

Scottish Commission for Public Audit

**1st Meeting 2022 (Session 6), Wednesday
22 June 2022**

Audit Scotland Annual Report and Accounts for the year to 31 March 2022 and Auditor's report on the Accounts

Purpose

1. Audit Scotland's annual report and audited accounts for the year to 31 March 2022 has been laid before the Parliament.
2. The Commission will take evidence on both the annual report and accounts from Audit Scotland. It will then take evidence on the accounts from Alexander Sloan, the external auditors appointed by the SCPA to carry out the annual audit of Audit Scotland.
3. A covering letter from the Auditor General for Scotland, the annual report and accounts and the management letter from Alexander Sloan are attached as **Annexes A, B and C** of this paper.
4. Audit Scotland has also provided a copy of its Quality of Public Audit in Scotland annual report 2021/22, which can be found in **Annexe D**.

Conclusion

5. **The Commission is invited to consider the annual report and accounts; and the Auditor's report on the accounts.**

**Secretary to the Commission
June 2022**

8 June 2022

Colin Beattie MSP
Chair
Scottish Commission for Public Audit
T3.40
Scottish Parliament
Edinburgh
EH99 1SP

Dear Mr Beattie

Audit Scotland's 2021/22 Annual Report and Accounts

I am pleased to submit a copy of Audit Scotland's Annual Report and Accounts for the year ended 31 March 2022, which I signed along with David Jeffcoat from Alexander Sloan on 6 June 2022.

I have also enclosed a copy of the annual Quality of Public Audit in Scotland as agreed following the governance review undertaken by the SCPA in 2019.

We will publish the Annual Report and Accounts on Audit Scotland's website today alongside the suite of accompanying annual reports which are referenced in the report.

Please do not hesitate to get in touch if you need anything else ahead of the forthcoming meeting.

Yours sincerely



Stephen Boyle
Accountable Officer and Auditor General for Scotland

Annual report and accounts

2021/22



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Introduction

2021/22 in numbers

226

Accounts audited

10

National and local performance reports

8

Covid-19 briefings, reports and technical guides

£45.7bn

Payments under Comptroller function

112k

Visitors to our website

Our objectives

Our Corporate Plan sets the following strategic objectives:

Delivering world-class public audit



Being a world-class organisation



Chair's introduction



Over the past year, Scotland's public services have addressed the twin tasks of managing the ongoing Covid-19 pandemic and beginning the recovery of Scotland's communities, services and economy.

As public bodies tackled these challenges, Audit Scotland reshaped its approach to ensure we continued to deliver high quality, independent public audit, at a time when public bodies were under more pressure than they have ever experienced. This has meant learning new ways of delivering audit, as well as refocusing our work to ensure that it addresses the key issues, is flexible and timely, and has the impacts that Scotland needs. We continue to live in uncertain and volatile times, so the assurance and clarity that robust, relevant and objective audit can provide has never been more crucial.

Audit Scotland is also changing. Through our strategic improvement programme, we are working to ensure we focus on the priorities and that we have the skills and capacity to do the job Scotland needs from us. We have also experienced changes in our leadership team, with Diane McGiffen and Fiona Kordiak leaving after lengthy periods of exemplary service to both the organisation and to Scotland's public sector. On behalf of the board, I thank them for all they have contributed to public audit, and for their support, advice and good humour no matter the pressures of our operating environment.

Elma Murray OBE finished her term as interim chair of the Accounts Commission in December and was succeeded by Dr William Moyes as Chair of the Accounts Commission and as a member our board. Our role, as a board, is to provide good governance, to ensure that Audit Scotland is well managed, looks to the future and delivers high-quality audit and scrutiny of the services that affect the daily lives of people in Scotland. We are dedicated to these tasks.

Lastly, I want to thank everyone who works for Audit Scotland. They have continued to show their professionalism, resilience, commitment and empathy over the past year. Like everybody else, they have dealt with significant uncertainty and fast-moving disruptions, and yet have continued to provide Scotland with a high-quality public audit service.

Professor Alan Alexander OBE
Chair of the Audit Scotland Board

Accountable Officer's report



Over the past year, some of the wider and long-lasting impacts of the Covid-19 pandemic have begun to show themselves in the pressures on public services and public spending.

On behalf of Audit Scotland, I want to thank Scotland's key workers for saving lives and supporting communities. We're also grateful for everything they have done to help us start returning to some of the ways of life we enjoyed before the pandemic.

At Audit Scotland, the impact of Covid-19 on public bodies came through in our work as we audited the first full year of public services being delivered under pandemic conditions. Public bodies were under significant stress to deliver front-line services as well as govern and account for significant additional amounts of public money. Public spending in Scotland has risen by more than a quarter, and large sums of money have moved at pace through the system in order to support communities and the economy. The assurance that we provide on how well public money is being spent and the recommendations we make to help public services improve are central to our work.

It's important that public audit is reliable. During the past year we have prioritised the quality and resilience of our audit work, including delivering on a quality improvement programme, addressing issues raised in a small number of audits in previous years and providing more in-house support and expertise to help our teams deliver our aim of world-class public audit.

Audit Scotland has also delivered an agile and responsive performance audit programme on behalf of both myself as Auditor General and the Accounts Commission. This has resulted in a wide-ranging work programme and a broad range of audit products. Our aim is that our work reaches a diverse audience and achieves impact in both improving public services and the stewardship of public money.

None of this is possible without the strength, commitment and professionalism of my Audit Scotland colleagues. Those qualities continue to shine through, as well as their kindness, support and decency as we develop new ways of delivering audit and being a world class place to work.

Over the past year we have built our capacity, skills and resources so that we can both deliver the job Scotland requires of us and that we have the resilience as an organisation in an unpredictable environment. We are grateful to the Scottish Parliament for its ongoing support.

We are now reshaping our leadership to ensure we have the strategic capacity we need following the departure of much valued colleagues, Diane McGiffen and Fiona Kordiak, who left Audit Scotland during the year after long terms of outstanding service to public audit and this organisation. I want to thank them for their contribution to shaping Audit Scotland as a high-quality organisation and a supportive, inclusive and caring workplace.

Stephen Boyle
Auditor General for Scotland
and Accountable Officer

About us

Audit Scotland is Scotland's national public audit agency. We provide the Auditor General and the Accounts Commission with the services they need to give independent assurance to the people of Scotland that public money is spent properly, efficiently and effectively.

Our vision is to be a world-class audit organisation that improves the use of public money. We aim to achieve this by:

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

Three principles guide our work:

- The Auditor General and the Accounts Commission appoint auditors to public bodies, to ensure the appointment process is independent.
- We report in public.
- We look at more than financial statements, and examine areas such as financial management, financial sustainability, vision, leadership and governance, use of resources to improve outcomes, and Best Value in local government..

Statutory background

Audit Scotland was formed on 1 February 2000 (and began operations on 1 April 2000), under the Public Finance and Accountability (Scotland) Act 2000. Part 2 of this Act established Audit Scotland as a body corporate.

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.

Our year

Delivering world-class public audit



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

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

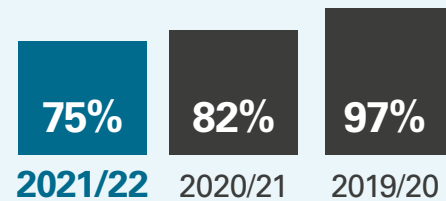
In a complex and challenging environment, made more complicated by the pandemic, it is important that independent, objective and authoritative public audit continues to support a strong and effective system of financial accountability and transparency.

In 2021/22 we:

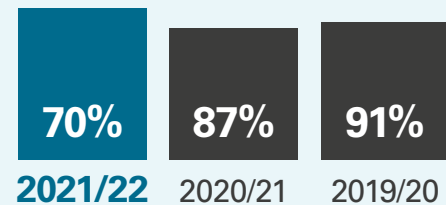
- ✓ delivered 226 audits under the [Code of audit practice](#), all delivered remotely and to updated guidance and deadlines
- ✓ delivered our refreshed performance audit programme, including our 'following the pandemic pound' work and our flexible and diverse audit outputs and products
- ✓ continued to develop our auditing and reporting on devolved financial powers and Scotland's new social security service
- ✓ published our new [Code of audit practice](#), which will set the expectations of public audit for the next five years
- ✓ concluded the procurement of external firms to deliver a portion of annual audits under our mixed-market [audit appointment](#) approach
- ✓ continued the implementation of our digital audit strategy to improve our use of technology, including rolling out data analytics and developing our approach to integrating analytics and graphical communication.

Key performance indicators

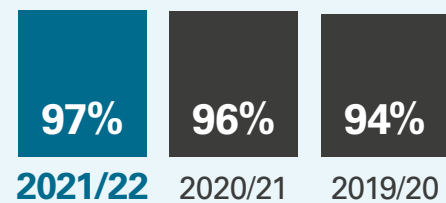
Annual audits delivered to schedule



Reports published to schedule



Correspondence responses issued to schedule



Annual audits

This forms the largest part of our statutory work.



Accounts audited in 2021/22

104

Local
government

78

Central
government

23

NHS

21

Further
education

Accounts audited in 2021/22

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

We audited 226 sets of accounts this year. There are 222 public bodies, and some produce separate accounts for entities such as pension funds and charity accounts. All accounts were judged to be true and fair, although we qualified Social Security Scotland's accounts for regularity reasons, and disclaimers of audit opinion were issued on the accounts of Scottish Environment Protection Agency and Scottish Canals.

Raising issues from annual audits

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

We issued ten Section 22 reports and one Section 102 from audits completed in 2021/22. These covered: Bord na Gaidhlig, the Commissioner for Ethical Standards in Public Life in Scotland, the Crofting Commission, NHS Highland, NHS National Services Scotland, National Records of Scotland, Orkney and Shetland Valuation Joint Board, Scottish Environment Protection Agency, Scottish Canals, the Scottish Government's Consolidated Accounts and South Lanarkshire College.

Making a difference: Annual audits



Avoiding material misstatements in published financial statements



We helped ensure that more than £300 million of spending on personal protective equipment was properly recognised in NHS National Services Scotland's accounts, and that NHS Greater Glasgow and Clyde did not lose £48 million of additional funding aimed at helping manage waiting lists.

Providing technical views on accounting and reporting issues

South Lanarkshire Council increased its reserves by £4.5 million and reduced its annual debt repayments by the same amount after following our recommendations. Similarly, Dundee and Angus College is changing its approach to recognising assets, and Forestry and Land Scotland is updating its accounting practices to reflect its change from its predecessor organisation.

Performance audits

On behalf of the Auditor General and the Accounts Commission we produce performance audits and overview reports on issues which have a direct impact on people's daily lives.

Products published in 2021/22

2

Performance
Audit reports

3

Overview
reports

10

Statutory
reports

29

Other
reports



At the start of the pandemic, we initially paused our performance audit programme in order to avoid putting pressure on public bodies that were focused on tackling the impacts of Covid-19. We used this time to reframe our programme, and to understand the emerging impacts of Covid-19, what new work was required and how existing planned work needed to be reshaped. This included consulting with key stakeholders on the [refreshed programme](#) we will deliver for the Auditor General and the Accounts Commission.

During 2021/22 we delivered on the refreshed programme, which takes a more flexible approach in order to both consider public bodies' capacity and to enable us to react to fast-changing circumstances. This more agile approach was reflected in the broad range of diverse products we published in 2021/22, including briefing papers, update reports, statements and blogs, as well as longer detailed performance audit reports. We supplemented our more traditional audit reports with a variety of supporting products, such as more use of videos and animations, to reach a wider audience.

The impact of the pandemic and the public sector's response were understandably recurring themes in much of our work this year.

We published a number of specific Covid-19 reports, starting with our [Following the pandemic pound strategy](#) (May).

Making a difference: Performance audits



Significant impact in important public services



Our report on [improving outcomes for young people through school education](#) helped inform a new approach to Scottish Attainment Challenge funding across Scotland, as well as the Scottish Government's National Improvement Framework reporting on how the government was putting the report's other recommendations into action.

The Scottish Government and COSLA refreshed Scotland's national digital strategy following our January 2021 [Digital progress in local government](#) audit, and the report is also being used widely across Scottish local government.

In June, we published a review of how the Scottish Government and NHS managed the procurement and distribution of [personal protective equipment](#), or PPE, stating that a longer-term approach was needed. This was followed in September with an update on [the impact of Covid-19 on Scotland's public finances](#) and a briefing that found that [Scotland's vaccination programme](#) was making excellent progress. In October, we looked at Covid's impact on [community empowerment](#), and in March we updated on how public money had been used to [support businesses during the pandemic](#), including finding that £4 billion of funding was not being monitored.

In February 2022, our [NHS overview](#) said reforming health and social care services was key to address growing costs and recovery from the pandemic.

The two overviews of local government reviewed how councils are responding and the key issues they were facing. The [performance overview](#) (May) said councils and communities were working well together but that Covid-19 was exacerbating inequalities and other existing issues. Later in 2021/22, the [financial overview](#) (March) found councils faced a financially uncertain future, with reducing budgets and ongoing challenges from the pandemic.

Our performance audits also looked at the [planning for Scotland's workforce skills](#) (January) and the commissioning of [two new ferries](#) (March) for island communities. The former found that urgent action needs to be taken, while the second prompted significant public and political debate about how decisions were made in a project running several years late and millions of pounds over-budget.

Our shorter briefing reports gave updates on subjects we have previously reported on or intend exploring further in our audit work. In July, we reported that the Scottish Government wasn't achieving its aim of having more offenders serve [sustainable alternatives to custody](#). We also reported on [the sustainability of social care](#) (January), and on the need for a clear plan for Scotland's complex [drug and alcohol services](#), as the country wrestles with the highest drug-related death rate in Europe.

We published 13 [blogs](#) on subjects including the financial state of the college sector, cyber security, climate change, children and young people's mental health services, digital exclusion and housing benefits. Both the Auditor General and Accounts Commission also reflected on the influential Christie Commission report of 2011, saying that a decade on its call for reforming public services was more imperative than ever.

Countering fraud

Audit plays a role in deterring and detecting fraud in public bodies, and in helping organisations prevent the loss of public money through mistakes. In July, we published our annual [Fraud and irregularity update](#) on cases auditors reported on during 2020/21.

Audit Scotland coordinates the National Fraud Initiative, an exercise that matches datasets across the public sector to identify potential fraud and errors such as overpayments. We publish reports on the NFI biennially, and our next report is planned for late summer 2022.

Fraud and irregularity 2020/21



July 2021



Reporting on Best Value in local government

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



BVARs published on behalf of the Commission during 2021/22

Aberdeen City Council

June 2021

East Dunbartonshire Council

September 2021

South Ayrshire Council

October 2021

Falkirk Council

January 2022

Moray Council – progress report

March 2022

Over the past year, we continued to support the Commission's roll-out of Best Value Assurance Reports (BVARs). These provide a detailed and rounded insight for local people into how their council is performing; where it's doing well and where it needs to improve. This wider focus on Best Value is also part of the annual financial audits for every council.

The Accounts Commission's annual report 2021/22 provides further detail about the Best Value programme.

Making a difference: Best Value Assurance Reports



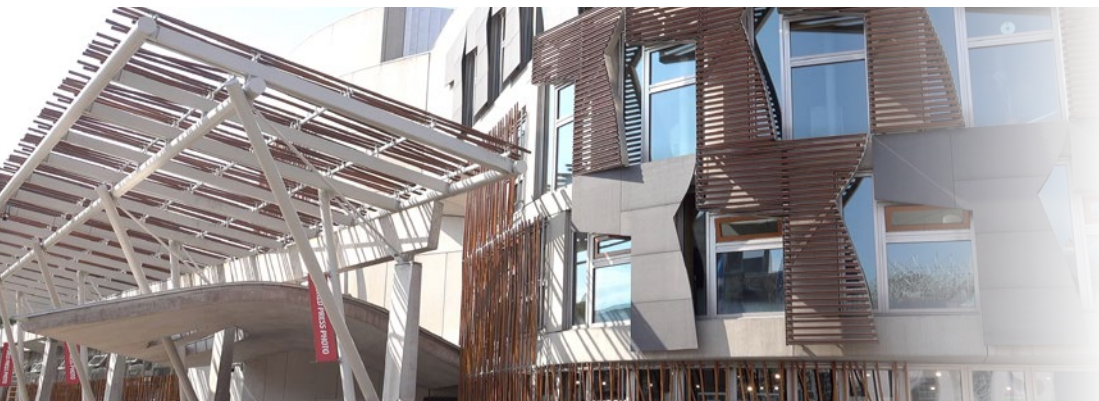
The Accounts Commission's Best Value programme aims to ensure there is good governance and effective resource management at councils, and also focuses on how they can improve. During the past year we found that councils were making progress against our recommendations, although this had sometimes been affected by the pandemic.

In June we published the [Aberdeen City BVAR](#), saying the council's performance had significantly improved but that more work was needed in housing and education. The council produced and publicly announced its action plan to implement our recommendations. Meanwhile, we have used the council's progress in implementing its digital strategy as a case study to help other councils.

Supporting scrutiny

Supporting the Scottish Parliament

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



In recent years we have strengthened our engagement with committees, MSPs and the Scottish Parliament Information Centre (SPICe) over the current session of Parliament to better help parliamentarians scrutinise the public sector's performance. Despite disruption as a result of the pandemic and changing methods of holding Parliamentary meetings, we were still able to provide a high level of support to MSPs and committees. We met with, and gave oral and written evidence to, a wide range of parliamentary committees and briefings to MSPs, with a total of 40 parliamentary engagements over the year. Alongside that formal reporting, we have responded to consultations and calls for evidence by parliamentary committees, and provided a range of informal briefings to committees, clerking teams and SPICe.

Scrutiny coordination

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

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

Audit quality

Our quality assurance team independently reviews the audit work, and it also undergoes independent external review by the Institute of Chartered Accountants of Scotland (ICAS).

During 2021/22, we undertook and invested in an improvement programme aimed at addressing recommendations from last year's reviews. This was aimed at maintaining and strengthening the quality of our audits. The latest quality reviews have found improved results across many areas, and reflect the hard work of the audit teams and our in-house professional support unit in making strong progress here. More information is in our [Quality of public audit in Scotland annual report](#) and our [Transparency report](#).

Public bodies continue to express high satisfaction with the usefulness of the audit and the performance of our audit teams. Internally, staff thought they received enough time for training and development than in previous years, and believed they were encouraged to deliver high-quality work. However, they also told us that delivering audits was challenging under the Covid-19 restrictions in place during 2021/22 and that resources were stretched.



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

We also contract ICAS to conduct independent reviews of a selection of our work, checking for quality and for compliance with auditing standards and other regulatory and professional requirements. We use the results of the AQA and ICAS reviews to inform our quality improvement activity.

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

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

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

Ethical standards

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

Our ethics partner works to ensure compliance with ethical standards within the organisation, and advises our board on matters of ethics. This role was performed by Director of Audit Services Fiona Kordiak until her retirement in February 2022. Gillian Woolman has undertaken the role on an interim basis until the appointment of our new permanent Executive Team.

Being a world-class organisation



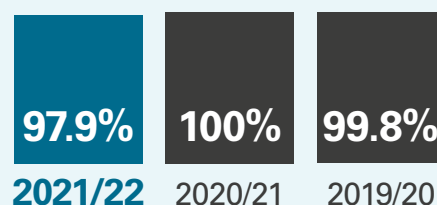
Our aim is to make Audit Scotland a great place to work by attracting and retaining highly skilled people, and making the best use of public resources.

In 2021/22 we:

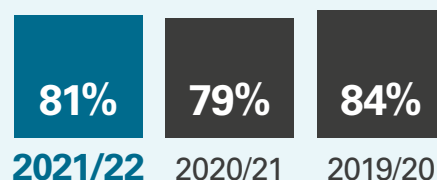
- ✓ undertook a major campaign to build our capacity and strengthen our skills and ensure we can continue to support the Auditor General and Accounts Commission and perform the role Scotland will require from us in future
- ✓ supported all colleagues to work remotely, through our digital infrastructure, assessments of home work stations, provision of equipment, and support for physical and mental health and maintaining workplace relationships
- ✓ developed our approach to hybrid working through organisation-wide events, discussions and guidance
- ✓ continued the implementation of our strategic improvement programme, including finalising the new Code of Audit Practice and the tender process for the next round of audit appointments starting in late 2022
- ✓ retained our status as a one star organisation in the Best Companies staff engagement survey.

Key performance indicators

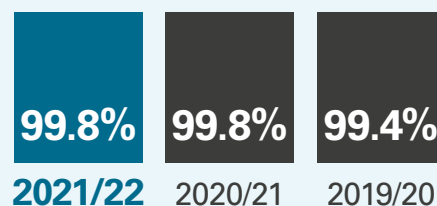
People in post



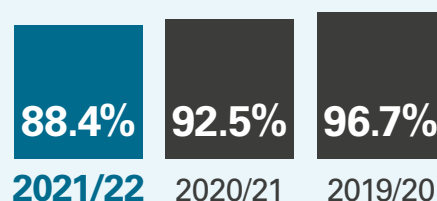
Exam pass rate for professional trainees



IT uptime



IT issues resolved within target times



Our people

During 2021/22, we worked to build our capacity and skills to ensure we can perform the role Scotland needs from us in future.

Our workforce in 2021/22

313.2

Whole Time
Equivalent (WTE)

7.1%

increase
from 2021

51

Trainees



At March 2022, our workforce was 313.2 WTE, an increase of 7.1 per cent from March 2021. This followed a major recruitment campaign to increase our capacity to deliver audits and provide expert support functions. Another focus of our recruitment in the past year has been on supporting flexible approaches to work and increasing the diversity of background and life experience of applicants, as well as continuing to attract graduate trainees, supported by our comprehensive graduate training programme.

During 2021/22, we began work to strengthen and reshape our leadership team. This is to ensure we have the strategic capacity, appropriate skill-mix and necessary resilience in our senior leadership, as well as replace some of our leaders who left the organisation during the year due to other opportunities and retirement. We will continue this process during 2022/23.

For our financial audits, accountancy remains the main discipline. Every financial auditor undergoes rigorous professional training. We run one of the largest public financial audit training schemes in Scotland. We have 51 trainees working towards qualifications from the Institute of Chartered Accountants of Scotland.

Our gender pay gap results show that men on average earn 10.4 per cent more than women at Audit Scotland. We are confident that many women currently beginning their professional careers with Audit Scotland will develop and progress into senior roles in future years. This is because our pay structure, pay progression, flexible working policies and development opportunities are free of gender bias and have been Equality Impact Assessed (EQIA). We continue to monitor our approach to recruitment so that it follows good practice across all diversity and equality strands.

For much of 2021/22 we remained a 'virtual organisation'. We reopened our offices in November on a restricted phased basis, but closed them again shortly after in response to the sharp increase in Covid-19 infections due to the Omicron variant. We reopened again in March, again on a phased basis guided by our four principles of wellbeing and safety, effectiveness, equity and inclusion, and sustainability.

Audit Scotland: Gender pay gap 2021



March 2022



For the second successive year, we were named a one star organisation in the annual Best Companies workplace survey, making us a 'very good' place to work. The results were largely positive, however colleagues also clearly stated that the difficult conditions and challenging working circumstances of the past two years is having an impact on wellbeing and on people feeling under pressure.





Learning and sharing together while apart



Our colleagues spent much of the past year (as in the previous year) working from their kitchens, lounges, spare rooms and bedrooms. In such circumstances, being able to bring colleagues from across Audit Scotland together to discuss the issues facing public bodies, our professions and our own organisation proved challenging.

In June 2021 we launched 'Audit Scotland 2021: Shaping our future', a diverse and ambitious virtual programme of events and activities based around the three themes of our strategic improvement programme: our purpose, what we do, and how we work.

The aim was to engage with the different groups of people across Audit Scotland on topics relevant to their work, and create opportunities to bring everyone together to consider the external environment in which we operate. We also wanted to hear from individuals and organisations with experience of delivering and receiving public services in Scotland, in line with helping us make our work more people-centred. We also included activities based on professional development and personal wellbeing.

Over a seven-month period, we delivered:

5 keynote events

featuring 11 guest speakers, including a joint session with the UK's four Auditor Generals to staff from all four agencies

32 insight events

including events with 25 external contributors as speakers and panellists

14 perspectives

from colleagues, the Auditor General for Scotland and Accounts Commission members

Central hub

on our corporate intranet containing all event materials and recordings



Colleagues have responded positively to Audit Scotland 2021, with 96 per cent saying they would welcome a similar programme in 2022.

Sustainability and engagement

Climate change and sustainability

Since 2008/09 we have reduced our carbon footprint by more than 69 per cent, and by 52 per cent against baselines we set in 2014/15.

Our total emissions equate to less than 1 tonnes of carbon dioxide equivalent (tCO₂e) per WTE employee or 0.1 (tCO₂e) per m² floor space we occupy. Updated details of our 2021/22 performance will be in our Environment, Sustainability and Biodiversity annual report, published in November 2022.

We also set out how we will address the public sector's response to climate change through our audit work.

Environment, Sustainability and Biodiversity annual report 2020/21



November 2021



Responding to the public

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

In 2021/22, we received 264 items of correspondence, including 13 under the Public Interest Disclosure Act 1998) compared to 11 in 2019/20. These are often referred to as 'whistleblowers'. More information is in our [Correspondence and whistleblowing annual report](#).

This year we recorded 37 Freedom of Information requests (35 in 2020/21) and no Environmental Information requests (none in 2020/21).

We recorded a total of three complaints over the year, compared with one in 2020/21. The complaints were investigated and none was upheld.

Correspondence and whistleblowing Annual report 2021/22



June 2022



International work

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

More information on our approach is on the [Going global](#) page of our website, and our [International work annual report](#) updates on our work this year. In response to the war in Ukraine, we joined European counterparts in endorsing a joint statement by the European Organisation of Regional Audit Institutions condemning the invasion and suspending all cooperation with Russian counterparts, as well as pledging support to Ukrainian public audit organisations.

International work 2021/22



June 2022



Financial position

Financial overview

Expenditure

£23.9
million

Expenditure on
people costs

£4.5
million

Fees and
expenses paid
to firms

£3.9
million

Other operating
expenditure¹

£0.9
million

Net finance
expenditure incl.
Corporation Tax

£0.6
million

Capital
expenditure

Fees and funding

£17.9
million

audit fees and
other income

£15.9
million

Scottish
Parliament
funding



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

Sources of funding

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

Review of financial performance

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

The following sections provide a summary from the accounts. The financial statements are published on [pages 58 – 82](#).

Resource outturn

Our year in figures	Note	2021/22			2020/21
		Actual £000	Budget £000	Variance £000	Actual £000
People costs	Staff report	23,902	25,564	1,662	20,465
Fees and expenses paid to external firms	4	4,481	4,554	73	5,237
Other operating expenditure	4	3,871	4,145	274	3,921
Total operating expenditure		32,254	34,263	2,009	29,623
Operating income	5	(17,922)	(18,737)	(815)	(17,832)
Net operating expenditure		14,332	15,526	1,194	11,791
Net finance expenditure	6	939	938	(1)	767
Corporation Tax payable		-	-	-	-
Net expenditure after tax		15,271	16,464	1,193	12,558
Capital expenditure		600	600	-	139
Total resource required from Parliament		15,871	17,064	1,193	12,697

Net expenditure after tax

In 2021/22, Audit Scotland spent £32.2 million on operating expenditure to provide services for the Auditor General and the Accounts Commission. Of these costs £17.9 million was recovered through charges to audited bodies and other income. The balance of £14.3 million net operating expenditure plus net finance costs of £0.9 million were met from direct funding provided by the Scottish Parliament.

The 2021/22 financial year continued to be extremely challenging as we continued to deliver audit remotely. The additional funding approved for 2021/22 (£1.5 million) enabled us to implement a strategic improvement programme where we focused on developing a multiyear recovery plan from the Covid-19 disruption and invested in increasing capacity, professional support and providing ongoing support to colleagues wellbeing.

In the Spring Budget Revision 2021/22 we requested additional Annually Managed Expenditure funding of £6 million to meet the projected additional non-cash costs arising from the annual IAS 19 pension exercise. This also enabled us to arrange for a budget transfer of £0.3 million from projected revenue savings into the capital investment budget.

People costs represent 75 per cent of Audit Scotland's total operating expenditure, with the year-end highlighting an underspend to budget of £1.7 million. Included in this saving is £0.6 million in respect of IAS 19 non-cash pension expenditure. The balance of £1.1 million is mainly due to our phased approach to recruitment as we looked to use the additional funding to build the capacity required to develop a future operating model. While this generated timing savings in the financial year the additional funding has been fully committed on an annual basis. In addition to this we have been carrying a number of unplanned vacancies where we now have appointed candidates or we are in the process of identifying successful candidates.

Fees and expenses paid to external firms were £0.1 million less than planned. This was mainly due to a significant reduction in travel and expenses (£0.3 million) as all financial audit work by the firms continued to be delivered remotely. There was also a credit generated by releasing the remote audit provision balance from 2020/21 (£0.5 million). Payments to firms for additional work undertaken led to an overspend (£0.7 million) and this was funded by additional fee income recovered from the audited bodies following their agreement.

Other operating expenditure was £0.3 million below budget due to the continued significant reduction in travel and subsistence expenditure as audit work was done remotely. Overspends in ICT, recruitment and depreciation (£0.2 million) were fully funded by savings in property, other costs and legal, professional and consultancy. The ICT overspend was due to the requirement of additional software licences following the increase in staff numbers and the purchase of low value hardware to reconfigure office workstations. Recruitment costs were higher than budget as we look to recruit to senior positions within the organisation and depreciation was more than budget due to increased capital expenditure on shorter asset life equipment.

Operating income was £0.8 million less than budget due to a £1.3 million provision being raised in respect of potential fee refunds following the significant reductions in travel and expenses incurred by the firms and Audit Scotland. This provision is funded by the savings identified in Fees and expenses paid to external firms and Other operating expenditure. The actual outturn, excluding this provision adjustment, is £0.5 million better than budget.

In 2021/22, we delivered £1.6 million in savings, 4.6 per cent of our £35.8 million gross expenditure budget. Most savings came from travel and subsistence, staffing costs, printing and office costs and training expenditure.

Capital expenditure

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

The budget for 2021/22 was originally set at £0.3 million and following approval for the transfer of £0.3 million revenue budget to capital it increased to £0.6 million. Capital investment in 2021/22 was £0.6 million which supported our digital strategy for equipment to have enhanced cyber security and enabled us to invest in a cloud-based integrated business management system.

Resources required for 2022/23

The 2022/23 budget has been approved by the Scottish Parliament with revenue resources totalling £30.6 million. Of these resources, £19.2 million will be recovered through charges to audited bodies and miscellaneous income. The £11.4 million balance of expenditure will be met from direct funding provided by the Scottish Parliament.

Scottish Parliament additional funding continues to support our strategic improvement programme.

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



Stephen Boyle
Accountable Officer

6 June 2022

Accountability report

In this section of the report we set out:

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

Corporate governance report

Directors' report

Directors

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

Register of interests

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

Auditor of Audit Scotland

Our accounts must, under Section 19 of the Public Finance and Accountability (Scotland) Act 2000, be sent to the Scottish Commission for Public Audit (SCPA) for auditing. The SCPA appointed Alexander Sloan Accountants and Business Advisers as external auditors for a period of four years starting with the year to March 2022.

Statement of Accountable Officer's responsibilities

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

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

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

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

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

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

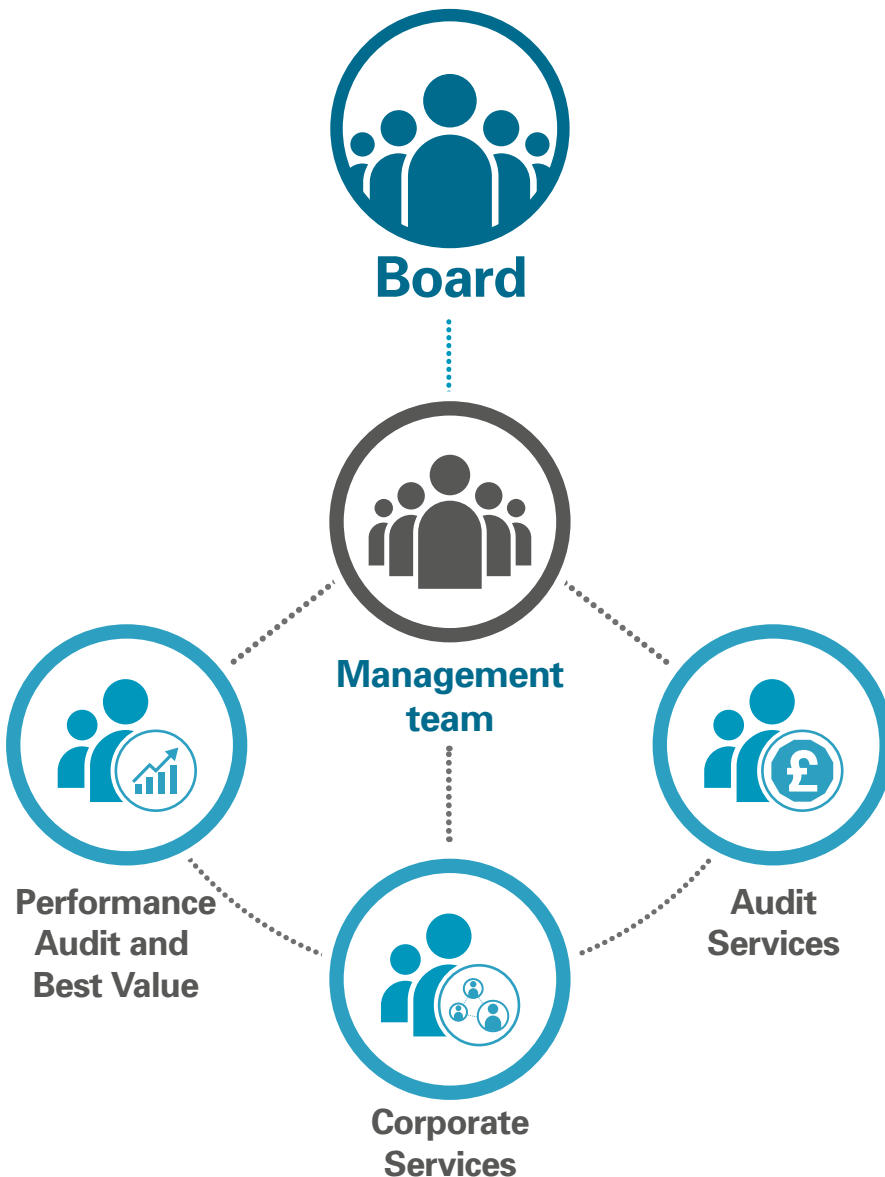
The Accountable Officer confirms that this annual report and accounts taken as a whole is fair, balanced and understandable. The Accountable Officer takes personal responsibility for the annual report and accounts and the judgements required for determining that it is fair, balanced and understandable.

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

Governance statement

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

Our governance and management framework



Board members



Professor Alan Alexander OBE

Chair of the board



Stephen Boyle

Auditor General for Scotland and Accountable Officer for Audit Scotland



Dr William Moyes

Chair of the Accounts Commission (from January 2022)



Colin Crosby OBE

Independent non-executive member and Chair of the Audit Committee



Jackie Mann

Independent non-executive member and Chair of the Human Resources and Remuneration Committee



Elma Murray OBE

Interim Chair of the Accounts Commission (until December 2021)

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 SCPA. The chair of the board and the board's committees are non-executive members.

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

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

Board committees

The board has two standing committees:

Audit committee

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

The audit committee comprises Colin Crosby (chair), William Moyes and Jackie Mann.

The committee appoints the internal auditors and approves the internal audit plan. Internal audit services are provided by an external firm (BDO). Six of the seven audits in 2021/22 achieved 'substantial assurance' in terms of design and operational effectiveness, the remaining audit achieved 'reasonable assurance'.

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. Its other duties include reviewing the measures for assessing the Management Team's performance, recommending Management Team appointments, assessing early retirement requests and overseeing Audit Scotland's expenses policy. The committee takes advice from external advisors as required.

The committee comprises Jackie Mann (chair), William Moyes, Colin Crosby and Stephen Boyle.

Attendance during between 1 April 2021 and 31 March 2022

Board

Six meetings across the year: May 2021, June 2021, September 2021, November 2021, January 2022, 5 April 2022

- Alan Alexander (attended all)
- Stephen Boyle (attended all)
- Colin Crosby (apologies for November 2021 Board meeting)
- Jackie Mann (attended all)
- Elma Murray (attended all with exception of Jan 2022 and Apr 2022 – both covered by William Moyes)
- William Moyes (attended Jan 2022 and April 2022)

Audit Committee

Five meetings across the year: May 2021, June 2021, September 2021, November 2021, March 2022

- Alan Alexander (not a member, but attended all as an observer)
- Stephen Boyle (not a member)
- Colin Crosby (attended all)
- Jackie Mann (attended all)
- Elma Murray (attended May 2021, June 2021, September 2021 and submitted apologies for Nov 2021)
- William Moyes (attended March 2022)

Management team

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

During 2021/22, the management team was made up of the Auditor General for Scotland, who is the Accountable Officer, and three executive directors. It normally meets on a weekly basis, takes business decisions and considers regular reports from managers on the progress towards meeting the organisation's objectives.

Parliamentary accountability

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

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

The SCPA appoints our 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 Accountants and Business Advisers.

In considering the 2022/23 budget proposal, the SCPA explored a number of areas including: the challenges facing public bodies and auditors due to the pandemic, the public audit funding model, the management contingency budget, auditing inequalities, recurring and non-recurring savings and legal and professional fees.

The SCPA recommended the 2022/23 budget to the Finance and Constitution Committee.

Governance framework

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

Risk management and control

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

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

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

The risk register is reviewed regularly by the management team and by the audit committee.

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

The key strategic risks are grouped according to our two 2021/22 strategic objectives:

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

The risk profile in 2021/22 was dominated by the Covid-19 pandemic and the challenges this posed to public services and to Audit Scotland. In addition to the arrangements outlined above, Covid-19 was a standing item for the weekly meetings of the Incident Management Team and Management Team to ensure that the situation was being monitored closely and regularly and that action was being taken as appropriate.

Delivering world-class public audit

The key risks in 2021/22 under this objective were around any failure to deliver the audits (due to disruption in the public bodies and to Audit Scotland), not meeting stakeholder expectations and/or the risk to the quality, independence, focus and impact of the audit work.

Being a world class organisation

The key risk under this objective was the health, safety and wellbeing of our colleagues and we prioritised this throughout 2021/22. The pandemic also heightened risks around our financial position, our digital infrastructure and our organisational capacity and how we deploy that capacity.

Many of the risks are interlinked; for example, risks to the health, safety and wellbeing of our staff have an impact on our organisational capacity to deliver the audit work. Similarly, a failure of quality would have a negative effect on our credibility and reputation, which would in turn undermine the value and impact of the work.

Information security

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

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

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

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

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

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

Fraud, corruption and bribery

Audit Scotland has policies and procedures on fraud, corruption and bribery which were updated in June 2019, and reviewed in May 2022. They include the counter-fraud policy; the staff and members' codes of conduct; the annual 'fit and proper review' which covers every member of staff; the terms and conditions for the supply of goods and services; and the broader financial governance arrangements.

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

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

We produce annual reports on fraud and bribery and hospitality and gifts. These are considered by the audit committee and this forms part of the annual assurance process. The 2021/22 report confirms that there were no instances of fraud or bribery identified or detected in Audit Scotland this year.

Review of effectiveness of internal control and risk management

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

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

- detailed budgeting processes with an annual budget approved by the board
- regular reviews by the board and the management team of financial reports covering progress towards financial targets

- annual reviews and updates to Standing Orders, Scheme of Delegation and Financial Regulations
- quarterly reviews of the corporate risk register
- detailed risk interrogations into specific risks
- programme of internal and external audit.

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

The system has been in place for the year ended 31 March 2022 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 2022 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

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

Remuneration policy

The Auditor General for Scotland

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

Audit Scotland Board

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

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

Remuneration banding (Audited)	2021/22 £000	2020/21 £000
Chair – Alan Alexander	10 – 15	10 – 15
Independent board member – Jackie Mann (from 1 July 2020)	5 – 10	5 – 10
Independent board member – Colin Crosby ¹ (from 1 October 2020)	5 – 10	0 – 5
Independent board member – Heather Logan ¹ (until 30 September 2020)	-	0 – 5

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

Accounts Commission for Scotland

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

All Commission member appointments are part-time and non-pensionable. The average number of members of the Commission throughout the period was 11 (11 in 2020/21) and their remuneration was as follows:

Remuneration banding (Audited)	2021/22 £000	2020/21 £000
Chair – William Moyes (from 01 January 2022) ¹	10 – 15	-
Interim Chair – Elma Murray (until 12 December 2021) ¹	30 – 35	25 – 30
Interim Deputy Chair – Tim McKay	15 – 20	10 – 15
Commission members	5 – 10	5 – 10

Note: 1. The full year equivalent remuneration is £45k – £50k

Audit Scotland staff remuneration

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

Management team



Stephen Boyle

Auditor General for Scotland and Accountable Officer for Audit Scotland



Diane McGiffen

Chief Operating Officer
(until 4 January 2022)



Fiona Kordiak

Director of Audit Services
(until 8 April 2022)



Fraser McKinlay

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



Antony Clark

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



Martin Walker

Interim Director of Corporate Services
(from 18 November 2021)

Following the departure of senior managers within the organisation, the Accountable Officer and Board are in the process of recruiting to these vacant positions. Interim arrangements have been put in place until the vacancies have been filled on a permanent basis.

The salaries (excluding employer's superannuation and national insurance contributions), benefits in kind and pension entitlements of the management team are shown on [pages 41-42](#). Information is presented for the whole year to 31 March 2022. Further information on the pensions payable to Audit Scotland staff, including senior management, can be found in [Note 3. Pension assets and liabilities \(page 65\)](#).

Single total remuneration (Audited)	2021/22	2020/21	2021/22	2020/21	2021/22	2020/21	2021/22	2020/21
	Salary £000	Salary £000	Benefit in kind ¹ £	Benefit in kind ¹ £	Pension benefit ² £000	Pension benefit ² £000	Total £000	Total £000
Stephen Boyle ³ Auditor General for Scotland	140 – 145	105 – 110	-	-	56	42	200 – 205	150 – 155
Caroline Gardner ⁴ Auditor General for Scotland (until 30 June 2020)	-	40 – 45	-	-	-	36	-	75 – 80
Diane McGiffen ⁵ Chief Operating Officer	95 – 100	125 – 130	-	-	-	39	95 – 100	165 – 170
Fraser McKinlay ⁶ Director of Performance Audit and Best Value and Controller of Audit	0 – 5	115 – 120	-	-	-	38	0 – 5	155 – 160
Fiona Kordiak Director of Audit Services	110 – 115	110 – 115	9,200	10,700	-	47	120 – 125	170 – 175
Antony Clark ⁶ Interim Director of Performance Audit and Best Value and Controller of Audit	115 – 120	5 – 10	-	-	144	3	260 – 265	10 – 15
Martin Walker ⁷ Interim Director of Corporate Services	40 – 45	-	-	-	37	-	75 – 80	-

Notes:

1. The estimated value of benefits in kind relates to tax benefits associated with the provision of vehicles. Values to the nearest £100.
2. The value of pension benefits accrued during the year is calculated as the real increase in pensions and applying the HMRC methodology multiplier of 20 plus the real increase in any lump sum. The real increases exclude increases due to inflation (3.1 per cent) and are net of contributions made by the individual.
3. 2020/21 full year equivalent salary £140,000 to £145,000.
4. 2020/21 full year equivalent salary £150,000 to £155,000.
5. 2021/22 full year equivalent salary £125,000 to £130,000.
6. 2020/21 and 2021/22 full year equivalent salary £115,000 to £120,000.
7. 2021/22 full year equivalent salary £110,000 to £115,000.

Pensions (Audited)	Accrued pension at 31 March 2022 £000	Accrued lump sum at 31 March 2022 £000	Real increase in annual pension £000	Real increase in lump sum £000	CETV at 31 March 2022¹ £000	CETV at 31 March 2021¹ £000	Real increase in CETV¹ £000
Stephen Boyle Auditor General for Scotland	5 – 10	NIL	2.5 – 5.0	NIL	63	27	26
Diane McGiffen Chief Operating Officer	55 – 60	80 – 85	0.0 – 2.5	–	1,083	1,026	47
Fraser McKinlay Director of Performance Audit and Best Value and Controller of Audit	30 – 35	15 – 20	-	-	422	407	14
Fiona Kordiak Director of Audit Services	45 – 50	85 – 90	-	-	-	1,060	-
Antony Clark Interim Director of Performance Audit and Best Value and Controller of Audit	30 – 35	25 – 30	5.0 – 7.5	5.0 – 7.5	564	415	137
Martin Walker Interim Director of Corporate Services	40 – 45	60 – 65	2.5 – 5.0	5.0 – 7.5	764	654	102

Note:

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

Fair pay disclosure (Audited)

Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid director in their organisation and the lower quartile, median and upper quartile remuneration of the organisation's workforce.

Total remuneration includes salary, non-consolidated performance-related pay and benefits-in-kind. It does not include severance payments, employer pension contributions or the CETV of pensions.

	2021/22	2020/21
Remuneration banding for highest paid individual	£140,000 – £145,000	£150,000 – £155,000
Percentage change from previous financial year for highest paid individual	-6.6%	+3.4%
Average percentage change from previous financial year for employees	-1.8%	+3.7%
Lower quartile remuneration	£31,103	£32,722
Lower quartile ratio	4.6	4.7
Median remuneration	£45,197	£45,909
Median ratio	3.2	3.3
Upper quartile remuneration	£57,257	£57,136
Upper quartile ratio	2.5	2.7
Remuneration range	£18,500 – £140,000 to £145,000	£18,000 – £150,000 to £155,000

The reduction in percentage change for the highest paid individual is due to a change of Auditor General for Scotland on 1 July 2020. The reduction in average percentage change for employees is due to the increase in full time equivalent staff (FTE) within the Band 1 pay scale being significantly higher proportionately compared to the rest of Audit Scotland. Following the FReM guidance the FTE used to calculate the average in this pay scale was 118.1 in 2020/21 and increased to 148.9 in 2021/22.

Pensions

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

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

Employment contracts

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

The information in the tables on [page 46](#) are covered by the audit opinion.

Staff report

	2021/22	2020/21	2019/20
People (WTE)	313.2	292	291
Gender	57% Female 43% Male	57% Female 43% Male	58% Female 42% Male
Board¹	40% Female 60% Male	40% Female 60% Male	40% Female 60% Male
Management team	50% Female 50% Male	50% Female 50% Male	75% Female 25% Male
Absence CIPD benchmarks ² 8 days public sector 4.3 days private services	5.75 days	5.82 days	4.97 days
Turnover rate³ CIPD benchmark: median rate of 16%	9.4%	5.09%	6.32%
Trainee auditors	51	44	43

Note:

1. Board changed in January 2022, to 20% female and 80% male.
2. Chartered Institute of Personnel and Development (CIPD).
3. As noted elsewhere in this report there are changes affecting the financing and organisation of Scotland's public services. We have taken steps to ensure as an organisation we are ready to cope with a corresponding change in demand for our services and to ensure the quality of our work in all areas.

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

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

In March 2022, staff headcount was 327 (313.23 WTE), compared with a headcount of 309 (292.34 WTE) in 2021.

People costs and numbers

People costs	2021/22 £000	2020/21 £000
Wages and salaries	14,384	13,531
Social Security costs	1,716	1,584
Superannuation	2,783	2,578
Temporary staff ¹	139	324
Pensions in payment (note 3c)	15	26
Provision for early retirement and severance costs	114	-
Movement in early retirement costs	(33)	126
Adjustment for retirement benefit scheme costs (see below)	4,643	2,145
	23,761	20,314
Accounts Commission members		
Salaries	135	142
National Insurance	6	6
Travel and subsistence	-	3
	141	151
	23,902	20,465

Notes:

1. Equivalent to 3 WTE in 2021/22 and 6 WTE in 2020/21.

Analysis of local government retirement benefit scheme costs	2021/22 £000	2020/21 £000
Current service costs	8,337	5,574
Past service costs	119	-
	8,456	5,574
Less: Actual employees' contributions	(1,021)	(955)
Charge to revenue	7,435	4,619
Employer contributions	(2,792)	(2,474)
Adjustment for retirement benefit scheme costs	4,643	2,145

Learning and development

Audit Scotland runs one of the largest public financial audit training schemes in Scotland. We have 51 trainees and staff working towards an ICAS qualification.

Sickness absence at Audit Scotland in 2021/22 is broadly comparable with the other UK public audit agencies. An average of 5.7 days per employee was lost to sickness absence.

Our primary focus in 2022/23 is to continue supporting colleagues as we develop our new hybrid operating model of working and investing in our resources to support our upcoming work on digital auditing, climate auditing and development of our colleague's skills to support these changes.

Organisational development

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

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

Early retiral and severance (Audited)

In the year to March 2022, one member of staff left under a voluntary early release arrangement where they were entitled to early access to pension. Under this arrangement Audit Scotland are required to meet the additional costs and not the Local Government Pension Scheme.

Exit package cost band	Number of arrangements	
	2021/22	2020/21
<£10,000	-	-
£10,001 – £25,000	-	-
£25,001 – £50,000	-	-
£50,001 – £75,000	-	-
£75,001 – £100,000	-	-
£100,001 – £125,000	1	-
Total costs disclosed in financial statements (£000)	114	-

Staff relations

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

The Trade Union (Facility Time Publication Requirements) Regulations 2017 came into force on 1 April 2017 and the information requirements of the Regulations for 2021/22 are disclosed in the tables below.

Relevant union officials

Number of employees who were relevant union officials during the relevant period	11
Full-time equivalent employee number	10.62

Percentage of time spent on facility time

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

Percentage of pay bill spent on facility time

Total cost of facility time	£34,480
Total pay bill	£18.922 million
Percentage of total pay bill spent on facility time	0.2%

Paid trade union activities

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

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

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

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

Colleagues, including those from minority backgrounds, helped create our refreshed Equality Outcomes for the next few years. We also worked with specialist external advisors, [Business in the Community](#) to obtain great 'outside-in' thinking.

We published our [Audit Scotland: Gender pay gap](#) report on 31 March 2022. The information is based on a snapshot date of 31 March 2021. Audit Scotland's workforce, at the snapshot date of 31 March 2021, comprises of 300 full pay employees, 128 men (42.67 per cent of the workforce) and 172 females (57.33 per cent of the workforce). Included in our overall headcount are 44 graduate trainees within our professional training scheme. The scheme is a key element in support of our talent development and long-term succession planning. Within the scheme, 21 trainees are male and 23 are female.

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

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

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

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

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

Community, social and human rights

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

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

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

Independent auditors' report

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

Opinion

We have audited the accounts of Audit Scotland for the year ended 31 March 2022 which comprise the Summary of Resource Outturn, Statement of Comprehensive Net Expenditure, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Taxpayers' Equity and the related notes 1 to 21. We have also audited the relevant disclosures in the Remuneration and Staff Report as required under the direction of the Scottish ministers. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the UK, and as interpreted and adapted by the 2021/22 Government Financial Reporting Manual (the 2021/22 FReM) and directions made by Scottish ministers.

In our opinion the accounts:

- give a true and fair view of the state of Audit Scotland as at 31 March 2022 and of its net resource outturn for the year then ended
- have been properly prepared in accordance with IFRSs as adopted by the UK, as interpreted and adapted by the 2021/22 FReM
- have been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and Directions by Scottish ministers issued thereunder.

Basis for opinion

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

Conclusions relating to going concern

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

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

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

Other information in the annual accounts

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

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

We have nothing to report in this regard.

Opinion on regularity

In our opinion in all material respects:

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

Opinion on other matters

In our opinion:

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

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

Responsibilities of the Accountable Officer

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

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

Auditor's responsibilities for the audit of the accounts

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Use of our report

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



Alexander Sloan

Accountants and Business Advisers
Edinburgh
6 June 2022

Financial statements

In this section of the report we set out:

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

Statement of Comprehensive Net Expenditure

Year ended 31 March 2022

	Note	2022 £000	2021 £000
People costs	Staff report	23,902	20,465
Fees and expenses paid to external firms	4	4,481	5,237
Other operating expenditure	4	3,871	3,921
Total operating expenditure		32,254	29,623
Operating income	5	(17,922)	(17,832)
Net operating expenditure		14,332	11,791
Net finance expenditure	6	939	767
Net expenditure before tax		15,271	12,558
Corporation Tax payable		-	-
Net expenditure after tax		15,271	12,558
Other comprehensive net expenditure			
Net (gains) / losses on pension schemes	3	(25,238)	9,382
Comprehensive net (income) / expenditure		(9,967)	21,940

Statement of Financial Position

As at 31 March 2022

	Note	2022 £000	2021 £000
Non-current assets			
Property, plant and equipment	7	969	811
Intangible assets	8	161	40
Total non-current assets		1,130	851
Current assets			
Trade and other receivables	9	2,823	2,721
Cash and cash equivalents	10	3,101	2,195
Total current assets		5,924	4,916
Total assets		7,054	5,767
Current liabilities			
Trade and other payables	12	6,431	5,351
Provision for early retirement and severance	14	105	102
Other provisions	16	1,320	1,106
Total current liabilities		7,856	6,559
Non-current assets plus/less net current assets/liabilities		(802)	(792)
Non-current liabilities			
Deferred liabilities	13	(374)	(533)
Provision for early retirement and severance	14	(1,640)	(1,745)
Other provisions	16	(543)	(443)
Net funded pension (liability)	3	(23,195)	(42,887)
Total non-current liabilities		(25,752)	(45,608)
Assets less liabilities		(26,554)	(46,400)
Represented by:			
Taxpayers' equity			
Net funded pension (liability)	3	(23,195)	(42,887)
General fund		(3,359)	(3,513)
		(26,554)	(46,400)



Stephen Boyle

Accountable Officer

6 June 2022

Statement of Cash Flows

Year ended 31 March 2022

	Note	2022 £000	2021 £000
Cash flows from operating activities			
Net (expenditure) after tax		(15,271)	(12,558)
Adjustment for non-cash items:			
– Depreciation	7,8	321	335
– Pension scheme – net revenue debit		5,546	2,873
Decrease/(increase) in trade and other receivables		(102)	(37)
(Decrease)/Increase in trade / other payables / deferred liabilities		15	768
(Decrease)/Increase in provisions for early retirement		(102)	62
Increase in other provisions		314	1,183
Net cash outflow from operating activities		(9,279)	(7,374)
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(467)	(139)
Purchase of intangible assets	8	(133)	–
		(600)	(139)
Cash flows from financing activities			
From Consolidated Fund (Supply)		10,785	8,500
Net (decrease)/increase in cash and cash equivalents in the period		906	987
Cash and cash equivalents at the beginning of period		2,195	1,208
Cash and cash equivalents at the end of period	10	3,101	2,195
Net cash requirement			
Cash flows from financing activities		10,785	8,500
Decrease / (increase) in cash		(906)	(987)
		9,879	7,513

Statement of Changes in Taxpayers' Equity

Year ended 31 March 2022

Changes in Taxpayers' Equity	Note	Net funded pension £000	General fund £000	Total £000
Balance at 31 March 2020		(30,632)	(1,341)	(31,973)
Transfers between reserves:				
– Transfer to net funded pension liabilities	Staff report	(2,145)	2,145	-
– Net return on funded pension assets	3	(728)	728	-
Net (losses) on pension schemes	3	(9,382)	-	(9,382)
Net (expenditure) after tax		-	(12,558)	(12,558)
Net funding from the Scottish Parliament	11	-	7,513	7,513
Balance at 31 March 2021		(42,887)	(3,513)	(46,400)
Transfers between reserves:				
– Transfer to net funded pension liabilities	Staff report	(4,643)	4,643	-
– Net return on funded pension assets	3	(903)	903	-
Net gains on pension schemes	3	25,238	-	25,238
Net (expenditure) after tax		-	(15,271)	(15,271)
Net funding from the Scottish Parliament	11	-	9,879	9,879
Balance at 31 March 2022		(23,195)	(3,359)	(26,554)

Notes to the accounts

1. Statement of accounting policies

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

a) Basis of accounting

The accounts have been prepared under the historical cost convention. Figures are presented in pounds sterling and are rounded to the nearest £1,000. 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 2022/23 has already been given and there is no reason to believe that future approvals will not be forthcoming. Accordingly, it is considered appropriate to adopt a going concern basis for the preparation of these financial accounts.

b) New accounting standards not yet effective

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

IFRS 16 – Leases

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

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

Audit Scotland has short-term leases for office space in Edinburgh, Glasgow and Inverness that will require an adjustment to the Statement of Financial Position for the recognition of a right of use asset and a liability for future lease payment commitments. The current estimate is that we will need to recognise a right of use asset and related liability of approximately £2.3 million for property leases.

In respect of vehicles Audit Scotland manages a closed scheme where eligible staff are able to lease a vehicle for a four-year period with Audit Scotland making an agreed annual contribution towards lease costs. The current estimate is that we will need to recognise a right of use asset and related liability of approximately £0.3 million for vehicle leases.

c) Non-current assets

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

d) Depreciation

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

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

e) Amortisation of rent-free periods

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

f) Operating income

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

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

g) Work in progress

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

h) Operating leases

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

i) Value Added Tax (VAT)

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

j) Pension arrangements

Audit Scotland complies with the requirements of International Accounting Standard No 19 (IAS 19) for the year ended 31 March 2022. Audit Scotland makes pension provision for present and former employees through two pension schemes. Employees joining Audit Scotland after 1 April 2000, and those transferring to Audit Scotland from the Accounts Commission, have benefits provided through the Local Government Pension Scheme. Employees transferring to Audit Scotland at 1 April 2000 from the NAO are covered by the provisions of the Principal Civil Service Pension Scheme. The Auditor General for Scotland has benefits provided through the Principal Civil Service Pension Scheme.

k) Key sources of judgement and estimation uncertainty

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

- Revenue recognition is based on time charged to audits adjusted where applicable to reflect the stage at which completion of work is done. At the year-end an assessment is undertaken to consider the reasonableness of income recognised in the Statement of Comprehensive Net Expenditure. Income recognised in advance of invoices being raised is treated as Work in Progress ([Note 9](#)). Invoices raised in advance of work being done is treated as Deferred Income ([Note 12](#)).
- Provisions have been made where in the opinion of management it is more likely than not that a financial liability exists which cannot be accurately quantified at present ([Notes 14](#) and [16](#)).
- Estimation of the net pension liability is based on a number of complex judgements including the discount rate, salary increase rate, retirement ages, mortality rates and expected returns on pension fund assets. The actual pension liability figure has been variable over time and [Note 3](#) provides more detail on the current net pension liability.

2. People costs and numbers

	2022 £000	2021 £000
Wages and salaries	14,658	14,000
Social Security and Employment Tax costs	1,722	1,590
Pension and early retirement / severance costs	7,522	4,875
	23,902	20,465

More details on staff numbers and related costs can be found in the [Staff Report \(page 45\)](#).

3. Pension assets and liabilities

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

a) Local Government Pension Scheme

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

The following valuations have been provided by Hymans Robertson LLP, the independent actuaries to Lothian Pension Fund. The financial and actuarial assumptions used for the purposes of their IAS 19 calculations as at 31 March 2022 were as follows:

	2022 %	2021 %
Salary increases	3.70	3.35
Pension increases	3.20	2.85
Discount rate	2.70	2.00

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

	Male years	Female years
Current pensioners	20.3	23.1
Future pensioners	21.6	25.0

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 2022 have been prepared by Hymans Robertson LLP.

The movement in the funded part of the net pension liability for the year to 31 March 2022 is as follows:

	Period ending 31 March 2022		
	Assets	Obligation	Net (Liability)/ Asset
	£000	£000	£000
Fair value of employer assets	122,995	-	122,995
Present value of funded liabilities	-	165,882	(165,882)
Opening position as at 1 April 2021	122,995	165,882	(42,887)
Current service cost	-	7,316	(7,316)
Past service cost	-	119	(119)
Total service cost	-	7,435	(7,435)
Interest income on plan assets	2,472	-	2,472
Interest cost on defined benefit obligation	-	3,375	(3,375)
Total net interest	2,472	3,375	(903)
Total defined benefit cost recognised in Statement of Comprehensive Net Expenditure	2,472	10,810	(8,338)
Employee contributions	1,021	1,021	-
Employer contributions	2,792	-	2,792
Benefits Paid	(2,423)	(2,423)	-
Total cashflows	1,390	(1,402)	2,792
Expected closing position	126,857	175,290	(48,433)
Change in demographic assumptions	-	(968)	968
Change in financial assumptions	-	(13,103)	13,103
Other experience changes	-	283	(283)
Return on assets excluding amounts included in net interest	11,450	-	11,450
Total remeasurements recognised in Other Comprehensive Income	11,450	(13,788)	25,238
Fair value of employer assets	138,307	-	138,307
Present value of funded liabilities	-	161,502	(161,502)
Closing position as at 31 March 2022	138,307	161,502	(23,195)

Information in respect of the defined benefit obligation	£000	Liability split %	Duration Years
Active members	95,103	58.9	27.0
Deferred members	24,571	15.2	26.7
Pensioner members	41,828	25.9	13.0
Total	161,502	100.0	22.7

Statement of Comprehensive Net Expenditure (SOCNE): The net charge to SOCNE of £5,546k is based on the financial conditions at the start of the year (ie, assumptions as at last year's Accounting Date). The Current Service Cost and net interest cost for this year is broadly in line with the projections made at last year's Accounting Date. The projected charge to SOCNE for next year is likely to decrease compared to the charge for this year as a result of the higher net discount rate at the Accounting Date.

Return on assets: In the period to the Accounting Date, investment returns have been £11,450k greater than expected (compared to last year's accounting discount rate assumption). This has led to a positive 'Return on assets excluding amounts included in net interest' line within the Results Schedule.

Obligations: The remeasurements in the obligations roll-forward are split into three separate parts to differentiate between 'Changes in financial assumptions', 'Changes in demographic assumptions' and 'Other experience'.

As at the Accounting Date, the net discount rate (discount rate net of inflation) has increased compared to the previous year's Accounting Date. The discount rate assumption has increased by more than the increase in CPI assumption. In isolation, this resulted in a gain on the balance sheet as at the Accounting Date of £13,103k, shown in the 'Changes in financial assumptions' within the Balance Sheet of the Results schedule. As a medium duration LGPS employer, this is in the order of 6%-8% of obligations.

Using a more up-to-date longevity assumption at the Accounting Date leads to a gain on the obligations of £968k. Whilst the actual impact of this charge is Employer specific (due to the individual membership profile for each Employer), on average this leads to a decrease in obligations in the order of 0.5% under the 'Changes in demographic assumptions'.

The 'Other experience' item captures the small loss of £283k by applying the actual Pensions Increase Order for April 2022 of 3.1%, as it is slightly higher than the pension increase rate assumption built into the obligations at the start of the accounting period.

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

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

Ukraine War: The effect of the Ukraine war on the accounting position is quite small. In summary:

- In the immediate aftermath of the invasion, there was a significant fall in the Fund's asset values. However, over the remainder of March 2022, the Fund's assets will have broadly recovered to similar levels to before the invasion.
- Some LGPS Funds had a direct Russian investment exposure which may have been written down, however these typically are a very small proportion (<0.2%) of the Fund's overall assets.
- The accounting assumptions (bond yields and inflation) are based on market expectations at 31 March 2022, which were shaped by all global events including the war in Ukraine, and will therefore affect the value placed on obligations.

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

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

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

Asset Category	At 31 March 2022				At 31 March 2021			
	Quoted Prices in Active Markets £000	Prices not quoted in Active Markets £000	Total £000	%	Quoted Prices in Active Markets £000	Prices not quoted in Active Markets £000	Total £000	%
Equity Securities:								
Consumer	17,014.9	-	17,014.9	12	15,367.7	-	15,367.7	12
Manufacturing	18,304.5	-	18,304.5	13	17,958.8	-	17,958.8	15
Energy and Utilities	7,635.3	-	7,635.3	6	6,622.3	-	6,622.3	5
Financial Institutions	7,971.2	-	7,971.2	6	8,381.2	-	8,381.2	7
Health and Care	9,580.5	-	9,580.5	7	8,382.6	-	8,382.6	7
Information Technology	6,284.6	-	6,284.6	5	5,877.0	-	5,877.0	5
Other	10,311.2	-	10,311.2	7	9,874.1	-	9,874.1	8
Debt Securities:								
Corporate Bonds (investment grade)	-	-	-	0	-	66.9	66.9	0
UK Government	12,078.1	-	12,078.1	9	7,419.4	-	7,419.4	6
Other	2,594.2	-	2,594.2	2	-	-	-	0
Private Equity:								
All	14.5	635.8	650.3	0	-	19,285.8	19,285.8	16
Real Estate:								
UK Property	1,287.7	6,023.8	7,311.5	5	-	6,428.6	6,428.6	5
Overseas Property	-	39.0	39.0	0	-	46.1	46.1	0
Investment funds and Unit trusts:								
Equities	2,377.4	106.9	2,484.3	2	1,768.9	-	1,768.9	1
Bonds	2,599.1	3,877.5	6,476.6	5	2,729.5	-	2,729.5	2
Infrastructure	-	14,022.8	14,022.8	10	-	98.7	98.7	0
Derivatives:								
Foreign exchange	6.6	-	6.6	0	(13.1)	-	(13.1)	0
Cash and cash equivalents:								
All	15,541.4	-	15,541.4	11	12,700.5	-	12,700.5	10
Totals	113,601	24,706	138,307	100	97,069	25,926	122,995	100

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

Sensitivity analysis at March 2022	Approx.% increase to employer obligation	Approx. monetary amount £000
0.1% decrease in real discount rate	2	3,568
1 year increase in member life expectancy	4	6,460
0.1% increase in salary increase rate	0	502
0.1% increase in pension increase rate	2	3,036

During the year ended 31 March 2022, Audit Scotland's contribution to the pension fund represented 19.4% (2021 – 18.7%) of contributing employees' pensionable pay. In addition, a lump sum payment of £77k was paid in 2021 to meet past service cost deficits. Under Superannuation Regulations, contribution rates are set to meet 100% of the overall liabilities of the fund.

The latest triennial valuation undertaken by Hymans Robertson LLP as at 31 March 2020 recommended employers' contributions be set at 19.4% over the next three-year period from 2021/22 to 2023/24. The estimate for employer contributions in 2022/23 based on the new rate will be approximately £2,678k.

b) PCSPS scheme

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

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

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

During the year ended 31 March 2022, Audit Scotland paid an employer's contribution of £104k (2021 – £104k) into the PCSPS at one of four rates in the range 26.6% to 30.3% of pensionable earnings, based on salary bands.

The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2021-22 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Audit Scotland has been advised that employer's contributions in 2022/23 will continue at the rates in the range 26.6% to 30.3%.

c) By analogy scheme

Robert W Black retired as Auditor General for Scotland, on 30 June 2012. Until that time his pension benefits were provided by analogy to the Local Government Pension Scheme. Pension payments made in 2021/22 reduced to £15k (2020/21 – £26k) following the death of Mr Black in October 2021.

d) Early departure costs

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

4. Other operating expenditure

	£000	2022 £000	2021 £000
Fees and expenses to appointed audit firms:			
Local authorities	2,371		2,139
National Health Service bodies in Scotland	903		904
Further education colleges	598		482
Scottish Government and sponsored bodies	1,106		826
Additional audit costs (note 16)	(497)		886
		4,481	5,237
Other:			
Rent and rates	487		730
Other accommodation costs	431		377
Travel and subsistence	323		351
Legal and other professional fees	636		768
Stationery and printing	78		60
Training	452		367
Staff recruitment	235		164
Communications (telephone, postage)	54		41
Insurance	94		77
Information technology	666		566
Internal Audit	26		27
External Audit – financial accounts	30		31
Other	38		27
Non-cash items: Depreciation – tangible assets (note 7)	309		306
Depreciation – intangible assets (note 8)	12		29
		3,871	3,921
		8,352	9,158

Rent and rates includes £333k in respect of contractual property lease payments (2020/21 – £352k) [\(Note 15\)](#). The Edinburgh office rent review has been agreed based on current market conditions in Edinburgh and a backdated payment effective from the review date of 1 April 2020 is included in this total. The accounts reflect this payment less the provision raised in 2020/21 [\(Note 16\)](#).

5. Operating income

	2022 £000	2021 £000
Fees and charges payable by:		
- Local authorities	12,509	11,559
- National Health Service bodies in Scotland	3,053	2,773
- Further education colleges	703	597
- Scottish Government and sponsored bodies	2,966	2,902
- Rebate (note 16)	(1,320)	0
	17,911	17,831
Miscellaneous income	11	1
	17,922	17,832

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

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

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

Fee income in the current period of £1,271k (2020/21 £1,111k) was included in the opening contract liability (payment on account).

At 31 March 2022 forecast future income on audits still in progress is £13,887k (31 March 2021 £13,387k). The typical audit cycle is a year and therefore we expect to recognise this income in 2022/23.

6. Net finance expenditure

	2022 £000	2021 £000
Interest income on pension scheme assets	2,472	2,406
Interest cost on pension scheme defined obligations	(3,412)	(3,174)
Bank interest	1	1
	(939)	(767)

7. Property plant and equipment

	Leasehold premises £000	Furniture and fittings £000	Computer equipment £000	Total £000
Cost				
At 1 April 2021	1,339	286	629	2,254
Reclassified in year	-	-	-	-
Additions	-	-	467	467
Disposals	-	-	(4)	(4)
At 31 March 2022	1,339	286	1,092	2,717
Depreciation				
At 1 April 2021	845	265	333	1,443
Charge for the year (note 4)	149	10	150	309
Depreciation on disposals	-	-	(4)	(4)
At 31 March 2022	994	275	479	1,748
Net Book Value				
At 31 March 2022	345	11	613	969
Analysis of asset financing				
Owned	345	11	613	969

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

Non-current assets are held at fair value. Depreciated historic cost has been used as a proxy for fair value due to the low value and short life of the assets held.

8. Intangible assets

	Software	
	2022 £000	2021 £000
Cost		
At 1 April	129	134
Reclassified in year	-	-
Additions	133	-
Disposals for year	-	(5)
At 31 March	262	129
Depreciation		
At 1 April	89	65
Charge for the year (note 4)	12	29
Disposals for year	-	(5)
At 31 March	101	89
Net Book Value at 31 March	161	40

9. Trade and other receivables

	£000	2022 £000	2021 £000
Amounts falling due within one year:			
Trade receivables:			
- Central Government bodies	60		27
- Local authorities	355		643
- NHS bodies in Scotland	137		58
- Bodies external to government	3		-
	<hr/>	555	728
Work in progress in advance of billing		1,532	1,287
VAT		142	150
Prepayments		594	556
		<hr/> 2,823	<hr/> 2,721

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

10. Cash and cash equivalents

	2022 £000	2021 £000
Balance at 1 April	2,195	1,208
Net change in cash and cash equivalents	906	987
Balance at 31 March	3,101	2,195
The following balances at 31 March were held at:		
- Commercial banks	3,101	2,195

11. Net funding from the Scottish Parliament

	2022 £000	2021 £000
Opening cash balance payable to the Consolidated Fund	2,195	1,208
Funding received from the Consolidated Fund	10,785	8,500
Closing cash balance payable to the Consolidated Fund	(3,101)	(2,195)
Net funding from the Scottish Parliament	9,879	7,513

12. Trade payables and other current liabilities

	£000	2022 £000	2021 £000
Amounts falling due within one year:			
Trade payables:			
- Central Government	-		-
- Local authorities	-		11
- NHS bodies in Scotland	-		-
- Bodies external to government	392		296
		392	307
- Cash balance payable to Consolidated Fund		3,101	2,195
- Deferred income		1,271	1,111
- VAT		77	108
- Corporation Tax		-	-
- Accruals		378	385
- Staff benefits – untaken holidays		1,053	1,086
- Rent-free period on premises – current liability (note 13)		159	159
		6,431	5,351

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

13. Deferred liabilities

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

	2022 £000	2021 £000
Opening balance at 1 April		
Current	159	159
Deferred	533	692
	692	851
Additions	-	-
Released during year	(159)	(159)
Closing balance at 31 March	533	692
Whereof:		
- Current	159	159
- Deferred	374	533
	533	692

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:

	2022 £000	2021 £000
Opening balance at 1 April	1,847	1,785
Additions	-	-
Utilised in year	(105)	(104)
Revaluation	3	166
Closing balance at 31 March	1,745	1,847
Payable within 1 year	105	102
Payable after 1 year	1,640	1,745
	1,745	1,847
Discount rate used	2.7%	2.0%

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 2022 was £259k (31 March 2021 – £277k).

15. Commitments under leases

During the period to 31 March 2022, the amounts charged to revenue in respect of operating leases for premises and vehicles were as follows:

	2022 £000	2021 £000
Premises (note 4)	333	352
Vehicles	347	386
	680	738

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

	2022 £000	2021 £000
Premises		
Within one year	453	352
Later than one year and not later than five years	1,056	1,135
Later than five years	38	108
	1,547	1,595
Vehicles		
Within one year	278	319
Later than one year and not later than five years	277	415
	555	734

Audit Scotland has no finance leases.

16. Other provisions

Other provisions comprise additional remote audit costs and expenses, rent review costs and property dilapidations.

Remote audit and expenses: Indications from auditors in financial year 2020/21 suggested that remote audit added approximately 25% to the time and cost of a large number of audits and a provision of £886k was raised to meet this additional unplanned expenditure. Following detailed review of the estimated costs Audit Scotland concluded negotiations and agreed a final settlement of £389k with the £497k balance of the provision released in 2021/22. A new provision of £1,320k has been raised to meet a legal obligation to rebate audit fees for an element of our 'pooled costs' charges. This arises due to the significant reduction in cost of in-house and firm's expenses in relation to travel and subsistence. Further analysis is required to quantify this financial liability accurately and a provision has therefore been included within the accounts.

Rent review: The West Port office in Edinburgh was scheduled for a rent review on 1 April 2020 as part of the lease agreement. Due to the pandemic Audit Scotland received the landlord's opening proposal during the closure of the 2020/21 accounts. There was a financial liability that could not be accurately quantified at the time and a provision was therefore raised. A settlement for the rent review was agreed in December 2021 and this provision has subsequently been released in the 2021/22 accounts.

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

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

	2022 £000	2021 £000
Opening balance at 1 April	1,549	366
Provided in year	1,420	1,183
Released in year	(1,106)	–
Closing balance at 31 March	1,863	1,549
Payable within 1 year	1,320	1,106
Payable after 1 year	543	443
	1,863	1,549

17. Related party transactions

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

18. Events after the reporting period

There have been no significant events after 31 March 2022 that require adjustment to, or disclosure in, the financial statements.

The financial statements were authorised for issue by the Auditor General for Scotland on 6 June 2022.

19. Contingent liabilities

At 31 March 2022, there were no contingent liabilities.

20. Capital commitments

At 31 March 2022, there was a capital commitment of £15,922 (including VAT not recoverable) on the contract for the Business Management System.

21. Segmental reporting

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

Direction by the Scottish ministers

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

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

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

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

Signed by the authority of the Scottish ministers

17 January 2006

Annual report and accounts 2021/22

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit: www.audit-scotland.gov.uk/accessibility

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Audit Scotland Audit summary report for the year ended 31 March 2022

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Scope

As the External Auditor we are required by legislation to report to the Scottish Commission for Public Audit (the ‘Commission’) our findings from the annual audit of the Accounts of Audit Scotland. The purpose of this report is to summarise for the Commission the key issues arising from our audit of the Accounts for the year ended 31 March 2022.

Acknowledgements

We would like to thank the management and staff of Audit Scotland for their assistance and co-operation during the audit.

Audit Opinion

The scope of an external audit is set by the Financial Reporting Council. The main objective of the audit is to form an opinion as to whether the Accounts of Audit Scotland give a true and fair view of the state of affairs of Audit Scotland at 31 March 2022 and of its net resource outturn for the year, and confirm that the Accounts are prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and Directions by Scottish Ministers.

Responsibilities

The responsibilities of Audit Scotland and ourselves as auditors are set out within the audit report.

Letter of Representation

Our audit opinion is based on the signing of the letter of representation and the accounts by the Accountable Officer and no further significant events arising up to the point of signing the audit report. The letter of representation has been sent to Audit Scotland for approval by the Accountable Officer.

Fraud

Although we are required under International Standards on Auditing to consider fraud when carrying out our audit, the purpose of our audit is not the detection of fraud. Responsibility for the prevention and detection of fraud rests with the Accountable Officer who should not rely wholly on the external audit function to discharge these responsibilities.

Scope of Audit

Our audit report is made solely to the Scottish Commission for Public Audit, as a body, in accordance with Section 25 of the Public Finance Accountability (Scotland) Act 2000. Our audit work is undertaken so that we might state to the Scottish Commission for Public Audit those matters we are required to state to them in an auditor's 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 for our audit work, for the audit report, or for the opinions we form.

Audit Independence and Ethics

We can confirm that we have complied with the FRC ethical standards and the ethical safeguards as set out in the Audit Plan.

Audit Plan

The Audit Plan for the period ended 31 March 2022 sets out any matters that we are required to inform you of under the Financial Reporting Council (FRC) Ethical Standard and International Standard on Auditing (UK) 260: “Communication with those charged with governance”. We can confirm that as far as we are aware there are no changes to these matters or any further issues that may reasonably be thought to bear on the objectivity and independence of the audit team.

Ethical Assurance

We can specifically confirm:

- the firm is not dependent on the audit fees;
- the firm is not owed significant overdue fees;
- there is no actual or threatened litigation between the firm and Audit Scotland;
- no benefits have been received by the audit team which are not modest;
- the firm does not have any mutual business interest with Audit Scotland or the Scottish Commission for Public Audit;
- no members of the audit team have any personal or family connections with Audit Scotland, the Scottish Commission for Public Audit or their officers.

At the conclusion of the audit we have also conducted a review of our independence and objectivity. In our professional opinion, our independence and objectivity has not been compromised and the firm has acted in accordance with the FRC Ethical Standard.

Key Audit Issues

We have set out below how we have dealt with the key audit issues and risks during the course of the audit.

Risks identified during audit planning	Resolution
Management Override of Controls International Standard on Auditing (UK) 240 requires us to treat management override of financial controls as a significant risk.	Our audit work did not identify any material override of financial controls.
Revenue Recognition ISA (UK) 240 requires the auditor to presume that there are risks of fraud in revenue recognition.	Our audit work did not identify any material misstatement of revenue.
Key Accounting Estimates As in previous years, the financial statements of Audit Scotland for the year ended 31 March 2022 include a number of key estimates. Key estimates include provisions in respect of fee rebates and pension assumptions as well as work in progress, which is considered below.	We have reviewed supporting documentation and assumptions in respect of the key accounting estimates and are satisfied that the provisions are not materially misstated.
Work In Progress As set out in our planning letter our audit involved a detailed review of the work in progress balance.	We have reviewed Audit Scotland's work in progress and are satisfied that the balance is not materially misstated.
Covid-19 Pandemic There is a risk that the operations of Audit Scotland could be adversely impacted as a result of the Covid-19 outbreak.	We have discussed the impact of Covid-19 with senior management of Audit Scotland. Based on the work carried out we are satisfied this does not impact our audit report.

Qualitative Aspects of the Financial Statements

We have considered the key qualitative aspects of the financial statements and are satisfied these are reasonable.

Qualitative Aspects	Audit Findings
<p>Accounting Policies FReM requires that entities should review their accounting policies regularly to ensure they are appropriate to its particular circumstances for the purposes of giving a true and fair view. As part of the audit we consider the appropriateness of these policies.</p>	<p>We have reviewed the significant accounting policies and are satisfied that they are reasonable and appropriate to Audit Scotland's circumstances.</p>
<p>Accounting Estimates and Judgements FReM requires that entities should use estimates and judgements appropriate to its particular circumstances for the purposes of giving a true and fair view. As part of the audit we consider the appropriateness of these estimates and judgements.</p>	<p>We have reviewed the significant accounting estimates and judgments and are satisfied that they are reasonable and appropriate to Audit Scotland's circumstances.</p>
<p>Timing of Transactions Audit Scotland are responsible for having accounting systems in place which accurately record financial transactions. During the audit we consider whether transactions have been recorded within the correct period.</p>	<p>No material recording issues were identified during the course of the audit.</p>
<p>Going Concern The Accountable Officer is responsible for assessing whether Audit Scotland is a going concern for 12 months from the date of signing of the audit report. As auditors we review the Accountable Officer's assessment and whether we believe it is appropriate.</p>	<p>During our audit we have considered Audit Scotland's assessment that the organisation is a going concern. Based on discussions with the Management team, review of budgets and as there is no expectation that funding will be withdrawn, we are satisfied that the organisation's assessment is appropriate.</p>

Qualitative Aspects of the Financial Statements (continued)

Qualitative Aspects	Audit Findings
Disclosures Audit Scotland is responsible for the preparation of their financial statements. We consider whether they are presented in accordance with Financial Reporting Manual (FReM).	We did not identify any material disclosure errors within Audit Scotland's financial statements.

Adjustments to the Financial Statements

We have considered the impact on the audit report of any potential adjustments identified during the course of the audit.

Scope

During the course of our audit we may identify potential adjustments to the financial statements. All potential adjustments, which are not trivial, are discussed with the Accountable Officer. The decision as to whether to adjust the financial statements lies with the Accountable Officer as responsibility for the financial statements lies with the Accountable Officer. As auditor, when preparing our audit report, we will consider whether the financial statements are materially misstated.

Internal Controls

We can confirm that we have complied with the FRC Ethical Standard and the ethical safeguards as set out in the Audit Planning document.

Scope

During the audit we will consider if we have identified any control weaknesses, from our work, which are of sufficient importance to be brought to the attention of the Scottish Commission for Public Audit. It should be noted that the matters dealt with in this report came to our attention only during the normal course of our audit work and not as a result of a special review of Audit Scotland's systems, procedures and controls. The findings in this report are not designed to be a complete record of weaknesses in your system.

Responsibility

Overall responsibility for maintaining adequate financial reporting systems and systems of internal control, as well as for the prevention and detection of fraud, irregularities, and other errors, rests with the Accountable Officer.

Management

Please note that any control weaknesses noted are not intended to reflect in any way on the integrity or competence of any member of Audit Scotland's staff from whom we have received every assistance and co-operation.

Findings

We are pleased to note there are no control weaknesses for us to report following the audit.

Other Matters

Future Issues

Please see our website www.alexandersloan.co.uk for further issues that may impact Audit Scotland.

Internal Audit

As part of our audit work we have reviewed the Internal Audit Reports on the controls within Audit Scotland and held regular meetings with Audit Scotland's Internal Auditors.

Having an effective working relationship with the Internal Auditors has helped us to gain a greater understanding of Audit Scotland and its control environment.



A Greener Audit

The firm is committed to minimising its impact on the environment in the services that it provides. The following measures have been put in place to minimise the carbon footprint of your audit:



Paperless Audit

The audit was entirely paperless. The work was carried out electronically and will be stored electronically.



Travel

We did not travel to your premises to carry out audit work and the majority of work was carried out by staff working from home.



Reporting

All our reporting to you, including our audit report, was provided to you electronically.



Meetings

All meetings were carried using video conferencing applications.



Power

We use cloud based servers from a company that has net zero emissions.



Commitment

We are committed to further reducing our carbon footprint.

We aim to further develop this process and will seek to report to you annually on the environmental impact of our audit and will, where appropriate, make recommendations where improvements could be made to your systems that will have an environmental benefit.

Contacts

Should you require any further information regarding any matter raised in the report, then please contact one of your key contacts as set out below:

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Alexander Sloan is registered to carry on audit work and regulated for a range of investment business activities by the Institute of Chartered Accountants of Scotland.

Quality of public audit in Scotland

Annual report 2021/22



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Key messages

Operating environment

1. During 2021/22, the Scottish Government delayed the accounting and auditing deadlines for a second year, for NHS and local government bodies, to support the recovery from the pandemic. The Auditor General for Scotland and Accounts Commission revised their work programme and prepared further Covid-19 specific reports and briefing papers to support public bodies and auditors respond to the pandemic.

2. Much of the audit work covered by this report was completed in the context of ongoing and changing pandemic restrictions during the 2020/21 audit year. The Auditor General for Scotland and Accounts Commission recognised that the safety and wellbeing of audit staff and staff in public bodies remained paramount and that auditors would need to take a pragmatic and flexible approach to their work in 2021 and 2022. They were also clear that audit quality should not be compromised.

Overall conclusion

3. **The Audit Quality Framework (AQF) continues to identify good practice and areas to improve audit quality.** The framework uses a broad range of tools to assess audit quality including external and internal 'cold' reviews, 'hot' reviews, peer reviews and surveys of audited bodies and auditors. Based on this range of evidence the Audit Quality and Appointments team (AQA) concludes that the quality of audit work is:

- good in performance audit and Best Value audit
- good in accountancy firms however improvement is required in Mazars internal cold review scores
- improving in financial audit work carried out by Audit Scotland's Audit Services Group (ASG).

4. The improvement in quality scores provides a clear indication that high-quality standards are being achieved and that quality improvement plans are taking effect. Further work continues in some areas to ensure that all of the audit work meets the recognised standards expected by all our stakeholders and in particular by the Auditor General for Scotland and the Accounts Commission.

Areas of good practice identified

5. **All of the performance audit and Best Value audits reviewed achieved the expected quality standards.** 2020/21 was the second audit year that the

performance audit methodology has been aligned to comply with the International Organisation of Supreme Audit Institutions (INTOSAI) standards. ICAS recognised the significant improvement in performance audit and Best Value assurance teams since 2017 for this type of audit engagement.

6. Two of the financial audits reviewed were awarded the highest scores available by The Institute of Chartered Accountants of Scotland (ICAS).

7. All accountancy firms subject to an independent ICAS review in the last three years have met the expected quality standard for financial audit.

8. For the 2020/21 audit year seven of the eleven ASG financial audits reviewed met the expected quality standard (64 per cent). This is an improvement on 2019/20 results, when 36 per cent met the expected standard. This year's results demonstrate the effectiveness of the improvement actions taken by Audit Scotland over the past year. There is still work to do to meet the 80 per cent target and this will continue to be monitored and reported on in next year's QPAS report.

9. The surveys of auditors provide evidence that there continues to be a strong culture of support for performing high-quality audit and that audit organisations are continuing to invest in staff training.

10. Stakeholder feedback shows high levels of satisfaction with external audit services provided, the usefulness of the annual audit report, and indicates that the audit work has had impact.

Areas for improvement

11. Audit staff within most audit providers continue to report concerns that they do not feel they have sufficient time and resources to deliver high-quality audit work. There is some evidence that the plans put in place by audit providers in response to these concerns have improved matters, but more time is needed to see if capacity building has been fully effective. There is evidence of a shortage of skilled and qualified audit staff available in the auditing profession and this capacity risk will need to be managed carefully.

12. ASG should carry out a root cause analysis to understand the common findings and reasons behind their quality review gradings in 2020/21 and develop an action plan to address these. This action plan should include sharing both the good practice identified through the quality reviews and the areas within the audits requiring improvement. ASG has invested in quality activity over the year, and it is recognised that some of the results of this will not be apparent until the next audit cycle. AQA will continue to monitor and report on this in the next annual report.

13. Mazars should carry out a root cause analysis to understand the reasons behind its internal quality review gradings not meeting the expected standard over a three-year period and develop an action plan to address these.

Audit quality and appointments team action

14. 2021/22 is the final year of the current appointment round and audits subject to a quality review within this version of the AQF. The AQA team will undertake a review of the effectiveness of the current AQF with stakeholders and develop a new AQF for the start of the next audit cycle under the [2021 Code of Audit Practice](#). This follows a successful audit procurement exercise where six firms have been secured to carry out annual audit alongside ASG from 2022/23 to 2026/27.

Introduction

Audit Quality and Appointments

The team responsible for this report consisted of Owen Smith and John Gilchrist under the direction of Elaine Boyd.

15. The [Audit Quality Framework](#) (AQF) sets out Audit Scotland's approach to achieving world-class public audit quality across all audit work and providers. The Audit Quality and Appointments (AQA) team prepares this report to provide assurance on audit quality, including compliance with the [Ethical Standard](#), to the Auditor General for Scotland and the Accounts Commission. AQA does not conduct audit work and is independent from auditors.

16. This report summarises AQA's assessment of audit quality carried out on audit work, delivered by Audit Scotland and the six appointed firms, on behalf of the Auditor General for Scotland and the Accounts Commission on the 2020/21 audits. The report provides evidence that auditors have designed and implemented audit quality arrangements to assure the quality of their audit work. The report also highlights areas for further improvement.

Public audit in Scotland

17. The public audit model in Scotland is fundamentally different to the audit of private sector companies. The Auditor General for Scotland and the Accounts Commission set out the principles and themes of public audit in Scotland and how it fits with, and responds to, the public policy environment in Scotland in [Public Audit in Scotland](#). They also set out the scope for public audit for auditors to follow in the [2016 Code of audit practice](#).

18. The audit profession remains under scrutiny and various reviews have taken place in recent years in response to high profile corporate failures. On 31 May 2022 the Business, Energy and Industrial Strategy Committee published its report [Restoring trust in audit and corporate governance](#) which summarises their response, following consultation on its March 2021 White paper on this subject, and its plans for action. The UK Government intends to prepare and publish a draft Bill. AQA will keep further developments under review for any implications for public audit in Scotland.

19. Public audit in Scotland remains well placed to meet the challenges. The mixed market enhances audit quality. Audit delivery utilises skills and resources within Audit Scotland and the six private accountancy firms. It already operates many of the proposed controls to reduce threats to auditor independence. These were integral to the recent procurement and audit appointments project, to secure high-quality auditors for the period 2022/23 to 2026/27. These controls include the:

- independent appointment of auditors by the Auditor General for Scotland and Accounts Commission

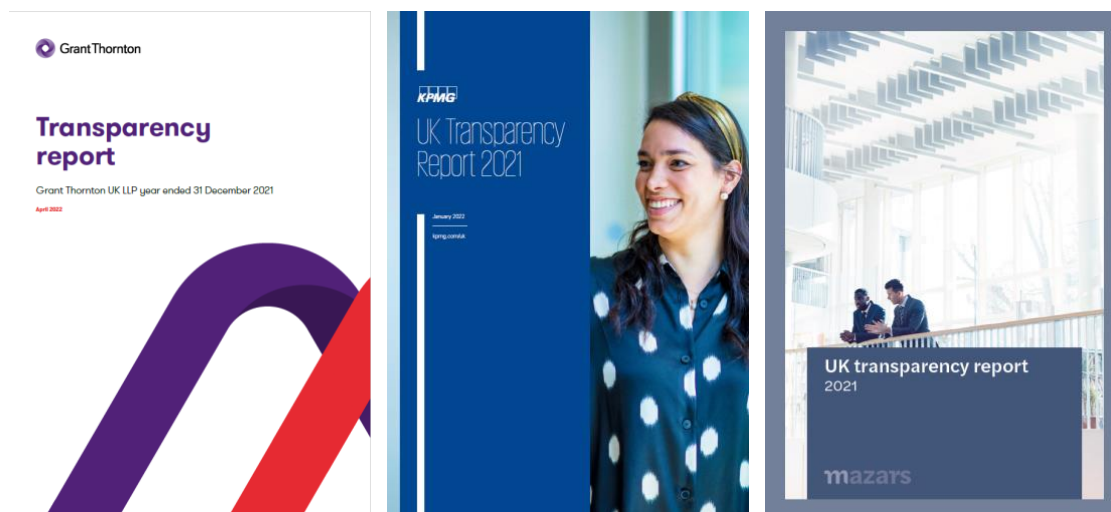
- rotation of auditors every five years (current appointments were extended to six years due to Covid-19)
- independent fee-setting arrangements
- independent approval procedures for any non-audit services work
- a comprehensive Audit Quality Framework.

Audit Scotland and appointed firms

20. Public audit is carried out by Audit Scotland auditors and appointed firms who are subject to an open and rigorous procurement process. Approximately two-thirds of financial and Best Value audit work is carried out by ASG with the remaining third conducted by appointed firms. The firms appointed are Azets, Deloitte, EY, Grant Thornton, KPMG and Mazars. Performance audit work is carried out by Audit Scotland auditors.

21. Each appointed firm has its own arrangements for ensuring audit quality for financial audits. Appointed auditor transparency reports have been reviewed and show compliance with [International Standard on Quality Control 1](#). transparency reports are included below for information about their audit quality arrangements.





Note: Azets are not required to produce a transparency report under regulations.

22. In April 2022, the FRC published its [Audit Firm Governance Code](#). The Code provides a framework for good governance practice against which firms that audit Public Interest Entities (PIEs) can be assessed and report. Its principal objectives are:

- to promote audit quality
- to ensure firms take account of the public interest in their decision-making, particularly in audit
- to safeguard the sustainability and resilience of audit practices and of firms as a whole.

23. This Code will initially only apply to the four largest UK audit firms. Three of these firms, Deloitte, EY and KPMG, are appointed to undertake public sector audit in Scotland and their transparency reports will need to be written in the future to comply with this new Code.

Inputs

24. This section of the report shows how the inputs to an audit provide evidence that the arrangements put in place are contributing to the delivery of audit quality.

Ethics

25. All auditors confirmed to their audited bodies and to AQA that they do not have any conflicts of interest. Cold reviews by internal teams and ICAS confirmed that all audits complied with the Financial Reporting Council's Ethical Standard to avoid any actual or perceived conflicts of interest.

Non-audit services

26. Auditors may undertake some non-audit services for the bodies they audit. The Auditor General for Scotland and Accounts Commission have set out what non-audit work is permissible and how it should be approved in a [policy statement](#).

27. Auditors carried out permitted non-audit services to the value of £36k during the 2020/21 audits. This equates to 0.2 per cent of the total fees. This compares to £44.3k which equated to 0.2 per cent of total fees during 2019/20 audits.

28. AQA only approved work that clearly complied with the Ethical Standard and the Code. All auditor providers confirmed that they did not carry out any non-audit services without the prior approval of AQA.

Auditors carried out permitted non-audit services to the value of £36k (this equates to 0.2 per cent of total fees) during the 2020/21 audits.

Knowledge, experience and time

29. People are the most important assets in an audit. Having the right staff, allocating the right time to audits and providing the right training and knowledge are critical to delivering high-quality audit work.

30. Audit Scotland and the appointed firms conduct regular surveys to provide an insight into staff views on how well they are supported to provide high-quality audit work. This information enables AQA to monitor trends over time and allows auditors to take account of the findings in developing their human resources strategies.

31. The results show that across all auditors, staff experience a strong culture of support to perform high quality audits. This level has been maintained following a slight decline in 2017/18. Auditors continue to remain positive about the effectiveness of training that they receive.

32. However, there are still significant levels of concern among staff in some audit providers that the time and resources available to deliver a high-quality

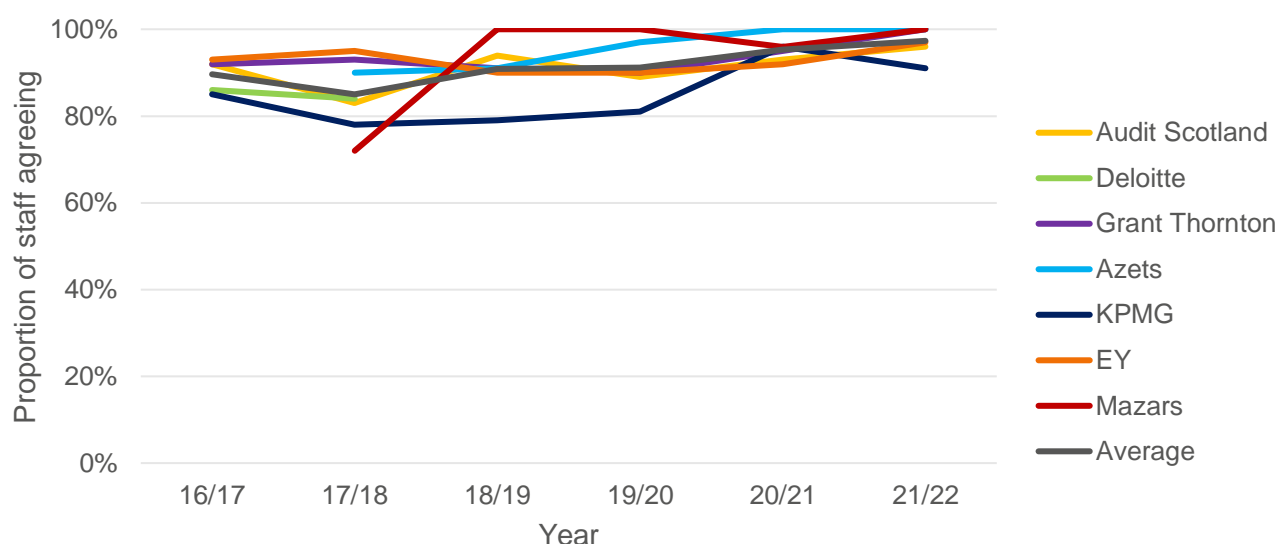
There is a strong culture of support for performing high-quality audit across all auditors.

audit are not sufficient. Actions taken to address this have only resulted in improved perception among staff in some firms, most notably there has been a consistent improvement in the last four years at Grant Thornton.

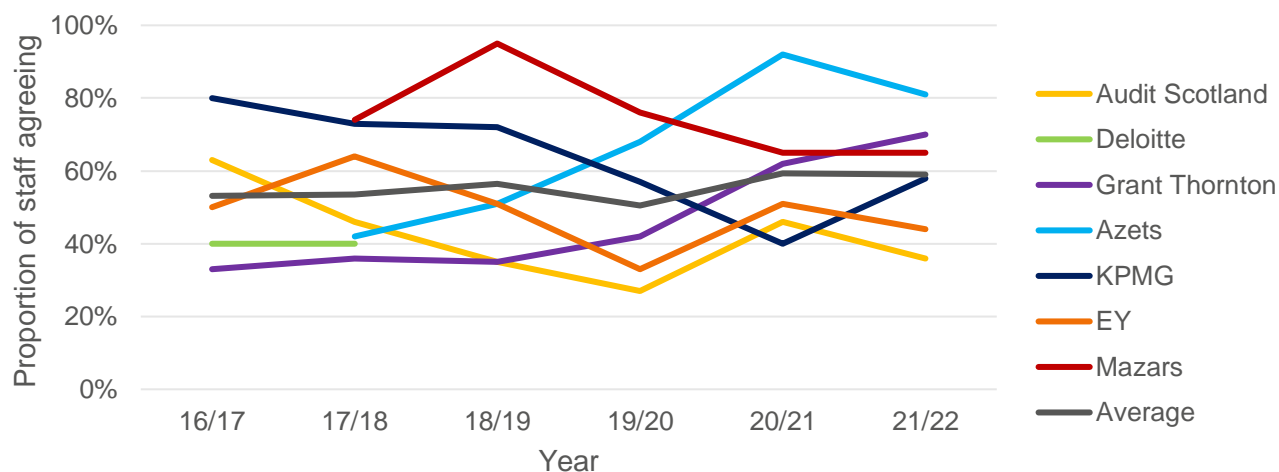
33. Audit Scotland and EY have returned declining results from what were already low relative prior year positions. Evidence from the audit profession suggests that there is a shortage of skilled and qualified audit staff available and that this capacity risk will need to be managed carefully. It is recognised that the building capacity programme in Audit Scotland has resulted in an increase in staff resources. However, staff are still feeling stretched in meeting audit quality requirements and deadlines.

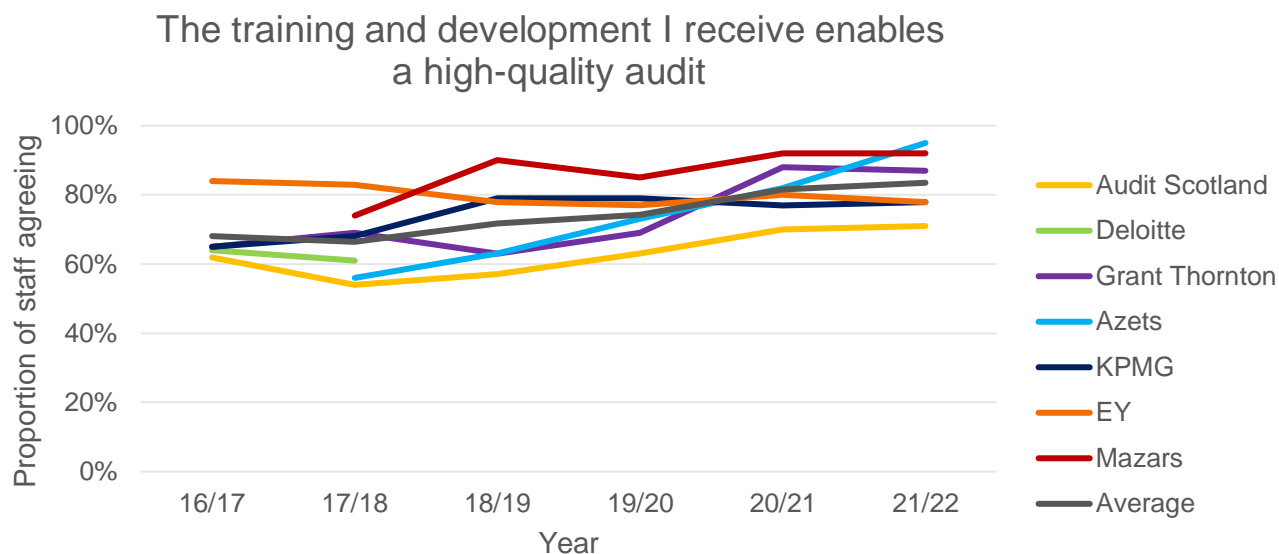
34. The survey results also show that staff continue to be supported to deliver high-quality audit work through training and development provision by audit providers despite the concern over resourcing.

I am encouraged to carry out a high-quality audit



The time and resources available to me enables the delivery of a high-quality audit





Notes:

1. Azets and Mazars did not provide details in 2016/17. Mazars provided national data for 2017/18 and local data since.
2. Deloitte changed their method of obtaining staff views. A survey was undertaken in the summer 2021 which returned positive results on Deloitte supporting their staff deliver high-quality audit with some areas for improvement identified.

Qualifications

35. Audit work is carried out by appropriately trained and qualified individuals. The firms have 100 per cent of their staff either qualified or in training. Ninety-seven per cent of Audit Scotland staff working in financial audit are either CCAB (Consultative Committee of Accountancy Bodies) or Chartered Institute of Management Accountants qualified or in training for a CCAB qualification. A further three per cent have other qualifications in areas such as accounting or IT.

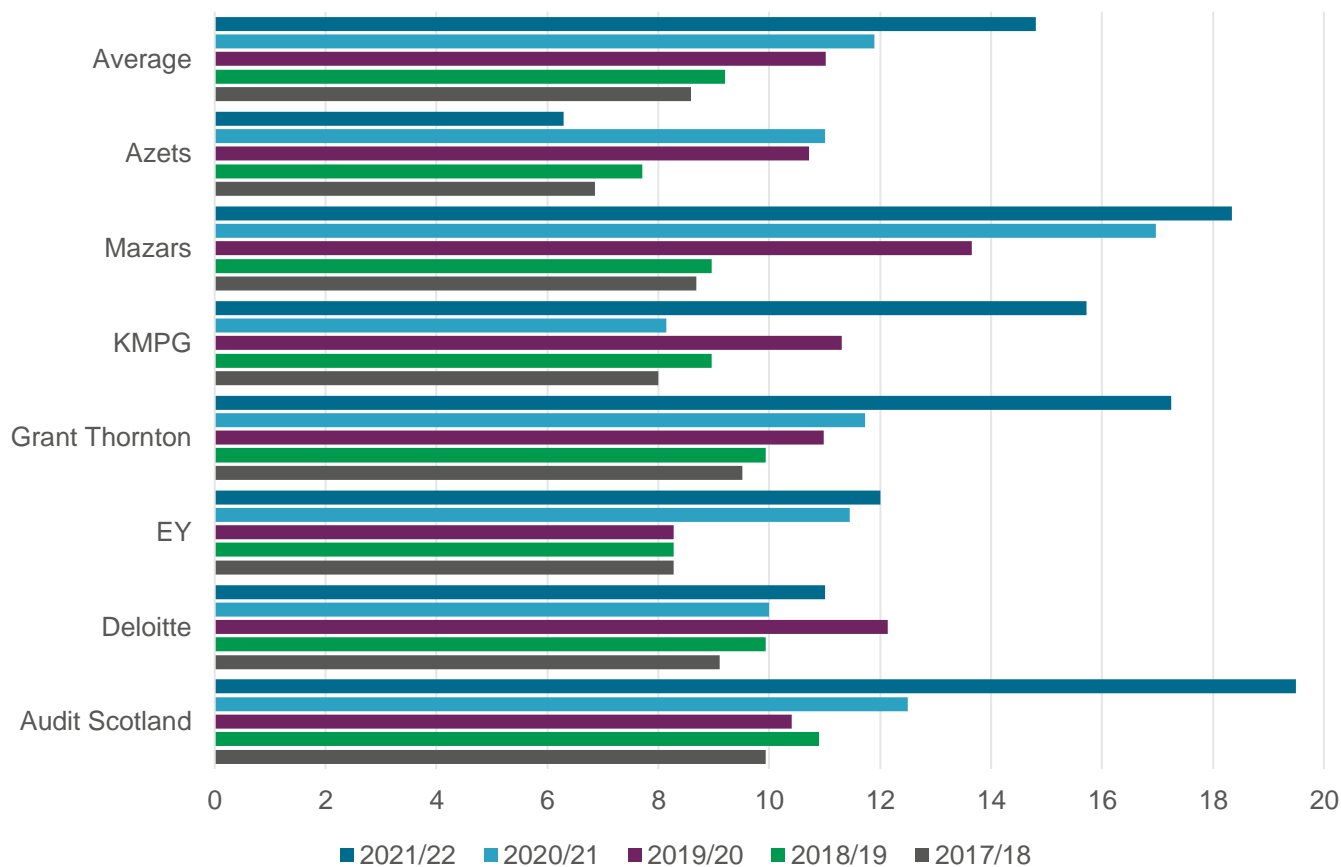
Audit work is carried out by appropriately trained and qualified individuals.

36. Staff in the Performance Audit and Best Value group (PABV) have a variety of audit and research-related qualifications, all of which go towards supporting the delivery of high-quality audit work. Within PABV, 21 per cent (15 per cent in 2019/20) of staff are either CCAB qualified or in training for a CCAB qualification. This supports Audit Scotland's flexible 'one organisation' working. PABV staff also have several relevant postgraduate qualifications in support of their work.

Training

37. All audit providers recognise the importance of training their staff. The average number of days that staff receive in a year are shown in the chart below. This figure excludes trainees.

Training days



Note: Azets' total excludes wider Continuous Professional Development undertaken by staff.

38. The amount of time spent on training varies between auditors. This variation arises from the different ways in which training is organised and recorded. Nevertheless, the data shows that considerable investment is being made in training with an overall average of 15 days per member of staff (compared with 12 days in 2020/21).

39. All qualified auditors are members of professional institutes. These institutes have Continuous Professional Development requirements which they monitor. This provides further assurance that auditors are undertaking adequate training to maintain their professional competence.

Considerable investment is being made in staff training with an overall average of 15 days per member of staff.

Audit process and quality control arrangements

40. Audit Scotland and the appointed firms are responsible for their own organisation-wide arrangements for quality control in accordance with International Standard on Quality Control 1 (ISQC1). This sets out a firm's responsibilities for its system of quality control for audits and reviews of financial statements, and other assurance and related services engagements and professional guidance. These arrangements focus on making continuous improvements to audit work by implementing a cycle of reviews, understanding why any errors are made and by sharing good practice.

41. All auditors are complying with ISQC (UK) 1. The ICAS programme of inspections includes reviewing compliance with ISQC (UK) 1, and related operational procedures, including each firm's internal audit manual and quality control procedures. ICAS has now reviewed all audit providers and did not note any issues or matters for further consideration in this year's review.

42. Two important audit quality management standards [ISQM1 and 2](#) will replace ISQC1 for audits carried out after 15 December 2022. Work is underway at all audit providers to meet the requirements of these quality standards. AQA will review these standards and make any necessary changes as part of the update of the AQF in autumn 2022.

43. 2019/20 was the first audit year that the performance audit methodology was aligned to comply with the International Organisation of Supreme Audit Institutions (INTOSAI) standards. This move to using INTOSAI standards was made in response to initial audit quality findings identified under the AQF. Compliance with INTOSAI standards for performance audits was a first among UK public audit agencies. 2020/21 was the second year that these audits were assessed for audit quality against compliance with INTOSAI standards.

All auditors are complying with ISQC (UK) 1.

Outputs

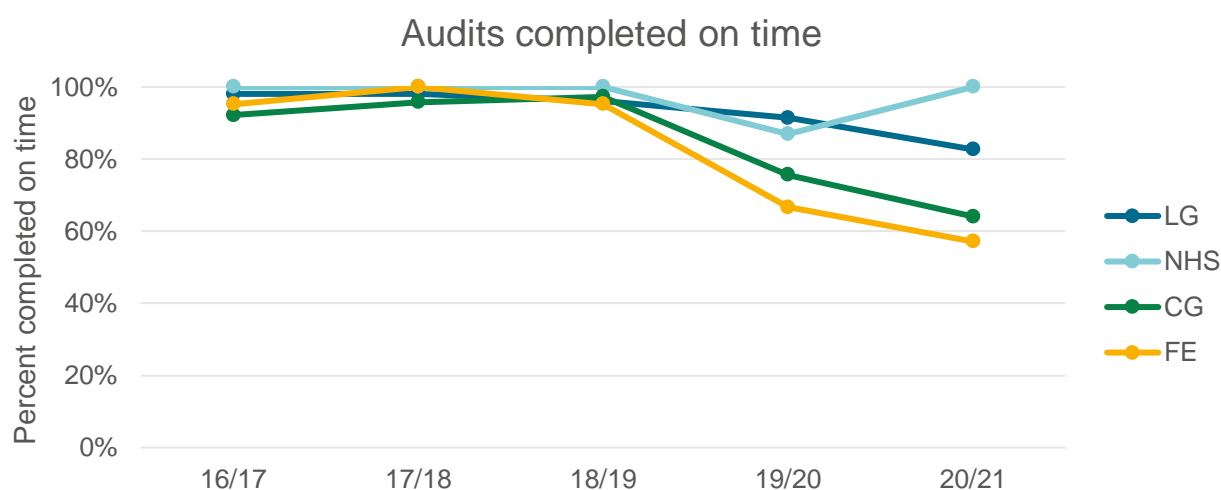
Reporting

Timeliness of financial audit work on the 2020/21 accounts

44. Audit Scotland sets targets for auditors to ensure that their financial audits are completed in a timely manner. Audit Scotland expects auditors to do all they can to meet the targets, but also recognises that, in some circumstances, there may be events beyond auditors' control that result in the targets being missed. Extended audit sign-off timetables were agreed for the second year, due to Covid-19, for NHS and local government bodies in 2020/201. These were:

- NHS – 30 September 2021, a three-month extension
- local government – 30 November 2021, a two-month extension.

45. Auditors' performance in meeting the targets for 2020/21 audits and the previous three years is shown in the graph below.



46. Auditors completed 76 per cent of their audits on time. This was a decline compared with the previous year's delivery performance of 83 per cent. It is clear that Covid-19 has had an ongoing impact on the ability of auditors to meet audit completion target dates. This is partly explained by the compressed 2020/21 audit year brought about by the previous year's deadline extension. All 2020/21 audit opinions were however signed off by 6 April 2022.

Auditors completed 76 per cent of their audits on time.

47. The most common reasons for missing target dates were:

- the necessary rescheduling of audited body committee timetables (resulting in sign off being delayed beyond target dates)
- staff absences at audited bodies
- additional work required to be completed by the auditor due to emerging issues late in audit process
- reprioritising of audit work and resources agreed with audited bodies resulting in delays to commencement and completion of some audits.

48. While most audited bodies have coped well with the pandemic there were some sectors, particularly further education, that were affected more. This was primarily due to the smaller capacity in their finance teams to deal with staff absences.

49. Covid-19 also affected audit teams, audit timetables and reporting. Auditors worked hard to manage the impact on their audits. Common issues affecting audit timetables in 2021 included:

- assessment of new systems and internal controls set up by public bodies to deliver vital Covid-related funding
- review of accounting treatments for Covid-related expenditure and supplies, and work to support disclosures in annual reports and accounts
- access to audit evidence, including access to information and verification of assets
- the impact on productivity as auditors and audited bodies adapted to the changing circumstances and remote working.

Modification of audit opinions

50. Modified audit opinions are issued in circumstances where an auditor concludes that:

- the accounts contain material misstatements
- significant expenditure has been incurred in breach of rules
- a disclaimer is required as there is a pervasive uncertainty that means that the auditor cannot express an opinion or
- reporting requirements have not been met.

51. One auditor, Grant Thornton, modified their audit opinion by issuing a disclaimer opinion on the financial statements of two audited bodies for the 2020/21-year ends (two modifications in 2019/20). These were:

- **Scottish Canals** – a disclaimer of opinion was issued on the annual report and accounts. This was required as the auditor determined that

they had insufficient audit evidence, in relation to property, plant and equipment asset classification, to conclude that the accounts were not materially misstated or otherwise.

- **Scottish Environment Protection Agency** – a disclaimer of opinion was issued on the annual report and accounts. This was required as SEPA were unable to retrieve a significant amount of underlying financial records following a devastating cyber and ransomware attack.

52. Two audit opinions on the accounts were qualified by ASG. These were:

- **Non-domestic rating account** – the opinion was qualified as the receipts and payments were not in accordance with regulations which permit mid-year adjustments to councils' funding. During 2020/21, the Scottish Government adjusted NDR receipts and payments based on councils' mid-year estimates to support councils' cashflows during the Covid-19 pandemic. The adjustments made were greater than the 97 per cent of the initial estimates.
- **Social Security Scotland** – the auditor qualified their opinion on the regularity of expenditure and income because estimated overpayments in the benefits delivered by the DWP through agency agreements were material at £65.4 million. This expenditure was therefore not incurred in accordance with the applicable enactments.

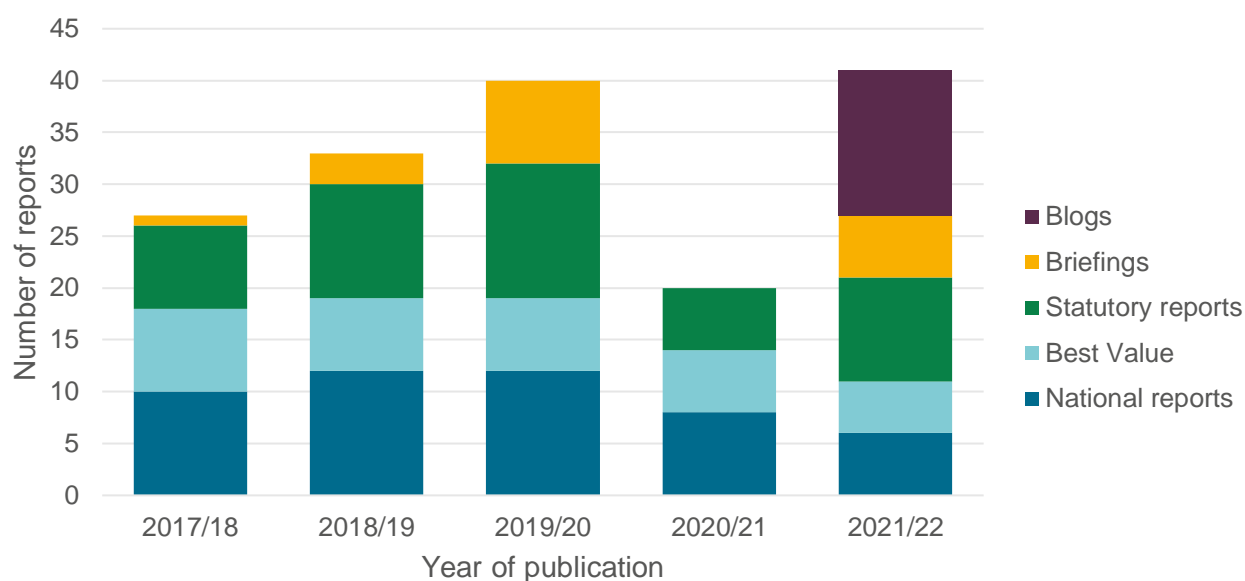
53. There was one instance where the auditor reported by exception (two in 2019/20) as the local government significant trading operation (STO) failed to achieve the statutory objective to break even over a three-year period.

Publication of performance audit and other reports

54. The Auditor General for Scotland and Accounts Commission each have five-year rolling work programmes that cover a range of public sector bodies and services.

55. Following careful consideration of the impact of Covid-19 on the work programme, a [dynamic work programme](#) was launched in 2021 to enable the publication of ongoing Covid-19 briefing papers to support public bodies and auditors during the pandemic and recovery. This programme is reviewed quarterly to ensure it remains relevant, focused and up-to-date and reflects the strategic priorities of the Auditor General and the Accounts Commission.

56. All performance audit, overview, and Best Value Assurance Reports (BVARs) were completed to planned timescales during 2021.




57. During 2021/22, Audit Scotland published six external briefing papers and 16 web-based outputs including the [Covid-19: Vaccination programme](#) and [Social care](#). These products supported the Auditor General and the Accounts Commission to respond more flexibly and rapidly to emerging and dynamic matters of public interest, and supported public bodies and the Parliament to understand the key messages and challenges facing public services and spending. These new outputs are based on similar arrangements to other PABV products but have not yet been subject to AQA or external evaluation.




Quality monitoring

Cold reviews

58. This section summarises the results of independent and internal cold reviews, using the Financial Reporting Council (FRC) grading system for all of the audit work. ICAS carried out the independent cold reviews and senior and appropriately experienced colleagues who have not been involved in the audits carried out the internal cold reviews.

The FRC's scoring methodology applied to quality activities¹

Score	Standard	Description
1	 Good	<ul style="list-style-type: none"> No concerns regarding the sufficiency and quality of audit evidence or the appropriateness of significant audit judgments in the areas reviewed. Only limited weaknesses in documentation of audit work, AND Any concerns in other areas are limited in nature (both individually and collectively).

Score	Standard	Description
2	 <p>Generally acceptable but a small number of improvements required</p>	<ul style="list-style-type: none"> • Only limited concerns regarding the sufficiency or quality of audit evidence or the appropriateness of significant audit judgments in the areas reviewed. AND/OR • Weaknesses in documentation of audit work are restricted to a small number of areas AND/OR • Some concerns, assessed as less than significant (individually and collectively), in other areas.
3	 <p>Some improvements required</p>	<ul style="list-style-type: none"> • Some concerns, assessed as less than significant, regarding the sufficiency or quality of audit evidence or the appropriateness of significant audit judgments in the areas reviewed. AND/OR • More widespread weaknesses in documentation of audit work. AND/OR • Significant concerns in other areas (individually or collectively).
4	 <p>Significant improvements required</p>	<ul style="list-style-type: none"> • Significant concerns regarding the sufficiency or quality of audit evidence or the appropriateness of significant audit judgments in the areas reviewed (not limited to the documentation of the underlying thought processes). AND/OR • Very significant concerns in other areas (individually or collectively).

Note: 1. The FRC changed their grading system in 2021 from 1, 2a, 2b and 3 to 1, 2, 3 and 4. Prior year grades have been converted to the new system.

59. The AQF expects audits to be assessed as ‘good’ (1) or ‘generally acceptable, but a small number of improvements required’ (2) with no concerns about the audit opinion. Auditors are expected to address any findings. Where an audit is assessed as ‘some improvements required’ (3) or ‘significant improvements required’ (4), the auditor is expected to put in place a plan to address the required improvements.

60. Reviewers consider whether any improvements required are specific to the audit or applicable to the firm’s procedures. Findings that relate to a firm’s procedures apply equally to all sectors.

61. The cumulative reporting is important as it increases the sample size over the timeframe of the AQF and provides a better evidence base for conclusions to be made on the overall quality of auditors’ work.

62. The AQF established targets in 2019. The target for the percentage of cold reviews showing good compliance with auditing standards (1 and 2) was set at 80 per cent cumulative over three years.

Type of review	Aggregate 3-year cumulative at target			Previous year's 3-year cumulative at target ¹
	Auditor General	Accounts Commission	Aggregate	Aggregate
Independent financial audit	60%	75%	65%	52%
Independent performance and Best Value audits	100%	100%	100%	63%
Internal financial audits	72%	93%	79%	81%
Internal performance and Best Value audits	100%	100%	100%	75%

Note: 1. The changes to the numbers of audits falling within each grading from year to year reflect a wide range of factors, which may include the size, complexity and risk of the individual audits selected for review and the scope of the individual reviews. For these reasons changes in the cold review results from one year to the next are not necessarily indicative of any overall change in audit quality and need to be considered in the context of other information available.

Independent external reviews

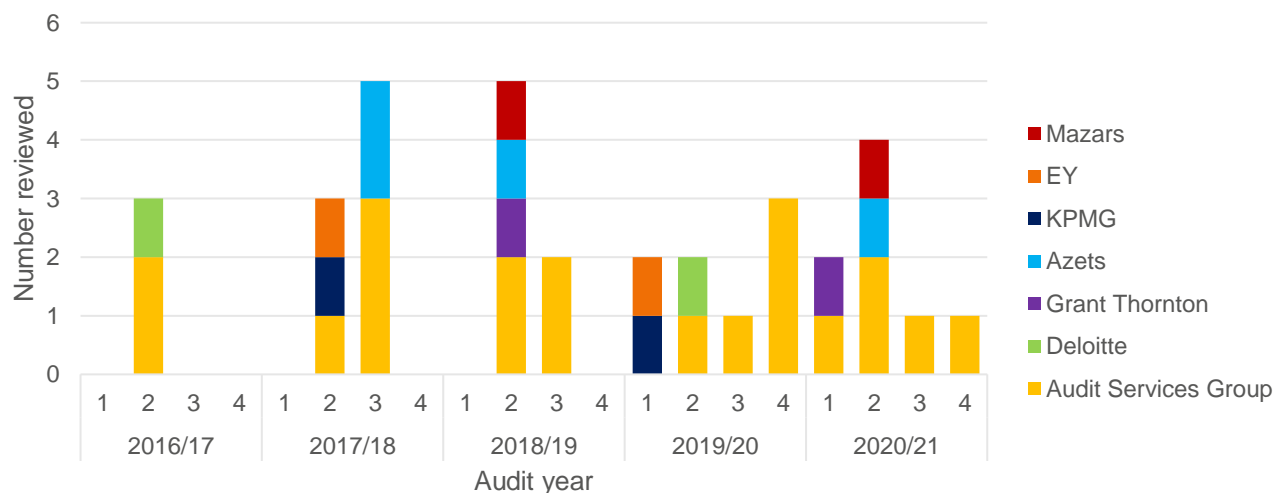
63. Independent external assurance offers the highest level of assurance to stakeholders. ICAS provides the independent external assurance and has reviewed all six appointed firms, all Audit Directors in Audit Scotland responsible for financial audits, and all Audit Directors leading on performance audit and Best Value assurance reports over the course of the last four years.

64. ICAS assessed 75 per cent of 2020/21 financial audits reviews as good or generally acceptable but a small number of improvements required (1 or 2) compared to 50 per cent of 2019/20 financial audits.

65. Over the last three years ICAS assessed 65 per cent (52 per cent previous year) of financial audits as good or generally acceptable but a small number of improvements required.

Independent external assurance offers the highest level of assurance to stakeholders.

ICAS inspection results: Financial audits



66. These results show an improvement on the 2019/20 ICAS inspections results.

Audit Services Group

67. ICAS awarded one ASG financial audit a 1 grading for the first time since ICAS inspections have been carried out under the AQF in 2017. ICAS concluded that all sections of the files were comprehensive and the financial statement disclosures were well presented. Only one ISA (UK) breach, related to documentation, was identified on the file.

68. This is an important milestone for ASG. It provides evidence that the improvement plan put in place in 2021, in response to the 2019/20 cold review results, has been effective for some audits. The programme of hot reviews conducted by the internal quality team was a key feature of this improvement plan and clearly benefited this audit.

69. ICAS graded two other financial audits as grade 2 meeting the expected quality standards set.

70. Two audits failed to meet the expected standard. One was graded as a 3 and one was graded as a 4. Findings for these files included:

- file specific matters were considered to require more than 'limited' improvement in relation to the sufficiency of audit evidence, including that over accounting estimates and in relation to journals testing
- the file did not demonstrate full compliance with the ISA (UK) 600 requirement for the group engagement team to review the work performed by component auditor
- issues relating to engagement lead review
- omissions in the audit report

- insufficient audit evidence being obtained over material transactions and balances, including several significant audit risk areas.

71. It is important that ASG learns from and responds to all the cold review findings. ASG should continue to carry out a root cause analysis of the common findings and identify any factors that have impacted on the number and nature of findings noted. ASG should develop their improvement action plan to address these causes. It is important that good practices identified are also understood and shared widely to support ASG auditors in meeting the expected standards.

ICAS follow-up reviews on matters identified in previous years

72. ICAS also carried out targeted follow-up work to determine the progress on recommended actions on two of the three ASG audits reviewed in 2019/20 which were graded as 'significant improvement required' (grade 4).

73. Audit Scotland has worked to address prior year matters. In some areas there is clear evidence of improvement. At one of the central government audits followed up by ICAS, all prior year points had been addressed. However, issues previously identified by ICAS have been identified again in this year's reviews, such as:

- Significant audit judgements in the selection of journals to review on four audits did not clearly address all relevant characteristics of fraudulent journal entries identified within the auditing standard.
- There was insufficient evidence retained of engagement lead supervision of audit fieldwork on one file which did not demonstrate direct review of the fieldwork conducted over critical areas of judgment and in response to all the identified significant audit risks.
- One file presented issues over the group audit approach which were consistent with matters identified on two files reviewed in the prior year.
- One file presented a small number of repeat and related ISA (UK) breaches from the full review of the file conducted in 2020/21:
 - a repeat ISA (UK) 500 breach over the existence of debtors
 - insufficient evaluation of the objectivity of a management expert.
- Analytical procedures conducted over payroll assertions that were not in full accordance with the auditing standard.

74. The follow up of prior year matters identified by ICAS suggests that the action taken by Audit Scotland to date has not yet fully addressed all the matters raised. Further, some of these earlier findings remained in a local government audit that had been previously graded as not meeting the expected standard by ICAS.

75. Audit Scotland should continue to act to support its auditors to consistently deliver audits at the expected audit standard.

Private firms

76. For the last three years all private accountancy firm audits have been assessed by ICAS as meeting the expected quality standard being graded as ‘good’ or ‘generally acceptable, but a small number of improvements required’.

77. Three firm’s financial audits were reviewed by ICAS in 2020/21. All achieved the expected standard with Grant Thornton being graded as a 1 for the first time by ICAS and Azets and Mazars audits were both graded as 2.

78. For Grant Thornton, many positive points were noted across planning, fieldwork and completion stages of the audit and no ISA (UK) breaches were identified during the ICAS review.

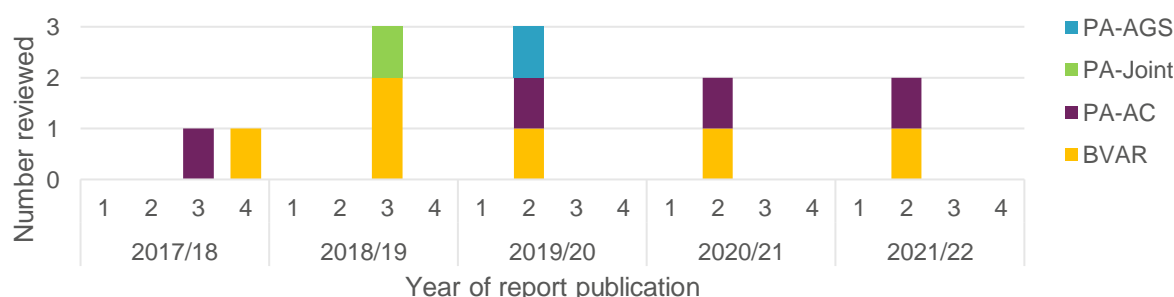
79. For Azets, ICAS concluded that there were no concerns regarding the sufficiency and quality of audit evidence or the appropriateness of significant audit judgments in the areas reviewed. The audit file was comprehensive and included a significant amount of information and supporting evidence. Only limited weaknesses in the documentation of audit work were identified.

80. For Mazars, many positive points were noted across planning, fieldwork and completion stages of the audit. There were only limited concerns regarding the sufficiency of audit evidence, and whether all relevant controls identified had been implemented during the year. The auditor had also not reported an emphasis of matter as a matter of material significance to the charity regulator, OSCR, which was a requirement of guidance issued.

81. The 2020/21 firm results continue to demonstrate the high quality of the private firm auditors appointed by the Auditor General for Scotland and the Accounts Commission to undertake public audit in Scotland.

Performance audit and Best Value audits

ICAS inspection results:
performance and Best Value audits



82. ICAS assessed one performance audit and one Best Value Assurance Report as meeting the expected standard (grade 2), with many positive points and only limited improvements required (same as 2019/20 reviews). The area of focus for further improvement relates to the documentation of audit evidence.

83. ICAS recognised the significant improvements in quality made by Performance audit and Best Value assurance teams since 2017 in undertaking this type of engagement.

ICAS Audit Scotland summary

84. ICAS provided the following comments on the Audit Scotland audits that they reviewed:



ICAS 2021/22: AUDIT SCOTLAND EXTRACT FOR INCLUSION IN AUDIT SCOTLAND QUALITY REPORT

ICAS conducted a review of a sample of financial statement audits; one performance audit; and one BVAR engagement.

With regards the financial statement audits, there is evidence that some prior year findings and recommendations have been addressed, and the file grades indicate improvements have been made, however, the necessary level of audit quality has not been consistently achieved across all files.

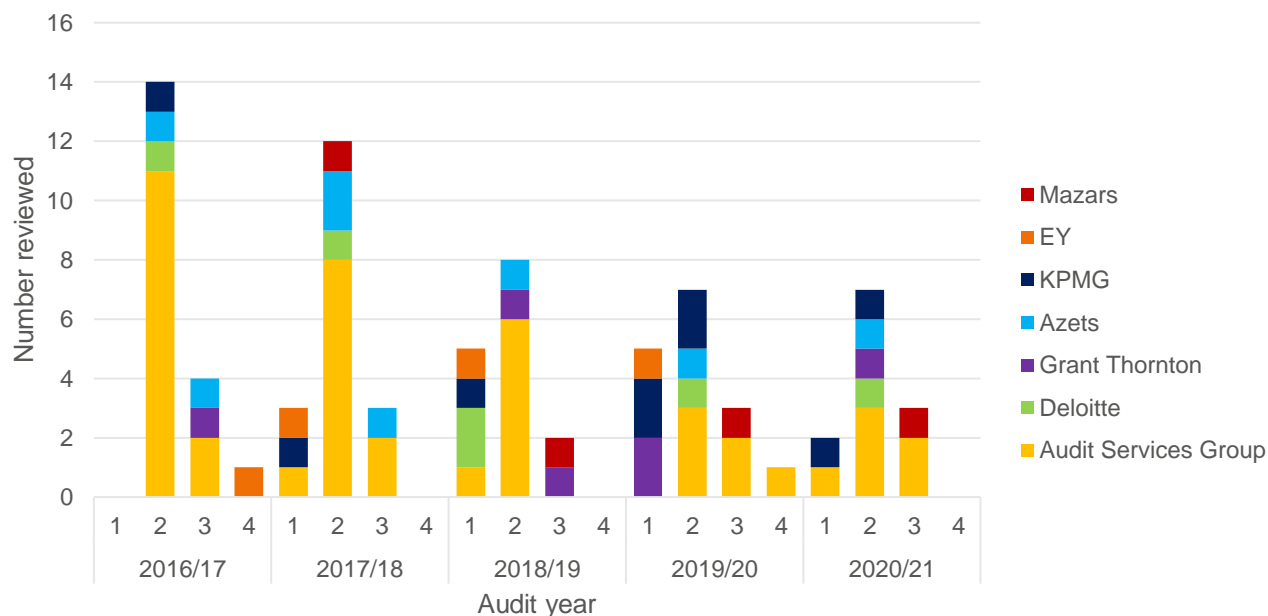
ICAS has recommended a range of actions that Audit Scotland may wish to consider taking to address the areas identified, including undertaking a root cause analysis of the common findings and any internal or external factors that have potentially impacted on the number and nature of these.

With regards the performance audit and BVAR engagements reviewed, it is noted that there has been significant and continuous improvement. Whilst there are residual challenges in documenting audit work and the review process, a large number of positive points were identified.

Internal cold reviews carried out by appointed auditors

85. Auditors reviewed 12 audits representing five per cent of 2020/21 audits (seven per cent in 2019/20). Each appointed firm is required under their appointment to conduct at least one internal review each year. Each Audit Director in Audit Scotland was reviewed at least once in the last three years.

Internal inspection results: Financial audits



86. Reviewers did not identify any concerns with audit opinions for 2020/21. Reviewers assessed 75 per cent of 2020/21 financial audits as 'good' or 'generally acceptable but a small number of improvements required' (1 or 2, 75 per cent of 2019/20 financial audits).

87. Over the last three years reviewers assessed 79 per cent of the internal financial audits as 'good' or 'generally acceptable' but a small number of limited improvements required.

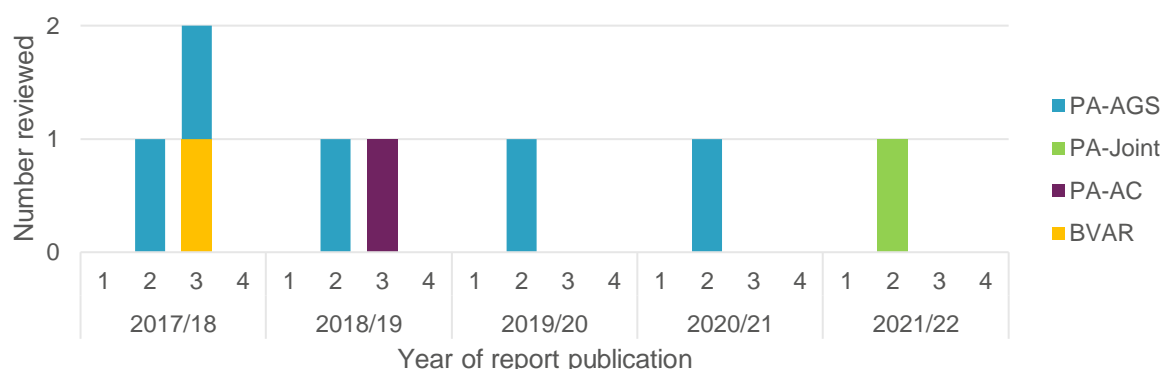
88. ASG internal reviews also had a no improvement score (grade 1) but a third of the audits reviewed did not meet the expected standard. This is an improvement on 2019/20 internal review findings. The overall findings were similar to ICAS, including the findings for one financial audit where both internal and ICAS reviews were carried out. This conclusion, arrived at independently, provides assurance that the internal quality review procedures are robust in Audit Scotland.

89. Internal reviews carried out by audit firms met the required standard except for Mazars which was graded a 3 for the third year in a row. This review was not specific to public audit in Scotland, it was submitted by Mazars to ensure an internal review was considered relating to 2020/21. Findings leading to this grade included various documentation issues, incorrect application of sample size calculator and a lack of evidence to support criteria for selection of journals to be tested. Mazars have agreed improvement actions, and these will be followed up during 2021/22.

Internal reviews carried out by PABV

90. Auditors carried out one internal cold review of a performance audit report published in 2020/21 (two in 2019/20).

Internal inspection results: performance audits and Best Value assurance reports



Hot reviews

91. Hot reviews are designed to meet the scope of Engagement Quality Control Reviews (EQCR) as set out in [International Standard on Quality Control 1](#). Hot reviews are carried out in financial audits before an audit opinion on the financial statements is signed to ensure that it is correct, and in PABV before a report is finalised. The results of hot reviews carried out by audit providers gives further evidence of audit quality.

92. Following 2019/20 ICAS reviews, ICAS recommended that ASG extend the independent hot file review and peer review processes to cover a wider range of audit engagements; and to cover the subsequent year engagements where a poorer file grade has been assigned.

93. ASG initiated hot reviews of financial audits in 2021 and these were delivered by a new quality assurance team in Professional Support. The team covered nine audits, including the three audits graded by ICAS as needing significant improvement in the prior year, and carried out a thematic review of the use of data analytics. This is a significant development in ASG audit quality arrangements which has helped address some of the quality concerns previously identified and has supported improvement in 2021.

Improvement feedback for auditors

94. Auditors received detailed reports on each audit reviewed and are putting arrangements in place to address the findings from cold reviews. AQA will monitor how well the new arrangements improve audit quality as part of their regular meetings with auditors. Audit Scotland, working together with all auditors through their scheduled partner and sector meetings, will continue to share best practice to support improvements in the quality of public audit in Scotland.

Annual audit reports

95. AQA reviewed a sample of annual audit reports to assess how effectively auditors were complying with the Code. The review found that there is a good level of compliance with the Code on auditor reporting.

96. The review identified an ongoing issue with some local government reporting by auditors on the wider scope of public audit. The Code requires the auditor report to conclude in the four wider scope dimensions and Best Value in local government sector. The Value for Money dimension had been replaced with a Best Value section in some ASG local government annual audit plans and reports, this does not therefore comply with the Code requirements. Some auditors are still not providing a conclusion on the effectiveness of arrangements at non council local government bodies to secure Best Value.

There is a good level of compliance with the Code on auditor reporting.

Impact

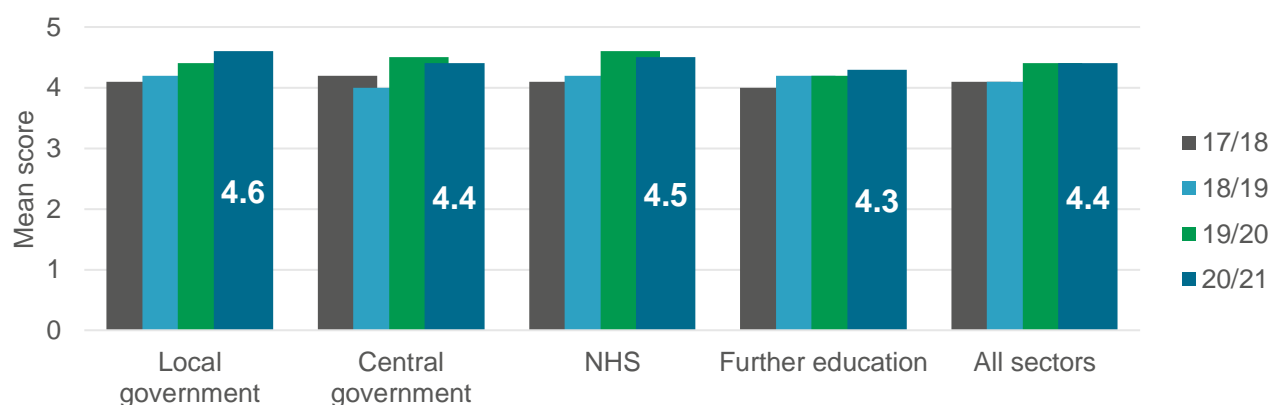
Audited bodies' views on audit work

97. The Diffley Partnership was commissioned in 2021 to undertake the annual independent stakeholder feedback survey. It surveyed 568 individuals (549 in 2020/21) in audited bodies to gather feedback on the 2020/21 financial audits, Performance audits, overview reports and Best Value Assurance Reports published in the past year. There were 230 respondents (36 per cent, 35 per cent 2019/20). More chairs of central government audit committee were included this year, resulting in an increase in the population surveyed. Audited bodies were asked to respond to questions using a scale of 1 to 5 where 1 is 'very poor' and 5 is 'very good'.

Financial audit

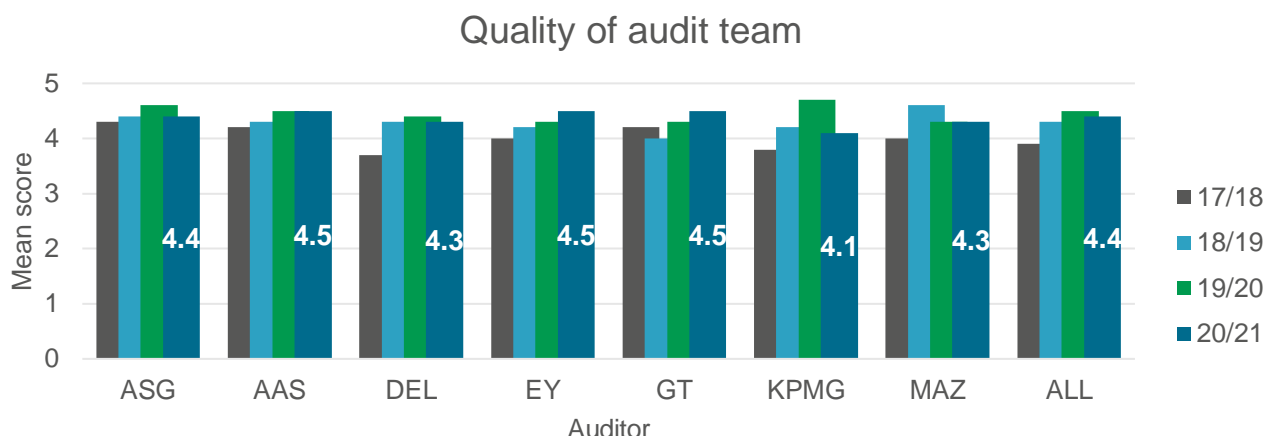
98. The conclusions on the usefulness of the annual audit are very positive. Stakeholders' perception of the usefulness of the audit remains high and are improving or remaining steady in most sectors compared to last year.

Usefulness of the annual audit overall



99. The coronavirus pandemic continued to impact on how auditors conducted their audits in 2020/21 with many audits largely being done remotely. Despite these challenges, the performance of the annual audit teams continued to score

highly. The vast majority, 91 per cent (the same as in 2019/20) thought that the annual audit team performed fairly or very well.



100. The changes in the way the annual audit was conducted led to no or very little face-to-face contact between auditors and the bodies which they audited this year. Two thirds of stakeholders (66 per cent) in 2019/20 believed that auditors were able to manage the audit remotely very well.

101. Stakeholders were offered an opportunity to reflect on how this year’s audit compared to last year’s audit. Given the positive reaction to the management of last year’s audit it is unsurprising that three in ten (30 per cent) stakeholders observed no change. Half of all stakeholders (50 per cent) believe the annual audit this year was better than last year, while a minority of stakeholders (6 per cent) believe the annual audit has worsened.

“The perception at the audit committee was that arrangements were much better established this year and there was less stress on achieving the reporting deadline.”

Further Education

“The regular communication arrangements that have been established have meant that all parties are able to support remote working.”

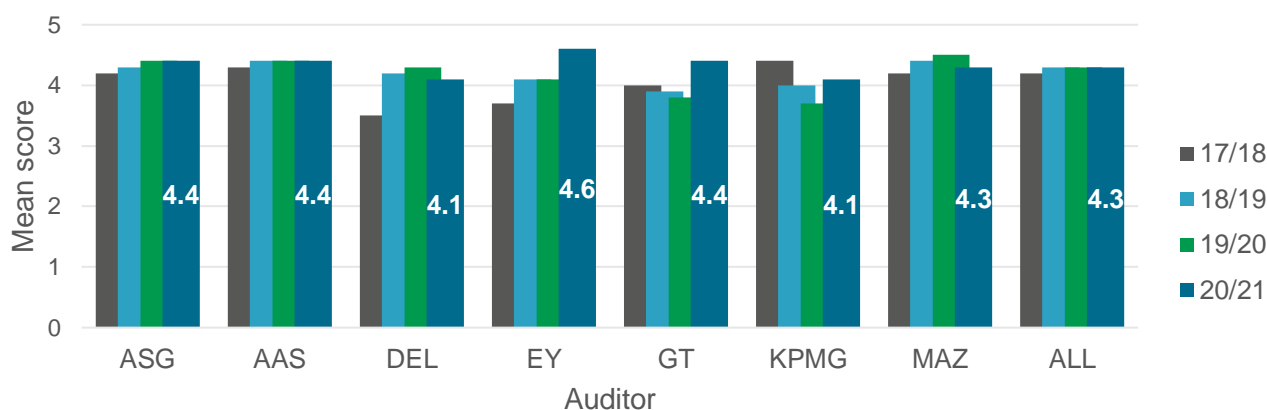
Local Government

“Swifter communication - auditors would call to discuss issues as they arose, rather than waiting until the end of a day. From a client perspective, it felt like we were more engaged with the audit.”

Central Government

102. Perceptions of the annual audit report are positive, with almost all (87 per cent) of stakeholders finding the annual audit report very or fairly useful, which is similar to last year (86 per cent).

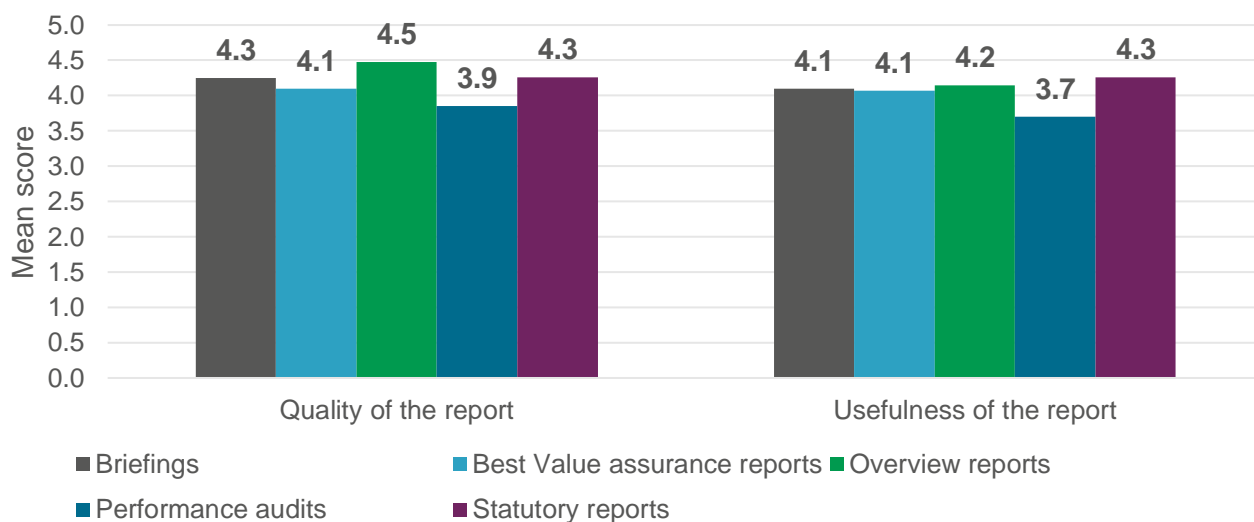
Quality of annual audit report



Performance audit and Best Value Assurance Reports

103. Audited bodies expressed positive views on the quality and usefulness of performance audits, overview reports, Best Value Assurance Reports and briefings. Perceptions of all reports increased slightly on the previous year.

Quality and usefulness of performance audit and Best Value assurance reports



Adding value

104. The Code requires auditors to recognise the implications of their audit work, including their wider scope responsibilities, and that they clearly demonstrate that they add value or have an impact in the work that they do.

105. Some summarised examples provided by auditors over the last year where they have added value at audited bodies are:

- 
- Supporting enhanced transparency and understanding
 - Providing technical views on accounting and reporting issues
 - Making useful recommendations for improvement
 - Avoiding material misstatements in published financial statements
 - Promoting effective governance and performance including member training
 - Supporting bodies with issues and implications arising from statutory reports
 - Sharing specialist reports with audited bodies such as the impact of Covid-19

Areas for improvement and future focus

106. The evidence base under the AQF continues to grow and comprises an assessment of compliance with the highest professional standards and the achievement of impact and other qualitative measures.

107. Auditors have made improvements since the 2020/21 Quality of public audit in Scotland report:

- ASG and Grant Thornton achieved an ICAS assessment of no areas for improvement required.
- All auditors are now reporting on how they added value through their audit work.

108. Work carried out under the AQF has highlighted areas where further improvements are needed to support the Auditor General for Scotland and Accounts Commission's drive towards world-class public audit. AQA will monitor improvement areas identified this year.

109. The evidence will be used in discussion with relevant audit providers to focus on areas for improvement including:

- Ensuring that audit evidence obtained is significantly improved and that there is documented evidence of Engagement Lead review and direct review of the fieldwork conducted over critical areas of judgment and in response to all of the identified significant audit risks.
- EQCR process is documented on a timely basis, the process only considered some of the significant audit risks identified over the financial statements and was not considered to fully meet the requirements set out in the Audit Scotland Audit Guide, as informed by ISQC(UK)1.
- Consideration of the approach adopted by ASG in documenting this type of hot file review, with ISA (UK) 220 providing relevant commentary on the nature and extent of documentation that may be appropriate.
- Significant audit judgements in the selection of journals to review on audit files did not clearly address all relevant characteristics of fraudulent journal entries identified within ISA (UK) 240.

- The general approach of selecting a pre-set sample size of journals, typically on a random sample basis, in advance of detailed review being conducted, was not considered to provide sufficient appropriate audit evidence in response to the significant risk from management override.
- ASG considering its approach to the ISA (UK) 600 requirement to review the work of component auditors. The [FRC Staff Guidance Note 02/2018 -Group Audits](#) provides useful reference. It may be beneficial to set out more clearly:
 - A process for determining whether a component is ‘significant’ under the terms of ISA (UK) 600, along with setting out the implications this categorisation has for audit planning, fieldwork and completion
 - A process for determining and documenting how and where sufficient appropriate audit evidence will be obtained over all material group transactions and balances and
 - Potential approaches to be taken by the group engagement team where components are considered: Significant and Material; Material but Not Significant; and Not Significant and Not Material.
- Performance audit - there remains a risk that documents could be added to, amended or removed from the engagement file after the date of report publication. Audit Scotland may wish to consider the ISSAI requirements with regards audit documentation and quality control in this regard.
- BVAR engagements - there remains a risk that superfluous documents are retained on the audit file which reduce the team’s ability to demonstrate all key audit evidence has been fully considered. Teams may wish to consider how schedules are documented in future, to set out more clearly the nature and extent of audit consideration applied.

Issues in the auditing profession

110. The ongoing impact of the Covid-19 pandemic on 2020/21 audits contributed to auditors not meeting all output targets. The FRC has [highlighted](#) that this should not undermine the delivery of high-quality audits. Audits should continue to comply fully with the required standards. In current circumstances, additional time may be required to complete audits and it is important that this is taken, even at the risk of delaying reporting.

111. There is increasing evidence that there are recruitment difficulties in the auditing profession due to a shortage of skilled and qualified audit staff available. This, together with the perceived unattractiveness of auditing compared to other accounting disciplines, presents a current and future risk to the delivery of high-quality public audit in Scotland.

112. The FRC published two reports in November 2021 relevant to improving the quality of audit. The [Developments in Audit](#) report summarises the key issues facing the auditing profession and lists these as:

- Regulatory reform and resilience
- Improving audit quality
- Covid-19 and beyond
- Developments in auditing, assurance and ethical standards
- Enforcement

113. To support auditors and audit firms meet these issues the FRC published the report [What Makes a Good Audit](#). This report provides valuable guidance and insight on:








- **Key attributes of a good audit in which the FRC identifies high-quality audits as those that:**
 - provide investors and other stakeholders with a high-level of assurance that financial statements give a true and fair view
 - comply with both the spirit and the letter of auditing regulations and standards
 - are driven by a robust risk assessment, informed by a thorough understanding of the entity and its environment
 - are supported by rigorous due process and audit evidence, avoid conflicts of interest, have strong quality management, and involve the robust exercise of professional judgement and professional scepticism
 - challenge management effectively and obtain sufficient audit evidence for the conclusions reached; and
 - report unambiguously the auditor’s conclusion on the financial statements.
- **Key attributes of a high-quality audit practice** where it discusses:
 - ISQM 1 and the new approach to quality management at the firm level that emphasises the responsibility of firm leadership for proactively managing quality.
 - The Key Components of a System of Quality Management.








AQF development

114. AQA, together with stakeholders, will undertake a full review of the AQF in autumn 2022. This review will examine the best practice examples identified from these FRC reports and consider:

- The implications for audit quality arising from the new audit quality standards.
- The changes arising from the [2021 Code of Audit Practice](#) including the enhanced local auditors responsibility for annual Best Value reporting.
- How to bring more transparency to audit quality and reporting?
- How quality reviews of individual auditors are reported?

Appendix 1

KPI	Target	Actual	Conclusion
Value of non-audit services carried out during the audit year. (Paragraphs 26 to 28)	Steady or declining value	£36k representing 0.2 per cent of total fees during the 2020/21 audits (£44.3k representing 0.2 per cent of total fees during 2019/20 audits)	
Percentage of audit providers confirming compliance with ethical guidance. (Paragraph 25)	100%	100%	
Percentage of audit staff with appropriate qualifications and in training. (Paragraphs 35 to 36)	100%	100% for private firms 100% for Audit Scotland	
Number of training and development days delivered per member of staff. (Paragraphs 37 to 39)	Steady or increasing	15 days (12 days 2019/20)	
Percentage of cold reviews showing good compliance with auditing standards. (Paragraphs 58 to 90)	80% Cumulative over 3 years	ICAS financial audits: 65% Internal financial audits: 75% ICAS PABV audits: 100% Internal PABV audits: 100%	
Percentage of audits completed on time. (Paragraphs 44 to 49)	95%	76%	
Percentage of audits with material prior period adjustments due to error. (n/a)	Less than 10%	7.1%	

KPI	Target	Actual	Conclusion
Percentage of performance audit and Best Value Assurance Reports published as planned.	90%	100%	
(Paragraphs 54 to 57)			
Perception of the usefulness of the audit overall	4/5	4.4/5	
(Paragraphs 97 to 102)			
Perception of the appropriateness of coverage of (not asked in 2020/21 due to shortening of survey)			
i. Governance and accountability	4.0	n/a	
ii. Financial management	4.0	n/a	
iii. Financial sustainability	4.0	n/a	
iv. Value for money	4.0	n/a	
v. Best Value (LG only).	4.0	4.25	
(Paragraphs reference: n/a)			
Perception of the quality of:			
i. Overview reports	4.0	4.5	
ii. Performance audits	4.0	4.4	
iii. BVARs	4.0	4.1	
Perception of the impact of:			
i. Overview reports	4.0	4.2	
ii. Performance audits	4.0	4.3	
iii. BVARs	4.0	4.1	
(Paragraph 103)			
Staff survey results on:	Steady or increasing		
a) I am encouraged to carry out a high-quality audit		97% (95% 2020/21)	
b) The time and resources available to me enables the delivery of a high-quality audit		59% (59% 2020/21)	
c) The training and development I receive enables a high-quality audit.		84% (82% 2020/21)	
(Paragraphs 29 to 34)			

Quality of public audit in Scotland

Annual report 2021/22

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