Statement of Changes in Taxpayers' Equity and the related notes 1 to 20. We have also audited the relevant disclosures in the Remuneration and staff report as required under the direction of the Scottish ministers. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the 2015/16 Government Financial Reporting Manual (the 2015/16 FReM) and directions made by Scottish ministers.

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

## Respective responsibilities of directors and auditor

As explained more fully in the Statement of Accountable Officer's responsibilities ([page 22](#)), the Accountable Officer is responsible for the preparation of the accounts in conformity with the Directions of Scottish ministers and for being satisfied that they give a true and fair view. The Accountable Officer is responsible for the propriety and regularity of the public finances, for keeping proper books and for safeguarding assets, as set out in the Accountable Officer's Memorandum.

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

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

## Scope of the audit of the accounts

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

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

We read the other information contained in the Governance statement, and consider whether it is consistent with the audited accounts. As auditors we are not required to consider whether the Accountable Officer's Governance statement covers all risks and controls, nor are we required to form an opinion on the effectiveness of the risk and control procedures. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. Our responsibilities do not extend to any other information.

## Opinion on the accounts

In our opinion the accounts:

- give a true and fair view of the state of Audit Scotland as at 31 March 2016 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 2015/16 FReM
- have been properly prepared in accordance with The Public Finance and Accountability (Scotland) Act 2000 and Directions by Scottish ministers issued thereunder.

## Opinion on regularity

In our opinion in all material respects:

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

## Opinion on other matters

In our opinion:

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

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

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

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

We have nothing to report in respect of these matters.



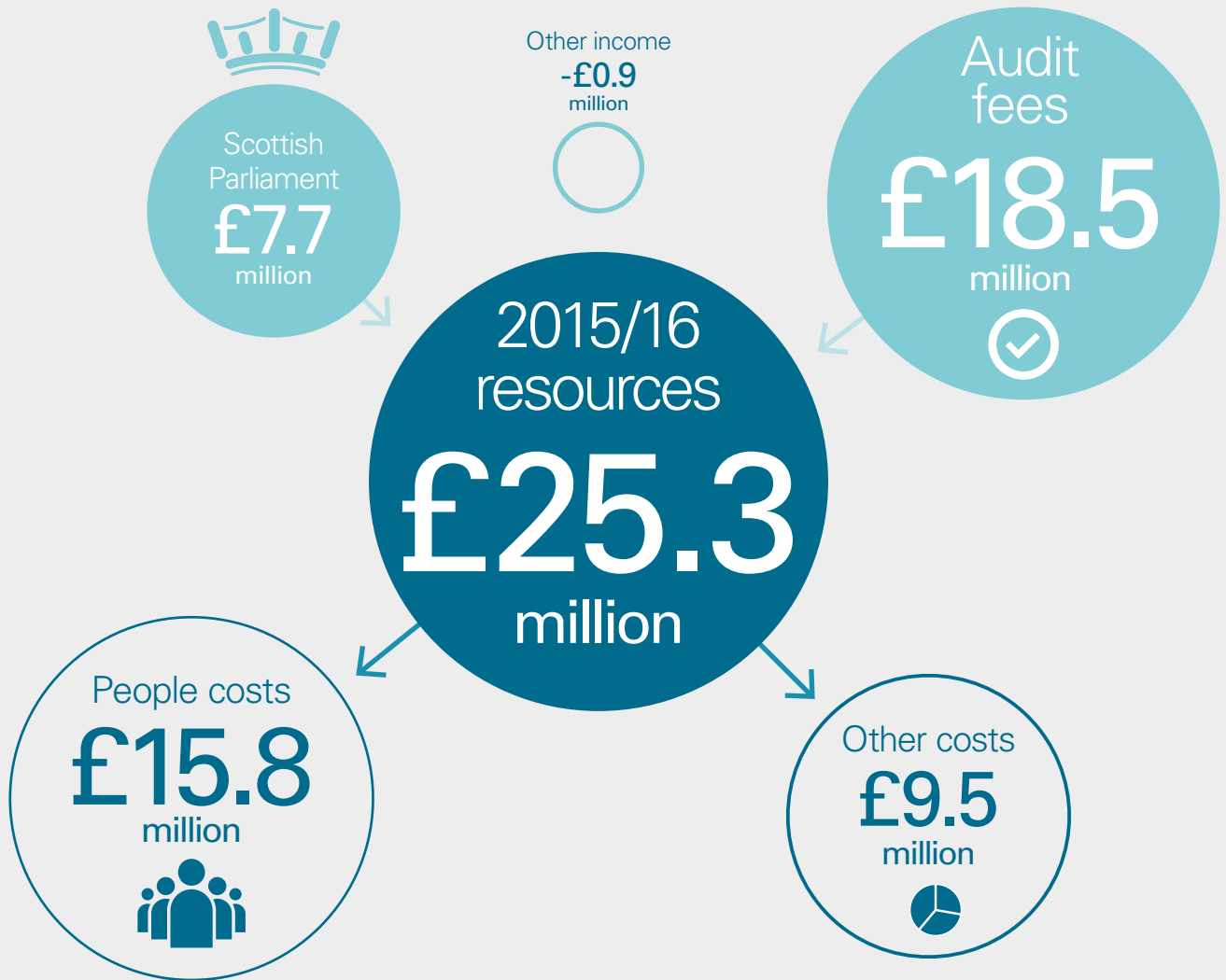
**Alexander Sloan**  
**Chartered Accountants**







Statutory Auditors  
38 Cadogan Street  
Glasgow G2 7HF

7 June 2016



# Financial statements



(£million)	 Resources	 Audit fees	 Scottish Parliament	 Other income	 People costs	 Other costs
<b>2014/15</b>	24.5	18.2	7.1	-0.8	15.0	9.5
<b>2013/14</b>	24.1	18.2	6.6	-0.7	14.7	9.4

# Statement of Comprehensive Net Expenditure

Year ended 31 March 2016

	Note	2016 £000	2015 £000
<b>Administration costs</b>			
People costs	2	15,772	14,987
Other administration costs	4	9,507	9,503
<b>Gross administration costs</b>		<b>25,279</b>	<b>24,490</b>
Operating income	5	(18,529)	(18,244)
Other finance income	6	937	847
<b>Net expenditure</b>		<b>7,687</b>	<b>7,093</b>
Corporation Tax payable	8	8	8
<b>Net operating cost and total comprehensive net expenditure</b>		<b>7,695</b>	<b>7,101</b>

# Balance sheet

As at 31 March 2016

	Note	2016 £000	2015 £000
<b>Non-current assets</b>			
Property, plant and equipment	7	1,767	621
Intangible assets	8	33	45
<b>Total non-current assets</b>		<b>1,800</b>	<b>666</b>
<b>Current assets</b>			
Trade and other receivables	9	2,661	2,305
Cash and cash equivalents	10	1,744	1,639
<b>Total current assets</b>		<b>4,405</b>	<b>3,944</b>
<b>Total assets</b>		<b>6,205</b>	<b>4,610</b>
<b>Current liabilities</b>			
Trade and other payables	12	3,896	3,405
Provision for early retirement	14	444	97
Other provisions	16	33	524
<b>Total current liabilities</b>		<b>4,373</b>	<b>4,026</b>
<b>Non-current assets plus/less net current assets/liabilities</b>		<b>1,832</b>	<b>584</b>
<b>Non-current liabilities</b>			
Deferred liabilities	13	(258)	(65)
Provision for early retirement	14	(1,698)	(1,876)
Other provisions	16	(81)	(43)
Net funded pension (liability)	3	(15,838)	(26,812)
<b>Total non-current liabilities</b>		<b>(17,875)</b>	<b>(28,796)</b>
<b>Assets less liabilities</b>		<b>(16,043)</b>	<b>(28,212)</b>
<b>Represented by:</b>			
<b>Taxpayers' equity</b>			
Net funded pension (liability)	3	(15,838)	(26,812)
General fund		(205)	(1,400)
		<b>(16,043)</b>	<b>(28,212)</b>



**Caroline Gardner**  
Accountable Officer

7 June 2016

# Cash flow statement

Year ended 31 March 2016

	Note	2016 £000	2015 £000
<b>Cash flows from operating activities</b>			
Net operating (cost)		(7,695)	(7,101)
Adjustment for non-cash items:			
- Depreciation	7, 8	271	304
- Pension scheme – net revenue debit		1,995	1,435
(Increase) / decrease in trade and other receivables		(356)	327
Increase in trade / other payables / deferred liabilities		569	119
Increase / (decrease) in provisions for early retirement		169	(387)
(Decrease) / increase in other provisions		(453)	37
<b>Net cash outflow from operating activities</b>		<b>(5,500)</b>	<b>(5,266)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	7	(1,400)	(199)
Purchase of intangible assets	8	(5)	-
Less movement in accrued expenditure		10	32
		<b>(1,395)</b>	<b>(167)</b>
<b>Cash flows from financing activities</b>			
From Consolidated Fund (Supply)		7,000	6,000
<b>Net increase in cash and cash equivalents in the period</b>		<b>105</b>	<b>567</b>
Cash and cash equivalents at the beginning of period		1,639	1,072
Cash and cash equivalents at the end of period	10	1,744	1,639
<b>Net cash requirement</b>			
Cash flows from financing activities		7,000	6,000
(Increase) in cash		(105)	(567)
<b>Net cash requirement</b>		<b>6,895</b>	<b>5,433</b>

# Statement of Changes in Taxpayers' Equity

Year ended 31 March 2016

<b>Changes in Taxpayers' equity for 2015/16</b>	Note	<b>Net funded pension £000</b>	<b>General fund £000</b>	<b>Total £000</b>
<b>Balance at 1 April 2015</b>		(26,812)	(1,400)	(28,212)
Transfers between reserves:				
- Transfer to net funded pension liabilities	2	(1,119)	1,119	-
- Net return on pension assets	3	(876)	876	-
Actuarial remeasurements (losses)	3	12,969	-	12,969
Net operating (cost)		-	(7,695)	(7,695)
Net funding from the Scottish Parliament	11	-	6,895	6,895
<b>Balance at 31 March 2016</b>		<b>(15,838)</b>	<b>(205)</b>	<b>(16,043)</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 (FRoM) applicable for the year. The accounting policies contained in the FRoM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FRoM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of Audit Scotland for the purpose of giving a true and fair view has been selected. The accounting policies adopted by Audit Scotland are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

### a) Basis of accounting

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

In common with similar public bodies, the future financing of Audit Scotland's liabilities will be met by future grants of Supply and the application of future income, both to be approved annually by the Scottish Parliament. The approval of amounts for 2016/17 has already been given and there is no reason to believe that future approvals will not be forthcoming. Accordingly, it is considered appropriate to adopt a going concern basis for the preparation of these financial accounts.

### b) Non-current assets

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

### c) Depreciation

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

Leasehold premises	remaining period of lease (from 1–9 years)
Furniture and fittings	5 years
Computer equipment	2–5 years
Software	2–5 years

### d) Amortisation of rent-free periods

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

### e) Operating income

Operating income relates directly to the audit activities of Audit Scotland. It comprises fees for financial audit that are recognised on the basis of work undertaken for the year and charges for other work which are recognised evenly throughout the year.

### f) Work in progress

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

### g) Operating leases

The total cost of operating leases is charged to revenue in equal instalments over the life of the lease.

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

### h) Value Added Tax (VAT)

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

### i) Pension arrangements

Audit Scotland complies with the requirements of IAS 19 for the year ended 31 March 2016. Audit Scotland makes pension provision for present and former employees through two pension schemes. Employees joining Audit Scotland after 1 April 2000, and those transferring to Audit Scotland from the Accounts Commission, have benefits provided through the Local Government Pension Scheme. Employees transferring to Audit Scotland at 1 April 2000 from the NAO are covered by the provisions of the Principal Civil Service Pension Scheme. The Auditor General for Scotland has benefits provided through the Principal Civil Service Pension Scheme.

## 2. People costs and numbers

	<b>2016</b>	<b>2015</b>
	<b>£000</b>	<b>£000</b>
<b>People costs comprise</b>		
<b>Administrative staff</b>		
Salaries	11,298	11,185
National Insurance	988	971
Superannuation	1,978	1,937
Pensions in payment (see note 3c)	23	23
Provision for early retirement and severance costs (see note 14)	346	1
Movement in early retirement costs	(140)	54
Adjustment for retirement benefit scheme costs (see below)	1,119	668
	<b>15,612</b>	<b>14,839</b>
<b>Accounts Commission members</b>		
Salaries	136	127
National Insurance	10	10
Travel and subsistence	14	11
	<b>160</b>	<b>148</b>
	<b>15,772</b>	<b>14,987</b>

The average number of directly employed whole time equivalent (wte) staff during the period was 273 (267 in 2015). The average number (wte) for agency and seconded staff used during the year was eight (11 in 2015).

	<b>2016</b>	<b>2015</b>
	<b>£000</b>	<b>£000</b>
<b>Analysis of local government retirement benefit scheme costs</b>		
Current service costs	3,709	3,361
Past service costs	-	127
	<b>3,709</b>	<b>3,488</b>
Less: Actual employees' contributions	(774)	(763)
<b>Charge to revenue</b>	<b>2,935</b>	<b>2,725</b>
Employer contributions	(1,816)	(2,057)
<b>Adjustment for retirement benefit scheme costs</b>	<b>1,119</b>	<b>668</b>



### 3. Pension assets and liabilities

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

#### a) Local Government Pension Scheme

Audit Scotland has an agreement with The City of Edinburgh Council under which all staff are eligible to enter the Lothian Pension Fund (the name of the Local Government Pension 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 2016 were as follows:

	<b>2016</b> %	<b>2015</b> %
Salary increases	4.20	4.30
Pension increases	2.20	2.40
Discount rate	3.50	3.20
The assumed average life expectancy for a retiral at age 65 are as follows:		
	<b>Male</b> years	<b>Female</b> years
Current pensioners	22.1	23.7
Future pensioners	24.2	26.3

Liabilities are valued on an actuarial basis using the projected unit method, which assesses the future liabilities of the fund discounted to their present value. The valuations at 31 March 2016 have been prepared by Hymans Robertson LLP.

The movement in the funded part of the net pension liability for the year to 31 March 2016 is as follows:

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

Information in respect of the defined benefit obligation:

<b>Defined benefit obligation information</b>	<b>£000</b>	<b>Liability split %</b>	<b>Duration Years</b>
Active members	59,216	62.2	26.7
Deferred members	10,684	11.2	25.7
Pensioner members	25,291	26.6	12.4
<b>Total</b>	<b>95,191</b>	<b>100.0</b>	<b>21.6</b>

The decrease in net pension liabilities during 2015/16 was mainly due to an increase in the real discount rate used to value pension liabilities together increased asset values as a result of higher than expected investment returns.

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

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

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

Asset Category	At 31 March 2016				At 31 March 2015			
	Quoted Prices in Active Markets £000	Prices not quoted in Active Markets £000	Total £000	%	Quoted Prices in Active Markets £000	Prices not quoted in Active Markets £000	Total £000	%
<b>Equity Securities:</b>								
Consumer	12,084.9	-	12,084.9	15	10,502.0	-	10,502.0	14
Manufacturing	9,359.1	-	9,359.1	12	8,807.9	-	8,807.9	12
Energy and Utilities	6,303.3	-	6,303.3	8	7,481.9	-	7,481.9	10
Financial Institutions	6,721.0	-	6,721.0	8	6,169.3	-	6,169.3	8
Health and Care	5,274.9	-	5,274.9	7	5,102.4	-	5,102.4	7
Information Technology	4,754.3	-	4,754.3	6	4,683.0	-	4,683.0	6
Other	4,542.0	-	4,542.0	6	3,353.7	-	3,353.7	4
<b>Debt Securities:</b>								
Corporate Bonds (investment grade)	-	-	-	-	-	-	-	-
Corporate Bonds (non-investment grade)	-	-	-	-	-	-	-	-
UK Government	5,106.5	-	5,106.5	6	4,335.9	-	4,335.9	6
Other	2,007.4	-	2,007.4	3	1,846.6	-	1,846.6	2
<b>Private Equity:</b>								
All	890.6	2,579.7	3,470.3	4	-	8,682.7	8,682.7	12
<b>Real Estate:</b>								
UK Property	-	6,787.8	6,787.8	9	-	4,897.9	4,897.9	7
Overseas Property	-	-	-	-	-	759.3	759.3	1
<b>Investment funds and Unit trusts:</b>								
Equities	-	-	-	-	812.5	-	812.5	1
Bonds	213.0	430.0	643.0	1	215.1	-	215.1	-
Commodities	220.1	-	220.1	-	239.3	-	239.3	-
Infrastructure	441.6	4,836.2	5,277.8	7	450.0	-	450.0	1
Other	-	1,901.2	1,901.2	2	242.0	267.5	509.5	1
<b>Derivatives:</b>								
Foreign exchange	(4.6)	-	(4.6)	-	114.8	-	114.8	-
Other	-	-	-	-	-	-	-	-
Cash and cash equivalents:								
All	4,904.0	-	4,904.0	6	5,915.9	-	5,915.9	8
<b>Totals</b>	<b>62,818</b>	<b>16,535</b>	<b>79,353</b>	<b>100</b>	<b>60,273</b>	<b>14,607</b>	<b>74,880</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 2016</b>	<b>Approx.% increase to employer obligation</b>	<b>Approx. monetary amount £000</b>
0.5% decrease in real discount rate	12	11,719
1 year increase in member life expectancy	3	2,855
0.5% increase in salary increase rate	5	4,761
0.5% increase in pension increase rate	7	6,674

During the year ended 31 March 2016, Audit Scotland's contribution to the pension fund represented 17.2 per cent (14.4 per cent in 2015) of contributing employees' pensionable pay. In addition a lump sum payment of £77k (£343k in 2015) was paid to meet past service cost deficits. Under Superannuation Regulations, contribution rates are set to meet 100 per cent of the overall liabilities of the fund. In their valuation, as of December 2014, Hymans Robertson LLP recommended the employers' contributions for 2016/17 and 2017/18 be set at the rates applicable for 2015/16 (17.2 per cent of pensionable pay plus an annual lump sum payment of £77k to meet past service cost deficits). Hymans Robertson estimate that employer contributions in 2016/17 will be approximately £1,806k.

## b) PCSP scheme

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

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

During the year ended 31 March 2016, Audit Scotland paid an employer's contribution of £152k (£155k in 2015) into the PCSPS at rates between 20.0 per cent and 24.5 per cent of pensionable pay (18.8 per cent to 24.3 per cent in 2015). Audit Scotland has been informed that contributions in 2016/17 will be at rates between 20.0 per cent and 24.5 per cent. Employer contribution rates are reviewed every three years following a scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when costs are actually incurred, and they reflect past experience of the scheme.

## c) By analogy scheme

Robert W Black retired as Auditor General for Scotland, on 30 June 2012. Until that time his pension benefits were provided by analogy to the Local Government Pension Scheme. In 2015/16, pension payments of £23k were made (£23k in 2015).

## d) Early departure costs

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

## 4. Other administration costs

	£000	2016 £000	2015 £000
<b>Fees and expenses to appointed audit firms:</b>			
Local authorities	2,411		2,479
National Health Service bodies in Scotland	1,201		1,190
Further education colleges	533		454
Scottish Government and sponsored bodies	906		1,005
		<b>5,051</b>	<b>5,128</b>
<b>Other costs:</b>			
Rent and rates	950		733
Other accommodation costs	348		535
Travel and subsistence	844		878
Legal and other professional fees	557		597
Stationery and printing	209		146
Training	440		464
Staff recruitment	121		127
Communications (telephone, postage)	44		59
Insurance	84		87
Information technology	461		335
Internal Audit	27		19
External Audit – financial accounts	29		29
Other	71		62
Non-cash items: Depreciation – tangible assets (see note 7)	254		279
Depreciation – intangible assets (see note 8)	17		25
		<b>4,456</b>	<b>4,375</b>
		<b>9,507</b>	<b>9,503</b>

Rent and rates includes £686k in respect of property leases (£526k in 2014/15) – see note 15.

## 5. Operating income

	<b>2016</b> £000	<b>2015</b> £000
<b>Fees and charges payable by:</b>		
Local authorities	11,582	11,459
National Health Service bodies in Scotland	3,778	3,777
Further education colleges	605	509
Scottish Government and sponsored bodies	2,489	2,398
	<b>18,454</b>	<b>18,143</b>
Bank interest	41	41
Miscellaneous income	34	60
	<b>18,529</b>	<b>18,244</b>

## 6. Other finance income

	<b>2016</b> £000	<b>2015</b> £000
Interest income on pension scheme assets	2,408	2,876
Interest cost on pension scheme defined obligations	(3,345)	(3,723)
	<b>(937)</b>	<b>(847)</b>

## 7. Property plant and equipment

	Leasehold premises £000	Furniture and fittings £000	Computer equipment £000	Total £000
<b>Cost</b>				
At 1 April 2015	1,816	147	1,487	3,450
Additions	1,000	225	175	1,400
Disposals	(1,546)	(121)	(793)	(2,460)
<b>At 31 March 2016</b>	<b>1,270</b>	<b>251</b>	<b>869</b>	<b>2,390</b>
<b>Depreciation</b>				
At 1 April 2015	1,602	131	1,096	2,829
Charge for the year (note 4)	72	24	158	254
Depreciation on disposals	(1,546)	(121)	(793)	(2,460)
<b>At 31 March 2016</b>	<b>128</b>	<b>34</b>	<b>461</b>	<b>623</b>
<b>Net Book Value</b>				
At 31 March 2016	1,142	217	408	1,767
<b>Analysis of asset financing</b>				
Owned	1,142	217	408	1,767
	Leasehold premises £000	Furniture and fittings £000	Computer equipment £000	Total £000
<b>Prior year</b>				
<b>Cost</b>				
At 1 April 2014	1,819	147	1,514	3,480
Additions	-	-	199	199
Disposals	(3)	-	(226)	(229)
<b>At 31 March 2015</b>	<b>1,816</b>	<b>147</b>	<b>1,487</b>	<b>3,450</b>
<b>Depreciation</b>				
At 1 April 2014	1,440	124	1,212	2,776
Charge for the year (note 4)	162	7	110	279
Disposals	-	-	(226)	(226)
<b>At 31 March 2015</b>	<b>1,602</b>	<b>131</b>	<b>1,096</b>	<b>2,829</b>
<b>Net Book Value</b>				
At 31 March 2015	214	16	391	621
<b>Analysis of asset financing</b>				
Owned	214	16	391	621

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

	<b>Software</b>	
	<b>2016</b> £000	<b>2015</b> £000
<b>Cost</b>		
At 1 April	720	720
Additions	5	-
<b>At 31 March</b>	<b>725</b>	<b>720</b>
<b>Depreciation</b>		
At 1 April	675	650
Charge for the year (note 4)	17	25
<b>At 31 March</b>	<b>692</b>	<b>675</b>
<b>Net Book Value</b>		
At 31 March	<b>33</b>	<b>45</b>

## 9. Trade and other receivables

	£000	<b>2016</b> £000	<b>2015</b> £000
<b>Amounts falling due within one year:</b>			
Trade receivables:			
- Central Government bodies	10		-
- Local authorities	32		-
- NHS bodies in Scotland	25		-
- Bodies external to government	-		-
		<b>67</b>	-
Work in progress in advance of billing		2,064	1,801
VAT		-	-
Prepayments		530	504
		<b>2,661</b>	<b>2,305</b>

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

## 10. Cash and cash equivalents

	<b>2016</b> £000	<b>2015</b> £000
Balance at 1 April	1,639	1,072
Net change in cash and cash equivalents	105	567
<b>Balance at 31 March</b>	<b>1,744</b>	<b>1,639</b>
The following balances at 31 March were held at:		
Commercial banks	1,744	1,639

## 11. Net funding from the Scottish Parliament

	<b>2016</b> £000	<b>2015</b> £000
Opening cash balance payable to the Consolidated Fund	1,639	1,072
Funding received from the Consolidated Fund	7,000	6,000
Closing cash balance payable to the Consolidated Fund	(1,744)	(1,639)
<b>Net funding from the Scottish Parliament</b>	<b>6,895</b>	<b>5,433</b>

## 12. Trade payables and other current liabilities

	£000	2016 £000	2015 £000
<b>Amounts falling due within one year:</b>			
Trade payables:			
- Central Government	-		-
- Local authorities	-		-
- NHS bodies in Scotland	-		-
- Bodies external to government	128		167
		<b>128</b>	<b>167</b>
- Cash balance payable to Consolidated Fund		1,744	1,639
- Deferred income		784	526
- VAT		46	41
- Corporation Tax		8	8
- Accruals		390	331
- Staff benefits – untaken holidays		631	665
- Rent free period on premises – current liability (note 13)		165	28
		<b>3,896</b>	<b>3,405</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 and 31 March 2015 various leases were negotiated with rent-free periods.

	2016 £000	2015 £000
<b>Opening balance at 1 April</b>		
Current	28	34
Deferred	65	52
	<b>93</b>	<b>86</b>
Additions	495	41
Released during year	(165)	(34)
<b>Closing balance at 31 March</b>		
	<b>423</b>	<b>93</b>
Whereof:		
Current	165	28
Deferred	258	65
	<b>423</b>	<b>93</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:

	2016 £000	2015 £000
<b>Opening balance at 1 April</b>	1,973	2,360
Additions	346	-
Utilised in year	(98)	(560)
Revaluation	(79)	173
<b>Closing balance at 31 March</b>	<b>2,142</b>	<b>1,973</b>
Payable within 1 year	444	97
Payable after 1 year	1,698	1,876
	<b>2,142</b>	<b>1,973</b>
Discount rate used	3.5%	3.2%

### Early retirement and severance

Between January and March 2016, Audit Scotland offered staff access to a voluntary early release arrangement as part of a business restructuring programme. Staff were offered a termination payment and/or early access to pensions. As at 31 March 2016, 11 staff had indicated willingness to accept terms to leave Audit Scotland in the period April to December 2016. A provision of £346k has been made in the accounts for the year ended 31 March 2016 to meet the costs of early departures.

In the year to March 2016 there were no staff departures under a voluntary early release arrangement. The previous year five staff left Audit Scotland under a voluntary early release arrangement. Under the arrangement, staff were entitled to a termination payment and/or early access to pension. The total cost of the arrangements was £369k.

	Number of arrangements	
	2016	2015
< £10,000	-	-
£10,000 – £25,000	-	2
£25,000 – £50,000	-	2
£50,000 – £100,000	-	-
£250,000 – £300,000	-	1
Total number of arrangements	-	<b>5</b>
<b>Total cost (£000)</b>	-	<b>369</b>

## 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 2016 was £274k (£301k at 31 March 2015).

## 15. Commitments under leases

During the period to 31 March 2016, the amounts charged to revenue in respect of operating leases for premises and vehicles were as follows:

	2016 £000	2015 £000
Premises (note 4)	686	526
Vehicles	425	463
	<b>1,111</b>	<b>989</b>

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

	2016 £000	2015 £000
<b>Premises</b>		
Within one year	338	688
Later than one year and not later than five years	1,310	1,321
Later than five years	1,176	1,504
	<b>2,824</b>	<b>3,513</b>
<b>Vehicles</b>		
Within one year	403	347
Later than one year and not later than five years	576	574
	<b>979</b>	<b>921</b>

Audit Scotland has no finance leases.

## 16. Other provisions

Other provisions comprise property dilapidations.

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

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

	2016 £000	2015 £000
<b>Opening balance at 1 April</b>	567	530
Provided in year	71	37
Utilised in year	(239)	-
Released in year	(285)	-
<b>Closing balance at 31 March</b>	<b>114</b>	<b>567</b>
Payable within 1 year	33	524
Payable after 1 year	81	43
	<b>114</b>	<b>567</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. Contingent liabilities

At 31 March 2016, there were no contingent liabilities.

## 19. Capital commitments

At 31 March 2016, there were no contracted capital commitments payable in 2016/17.

## 20. Segmental reporting

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

# Direction by the Scottish ministers

In accordance with Section 19(4) of The Public Finance and Accountability (Scotland) Act 2000

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

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

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

**Signed by the authority of the Scottish ministers**

17 January 2006

# Annual report and accounts

## 2015/16

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