Scottish Commission for Public Audit
Monday 24 June 2024
1st Meeting, 2024 (Session 6)

Audit Scotland Annual Report and Accounts for the year to 31 March 2024 and Auditor's report on the Accounts

Purpose

1. Audit Scotland's annual report and audited accounts for the year to 31 March 2024 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 Scottish Commission for Public Audit (the Commission) to carry out the annual audit of Audit Scotland.

3. The Commission will then take evidence from Audit Scotland on its Quality of Public Audit in Scotland annual report 2023/24.

4. 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.

5. A copy of its Quality of Public Audit in Scotland annual report 2023/24 can be found in **Annexe D.**

Conclusion

6. **The Commission is invited to consider the annual report and accounts; and the Auditor's report on the accounts and the Quality of Public Audit in Scotland annual report.**

Secretary to the Commission
June 2024

Annexe A: Letter from the Auditor General for Scotland

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AUDITOR GENERAL

18 June 2024

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

Dear Chair

Audit Scotland's 2023/24 Annual Report and Accounts

I am pleased to submit Audit Scotland's Annual Report and Accounts for the year ended 31 March 2024, which I signed along with the external auditor, David Jeffcoat from Alexander Sloan on 18 June 2024.

I have also enclosed our annual report on the Quality of Public Audit in Scotland, as well as our Audit Committee Chair's Annual Review requested in your report earlier this year following the briefing on our Budget.

The operational underspend was £62k (0.2%), broken down as revenue £9k and capital £53k, with the underspend balance of £1,880k relating to the non-cash in-year pension service cost adjustment required under International Accounting Standard 19 (IAS 19).

As you are aware we are not able to publish the Annual Report and Accounts on Audit Scotland's website today due to the General Election, but this will be done as soon as possible afterwards.

This is our first Annual Report to align with our new corporate plan and Public Audit in Scotland.

Together with colleagues, I look forward to briefing the Commission later this month on the Annual Report and Accounts. Please do not hesitate to get in touch if you need anything before then.

Yours sincerely

Stephen Boyle
Accountable Officer and Auditor General for Scotland

Annual report and accounts

2023/24

AUDIT SCOTLAND

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Our performance

2023/24 in numbers

228
Accounts audited

13
National and local performance reports

10
Briefings, reports and blogs

17
Technical guides

£50.2bn
Payments under Comptroller function

Making a difference - throughout this annual report we illustrate examples of our impact through 'Making a difference' examples.

Our context

Public audit in Scotland, the shared statement of purpose between the Auditor General, the Accounts Commission and Audit Scotland, sets out our shared vision and mission, and the outcomes where we aim to achieve measurable change by 2028.

Through our Corporate Plan 2023-28, Audit Scotland supports these through our strategic priorities and our values.

Vision

Public money is well spent to meet the needs of Scotland's people.

Mission

Provide clear, independent and objective assurance on how effectively public money is being managed and spent.

Outcomes

- Public services in Scotland work better together to target resources more effectively.
- Financial planning and management are more effective across Scotland's public services.
- Public bodies deliver clearer and more transparent reporting.
- Our recommendations have a positive impact for people in Scotland.

Strategic priorities

- Timely and impactful annual audit.
- Dynamic performance audit programme.
- Enhanced audit approaches.
- Developing our people and our business.
- Insights driving innovation and improvement.

Values

Equality | Independence | Innovation | Integrity | Respect

Chair's welcome

Over recent years, the Auditor General, the Accounts Commission, Audit Scotland and others have repeatedly warned about the financial and operational sustainability of public services.

The pressures on services are clear: demographic change, rising demand, inequalities, staff shortages, recovery from the pandemic, the cost-of-living crisis, and climate change among the most challenging. These strengthen the case for reform and for major change in the way services are structured.

But during 2023/24, it became even more apparent that we face big and urgent issues that require radical thinking and change for Scotland to continue providing the services we all use and rely upon. Business as usual is not an option.

Audit is always as much about improvement as it is about probity. That is more vital than ever.

In 2023/24 we published Public audit in Scotland, setting out our vision and mission, and the concrete outcomes we want to achieve for the people of Scotland. Over 2023/24 and into the following years, our focus will be on supporting and driving improvements in how public bodies spend money, in how clear and transparent they are in that decision-making and spending, and ultimately in delivering services that can meet the diverse needs of Scotland's people and communities.

This is my last annual report as Chair of Audit Scotland's Board before I leave post. The role of the 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 public services. I speak for the whole board when I say we are assured that Audit Scotland does consistently achieve these outcomes, and I thank my fellow board members for their support, drive and professionalism as we fulfil our oversight duty. They have shown an impressive ability to get the balance right between challenge and support in their scrutiny of management.

I also want to thank everyone who works for Audit Scotland. I have always been struck by their deeply held commitment to delivering a high-quality public audit service and to do what they can to improve public services and people's lives.

Professor Alan Alexander OBE
Chair of the Audit Scotland Board

Accountable Officer's report

During 2023/24, it became even more apparent that Scotland's public services face big and urgent issues that require radical thinking and change.

This was a key message across our audit work during 2023/24. We consistently highlighted that tightening budgets, workforce challenges and rising demand are pushing the public sector's capacity to a point where it may soon be unable to deliver and resource services as is currently done.

Addressing this requires leadership and a fundamental examination of the priorities for public services and the outcomes they intend to achieve.

Public audit plays a vital role in analysing these issues and bringing them to the attention of decision-makers, leaders and the public. We also have our part to play in helping find and drive the solutions and helping achieve sustainable public services.

At the heart of this is the crucial balance between assurance and improvement. We have worked to strengthen and broaden the usefulness and reach of our findings and recommendations, and our stakeholders' engagement with them. We are also working to better understand how public bodies implement our recommendations, what impacts this has, and how we can support public bodies and decision-makers to make more of what we learn and report through our work.

To ensure we can deliver our vision and provide value to the users of public services, we have been consolidating our development of recent years in our skills and capacity, and making sure our work is relevant, reliable and timely. We are undertaking a major programme of audit modernisation. Through this we will make sure that we can ensure quality, efficiency and compliance, and that our audit teams have the right skills, are working in the right ways and can confidently face the future.

We have also embedded new audit appointments for Scotland's public accounts. We are working to recover the timescales of our audits, following the disruptions of the pandemic.

Over the past four years public sector bodies have faced significant disruption, including to those who monitor and report on their own bodies' spending. We appreciate all that they are doing to recover timescales and produce robust accounts that help us deliver audit on the public's behalf.

I want to conclude by thanking my colleagues at Audit Scotland. Their hard work, professionalism and care shine through in all they do.

Stephen Boyle
Auditor General for Scotland and Accountable Officer

Our year

Public audit in Scotland

In 2023/24 we published Public audit in Scotland, the shared statement of purpose setting out the joint vision and mission between the Auditor General, the Accounts Commission and Audit Scotland.

We support the vision and mission with the following four outcomes where we aim to have a tangible impact:

Outcomes

- Public services in Scotland work better together to target resources more effectively.
- Financial planning and management are more effective across Scotland's public services.
- Public bodies deliver clearer and more transparent reporting.
- Our recommendations have a positive impact for people in Scotland.

We have committed to reporting on our impact against public audit outcomes at least twice during the five years of Public audit in Scotland.

During 2023/24 we continued to implement our new impact monitoring, evaluation and reporting framework.

Our early impact approach looks at progress against our recommendations, how our work is influencing change, and stakeholder perceptions of our work. We report biannually to the Auditor General, the Accounts Commission and the Scottish Parliament's Public Audit Committee on this.

Our wider evaluation approach will look at the impact of our work on the four outcomes. This recognises that public audit operates in a complex and dynamic system where multiple contributions are needed to drive change. We aim to look at our impact through exploring how our activity contributes alongside other factors to making a difference.

We will commission our first wider evaluation in the second half of 2024 and report the findings in summer 2025.

Timely and impactful public audit

We 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.

In 2023/24, our in-house audit teams, and the external firms we contract, audited 228 sets of public body accounts under the Code of audit practice, as well as working on the European Agricultural Fund audit and scrutinising the performance of housing benefit claims processing within Scotland's councils. We delivered 109 audits – 48 per cent – to updated guidance and target dates. Of the remainder, 103 have been delivered after our target dates, and at 31 May 2024, 16 were still to be delivered.

We continued to work on recovering audit delivery timeliness, following interruptions due to the Covid-19 pandemic and truncated deadlines in following years. However, this remains challenging, and we have developed a multi-year programme to fully recover our delivery against deadlines by autumn 2027.

We have taken, and will continue to take, a risk-based, focussed approach to prioritising work so that we ensure audit quality while also considering colleagues' workloads, wellbeing, and professional development commitments.

The annual audit of public bodies provides the foundation of public audit in Scotland and goes beyond reviewing accounts to look at matters such as governance and leadership, and how well public bodies use resources to improve outcomes.

Accounts audited in 2023/24

100 Local government

84 Central government

23 NHS

21 Further education

Accounts audited in 2023/24

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.

A key feature of public audit in Scotland is that it goes further than the accounts. The Code of audit practice sets out a wider scope for public audit, recognising that good use of public money directly affects public services and the people who rely on them. Under the wider scope, auditors consider: financial management; financial sustainability; vision, leadership and governance; and the use of resources to improve outcomes.

All accounts we audited were judged to be true and fair, although auditors qualified this opinion for the accounts of Glasgow City Council. Auditors also qualified the accounts of Social Security Scotland for regularity reasons, and modified their opinion on Ferguson Marine Port Glasgow's accounts with an emphasis of matter about the entity as a going concern.

Raising issues from annual accounts

We highlight matters of concern we find in the annual audits that are of significant public interest. This enables us to ensure clear accountability for the management and use of public money, and also that the wider public sector can learn from the issues we report on. The Auditor General does this through powers in Section 22 of the Public Finance and Accountability (Scotland) Act 2000, and the Controller of Audit through powers under Section 102 of the Local Government (Scotland) Act 1973. These reports are known as 'Section 22' and 'Section 102' reports.

In 2023/24, we issued six Section 22 and two Section 102 reports:

Section 22s: NHS Forth Valley, Scottish Government Consolidated Accounts, Scottish Prison Service, South Lanarkshire College, Scottish Canals, and the Water Industry Commission for Scotland.
(Making a difference 1)

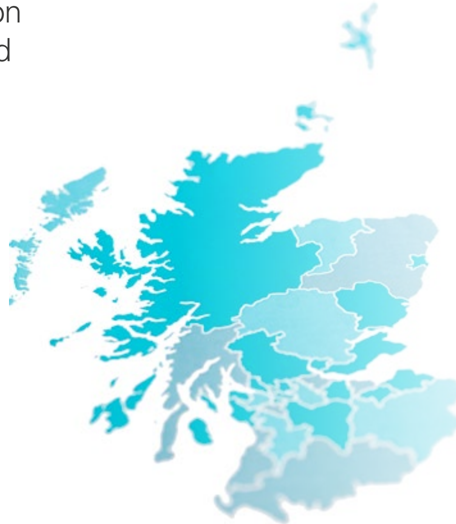
Section 102s: Glasgow City Council, and Renfrewshire Council.

More information about these reports can be found in our Transparency report 2023/24 and on our website.

Reporting on Best Value in local government

During 2023/24 we began rolling out the Accounts Commission's new approach to Best Value auditing. The new BV audit approach is now fully integrated in the local government annual audit. It also involves annual Best Value thematic work identified each year by the Commission based on key risks identified by the Controller of Audit from financial and performance audit reports.

During the year, the Commission and the Controller of Audit published five Best Value reports on individual councils. The Commission's annual report provide further detail about these reports and its plans for future BV reporting.



During 2023/24 we published five BVs on behalf of the Commission:

South Ayrshire Council
November

Dundee City Council
November

Dumfries & Galloway Council
January

Orkney Islands Council
January

Moray Council
March

Audit appointments

Under the Scottish model of public audit, audit appointments are rotated every five years, for both our in-house audit teams and the external firms we contract. This helps to safeguard the independence of appointed auditors – and perceptions about that independence – from the public bodies that they audit.

In 2023/24, we commenced the first year of the new round of five-year appointments, with a mix of in-house auditors and the external firms Azets, Deloitte, EY, Grant Thornton, KPMG and Mazars.

On behalf of the Auditor General and the Accounts Commission, we produce performance audits and overview reports on issues of important public interest involving significant amounts of public money. These include overviews of key public services, reviews of major reforms and projects, and exploring how public bodies respond to the key issues facing Scotland.

1 Making a difference
Scottish Canals

Over the past two years, the Auditor General reported on significant flaws in financial reporting at Scottish Canals, the body responsible for Scotland's waterways and related land and property. The impact of these issues was that auditors were unable to state whether they thought the organisation's accounts were fair and true for both 2020/21 and 2021/22.

This meant the Auditor General could not assure the public or the Parliament about Scottish Canals' financial position or its performance. The issue also had the potential to affect the organisation's management of assets and its financial planning.

In particular, auditors were concerned about the valuations of Scottish Canals' canal infrastructure. The Auditor General called on Scottish Canals to urgently make sure it had the capacity and expertise to do this and provide evidence that would allow auditors to make a judgement.

Scottish Canals responded by employing more finance staff and working on its process and approaches.

This year the auditors reported on significant improvements to the quality of accounts and the valuation processes, and auditors were able to issue an unqualified opinion for the first time since 2020.

Scottish Canals still has a lot of work to do. But for the first time in three years, we were able to assure the public about its financial position and performance.

Dynamic performance audit programme

Over recent years we have introduced a more flexible approach to our programme, so we can react to the circumstances and emerging issues facing Scotland's public services. We communicate our findings and recommendations through a diverse range of products, from detailed performance audit reports to briefing papers and update reports to blogs. We supplement these with supporting products such as social media, videos and animations to reach as wide an audience as possible and get our audit messages across more effectively to the people affected by the issues we review.

Performance audit

The unsustainability of public services was the central message of both the Accounts Commission's overview of local government (May) and the Auditor General's NHS in Scotland overview (February). The Commission stated that Scotland's councils had never faced such a challenging situation as the present, and radical change is needed if they are to maintain services. The Auditor General similarly called for major change, saying the affordability of the NHS was at risk without reform. In January the Commission followed its overview with a local government financial bulletin stating that councils now faced hard choices about service cuts.

In April the Auditor General reported that the Scottish Government needs to improve how it is set up to deliver the country's climate change goals. We returned to climate change in a summary by the UK's four public audit agencies about the different programmes underway in the four nations. Our review of the criminal courts backlog (May) found that the trial backlog that built up during the pandemic had been significantly reduced but waiting times for the most serious crimes had doubled. In June we followed up our previous audit on early learning and childcare, reporting that the Scottish Government, councils and partners had done well to increase the hours provided to each child but that the sector was fragile. Our review of adult mental health services (September) found that accessing services remained slow and complicated for many people, and our audit on the Scottish Government's plans to phase out fossil fuel heating systems in homes needs to expand and accelerate significantly in order to achieve its goals.

Our shorter briefing reports considered subjects and themes we have previously reported on or intend exploring further in our audit work. In April we reported that Integration Joint Boards face considerable financial and workforce challenges. Our review of Scotland's colleges (September) found the same issues, and we also reported that the

NHS in Scotland overview 2023

February

Criminal courts backlog

May

Adult mental health

September

Scottish Government no longer expects to have enough money to deliver its planned public sector infrastructure investment (September). The theme of the unsustainability of public services was again a key message in our analysis of the Scottish Government's workforce challenges (October), and in February the Auditor General reported that the Scottish Government's 10-year economic strategy lacked leadership and clear targets.

We published five blogs on: homelessness; 20 years of Best Value; climate change; the Accounts Commission's social care work programme; and the role of the Accounts Commission.

Over the past year we have developed our approach to understanding the impact of our work. In June we reported on the good progress that the agencies involved in Scotland's City Region and Growth Deals have made in implementing the recommendations we made in our 2020 performance audit. See Making a difference 2 (page 15) for a review of the impact of our climate change audit.

Supporting scrutiny and countering fraud

Supporting the Scottish Parliament

Public audit helps the Scottish Parliament and policy-makers understand the key issues facing the public sector and how public money is spent.

The Auditor General reports in public to the Scottish Parliament's Public Audit Committee (PAC), and the Accounts Commission engages with the Local Government, Housing and Planning Committee. We also regularly engage formally and informally with other committees and the Scottish Parliament Information Centre (SPICe) to better help parliamentarians scrutinise the public sector's performance. During 2023/24 we met with and gave oral and written evidence and briefings to a wide range of parliamentary committees, with a total of 77 parliamentary engagements over the year as well as meetings with MSPs, and our audits and evidence were cited 138 times in committees' work.

Alongside that formal reporting, we have responded to consultations and calls for evidence by parliamentary committees, providing submissions to 21 Scottish Parliament and Scottish Government policy consultations during 2023/24.

Scrutiny coordination

We work closely with other scrutiny bodies to make sure the scrutiny of public sector bodies is targeted and proportionate. This includes working on behalf of the Accounts Commission to support the Strategic Scrutiny Group that coordinates scrutiny of local government, and on the shared risk assessment of Scotland's 32 councils. We are also members of the Sharing Intelligence for Health and Social Care Group, which aims to coordinate activity and jointly identify the key risks to health and social care. More information is available on our Scrutiny improvement webpage.

Investing in Scotland's infrastructure

September

The Scottish Government's workforce challenges

October

Countering fraud

Public audit has an important role in raising awareness about fraud as well as helping to prevent and report on fraud. We report on frauds identified during the year, and have responsibility to review how public bodies have discharged their counter-fraud responsibilities.

In July, we published our Fraud and irregularity update on cases auditors reported on during 2022/23.

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. The next biennial NFI report will be published during 2024. More information is available at our Counter-fraud webpage.

2 Making a difference

Tackling our climate change recommendations

In April 2023, the Auditor General reported on the Scottish Government's arrangements for tackling climate change, and made a range of recommendations to help it improve this. In particular, he called for better alignment and workforce planning to support governance, and a range of actions to improve risk management.

The Scottish Government accepted the recommendations in full and began implementation.

In March 2024, we reported to the Scottish Parliament on the good progress the Scottish Government was making, and the material improvements in governance and risk management it was now seeing. These included:

- more transparent governance arrangements, with distinct roles, remits and clearer reporting lines
- a comprehensive performance monitoring framework and reporting dashboard, providing monthly updates on progress towards climate goals
- and more active monitoring and management of risks, and escalation appropriate forums where necessary.

We will continue to monitor this, and any further improvements made and changes needed.

Enhanced audit approaches

Audit quality

High quality is fundamental to our audit work, so that the assurance we provide is reliable and supports our ability to drive improvements and changes in public services.

Our Audit Quality Framework sets out the framework for reviewing the quality of the financial and performance audit outputs delivered for the Auditor General and Accounts Commission. Central to the Framework are three levels of assurance on audit quality:

- **Level One:** training and support
- **Level Two:** internal quality monitoring, reviews and improvement activity
- **Level Three:** external independent quality reviews.

Our learning and development strategy and people strategy support Level One (see Developing our people and business, page 20). During 2023/24 we bolstered our Level Two arrangements through the expansion of our dedicated Quality team, as well as our in-house independent Audit Quality and Appointments (AQA) team. At Level Three, the Institute of Chartered Accountants in England and Wales (ICAEW) check that our in-house teams and appointed external firms conduct audits in compliance with auditing standards, and regulatory and professional requirements. More detail is available in Audit quality in Audit Scotland: Commitment to quality.

Internal and external reviews of a sample of audits completed in 2022/23 found:

- 67 per cent of financial audits and all of performance audits achieved our expected standard of no or minor improvements required
- 25 per cent of the reviews of financial audits gave the highest grade
- A third of financial audits required some improvements, and none required significant improvements.

There were no challenges to the validity of audit opinions.

Public bodies gave highly positive feedback on our audit work, rating the overall performance of our teams at 4.3 out of five.

Internally, 92 per cent of colleagues said they were encouraged to deliver high-quality audit work, but only 34 per cent felt they had the time and resources to do so.

The results of this monitoring framework inform our quality improvement activity. More information is available in our Quality of public audit in Scotland annual report and our Transparency report.

In August 2023, we reviewed our arrangements for meeting our quality objectives. The review concluded that appropriate procedures were in place to address the risks to our quality, and we have also completed a small number of development actions.

In February, ICAEW independently reviewed our system of quality management and concluded that it is appropriate for the size and nature of our organisation.

We continue to represent, and engage with, a wide range of international and UK professional bodies, auditing and accounting standards setters, and audit agencies. This includes consultations on professional and regulatory matters, and discussing audit quality activity to learn from and share good practice.

Modernising our audit approaches

The world of audit is constantly changing and advancing. The role of our job, the expectations on auditors, the technology and tools we use and the contexts we work in are continuously evolving.

During 2023/24 we developed and launched our Audit Modernisation Project, our wide-ranging and ambitious multi-year approach to improving and future-proofing the work we do and how we do it.

The project will transform both our approaches and the tools, training and mechanisms we use so that we aren't just keeping up with changes but can lead and influence how audit advances.

This means:

- refining and refreshing our approaches
- delivering a learning and support programme so that we are empowered and confident to deliver new ways of working
- agreeing the skills, capacity and grade mix we need for the future
- developing sustainable and efficient ways of updating and future-proofing our approach, software and tools

- and delivering an interoperable system enabling efficient and automated processes, analysis and documentation.

Enhancing our digital audit approach is an important part of audit modernisation. This includes harnessing developments in audit automation and artificial intelligence. During 2023/24 we continued to develop skills in both IT audit and analytics through our digital champions programme. Our Digital Audit Team continues to develop tools and dashboards to support our auditors deliver their work more effectively, and efficiently.

Through our audit modernisation project, in 2023/24 we also introduced new audit and management tools to improve productivity and efficiency. While we are already seeing some benefits, we will realise these more in coming years and report in more detail in future annual reports.

3 Making a difference

Ensuring we meet changing standards

As well as delivering our own development plans, we must respond effectively to changes in auditing standards, and regulatory and professional requirements.

Changes to the international standard around the risks of bodies making material misstatements in their accounts (ISA (UK) 315) have required significant updates to our financial audit approach, and resulted in additional work for auditors to meet the standard. This had been a major project over the past two years, and we fully implemented our new approach during 2023/24. We reviewed this, resulting in:

- a more robust approach to risk assessment, and auditors have a stronger understanding of the entities that they audit
- a learning event for all financial audit staff to provide further support and training
- investment in upskilling our digital champions through attendance at an 'IT bootcamp' and refresher sessions, and guidance on areas where issues were identified or further support was required based on auditors' experiences of the updated audit approach.

Developing our people and our business

Our people

Our workforce in 2023/24

330.76
Whole-Time Equivalent (WTE)

0.9%
increase from March 2023

49
Trainees

Over the past year we have aimed to consolidate the growth we have made in previous years.

We also worked on improving how we deploy our workforce so that we can better support our strategic priorities while continuing to deliver high-quality, robust financial and performance audit.

In November we published our People strategy 2023-28, setting out our commitment to invest in our people and to ensure we have the skills, capacity and flexibility to deliver Public audit in Scotland and our Corporate Plan. The strategy takes a 'one organisation' approach, and was developed in consultation with colleagues, the PCS union, and our Board.

Business planning and resourcing

Public audit in Scotland and our Corporate Plan were developed after significant internal and external consultation.

To support the ambitions and strategic priorities in these, we developed and delivered a new integrated and collaborative operational planning process. Through this, we aim to ensure the best use of our resources, and achieve tangible impact in the outcome areas we have agreed. We received strong assurance from our internal auditors (see page 38) on our new approach.

Like many organisations, the ways we work have changed since the pandemic. During 2023/24 we reviewed our estates strategy to better reflect the impacts of hybrid working and the geographical distribution of our workforce. We are reducing the size of our Edinburgh office, while creating more space in Glasgow. This project will deliver £2.2 million in savings over the next decade.

Public audit in Scotland 2023-28

June

Corporate plan 2023-28

June

We continued to focus on digital security and on ensuring colleagues have the equipment and systems they need to do their job effectively, and spent £150,000 on new hardware and software.

Learning and development

We published a Learning and Development plan in October 2023. The plan focuses on helping our colleagues to develop the right knowledge, skills and behaviours to deliver high-quality audits, equip them for the future and demonstrate Audit Scotland's values.

The plan expands mandatory learning to cover the increased demands within the audit profession, the role of managers and to protect time for learning. This provides the basis for colleagues to meet relevant continuous professional development requirements.

This is complemented by self-directed learning through our personal development process. This empowers colleagues to tailor their learning to meet their individual professional needs and career aspirations.

All planned learning is accessed through our learning management system. We are continuing to explore the functionality of this system to ensure we identify and deliver the knowledge and skills needed for the future. Each staff member received an average of 18.5 days training during 2023/24 (18 in 2022/23).

We run one of the largest public sector accountancy training schemes in Scotland. As at 31 March 2024 we had 49 trainees, 37 of whom were working towards Institute of Chartered Accountants in Scotland qualifications, with the remainder to start training in 2024. In 2023, our trainees passed 152 out of 162 exams (93.8 per cent) on their first sitting, which is an increase on last year's 86 per cent. We also have three Modern Apprentices, and are working on proposals to expand this programme and offer more opportunities for young people to take this approach to joining the workforce.

Diversity, equality and inclusion

We are committed to using data to understand whether our efforts to promote diversity and equality across our workforce are delivering results. As at 31 March 2023:

- 6.8 per cent declared that they are from an ethnic minority, compared with 4.5 per cent of the total Scottish population
- 3.8 per cent declared they are lesbian, gay, bisexual or other, compared with 3.0 per cent of the Scottish population
- 6.2 per cent declared they have a disability, compared with 32 per cent of adults in Scotland.

The percentage of colleagues with a declared disability has increased in recent years, but we have more work to do to increase the representation of people with disabilities and young people in our workforce. We also have more female (56.6 per cent) than male (43.4 per cent employees) but less female representation in leadership roles (see pages 46 for more information).

In April 2023, we started working with our new diversity, equality and inclusion (DEI) partner, Business in the Community. The aim of this partnership is to support us to deliver on our equality outcomes around increasing the diversity of people into Audit Scotland and their progression through every level of our organisation, and to broaden our culture of diversity and inclusion, so all employees feel valued, engaged and contribute. Through the partnership we are receiving support to develop a new DEI strategy, which we will publish in April 2025, learning and development support for colleagues and support with benchmarking our progress.

Ways of working

Our organisational values are equality, integrity, independence, innovation and respect. During the year we delivered a range of activities to embed the values in everything we do. This has included embedding our values within our learning and development, into corporate communications and developing an Audit Scotland values charter Making a difference 4 (page 23).

Climate change and sustainability

Our most recent information on our sustainability performance is for 2022/23. During the year, the total emissions counted against our target was 94 tCO2e. This is almost 50 per cent lower than our 2024/25 target, and more than 30 tCO2e lower than our current 2030 target. More information is in our Environment, sustainability and biodiversity annual report 2022/23.

We are currently reviewing our targets to ensure we appropriately capture all emissions associated with our work, particularly the impact of home working.

Our 2023/24 report will be published in late 2024.

4 Making a difference

Putting our values into action

As we have developed our vision and mission for the coming years, we also agreed our organisational values. During 2023/24 we focused on what these mean in practice and where and how we live them.

During the past year, our Leadership Group delivered workshops for colleagues to discuss how our values translate to concrete attitudes and behaviours of individuals and teams, considering what they explicitly look like when we are doing them well and when we aren't getting it right. More than 240 colleagues participated in these workshops, nearly 70 per cent of our workforce.

From this we have developed and agreed a values charter to support us to further embed the values into our everyday attitudes and behaviours. Colleagues can use the charter in one-to-one conversations, within their teams and more widely across the organisation to support our values and to challenge each other when we see them not being upheld.

We also began work to review our performance appraisal approach in order to put our values at the heart of this. Further work will include embedding our values in our recruitment and selection processes.

Insights driving innovation and improvement

Stakeholder engagement

We engage with a wide range of stakeholders to capture the views, experiences and priorities of decision-makers, the people delivering services and the people using them. This informs decisions about our audit programme and helps make sure our work is relevant. Through effective engagement we can also ensure our findings and recommendations reach the people they affect, and that we can track and understand our work's impact.

During 2023/24, we developed and launched a programme of stakeholder research.

We commissioned our first public opinion survey to help us understand the reach of and engagement with our audit work, our impact against our outcomes, and to inform our future audit programme. It found that the majority of the Scottish adults surveyed were aware of us and our work, but were less clear about the exact roles of the Auditor General and the Accounts Commission. Encouragingly, interviewees' stated priorities for our future work aligned with our strategic objectives of supporting partnership working and collaboration in the public sector, and better long-term financial planning.

Further plans for stakeholder research include engagement with our scrutiny partners and with the third sector and these will be delivered during 2024.

Assessing our impact

We have developed a new framework for monitoring, evaluating and reporting on the impact of our audit work (Making a difference 5, page 26), and piloted this during 2023/24. We delivered our first impact evaluation report to the Scottish Parliament's Public Audit Committee in August 2023 and our second impact report for the Auditor General and Accounts Commission in November 2023.

A key dimension of our framework is continuous improvement. As part of this, we have developed new guidance for performance auditors to create SMART audit recommendations and on following them up. This year we found that most of our recommendations have been accepted, and public bodies are making good progress in implementing them.

Public bodies have also told us that our financial and performance audits make clear recommendations, and that they influence improvement. Similarly, our briefing papers have supported parliamentary scrutiny and contributed to national and local developments in key areas such as planning and reform, climate change and financial sustainability.

Responding to the public

We dealt with 301 items of correspondence in 2023/24, a three per cent increase on 2022/23. Over the past three years, we have seen increasing numbers of concerns raised with us about public bodies, but fewer enquiries about our work. In 2023/24, 97 per cent of correspondence was acknowledged within five working days and 98 per cent received a final response within 30 working days.

We are receiving higher numbers of enquiries about issues that are outside our remit. We are addressing this by working to give potential correspondents more information about remit at the time they consider corresponding with us.

International work

Our International work strategy 2021–24 and International work strategy 2024-28 sets out our mission to learn, share our knowledge and expertise, and help support effective public sector governance and accountability in Scotland and overseas. We also commit to ensuring international activity is conducted efficiently, effectively, provides value for money and promotes sustainability.

Highlights from our 2023/24 international activity include:

OECD Integrity Week – This event supports organisations to strengthen integrity, build trust and fight corruption. We used this to develop our good practice note on climate change and to share learning with colleagues on innovation and anti-corruption.

North Macedonia Parliamentary Budget Office – We supported the office during 2023/24, including sharing information on our role and how we work with the Scottish Parliament to support scrutiny.

EURORAI International Seminar – The seminar looked at performance audit methodologies and how they are changing as we focus more on outcomes, value for money and lived experience. We shared the impact of our audit work on improving outcomes for young people through school education.

Queensland Audit Office – We engaged with the QAO on their project to implement new financial audit software, including system demonstrations and lessons learned. This work directly informed our audit modernisation project.

International panel – We hosted an online panel of international experts from academia and performance audit to explore the challenges facing public services globally and how public audit is evolving to support and drive changes in services delivery, and to have more impact.

5 Making a difference

Better understanding our impact

During 2023/24 we ran pilots within our financial and performance audit teams on our new framework for monitoring, evaluating and reporting on the impact of our audit work.

Our performance audit pilot identified opportunities to improve our audit approach in a number of areas. In particular, we considered our recommendations, which are a key tool in delivering the outcomes we have set out in Public audit in Scotland. We reviewed the quality and clarity of our recommendations and our processes for following up on public bodies implementing them and the subsequent results.

We developed and issued new guidance on the approach for teams developing recommendations, including examples of good and weak practice, and the process for monitoring, evaluating, and reporting progress against recommendations.

Our finances

Financial overview

Expenditure

£22.4 million
Expenditure on people costs

£8.1 million
Fees and expenses paid to firms

£4.6 million
Other operating expenditure

£5.2 million
Capital expenditure Incl. right-of-use leases

Fees and funding

£23.4 million
audit fees and other income

£15.2 million
Scottish Parliament funding

£1.7 million
Net finance expenditure incl. Corporation Tax

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 from page 62.

Resource outturn

		2023/24			2022/23
Our year in figures	Note	Actual £000	Budget £000	Variance £000	Actual £000
People costs	Staff Report	22,355	23,068	713	24,475
Fees and expenses paid to external firms	4	8,147	7,070	(1,077)	4,679
Other operating expenditure	4	4,564	4,705	141	4,735
Total operating expenditure		35,066	34,843	(223)	33,889
Operating income	5	(23,375)	(22,943)	432	(19,011)
Net operating expenditure		11,691	11,900	209	14,878
Net finance expenditure/ (income)	6	(1,693)	-	1,693	670
Corporation Tax payable		13	-	(13)	-
Net expenditure after tax		10,011	11,900	1,889	15,548
Capital expenditure	7 and 8	247	300	53	203
RoU Leases Capital	15	4,930	6,271	1,341	188
Total resource required from Parliament		**15,188**	**18,471**	**3,283**	**15,939**

Net expenditure after tax

In 2023/24, Audit Scotland spent £35.1 million on services for the Auditor General and the Accounts Commission. Of these costs £23.4 million was recovered through charges to audited bodies and other income. The balance of £11.7 million net operating expenditure was met by net finance income of £1.7 million and £10.0 million of direct funding provided by the Scottish Parliament. The Scottish Parliament also directly funded the £0.2 million capital investment programme and the £4.9 million required to meet non-cash capital on leases.

The financial year remained extremely challenging with the ongoing impact of cost-of-living pressures on colleagues and the organisation. It was also the first year of the new audit appointments where public sector bodies have been allocated new auditors under the five-year audit rotation cycle.

There was no requirement for 2023/24 Spring Budget Revision funding to meet IAS 19 pension costs as the actuary projection was for employer contributions to exceed in-year service costs. The actual adjustment in the accounts for pensions in 2023/24 was a credit of £1.9 million. This effectively leads to an operational outturn in the financial year of £0.1 million less than budget.

People costs represent 64 per cent of Audit Scotland's total operating expenditure, with the year-end position £0.7 million less than budget. Staff salaries and on costs were underspent and agency costs were overspent. The combined position for these costs led to an underspend of £0.5 million due to the level of vacancies during the year being higher than planned. This saving was reduced by the cost-of-living pay settlement being higher than budget. The use of agency staff was required to cover for vacant posts as well as to provide expert support in respect of the audit modernisation and resourcing projects. Significant progress was made with staff in relation to outstanding leave balances and the adjustment at the year-end reflects this with a credit of £0.2 million being recognised in the accounts.

Fees and expenses paid to firms was £1.1 million more than budget. This is due to additional work undertaken and the costs of completing prior year audit work. As previously reported the procurement exercise for external audit provision highlighted a significant change in the audit market and the cost of audit. Additional fee income will cover some of the additional costs as the firms experienced a significant number of adjustments, discrepancies in the application of accounting standards and delays in the availability of working papers. As this is the first year of the new appointments it is expected that the position will improve for future audit year work.

Other operating expenditure was £0.1 million less than budget with reduced expenditure on travel and subsistence (£0.2 million), professional fees (£0.2 million) and depreciation (£0.1 million). The savings generated were reduced by expenditure being more than budget on property (£0.3 million) and information technology (£0.1 million). The overspend in property was due to the expansion of the Glasgow office in July 2023 and the impact of inflationary increases on service charges, business rates and energy costs. The information technology overspend was due to the requirement to upgrade software to a cloud based version in order to receive continued support of the application.

Operating income was £0.4 million more than budget. This is due to additional work being undertaken by external firms, recognition of prior audit year income and some in-house recovery in respect of closing work in progress position at 31 March.

In 2023/24, our budget was approved with a target planned efficiency saving of £1.0 million. The final operational outturn, including capital, was £0.1 million less than budget and the actual saving to budget in the year was therefore £1.1 million, 3.1 per cent of our £35.1 million Operating and Direct Capital expenditure budget. Most savings came from people costs and travel and subsistence.

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 original budget for 2023/24 of £0.2 million was planned to be used to deliver our commitment to invest in office infrastructure and IT hardware and software. In the Spring Budget Revision our capital budget was increased by a further £0.1 million to fund minor building works in the Glasgow office. This increase was funded by a budget reduction of £0.1 million in our revenue funding. Due to project slippage this work did not commence, and the additional capital funding was partially used to accelerate the IT hardware requirement identified in the 2024/25 capital programme. Capital investment in 2023/24 totalled £0.2 million, which was £0.1 million less than revised budget.

The primary focus of the investment was to continue to provide colleagues with the equipment required to work remotely, and in the office, securely and effectively.

The planned minor building work in the Glasgow office will now take place in financial year 2024/25.

RoU Leases capital

Under the new lease standard IFRS 16 there is a non-cash capital funding requirement on initial recognition of the total obligations under leases. Audit Scotland leases offices in Edinburgh, Glasgow and Inverness and also operates a car lease scheme for eligible employees.

The non-cash capital expenditure in 2023/24 of £4.9 million was £1.3 million less than budget due to the measurement of lease liabilities using the present value of the payments for the remaining lease term. The capital requirement in 2023/24 was significantly higher than the previous year due to the lease extensions required for our offices in Edinburgh and Glasgow.

Resources required for 2024/25

The 2024/25 budget has been approved by the Scottish Parliament with revenue resources totalling £37.6 million. Of these resources, £24.5 million will be recovered through charges to audited bodies and miscellaneous income. The £13.1 million balance of expenditure will be met from direct funding provided by the Scottish Parliament. A capital resource of £0.2 million will also be provided by the Scottish Parliament.

Stephen Boyle
Accountable Officer
18 June 2024

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 Executive Team and non-executive board members whose details are set out in the Governance statement.

Register of interests

Executive 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 2024.

Statement of Accountable Officer's responsibilities

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

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

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

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

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

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

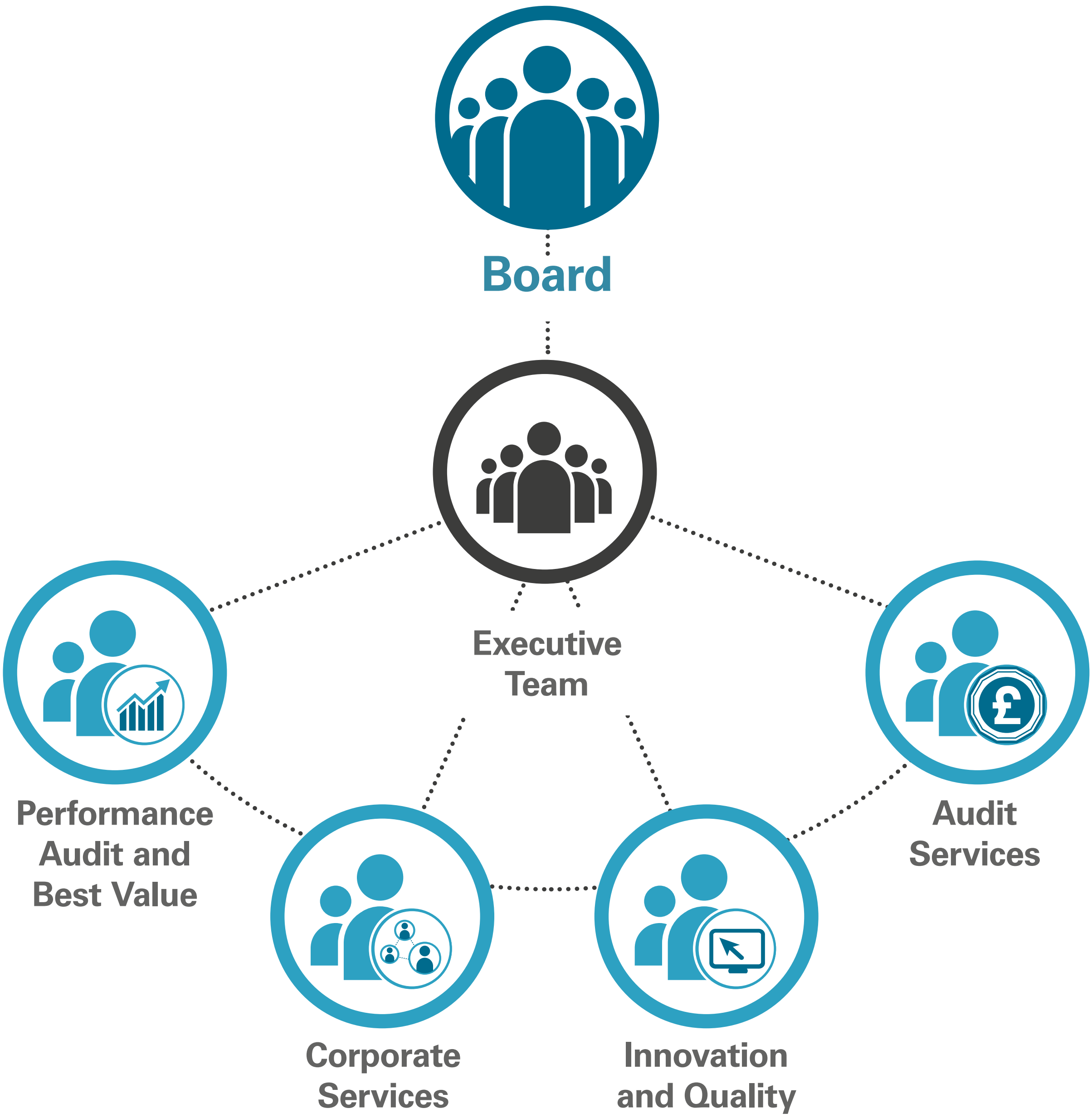
The Accountable Officer confirms that this annual report and accounts taken as a whole is fair, balanced and understandable. The Accountable Officer takes personal responsibility for the annual report and accounts and the judgements required for determining that it is fair, balanced and understandable.

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

Governance statement

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

Our governance and management framework



Board members

Professor Alan Alexander
Chair of the board

Stephen Boyle
Auditor General for Scotland and Accountable Officer for Audit Scotland

Jo Armstrong
Chair of the Accounts Commission
(Ms Armstrong joined the board in February 2024)

- Dr William Moyes was Chair of the Accounts Commission in April and May 2023.
- Tim McKay represented the Accounts Commission in May 2023.
- Ronnie Hinds was Interim Chair of the Accounts Commission between June 2023 and January 2024.

Colin Crosby
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

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), Jo Armstrong and Jackie Mann.

The committee appoints the internal auditors and approves the internal audit plan. Internal audit services are provided by an external firm. Following a procurement process, Wylie & Bisset were appointed in April 2022. Seven of the eight audits in 2023/24 achieved a 'strong' rating (the highest rating available), while the remaining audit received a 'substantial' rating. Across the audits there were six recommendations, of which four were of low priority and two of medium priority.

Remuneration and human resources committee

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

The committee comprises Jackie Mann (chair), Alan Alexander, Jo Armstrong, Colin Crosby and Stephen Boyle.

Attendance during 2023/24:[1]

Committee	Alan Alexander	Stephen Boyle	William[2] Moyes	Ronnie[2] Hinds	Jo[2] Armstrong	Jackie Mann	Colin Crosby
Board (7)	6	7	1	2	1	7	7
Audit committee (5)	4	5	-	-	1	5	5
Remuneration and human resources committee (4)	4	4	-	1	1	4	4

Notes:

1. Board members who are not formal members of the Audit committee and the Remuneration and human resources committee attend as observers.
2. Dr Moyes resigned his post on 5 May 2023. Ronnie Hinds was Interim Chair of the Accounts Commission June 2023– January 2024. Ms Armstrong joined the board in February 2024.

Executive Team

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

During 2023/24 the Executive Team was made up of the Auditor General for Scotland, who is the Accountable Officer, the Chief Operating Officer, the Controller of Audit 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 2024/25 budget proposal, the SCPA explored a number of areas including the reasons for the budget increase in the context of public sector settlements, efficiency savings, the estate strategy, audit modernisation, staffing matters, pensions and travel and subsistence costs, audit delivery and the range of bodies covered by public audit and audit fees. The SCPA also requested additional written information on staffing costs, audit modernisation, costs in relation to the Accounts Commission, forecast outturn and the National Fraud Initiative.

The SCPA noted the 2024/25 budget proposal and submitted it to the Finance Committee. The SCPA's report noted 'While the Commission understands that only 4.7 per cent of this increase is within Audit Scotland's direct control, however, we have concerns at the level of this increase, particularly in the context of significant pressures on Scotland's public finances and the resources of other public bodies and services.' The report said the Commission plans to strengthen its scrutiny of our future budget proposals.

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 Executive 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 as at March 2024 were in relation to: digital security, audit quality and audit delivery, organisational capacity, health safety and wellbeing, efficiency, innovation and audit modernisation and the public sector audit market.

Many of the risks are interlinked; for example, risks to organisational capacity could have an impact on audit delivery and audit quality.

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.

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 cybersecurity 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 mandatory 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 Executive Team and the audit committee every six months.

There have been no incidents of personal data loss in 2023/24 which required to be notified to the Information Commissioner.

Fraud, corruption and bribery

Audit Scotland has policies and procedures on fraud, corruption and bribery and these are reviewed and updated on a regular basis. 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 2023/24 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
- risk workshops/ 'deep dives' into specific risks
- the programme of internal and external audits.

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 2024 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 areas of identified risks to our controls. 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 2024 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)	2023/24 £000	2022/23 £000
Chair – Alan Alexander	10 - 15	10 - 15
Independent board member – Jackie Mann	5 - 10	5 - 10
Independent board member – Colin Crosby	5 - 10	5 - 10

Accounts Commission for Scotland

Members of the Accounts Commission are appointed by Scottish ministers who also set their remuneration. Commission members are not employed by Audit Scotland and detail of their remuneration is not required under the policy outlined in the Financial Reporting Manual (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 12 (11 in 2022/23). The total amount of remuneration to Commission members in 2023/24 was £175k (see page 51 for breakdown). They were remunerated in the following bands:

Remuneration banding (Audited)	2023/24 £000	2022/23 £000
Chair – Jo Armstrong (from 01 February 2024)	5 - 10[1]	-
Interim Chair – Ronnie Hinds (01 June 2023 to 31 January 2024)	30 - 35[1]	-
Chair – William Moyes (until 05 May 2023)	0 - 5[1]	45 - 50
Deputy Chair – Tim McKay (until 31 October 2023)	5 - 10[2]	15 - 20
Commission Members	5 - 10	5 - 10

Notes:

1. The full year equivalent remuneration is £45k - £50k.
2. The full year equivalent remuneration is £15k - £20k.

Audit Scotland also provided dedicated secretarial and administrative support to the Accounts Commission, in addition to delivering broader audit and corporate services.

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.

Executive Team

Stephen Boyle
Auditor General for Scotland and Accountable Officer for Audit Scotland

Vicki Bibby
Chief Operating Officer

John Cornett
Executive Director of Audit Services

Kenneth Oliver
Executive Director Innovation and Quality

Antony Clark
Executive Director of Performance Audit and Best Value

Helena Gray
Controller of Audit (from April 2023)

The salaries (excluding employer's superannuation and national insurance contributions), benefits in kind and pension entitlements of the management team are shown in the following tables. Information is presented for the whole year to 31 March 2024. Further information on the pensions payable to Audit Scotland staff, including senior management, can be found in Note 3. Pension assets and liabilities (page 72).

Single total remuneration (Audited)	2023/24 Salary £000	2022/23 Salary £000	2023/24 Benefit in kind £	2022/23 Benefit in kind £	2023/24 Pension Benefit[1] £000	2022/23 Pension Benefit[1] £000	2023/24 Total £000	2022/23 Total £000
Stephen Boyle Auditor General for Scotland	160 – 165	150 - 155	-	-		59		210 - 215
Vicki Bibby Chief Operating Officer[2]	135 – 140	75 - 80	-	-	30	198	165 – 170	275 – 280
Antony Clark Executive Director of Performance Audit and Best Value	125 - 130	120 - 125	-	-	13	9	140 – 145	125 – 130
John Cornett Executive Director of Audit Services[3]	125 - 130	115 - 120	-	-	27	46	155 - 160	160 – 165
Helena Gray Controller of Audit	125 – 130	-	-	-	-	-	125 - 130	-
Kenneth Oliver Executive Director of Innovation and Quality[4]	125 - 130	90 - 95	-	-	-	33	125 - 130	125 - 130
Martin Walker Interim Director of Corporate Services (until 21 August 2022)[5]	-	40 - 45	-	-	-	33	-	75 – 80
Fiona Kordiak Director of Audit Services (until 8 April 2022)[6]	-	0 – 5	-	-	-	-	-	0 – 5

Accrued pension benefits for Stephen Boyle, Auditor General for Scotland, are not included in this table for 2023/24 due to an exceptional delay in the calculation of these figures following the application of the public service pension remedy.

Notes:

1. 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 (6.7 per cent) and are net

of contributions made by the individual. This figure can be significant in year one for new members of the Executive Team with prior service in the scheme.

2. 2022/23 full year equivalent salary £130,000 to £135,000.
3. 2022/23 full year equivalent salary £120,000 to £125,000.
4. 2022/23 full year equivalent salary £115,000 to £120,000.
5. 2022/23 full year equivalent salary £110,000 to £115,000.
6. 2022/23 full year equivalent salary £110,000 to £115,000.

Pensions (Audited)	Accrued pension at 31 March 2024 £000	Accrued lump sum at 31 March 2024 £000	Real increase in annual pension £000	Real increase in lump sum £000	CETV at 31 March 2024[1] £000	CETV at 31 March 2023[1] £000	Real increase in CETV[1] £000
Stephen Boyle Auditor General for Scotland		-		-		106	
Vicki Bibby Chief Operating Officer	30 - 35	20 – 25	0.0 – 2.5	-	508	370	125
Antony Clark Executive Director of Performance Audit	40 - 45	25 – 30	0.0 – 2.5	-	767	645	109
John Cornett Executive Director of Audit Services	10 - 15	-	0.0 – 2.5	-	173	119	41
Helena Gray[2] Controller of Audit	-	-	-	-	36	-	23
Kenneth Oliver[2] Executive Director of Innovation and Quality	-	-	-	-	57	21	23
Martin Walker Interim Director of Corporate Services (until 21 August 2022)	-	-	-	-	-	834	-

Accrued pension benefits for Stephen Boyle, Auditor General for Scotland, are not included in this table for 2023/24 due to an exceptional delay in the calculation of these figures following the application of the public service pension remedy.

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.

Note 2. Less than 2 years' service so no pension benefits payable.

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.

	2023/24	2022/23
Remuneration banding for highest paid individual	£165,000 - £170,000	£150,000 - £155,000
Percentage change from previous financial year for highest paid individual	+8.0%	+6.5%
Average percentage change from previous financial year for employees	+5.0%	+5.5%
Lower quartile remuneration	£37,238	£33,348
Lower quartile ratio	4.5	4.6
Median remuneration	£50,304	£46,226
Median ratio	3.3	3.3
Upper quartile remuneration	£60,877	£58,047

	2023/24	2022/23
Upper quartile ratio	2.8	2.6
Remuneration range	£22,500 - £165,000 to £170,000	£20,500 - £150,000 to £155,000

The percentage increase in the remuneration of the highest paid individual and the average change for employees reflects the impact of incremental progression and the cost-of-living pay award.

The movement in remuneration and ratio for median and upper quartile are not significant and indicates that Audit Scotland has consistent pay, reward and progression policy for its employees. There is a small decrease in the ratio for the lower quartile which is due the increase in the number of new recruits on our modern apprentice scheme.

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 pages 50 and 51 are covered by the audit opinion.

Staff report

	2023/24	2022/23	2021/22
People (WTE)	330.76	327.7	314
Gender	Female 57% Male 43%	Female 54% Male 46%	Female 57% Male 43%
Board	Female 40% Male 60%	Female 20% Male 80%	Female 20% Male 80%
Executive Team	Female 33% Male 67%	Female 20% Male 80%	Female 50% Male 50%
Absence	6.01 days	4.66 days	5.75 days
Turnover rate	9.33%	9.02%	9.4%
Trainee auditors	49	48	44

In March 2024, staff headcount was 346 (330.76 WTE), compared with a headcount of 340 (327.73 WTE) in 2023.

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.

People costs and numbers

People costs	2023/24 £000	2022/23 £000
Wages and salaries	16,859	15,539
Social Security costs	1,983	1,899
Superannuation	3,271	2,975
Temporary staff[1]	189	88
Movement in early retirement costs	17	(189)
Adjustment for retirement benefit scheme costs (see below)	(139)	4,005
	22,180	**24,317**
Accounts Commission members		
Salaries	147	140
National Insurance	7	7
Travel and subsistence	21	11
	175	**158**
	22,355	**24,475**

1. Equivalent to 3.33 WTE in 2023/24 and 1.68 WTE in 2022/23.

Analysis of local government retirement benefit scheme cost	2023/24 £000	2022/23 £000
Current service costs	4,239	7,970
Past service costs	-	-
	4,239	**7,970**
Less: Actual employees' contributions	(1,205)	(1,087)
Charge to revenue	**3,034**	**6,883**
Employer contributions	(3,173)	(2,878)
Adjustment for retirement benefit scheme costs	**(139)**	**4,005**

Learning and development

In 2023/24, we developed a new People Strategy to help deliver our vision for our people alongside our corporate plan and will help lay the foundations that look further ahead to 2033. Our people strategy will help us to look ahead at the skills that the auditor of the future will need and to consider the development of our target operating model in line with this. Learning and development is one of the five pillars in the strategy alongside workforce planning, performance management, health safety and wellbeing and diversity, equality and inclusion. These pillars are supported by our policies and procedures, organisational culture and communications and engagement.

We are committed to being innovative and creative about how we develop and support our people. In 2023/24, we developed a new Learning and Development plan for which sets out the learning for colleagues based on our strategic priorities, areas identified through quality reviews and engagement with colleagues. The plan aims to ensure that all colleagues are equipped with the skills they need now, and in the future, and facilitates delivery of our corporate values.

Audit Scotland runs one of the largest public financial audit training schemes in Scotland. As at 31 March 2024 we had 49 trainees, 37 trainees of whom were working towards ICAS qualifications.

Organisational development

We are committed to organisational development and 'Developing our people and our business' and 'Insights driving innovation and improvement' are two of our five strategic objectives set out in our Corporate Plan 2023-28 alongside timely and impactful annual audit, the dynamic performance audit programme and enhanced audit approaches.

We have a strategic improvement plan in place and our development work is led and/or supported by our Innovation and Quality business group. Its mission includes leading organisational transformation and development, providing technical and professional expertise and a constructive quality monitoring process, continually enhancing methodologies and best practice and the effective use of new technologies, delivering professional learning and development, and driving Audit Scotland's role as system leader for public audit in Scotland.

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 2024, 1 member of staff left under a voluntary early release arrangement.

Further disclosure on early retirement and severance is set out in Note 14. Provision for early retirement and severance.

Exit package cost band	2023/24	2022/23
£25,001 - £50,000	-	-
£50,001 - £100,000	1	-
£100,001 - £150,000	-	-
£150,000 +	-	-
Total costs disclosed in financial statements (£000)	75	-

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 2023/24 are disclosed in the tables below.

Relevant union officials	
Number of employees who were relevant union officials during the relevant period	10
Full-time equivalent employee number	9.68

Percentage of time spent on facility time

Percentage of time	Number of employees
0%	-
1% – 50%	10
51% – 99%	-
100%	-

Percentage of pay bill spent on facility time	
Total cost of facility time	£27,891
Total pay bill	£22,371,199
Percentage of total pay bill spent on facility time	0.1%

Paid trade union activities	
Time spent on paid trade union activities as a percentage of total paid facility time	4.6%

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.

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

We published our seventh Audit Scotland: Gender pay gap report in September 2023. The information is based on a snapshot date of 31 March 2023. Audit Scotland's workforce, at the snapshot date of 31 March 2023, comprised of 333 full pay employees, 146 men (43.84 per cent of the workforce) and 187 women (56.16 per cent of the workforce). Included in our overall headcount are 43 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 were men and 22 are women.

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.

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: Progress report 2021-23 outlines the progress we have made to date.

Mainstreaming equality: Progress report 2021-23

April

Community, social and human rights

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

During 2023/24 we had one member of staff undertaking public duties.

In 2024, a new Volunteering policy is being introduced which will support colleagues in taking time to volunteer or participate in fundraising or awareness raising activities.

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 2024 which comprise the 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. 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 2023/24 Government Financial Reporting Manual (the 2023/24 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 2024 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 2023/24 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 Accountability report is consistent with the accounts.

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

Responsibilities of the Accountable Officer

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

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

Auditor’s responsibilities for the audit of the accounts

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

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

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

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

- the engagement partner ensured that the engagement team collectively had the appropriate competence, capabilities and skills to identify or recognise non-compliance with applicable laws and regulations;
- we gained an understanding of the legal and regulatory framework applicable to Audit Scotland through discussions with management, and from our wider knowledge and experience;
- we focused on specific laws and regulations which we considered may have a direct material effect on the financial statements or the operations of Audit Scotland, including The Financial Reporting Manual, Public Finance and Accountability (Scotland) Act 2000, Directions by Scottish Ministers and other laws and regulations applicable to Audit Scotland. We also considered the risks of non-compliance with the other key legislation and we considered the extent to which non-compliance might have a material effect on the financial statements.
- we assessed the extent of compliance with the laws and regulations identified above through making enquiries of management and inspecting legal correspondence; and
- identified laws and regulations were communicated within the audit team regularly and the team remained alert to instances of non-compliance throughout the audit.

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

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

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

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

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

- agreeing financial statement disclosures to underlying supporting documentation;
- attending 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: http://www.frc.org.uk/auditorsresponsibilities. The description forms part of our audit report.

Use of Our Report

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

Alexander Sloan LLP

Accountants and Business Advisers
Edinburgh
18 June 2024

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 2024

	Note	2024 £000	2023 £000
People costs	Staff Report	22,355	24,475
Fees and expenses paid to external firms	4	8,147	4,679
Other operating expenditure	4	4,564	4,735
Total operating expenditure		35,066	33,889
Operating income	5	(23,375)	(19,011)
Net operating expenditure		11,691	14,878
Net finance expenditure	6	(1,693)	670
Net expenditure before tax		9,998	15,548
Corporation Tax payable		13	-
Net expenditure after tax		10,011	15,548
Other comprehensive net expenditure			
Net losses/(gains) on pension schemes	3	1,880	(27,879)
Comprehensive Net Expenditure/(Income)		11,891	(12,331)

Statement of Financial Position

As at 31 March 2024

	Note	2024 £000	2023 £000
Non-current assets			
Property, plant and equipment	7	688	799
Intangible assets	8	86	108
Right-of-use assets	15	5,517	1,176
Total non-current assets		6,291	2,083
Current assets			
Trade and other receivables	9	4,045	3,689
Cash and cash equivalents	10	2,048	2,839
Total current assets		6,093	6,528
Total assets		12,384	8,611
Current liabilities			
Trade and other payables	12	7,150	7,403
Obligations under leases	15	391	598
Provision for early retirement and severance	14	116	105
Other provisions	16	120	543
Total current liabilities		7,777	8,649
Non-current assets plus / less net current assets/ liabilities		4,607	(38)
Non-current liabilities			
Deferred liabilities	13	-	-
Obligations under leases	15	(5,278)	(745)
Provision for early retirement and severance	14	(1,311)	(1,345)

	Note	2024 £000	2023 £000
Other provisions	16	(755)	(661)
Net funded pension asset / (liability)	3	-	-
Total non-current liabilities		(7,344)	(2,751)
Assets less liabilities		(2,737)	(2,789)
Represented by:			
Taxpayers' equity			
Net funded pension asset / (liability)	3	-	-
General fund		(2,737)	(2,789)
		(2,737)	(2,789)

Stephen Boyle
Auditor General and Accountable Officer
18 June 2024

Statement of Cash Flows

As at 31 March 2024

	Note	2024 £000	2023 £000
Cash flows from operating activities			
Net (expenditure) after tax		(10,011)	(15,548)
Adjustment for non-cash items:			
- Depreciation	7, 8	380	415
- Depreciation - right-of-use assets	15	617	683
- Pension scheme - net revenue (credit) / debit		(1,880)	4,684
(Increase) in trade and other receivables		(356)	(866)
Increase in trade / other payables / deferred liabilities		538	1,393
(Decrease) in provisions for early retirement		(23)	(295)
(Decrease) / increase in other provisions		(329)	(776)
Other non-cash items		-	11
Net cash outflow from operating activities		(11,064)	(10,299)
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(230)	(201)
Purchase of intangible assets	8	(17)	(2)
		(247)	(203)
Cash flows from financing activities			
Capital payments of lease liabilities	15	(632)	(932)

	Note	2024 £000	2023 £000
From Consolidated Fund (Supply)		11,152	11,172
		10,520	10,240
Net (decrease) / increase in cash and cash equivalents in the period		(791)	(262)
Cash and cash equivalents at the beginning of period		2,839	3,101
Cash and cash equivalents at the end of period	10	2,048	2,839
Net cash requirement			
Cash flows from Consolidated Fund		11,152	11,172
Decrease / (increase) in cash		791	262
		11,943	11,434

Statement of Changes in Taxpayers' Equity

Year ended 31 March 2024	Note	Net funded pension £000	General fund £000	Total £000
Changes in Taxpayers' equity				
Balance at 31 March 2022		(23,195)	(3,359)	(26,554)
Transfers between reserves				
Transfer to net funded pension liabilities	Staff Report	(4,005)	4,005	-
Net return on funded pension assets	3	(679)	679	-
Net gains on pension schemes	3	27,879	-	27,879
Net (expenditure) after tax		-	(15,548)	(15,548)
Net funding from the Scottish Parliament	11	-	11,434	11,434
Balance at 31 March 2023		-	(2,789)	(2,789)
Transfers between reserves				
Transfer to net funded pension liabilities	Staff Report	139	(139)	-
Net return on funded pension assets	3	1,741	(1,741)	-
Net (losses) on pension schemes	3	(1,880)	-	(1,880)
Net (expenditure) after tax		-	(10,011)	(10,011)
Net funding from the Scottish Parliament	11	-	11,943	11,943
Balance at 31 March 2024		-	(2,737)	(2,737)

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 UK adopted 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 2024/25 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 are no new standards not yet effective that will have an impact on Audit Scotland's accounts.

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) 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.

f) Work in progress

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

g) Leases

IFRS 16 requires Audit Scotland to recognise an asset in the Statement of Financial Position where under the contract it has exclusive right to use the asset (right-of-use assets). A corresponding lease liability is recognised at the same time. Recognition exemptions have been applied for short-term and low-value leases.

The definition of a lease under IFRS 16 has been applied to contracts entered into after the 1 April 2022. Upon lease commencement a right-of-use asset and lease liability are recognised.

At the commencement of a new, or extension of an existing, property lease Audit Scotland recognises a right-of-use asset and a lease liability. The lease liability is measured at the present value of the payments for the remaining lease term, net of irrecoverable VAT, discounted by the rate implicit in the lease, or where this cannot be determined, the rate advised by HM Treasury for the calendar year.

In respect of new car leases the right-of-use asset and lease liability are measured at cost and not discounted as the difference is not material due to the short nature and annual payment in advance contractual arrangements.

The right-of-use asset is subsequently depreciated, in the same way as other assets of the same type, using a straight-line method from the commencement date over the lease term, which is equal to, or shorter than, the asset's useful life. The right-of-use asset will be periodically reviewed to account for any potential impairment losses and any material remeasurement of the lease liability.

h) Value Added Tax (VAT)

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

i) Pension arrangements

Audit Scotland complies with the requirements of International Accounting Standard No 19 (IAS 19) for the year ended 31 March 2024. 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.

j) 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 (see Note 9 page 86). Invoices raised in advance of work being done is treated as Deferred Income (see 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 (see Notes 14 and 16).

- Estimation of the net pension liability or asset 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, following work carried out by our actuaries. Further estimates consider the extent to which the IAS19 and IFRIC14 asset ceiling limits on defined benefits are applied based on the estimated present values of future service costs and minimum funding contributions. If these estimates project that minimum funding contributions will be in excess of future service costs then in accordance with IFRIC14 no pension asset will be recognised and an asset ceiling of Nil will be applied. Note 3 provides more detail on the movement in the net pension position.

2. People costs and numbers

	2024 £000	2023 £000
Wages and salaries	17,216	15,778
Social Security and Employment Tax costs	1,990	1,906
Pension and Early Retirement / Severance Costs	3,149	6,791
	22,355	24,475

More details on staff numbers and related costs can be found in the Staff report (page 50).

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.

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 2024 were as follows:

	2024	2023
Salary increases	3.25%	3.45%
Pension increases	2.75%	2.95%
Discount rate	4.85%	4.75%
The assumed average life expectancy for a retiral at age 65 are as follows:	**Male years**	**Female years**
Current pensioners	22.0	24.0
Future pensioners	22.7	25.4

As at the date of the most recent valuation, the duration of the Employer's funded obligation is 19 years.

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 2024 have been prepared by Hymans Robertson LLP.

The movement in the funded part of the net pension position for the year to 31 March 2024 is as follows:

Period ending 31 March 2024

	Assets £000	Obligation £000	IFRIC 14 Adjustment £000	Net (Liability) /Asset £000
Fair value of employer assets	143,568	-	-	143,568
Present value of funded liabilities	-	107,069	-	(107,069)
Net Asset restriction applied	-	-	(36,499)	(36,499)
Opening position as at 1 April 2023	143,568	107,069	(36,499)	-
Current service cost	-	3,034	-	(3,034)
Past service cost	-	-	-	-
Total service cost	-	3,034	-	(3,034)
Interest income on plan assets	6,856	-	-	6,856

Period ending 31 March 2024

Interest cost on defined benefit obligation	-	5,115	-	(5,115)
Total net interest	6,856	5,115	-	1,741
Total defined benefit cost recognised in Statement of Comprehensive Net Expenditure	6,856	8,149	-	(1,293)
Employee contributions	1,205	1,205	-	-
Employer contributions	3,173	-	-	3,173
Benefits Paid	(3,450)	(3,450)	-	-
Total cashflows	928	(2,245)	-	3,173
Expected closing position	151,352	112,973	(36,499)	1,880
Change in demographic assumptions	-	(7,575)	-	7,575
Change in financial assumptions	-	(1,095)	-	1,095
Other experience changes	(2,935)	12,719	-	(15,654)
Return on assets excluding amounts included in net interest	6,689	-	-	6,689
Adjustment for IFRIC 14 Net asset reduction			(1,585)	(1,585)
Total remeasurements recognised in Other Comprehensive Income	3,754	4,049	(1,585)	(1,880)
Fair value of employer assets	155,106	-	-	155,106
Present value of funded liabilities	-	117,022	-	(117,022)
Net Asset restriction applied	-	-	(38,084)	(38,084)
Closing position as at 31 March 2024	155,106	117,022	(38,084)	-

IAS 19 limits the measurement of a net defined benefit asset to the lower of the surplus in the defined benefit plan and the asset ceiling. The asset ceiling is defined as the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. As there is no unconditional right to a refund, the actuaries have calculated whether there are economic benefits in the form of reductions in future contributions, in accordance with IFRIC 14. As the estimated present value of minimum funding contributions exceed the estimated present value of future service costs, there is deemed to be no economic benefit and the asset ceiling is Nil. An adjustment to the defined benefit plan asset has been required in accordance with IAS19 and IFRIC 14.

Information in respect of the defined benefit obligation

	Liability split	
	£000	%
Active members	55,476	47.4%
Deferred members	20,248	17.3%
Pensioner members	41,298	35.3%
Total	117,022	100.0%

Statement of Comprehensive Net Expenditure (SOCNE): The net credit to SOCNE of £1,880k is based on the financial conditions at the start of the year (i.e. 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 be lower than 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, individual LGPS Fund investment performance percentage returns have typically been higher than assumed (compared to last year's accounting discount rate assumption). A higher than assumed investment return has led to a positive adjustment of £6,689k in the "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 CPI inflation) has increased compared to last year, leading to the recognition of a gain of £1,095k in the Statement of financial position as at the Accounting Date. This is shown in the 'Changes in financial assumptions' within the schedule.

- Using a more up-to-date longevity improvement assumption at the Accounting Date leads to a gain on obligations of £7,575k. However, the baseline longevity and all other demographic assumptions are now based on the 2023 funding valuation assumptions and the impact is employer specific. The overall impact of the combined changes (baseline longevity, future longevity improvements and all other demographic assumptions) results in a positive 'Change in demographic assumptions'.
- The "Other experience" item captures a loss of £15,654k by applying the roll-forward approach to allow for actual experience over the period. This adjustment is a combination of 2 factors:
- The loss (increase in obligations) resulting from applying the actual Pensions Increase Order for April 2024 of 6.7% to the benefits. After subtracting the Pensions Increase Order monetary impact, the remainder of the 'Other experience' item will relate to the funding valuation remeasurement experience and unfunded obligations experience.
- As a result of the 31 March 2024 accounting figures on the 2023 funding valuation results, there is a negative item on the obligations side in 2023/24.

Impact of the 31 March 2023 Scottish formal actuarial valuations: Formal actuarial valuations are carried out every three years, where each employers' assets and liabilities are calculated on a detailed basis, using individual membership data and actual employer level cashflow data, ultimately for cash contribution setting purposes. The 31 March 2023 funding valuations for Scottish LGPS Funds were concluded by 31 March 2024.

The Statement of financial position as at the Accounting Date, and the projected charge to the SOCNE for 2023/24, are therefore based on a new roll-forward from the 2023 funding valuation. This differs to the Statement of financial position as at the previous year-end and the charge to the SOCNE for 2023/24, which were based on a roll-forward from the 2020 funding valuation. This 'step change' can lead to sizeable asset and obligations 'remeasurement experience' items in the reconciliation of the Statement of financial position from the previous year-end Accounting Date. The impact is shown within the 'Other experience' figures of the OCI.

For accounting purposes forward projections are based on the results from the most recently completed funding valuation. Allowance is made for certain elements of experience since the funding valuation date, such as actual quarterly investment returns, contributions paid, estimated benefit outgoings, actual early retirements and actual outsourcing/bulk transfers when advised to do so by the employer. As such the accuracy of the accounting projection declines over time. Typically, projections will be within +/- 2% of the underlying position for each year of projection. However, greater differences are possible, particularly if there have been volatile financial market movements or significant underlying membership changes.

The asset and obligations 'remeasurement experience' items arise because in the accounting roll-forward it is not possible to recognise all elements of membership and asset experience, but these are fully recognised in the funding valuation calculations for each employer. In effect the accounting figures are "re-calibrated" every three years following each funding valuation to account for items including but not limited to:

- Membership movements (new entrants, withdrawals, ill health retirements, transfers etc) will be different to those assumed at the previous funding valuation. Different accrued past service histories and different member status types change the value placed on the future benefits and contribute to positive or negative 'other experience' on the obligation side.
- Different actual membership movements over the triennial valuation period result in the actual cashflows being different to those assumed at the previous funding valuation (and those cashflows used in prior year accounting valuations). These differences lead to a positive or negative 'other experience' on the assets.
- **Actual level of salary increases** - lower than expected salary growth over the previous inter-valuation period would lead to a positive obligation 'experience' (i.e. lower past service liabilities) and vice versa.
- **Outsourcings/Bulk transfers** - where the employer has chosen, due to materiality or otherwise, not to recognise outsourcings (going out or coming back in) and/or bulk transfers in/out within prior year accounting positions, the impact of these will be included in the asset and obligation 'other experience' figures.

	Period ending 31 March 2023			
	Assets	Obligation	IFRIC 14 Adjustment	Net (Liability)/ Asset
	£000	£000		£000
Fair value of employer assets	138,307	-	-	138,307
Present value of funded liabilities	-	161,502	-	(161,502)

	Period ending 31 March 2023			
Opening position as at 1 April 2022	138,307	161,502	-	(23,195)
Current service cost	-	6,883	-	(6,883)
Past service cost	-	-	-	-
			IFRIC 14 Adjustment	Net (Liability)/ Asset
Total service cost	-	6,883	-	(6,883)
Interest income on plan assets	3,749	-	-	3,749
Interest cost on defined benefit obligation	-	4,428	-	(4,428)
Total net interest	3,749	4,428	-	(679)
Total defined benefit cost recognised in Statement of Comprehensive Net Expenditure	3,749	11,311	-	(7,562)
Employee contributions	1,087	1,087	-	-
Employer contributions	2,878	-	-	2,878
Benefits Paid	(2,703)	(2,703)	-	-
Total cashflows	1,262	(1,616)	-	2,878
Expected closing position	143,318	171,197	-	(27,879)
Change in demographic assumptions	-	(1,070)	-	1,070
Change in financial assumptions	-	(70,831)	-	70,831
Other experience changes	-	7,773	-	(7,773)

	Period ending 31 March 2023			
Return on assets excluding amounts included in net interest	250	-	-	250
Adjustment for IFRIC 14 Net asset reduction	-	-	(36,499)	(36,499)
Total remeasurements recognised in Other Comprehensive Income	250	(64,128)	(36,499)	27,879
			IFRIC 14 Adjustment	Net (Liability)/ Asset
Fair value of employer assets	143,568	-	-	143,568
Present value of funded liabilities	-	107,069	-	(107,069)
Net Asset restriction applied	-	-	(36,499)	(36,499)
Closing position as at 31 March 2023	143,568	107,069	(36,499)	-

The movement in the funded part of the net pension liability for the year to 31 March 2023 was as follows:

	At 31 March 2024				At 31 March 2023			
Asset Category	Quoted Prices in Active Markets	Prices not quoted in Active Markets	Total		Quoted Prices in Active Markets	Prices not quoted in Active Markets	Total	
	£000	£000	£000	%	£000	£000	£000	%
Equity Securities:								
Consumer	18,319.6	-	18,319.6	12	17,601.9	-	17,601.9	12
Manufacturing	21,301.2	-	21,301.2	14	19,790.5	-	19,790.5	14
Energy and Utilities	8,426.1	-	8,426.1	5	8,660.4	-	8,660.4	6
Financial Institutions	9,132.1	-	9,132.1	6	8,636.4	-	8,636.4	6
Health and Care	10,023.0	-	10,023.0	6	10,545.7	-	10,545.7	7
Information Technology	7,689.9	-	7,689.9	5	5,962.6	-	5,962.6	4
Other	9,514.0	-	9,514.0	6	9,803.1	-	9,803.1	7
Debt Securities:								

Asset Category	At 31 March 2024				At 31 March 2023			
	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	%
Corporate Bonds (investment grade)	2,503.5	-	2,503.5	2	2,239.1	-	2,239.1	2
UK Government	20,851.1	-	20,851.1	13	16,643.9	-	16,643.9	12
Other	2,685.3	-	2,685.3	2	2,998.4	-	2,998.4	2
Private Equity:								
All	793.0	631.5	1,424.5	1	89.8	471.0	560.8	0
Real Estate:								
UK Property	-	7,926.0	7,926.0	5	962.1	5,505.1	6,467.2	5
Overseas Property	525.1	1.4	526.5	0	190.7	39.8	230.5	0
Investment funds and Unit trusts:								
Equities	-	-	-	0	1,911.4	111.3	2,022.7	1
Bonds	-	3,945.3	3,945.3	3	-	4,157.0	4,157.0	3
Commodities	-	1,718.7	1,718.7	1	-	-	-	0
Infrastructure	351.2	23,032.6	23,383.8	15	-	20,461.1	20,461.1	14
Derivatives:								
Foreign exchange	(24.6)	-	(24.6)	0	6.1	-	6.1	0
Cash and cash equivalents:								
All	5,760.0	-	5,760.0	4	6,780.6	-	6,780.6	5
Totals	117,851	37,256	155,106	100	112,823	30,745	143,568	100
Effect of Asset Ceiling			(38,084)				(36,499)	
Adjusted Total			117,022				107,069	

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

	Approx.% increase to employer obligation	Approx. monetary amount £000
Sensitivity analysis at March 2024		
0.1% decrease in real discount rate	2%	2,335
1 year increase in member life expectancy	4%	4,681
0.1% increase in salary increase rate	0%	361
0.1% increase in pension increase rate	2%	2,015

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

During the year ended 31 March 2024, Audit Scotland's contribution to the pension fund represented 19.4% (2023 – 19.4%) of contributing employees' pensionable pay. 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 2023 recommended employers' contributions be set at 17.6% over the next three-year period from 2024/25 to 2026/27. The estimate for employer contributions in 2024/25 based on this rate will be approximately £2,871k.

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.

You can find more details of the scheme in the resource accounts of the Cabinet Office: Civil Superannuation.

During the year ended 31 March 2024, Audit Scotland paid an employer's contribution of £96k (2023 – £89k) 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 2023/24 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 2024/25 will be revised to one rate of 28.97%.

c) 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	2024 £000	2023 £000
Fees and expenses to appointed audit firms:			
Local authorities	4,125		2,006
National Health Service bodies in Scotland	1,862		1,121
Further education colleges	342		485
Scottish Government and sponsored bodies	1,818		1,067
Additional audit costs (see note 16)	-		-
		8,147	4,679
Other:			
Rent and rates	307		293
Other accommodation costs	624		393
Travel and subsistence	82		151
Legal and other professional fees	531		843
Stationery and printing	120		137
Training	597		560
Staff recruitment	159		240
Communications (telephone, postage)	38		41
Insurance	125		92
Information technology	801		751
Internal Audit	25		27
External Audit - financial accounts	37		32
Other	121		77
Non-cash items: Depreciation - tangible assets (see note 7)	341		369
Depreciation - intangible assets (see note 8)	39		46
Depreciation - right-of-use assets (see note 15)	617		683
		4,564	4,735
		12,711	9,414

5. Operating income

	2024 £000	2023 £000
Fees and charges payable:		
by Local authorities	14,412	12,062
by National Health Service bodies in Scotland	4,164	3,377
by Further education colleges	797	603
by Scottish Government and sponsored bodies	4,003	3,019
Rebate (see note 16)	-	(36)
	23,376	19,025
Miscellaneous income	(1)	(14)
	23,375	19,011

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 1 f). 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 £2,880k (2022/23 £2,621k) was included in the opening contract liability (payment on account).

At 31 March 2024 forecast future income on audits still in progress is £17,543k (31 March 2023 £17,269k). The typical audit cycle is a year and therefore we expect to recognise this income in 2024/25.

6. Net finance expenditure

	2024 £000	2023 £000
Interest income on pension scheme assets	6,856	3,749
Interest cost on pension scheme defined obligations	(5,181)	(4,428)
Interest cost on right-of-use assets	(49)	-
Bank interest	67	9
	1,693	(670)

7. Property plant and equipment

	Leasehold premises	Furniture and fittings	Computer equipment	Total
Cost	£000	£000	£000	£000
At 1 April 2023	1,339	308	1,233	2,880
Reclassified in year	-	-	-	-
Additions	-	20	210	230
Disposals	-	-	-	-
At 31 March 2024	1,339	328	1,443	3,110
Depreciation				
At 1 April 2023	1,125	280	676	2,081
Charge for the year (note 4)	107	8	226	341
Depreciation on disposals	-	-	-	-
At 31 March 2024	1,232	288	902	2,422
Net Book Value				
At 31 March 2024	107	40	541	688
Analysis of asset financing				
Owned	107	40	541	688
Prior year				

	Leasehold premises	Furniture and fittings	Computer equipment	Total
Cost	£000	£000	£000	£000
At 1 April 2022	1,339	286	1,092	2,717
Reclassified in year	-	-	-	-
Additions	-	22	179	201
Disposals	-	-	(38)	(38)
At 31 March 2023	1,339	308	1,233	2,880
Depreciation				
At 1 April 2022	994	275	479	1,748
Charge for the year (note 4)	131	5	233	369
Disposals	-	-	(36)	(36)
At 31 March 2023	1,125	280	676	2,081
Net Book Value				
At 31 March 2023	214	28	557	799
Analysis of asset financing				
Owned	214	28	557	799

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	
	2024	2023
Cost	£000	£000
At 1 April	191	262
Reclassified in year	-	-
Additions	17	2
Disposals for year	-	(73)
At 31 March	208	191
Depreciation		
At 1 April	83	101
Charge for the year (note 4)	39	46
Disposals for year	-	(64)
At 31 March	122	83
Net Book value at 31 March	86	108

9. Trade and other receivables

		2024	2023
	£000	£000	£000
Amounts falling due within one year:			
Trade receivables:			
- Central Government bodies	102		169
- Local authorities	276		550
- NHS bodies in Scotland	889		488
- Bodies external to government	-		-
		1,267	1,207
Work in progress in advance of billing		1,922	1,972
VAT		440	186
Prepayments		416	324
		4,045	3,689

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

10. Cash and cash equivalents

	2024 £000	2023 £000
Balance at 1 April	2,839	3,101
Net change in cash and cash equivalents	(791)	(262)
Balance at 31 March	2,048	2,839
The following balances at 31 March were held at:		
Commercial banks	2,048	2,839

11. Net funding from the Scottish Parliament

	2024 £000	2023 £000
Opening cash balance payable to the Consolidated Fund	2,839	3,101
Funding received from the Consolidated Fund	11,152	11,172
Closing cash balance payable to the Consolidated Fund	(2,048)	(2,839)
Net funding from the Scottish Parliament	11,943	11,434

12. Trade payables and other current liabilities

	£000	2024 £000	2023 £000
Amounts falling due within one year:			
Trade payables:			
- Central Government	-		-
- Local authorities	-		-
- NHS bodies in Scotland	-		-
- Bodies external to government	506		351
		506	351
- Cash balance payable to Consolidated Fund		2,048	2,839
- Deferred income		2,880	2,621

	£000	2024 £000	2023 £000
- VAT		60	68
- Corporation Tax		13	-
- Accruals		744	394
- Staff benefits - untaken holidays		899	1,130
- Rent free period on premises – current liability (note 13)		-	-
		7,150	7,403

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 and various leases were negotiated with rent-free periods. On adoption of the new accounting standard IFRS 16 Leases with effect from 1 April 2022 the deferred liability balance was transferred into the Right-of-use asset to ensure compliance with the international standard. See note 15 for further information.

	2024 £000	2023 £000
Opening balance at 1 April		
Current	-	159
Deferred	-	374
	-	533
Additions	-	-
Released during year	-	(533)
Closing balance at 31 March	-	-
Where of:		
Current	-	-
Deferred	-	-
	-	-

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:

	2024 £000	2023 £000
Opening balance at 1 April	1,450	1,745
Additions	-	-
Utilised in year	(116)	(103)
Revaluation	93	(192)
Closing balance at 31 March	1,427	1,450
Payable within 1 year	116	105
Payable after 1 year	1,311	1,345
	1,427	1,450
Discount rate used	4.85%	4.75%

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 2024 was £220k (31 March 2023 – £223k).

15. Leases

Right-of-use assets

Audit Scotland recognises a right-of-use asset upon lease commencement. For our offices in Edinburgh and Glasgow the right-of-use assets have been measured using the present value of the lease liability, discounted at the incremental borrowing rate promulgated in the PES Treasury papers. Further adjustments have been made in respect of prepayments and rent-free period incentives.

For the Inverness office and car leases the right-of-use assets are measured at cost, being the initial amount of the lease liability adjusted for any lease payments made before the commencement date, less incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date over the term (which is equal to, or shorter than, the asset's useful life). The right-of-use asset will be periodically reviewed for impairment losses and adjustments on remeasurement of the lease liability.

	Premises £000	Vehicles £000	Total £000
Cost			
At 1 April 2023	1,317	542	1,859
Recognition of right-of-use asset on initial application of IFRS 16	-	-	-
Additions	4,622	308	4,930
Remeasurement	-	(164)	(164)
At 31 March 2024	5,939	686	6,625
Depreciation			
At 1 April 2023	468	215	683
Charge for the year	393	224	617
Depreciation on disposals	-	(192)	(192)
At 31 March 2024	861	247	1,108
Net book value			
At 31 March 2024	5,078	439	5,517
Cost			

	Premises £000	Vehicles £000	Total £000
At 1 April 2022	-	-	-
Recognition of right-of-use asset on initial application of IFRS 16	1,200	408	1,608
Additions	117	156	273
Disposals	-	(22)	(22)
At 31 March 2023	1,317	542	1,859
Depreciation			
At 1 April 2022	-	-	-
Charge for the year	468	215	683
Depreciation on disposals	-	-	-
At 31 March 2023	468	215	683
Net book value			
At 31 March 2023	849	327	1,176

Obligations under leases

On transition to IFRS 16 lease liabilities were measured at cost of the remaining lease payments at 1 April 2022.

The present value approach has been adopted to determine the lease obligations for our Edinburgh and Glasgow offices. Upon commencement of new car leases the liability is measured at cost of unpaid lease payments.

Periodic reviews of this approach will be undertaken and any remeasurement adjustments will be made as required.

	2024 £000	2023 £000
Premises		
Within one year	234	494
Later than one year and not later than five years	737	640
Later than five years	4,344	-
	5,315	1,134
Vehicles		
Within one year	157	104
Later than one year and not later than five years	197	105
	354	209
Total lease obligations		
Within one year	391	598
Later than one year and not later than five years	934	745
Later than five years	4,344	-
	5,669	1,343

16. Other provisions

Other provisions comprise audit expenses rebate, rent review/contractual costs and property dilapidations.

Audit expenses rebate: In financial year 2021/22 a provision was raised for £1,320k to meet a legal obligation to rebate audit fees for an element of our "pooled costs" charges. This arose due to the significant reduction in the cost of in-house and firm's expenses in relation to travel and subsistence. During 2022/23 and 2023/24 the majority of this provision was released and as at 31 March 2024 there is a balance of £107k being held in respect of the pooled costs savings generated on 2021/22 audits. This legal obligation will be released in 2024/25 as part of the fee instalment invoicing arrangements.

Rent review/contractual obligation: In 2022/23 our offices in Glasgow and Inverness were scheduled rent reviews in accordance with their existing lease agreements and we also had a potential contractual obligation that needed to be provided for. Settlement of these obligations occurred in 2023/24 and the provisions were released.

Dilapidations: Audit Scotland leases three properties across Scotland. The leases for Edinburgh and Glasgow contain 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 in accordance with IFRS 16 Leases, which requires dilapidation estimates to be added to the right-of-use asset and depreciated.

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

	2024 £000	2023 £000
Opening balance at 1 April	1,204	1,863
Provided in year	94	279
Released in year	(423)	(938)
Closing balance at 31 March	875	1,204
Payable within 1 year	120	543
Payable after 1 year	755	661
	875	1,204

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 2024 that require adjustment to, or disclosure in, the financial statements.

The financial statements were authorised for issue by the Auditor General for Scotland on 18 June 2024.

19. Contingent liabilities

At 31 March 2024, there were no contingent liabilities.

20. Capital commitments

At 31 March 2024, there were no capital commitments.

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 2023/24

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Annexe C: Letter from Alexander Sloan

Alexander Sloan
Accountants and Business Advisers

Audit Scotland
Audit summary report
for the year ended 31 March 2024

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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 2024.

Acknowledgements

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

Audit Opinion

Based on our detailed audit work which is carried out in accordance with International Standards on Auditing, we have been able to satisfy ourselves that the Accounts of Audit Scotland give a true and fair view of the state of affairs of Audit Scotland at 31 March 2024 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 and have therefore issued an unmodified audit opinion on the Accounts for the year ended 31 March 2024.

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 Standard and the ethical safeguards as set out in the Audit Plan.

Audit Plan

The Audit Plan for the period ended 31 March 2024 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 In all organisations, there is a risk that management and Board members have the opportunity to process transactions or make adjustments to the records outside the normal financial control process. Such transactions could result in a material misstatement within the financial statements. As a result, we consider this a significant risk area in accordance with the International Standard on Auditing (UK) 240 "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements".	Our audit work did not identify any material override of financial controls.
Revenue Recognition Under the International Standard on Auditing (UK) 240 "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements", there is a requirement for the auditor to presume that the entity could adopt accounting policies or recognise income in such a way that leads to a material misstatement of the reported revenue of the entity.	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 2024 include a number of key estimates. Key estimates will include provisions and pension assumptions as well as work in progress which is considered separately 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 and disclosures sufficient.
Work In Progress The valuation of Work in Progress (WIP) of audits as at 31 March 2024 is a significant accounting estimate and has an impact on the level of reported fee income, approved auditor expenditure and assets and liabilities.	We have reviewed Audit Scotland's work in progress calculations and are satisfied that the balances are not materially misstated.

Pension The financial statements for the previous year reported a Nil Pension balance following the actuary's report of a pension asset under IAS19 accounting and further assessment of the balance that should be reported under IFRIC14. The accounting and disclosures of the pension balance is a key component of the financial statements and the actuarial report contains detailed assumptions which will be reviewed for reasonableness.	As with the previous year, a pension asset was calculated by the actuary under IAS19 accounting and so we liaised with Audit Scotland to request a report from the actuary in respect of the asset ceiling that should be applied in accordance with IAS19 and IFRIC14. Following our review of the actuary's report, we are satisfied with the appropriateness of the pension balance as reported and consider the disclosures sufficient.
IFRS 16 IFRS 16 is an accounting standard in respect of leases which was adopted for the first time in the financial statements in the prior year. Extensions to the office leases were agreed during the year and so the appropriateness of the accounting treatment was considered.	As part of our audit work we reviewed the assumptions made in the original calculations; the financial statements have been amended to reflect proposed adjustments, as noted in the Adjustments to the Financial Statements on page 8. We are satisfied that the application of IFRS16 and disclosures are appropriate.
Disclosure Risk We understand that there were proposed changes to the layout of the financial statements format, in particular the Performance Report and Accountability Report.	The format of the Annual Report was similar to the prior year and we consider the presentation to be compliant with the FReM. We note also that disclosure in respect of the accrued pension benefit complies with guidance issued by the Financial Reporting Advisory Board and the amended FReM.

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
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.	We have reviewed the significant accounting policies and are satisfied that they are reasonable and appropriate to Audit Scotland's circumstances.
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.	We have reviewed the significant accounting estimates and judgments and are satisfied that they are reasonable and appropriate to Audit Scotland's circumstances.
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.	No material recording issues were identified during the course of the audit.
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.	During our audit we have considered Audit Scotland's assessment that the organisation is a going concern. Based on a review of budgets and discussion with the Management team, as there is no expectation that funding will be withdrawn or the entity wound up, we are satisfied that the organisation's assessment is

	appropriate.

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. The following adjustments have been identified and processed in the financial statements.

Adjustments made to financial statements	Impact on Income £000	Impact on Expenditure £000	Impact on Assets £000	Impact on Liabilities £000	Description
DR Right of Use Asset			245		***Being adjustments to account for corrections to Right Of Use Assets / Lease Liabilities***
DR Lease Liabilities				(1,192)	
CR Right of Use Asset addition			(1,457)		
CR Prepayments			(94)		
DR Other Accom costs		93			
CR Depreciation P&L		(28)			
DR Interest exp		49			
TOTAL – GROSS EFFECT	**-**	**114**	**(1,306)**	**(1,192)**	
TOTAL – NET EFFECT		**(114)**		**(114)**	

Adjustments to the Financial Statements (Continued)

UNADJUSTED DIFFERENCES

Adjustments not made to financial statements	Impact on Income £000	Impact on Expenditure £000	Impact on Assets £000	Impact on Liabilities £000	Description
DR Approved Auditor fees CR WIP Debtor DR WIP Deferred Income / creditors CR Fee income	175	162	(139)	(152)	*Effect of updating calculations for late WIP reports from approved auditors*
DR Lease Liabilities CR RoU Asset additions			(24)	(24)	*Effect of applying updated discount rate to lease liabilities for new vehicle leases*
TOTAL – GROSS EFFECT	**175**	**162**	**(163)**	**(176)**	
TOTAL – NET EFFECT		**13**		**13**	

The effect of unadjusted differences above is not considered material, both individually or in aggregate, and no further adjustment is proposed.

Internal Controls

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

There are no other matters to bring to the attention of the Commission or to management.

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 remotely

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 emmisions.

Commitment
We are committed to further reducing our carbon footprint.

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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Quality of public audit in Scotland

Annual report 2023/24

AUDIT SCOTLAND

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Accessibility

You can find out more and read this report using assistive technology on our website www.audit.scot/accessibility.

Audit Quality and Appointments

The team responsible for this report consisted of John Gilchrist, Parminder Singh and Jennifer Doolan under the direction of Owen Smith.

Summary

Operating environment

1. 2022/23 was the first year of a new five-year audit appointments cycle which will end in 2026/27. Auditors were also required to comply for the first time with the new Code of Audit Practice 2021. For 2022/23 audits the target dates for completion returned to pre-pandemic dates for all sectors which meant that there was only 10 months between target dates in the NHS sector and 11 months in the local government sector. This operating environment also coincided with an increased ask of auditors under the 2021 Code and compliance with enhanced requirements under auditing standards.

Overall conclusion

2. The Audit quality framework (AQF) identifies good practice and areas to improve in audit quality. The framework uses a broad range of tools to assess audit quality including external and internal 'cold' 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:

- **Consistently good in Performance Audit and Best Value (PABV) audit work based on both the independent and internal quality reviews.** The two PABV audits reviewed by the Institute of Chartered Accountants England and Wales (ICAEW) and the two internal cold reviews this year were all graded as 'limited improvements required'.

- **Consistently good over the last four years in four out of six of the accountancy firms carrying out public sector audit work in Scotland based on the independent ICAEW quality reviews and the internal quality reviews of financial audits.** Forty-three out of the 47 cold reviews carried out on accountancy firm audits in the last four years were graded as 'good' or 'limited improvements required'. Only Mazars[1] (three reviews) and Azets (one review) have been graded as 'improvements required' over this period. No accountancy firm has been graded as 'significant improvement required'.

[1] Mazars became Forvis Mazars on 31 May 2024.

- **Mixed in Audit Scotland's Audit Services Group (ASG) for 2022/23 financial audit work based on the ICAEW's independent quality reviews and Audit Scotland's internal quality reviews.** Eight out of the twelve ASG audits reviewed were graded as 'good' or 'limited improvements required' and met the expected quality standards. Four were graded as 'improvements required' and therefore did not meet the expected quality standards. Two internal ASG reviews were also awarded the highest gradings for their 2022/23 audit work. For the second year running no ASG audits were graded as 'significant improvement required'.

- **Auditors completed 44 per cent of 2022/23 audits by the target dates, a slight reduction from 49 per cent for 2021/22 audits.** This was achieved despite significant obstacles to delivery such as audit handovers, the quality of draft financial statements and working papers submitted for audit, a shortened timetable for NHS and local government and late prior year audits.

- **We expect an improvement in auditors' capacity to deliver audits by target dates in future years as auditors are not having to manage a handover and have a full 12 months between target dates**. However, this will take time particularly for audits that were delivered late this year.

- **A significant number of material prior year adjustments have been incorporated in the 2022/23 financial statements.** This may be an indicator of an audit quality issue requiring further investigation. Further analysis will be undertaken by AQA to identify any implications relating to audit quality.

- **Feedback on the annual audit from audited bodies continues to show a high level of satisfaction with 87 per cent of respondents considering the annual audit to be fairly or very useful.** Satisfaction has decreased slightly from the highs of 2019/20 and 2020/21 and is now back to 2018/19 levels. Meanwhile perceptions of the quality and usefulness of performance audit outputs have improved slightly.

3. The independent quality reviews provide a clear indication that high quality standards are consistently being achieved in PABV audit work and that it can also be achieved in financial audit. Further work is required in key areas for Audit Services Group and Mazars to ensure that all the audit work consistently meets the high standards expected by the Auditor General for Scotland and the Accounts Commission.

Areas of good practice identified

4. All performance and best value audits subject to an independent review in the last five years have met the expected quality standard.

5. One of ASG's six 2022/23 financial audits reviewed by the ICAEW was awarded the highest grade available. This is the second time ASG has achieved this grading in the last three years and provides strong assurance over the high quality of the audit work undertaken.

6. One of EY's 2022/23 financial audits was reviewed by the ICAEW and was awarded the highest grade available. This is the second time this firm has achieved this result in the last four years and provides strong assurance over the high quality of the audit work being undertaken.

7. Five out of six of the accountancy firms subject to an independent review in the last four years have met the expected quality standard for financial audit.

8. Auditor surveys provide evidence that audit providers are continuing to invest in staff training.

9. 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.

10. Our assessment of appointed auditor compliance with the FRC's International Standard on Quality Management (UK) 1 (ISQM1) found that all the audit firms and Audit Scotland have fully implemented the requirements of ISQM1 by the due date of 15 December 2022. Our conclusions are supported by ICAEW's Quality Assurance Department who reviewed Audit Scotland's, EY and Mazars organisational audit quality processes as part of this year's reviews.

11. Our review of a sample of Annual Audit Reports (AARs) found that the majority of the AARs (85 per cent) demonstrated a high level of compliance with the reporting requirements under the Code and related guidance.

Areas for improvement

12. There has been a slight reduction in financial audit delivery performance with only 44 per cent of 2022/23 annual audits being delivered on time (48 per cent in 2021/22). The target dates for audit completion returned to pre-pandemic dates for all sectors with only 10 months between target dates in the NHS sector and 11 months in the local government sector. This ongoing audit delivery performance is concerning as delayed audit opinions impact on the value of external audit assurance and the ability of public bodies to make decisions based on information that has been subject to independent review.

13. ICAEW reviewed one Mazars 2022/23 audit which was graded as 'improvements required', meaning that Mazars did not meet the expected standard. ICAEW did not find any issues which impacted directly upon the auditors' opinion in the independent auditors' report.

14. ICAEW reviewed six ASG 2022/23 audits of which three were graded as ‘improvements required’ and these therefore failed to meet the expected quality standard. ICAEW did not find any issues which impacted directly upon the auditors’ opinion in the independent auditors’ report. The overall results represent a decline upon 2021/22, when four out of the five financial audits reviewed by for ASG met the expected standard.

15. Audit staff continue to report concerns that they do not feel they have sufficient time and resources to deliver high quality audit work. Although results have improved for four of the seven audit providers, a stronger focus and ongoing monitoring is needed to assess the effectiveness of capacity building and efficiency initiatives.

16. Staff surveys show a decline to 2019/20 levels for staff experiencing a strong culture of support to carry out a high-quality audit. AQA will continue to monitor and report on this in the next annual report.

Looking forward

17. AQA is reviewing the effectiveness of the current AQF with stakeholders and developing an updated AQF that meets the needs of the Auditor General for Scotland and the Accounts Commission for the remainder of this audit appointment cycle.

1. Introduction

18. The AQF sets out Audit Scotland's approach to achieving high quality public audit across all audit work and providers. The AQA team prepares this report to provide assurance on audit quality, including compliance with the Financial Reporting Council's Ethical Standard, to the Auditor General for Scotland and the Accounts Commission. AQA does not conduct audit work and is independent from auditors.

19. This report summarises AQA's assessment of audit quality conducted 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 2022/23 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

20. 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 2023–28. They also set out the scope for public audit for auditors to follow in the Code of Audit Practice 2021.

21. In the private sector, the audit profession remains under scrutiny. After several high-profile cases, where the financial audit process failed to detect and prevent company failures, the auditing profession is trying to regain the trust and confidence of the public. In their response to these corporate and auditing failures, the UK Government confirmed a range of measures to improve governance and auditing arrangements. These include the creation of a new audit regulatory body, the Audit, Reporting and Governance Authority (ARGA), which will take over from the Financial Report Council (FRC). The legislation to create ARGA has been delayed (the UK Government originally planned to pass the legislation in 2023). In the meantime, the FRC has published its FRC release a three-year Plan and Budget to prepare for the transition to ARGA which sets out the FRC's plan to transition to ARGA. The FRC has also been charged with improving competition and increasing local government audit market supply in England after agreeing shadow system leader arrangements with government until ARGA is fully established.

22. Public audit in Scotland remains well placed to meet the challenges. Audit delivery utilises skills and resources within Audit Scotland and the six private accountancy firms. Auditor recruitment is challenging across all levels in the profession with limited skills and capacity available. The mixed market model increases resilience in securing required resources to deliver public audit in Scotland.

23. The public audit model in Scotland already operates many of the controls proposed by the government reviews 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
- independent fee-setting arrangements
- independent approval procedures for any non-audit services work
- comprehensive Audit Quality Framework.

Audit Scotland and appointed firms

24. Public audit is conducted 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 annual 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 and additional Best Value work is carried out by Audit Scotland auditors.

25. Each appointed firm has its own arrangements for ensuring audit quality for financial audits. Regulation 537/2014 and the Local Auditors (Transparency) Regulations 2020 require the publication of an annual transparency report by audit firms that carry out either statutory audits of Public Interest Entities (PIEs) or Major Local Audits (MLAs). Appointed auditor transparency reports have been reviewed and show good progress is being made to comply with the FRC's ISQM1.

Transparency reports for appointed firms:

- Audit Scotland
- Azets does not audit either Public Interest Entities or Major Local Authorities, so it is not required to produce a transparency report and has not done so voluntarily.
- Deloitte
- EY
- Grant Thornton
- KPMG
- Mazars

2. Inputs

26. 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

27. All auditors confirmed to their audited bodies and to AQA that they do not have any conflicts of interest. Safeguards are in place to ensure that any potential conflicts are managed through the audit appointments process, annual ethical compliance statements and the controls in place for provision of non-audit services. Cold reviews by internal teams and ICAEW confirmed that all audits complied with the FRC's Ethical Standard to avoid any actual or perceived conflicts of interest.

Non-audit services

28. Auditors may undertake some non-audit services for the bodies they audit. What non-audit work is permissible and how it should be approved is set out within letters of appointments for audit providers.

29. Auditors carried out permitted non-audit services to the value of £19k during the 2022/23 audits. This equates to 0.07 per cent of the total fees. This compares to £58k which equated to 0.26 per cent of total fees during 2021/22 audits.

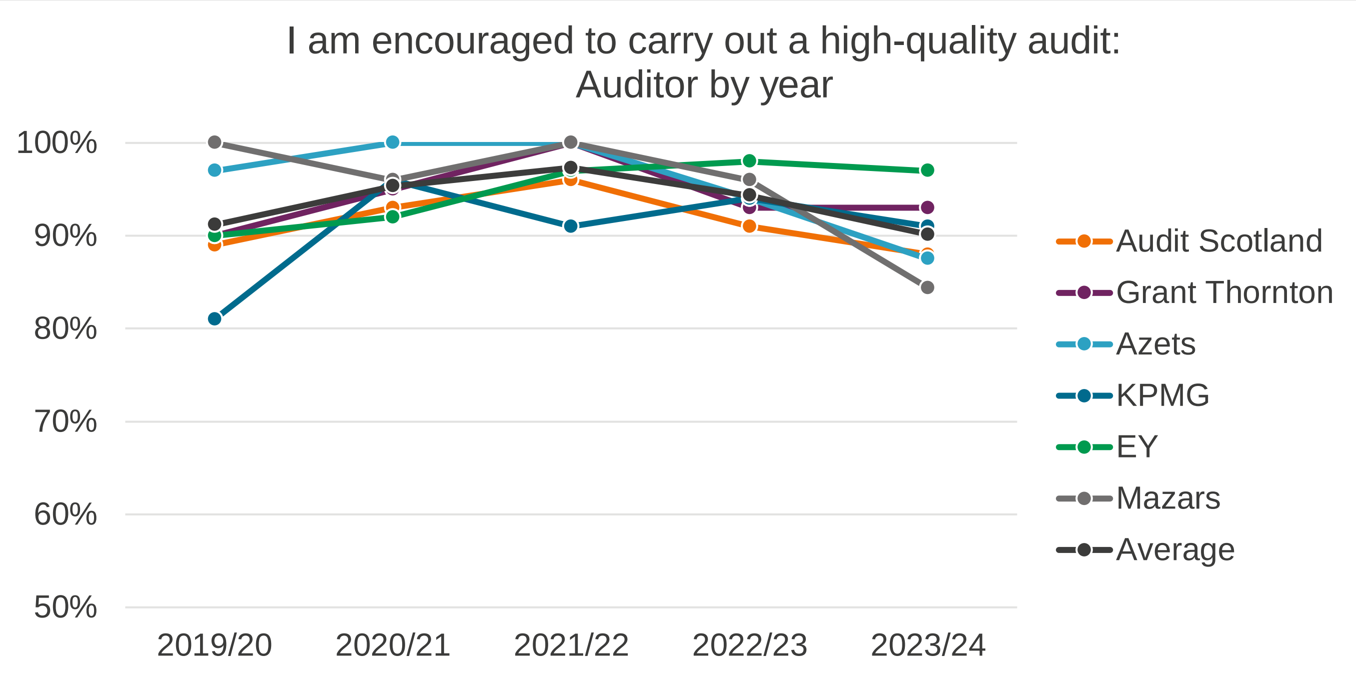
30. AQA only approved work that clearly complied with the Ethical Standard and the Code. All audit providers confirmed that they did not carry out any non-audit services without the prior approval of AQA.

Knowledge, experience and time

31. 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. We are aware from our work in the profession and contact with audit providers that there is a shortage of skills and capacity in the audit profession. Audit providers need to align and monitor their workforce and learning and development plans to ensure they have sufficient capacity to deliver their audit work.

32. Audit Scotland and the appointed firms conduct regular staff 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.

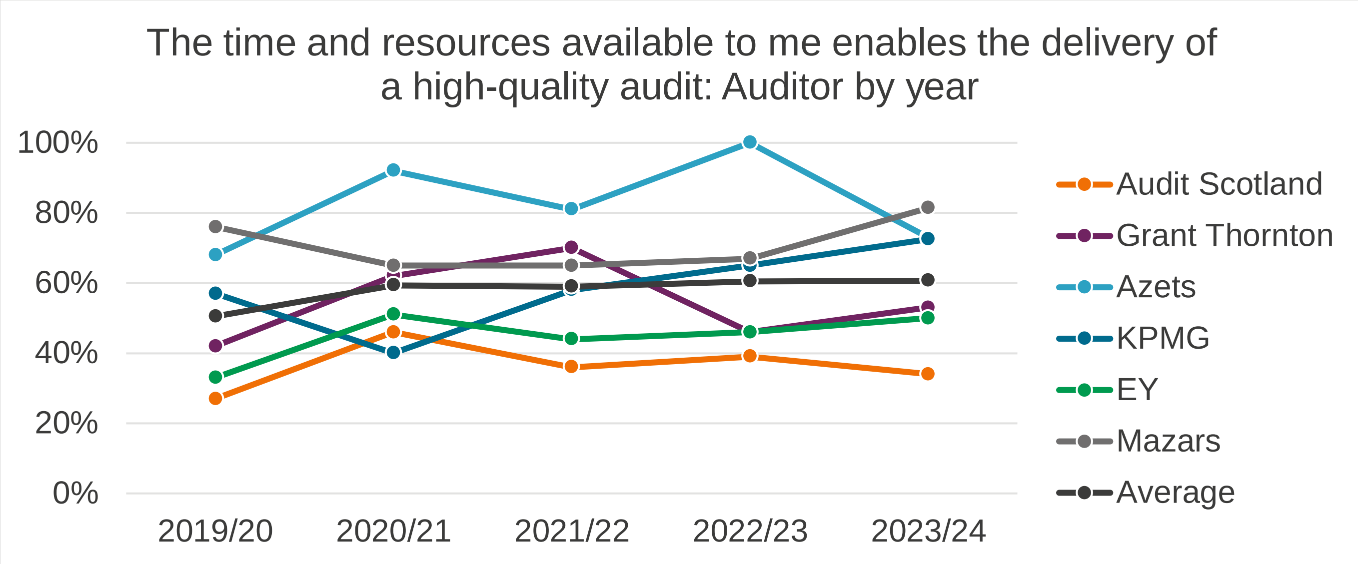
33. The results show that across all auditors, staff experience a strong culture of support to **carry out high-quality audits**. However, the percentage of staff indicating that they are encouraged to carry out a high-quality audit has declined slightly to 2019/20 levels.



Note: Deloitte uses an alternative method of obtaining staff views. A survey was undertaken in 2021 which returned positive results on Deloitte supporting their staff to deliver high-quality audit with some areas for improvement identified. Deloitte conducted its first global survey on their staff's views on their culture of audit quality and will develop actions based on the findings when finalised.

34. Some audit providers returned an improving level of staff satisfaction regarding **the time and resources available to deliver a high-quality audit** compared to the prior year. KPMG and Mazars had the most noticeable improvement compared to 2022/23. Azets had a noticeable decline in results when compared to 2022/23, though are still above the average, highlighting challenges faced during the first year of the new appointment round. In 2023, Azets invested in refreshing their audit methodologies in addition to continuing to provide tailored training to staff. This is an area Azets plans to develop over the coming year.

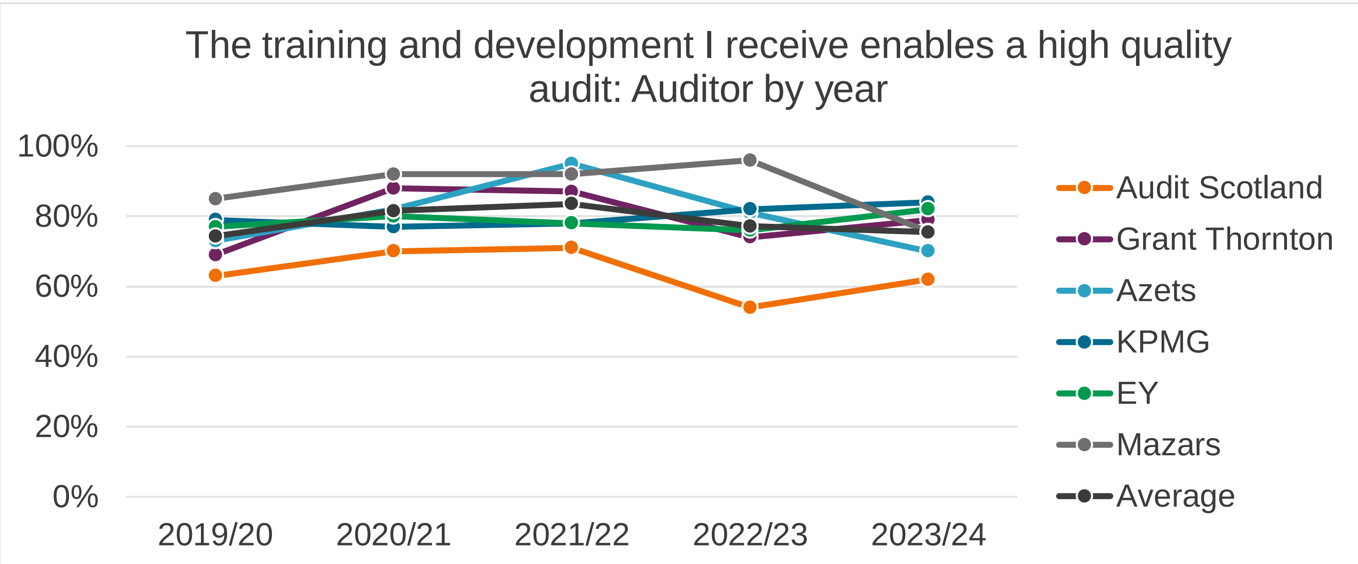
35. The audit quality survey results at Audit Scotland for this area have declined slightly and continue to be at a low position compared to other audit providers.



Recommendation 1.

Audit providers should align and monitor their workforce plans to ensure they have sufficient capacity to deliver their audit work to the expected quality standards and target completion dates.

36. 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. Results at Audit Scotland have improved from 54 per cent in 2022/23 to 62 per cent in 2023/24. This improvement follows actions taken from previous internal cold file reviews to provide guidance and training to auditors on aspects of the Audit Scotland Audit Approach alongside a more structured learning and development programme.



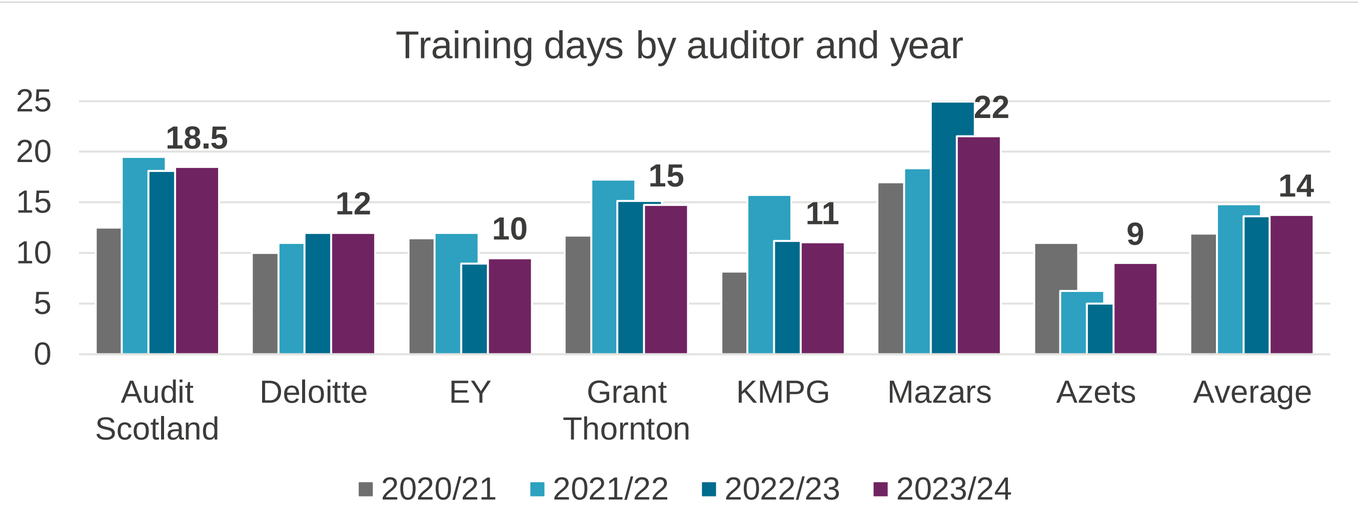
Qualifications

37. Audit work is carried out by appropriately trained and qualified individuals. The firms have 100 per cent (100 per cent in 2021/22) of their staff either qualified or in training. ASG staff were appropriately qualified, with 96 per cent of staff (95 per cent in 2021/22) either CCAB (Consultative Committee of Accountancy Bodies) or Chartered Institute of Management Accountants qualified, or in training for a CCAB qualification. The four per cent of ASG staff not in CCAB training are experienced auditors who are deployed to do appropriate work.

38. Staff in PABV have a wide range of professional and policy backgrounds. These include audit, research, and public policy-related qualifications in disciplines such as economics and social sciences. This depth and breadth of knowledge and insight across the sectors we audit supports the delivery of high-quality work. In addition, 12 PABV staff were also either CCAB qualified or in training for a CCAB qualification during 2023, which could support flexible working across Audit Scotland.

Training

39. 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.



40. 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 14 days per member staff (compared with 14 days in 2022/23).

41. 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.

3. Outputs

Reporting

Auditors completed 44 per cent of 2022/23 audits by the target dates, a slight reduction from 49 per cent for 2021/22 audits. This was achieved despite significant obstacles to delivery such as audit handovers, a shortened timetable for NHS and local government and late prior year audits. This operating environment also coincided with an increased ask of auditors under the 2021 Code and compliance with enhanced requirements under auditing standards.

Timeliness of financial audit work on the 2022/23 accounts

42. 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 there may be events beyond auditors' control that result in the targets being missed.

43. Auditors did well to achieve only a slight reduction in the delivery performance compared to the previous year because of the following circumstances:

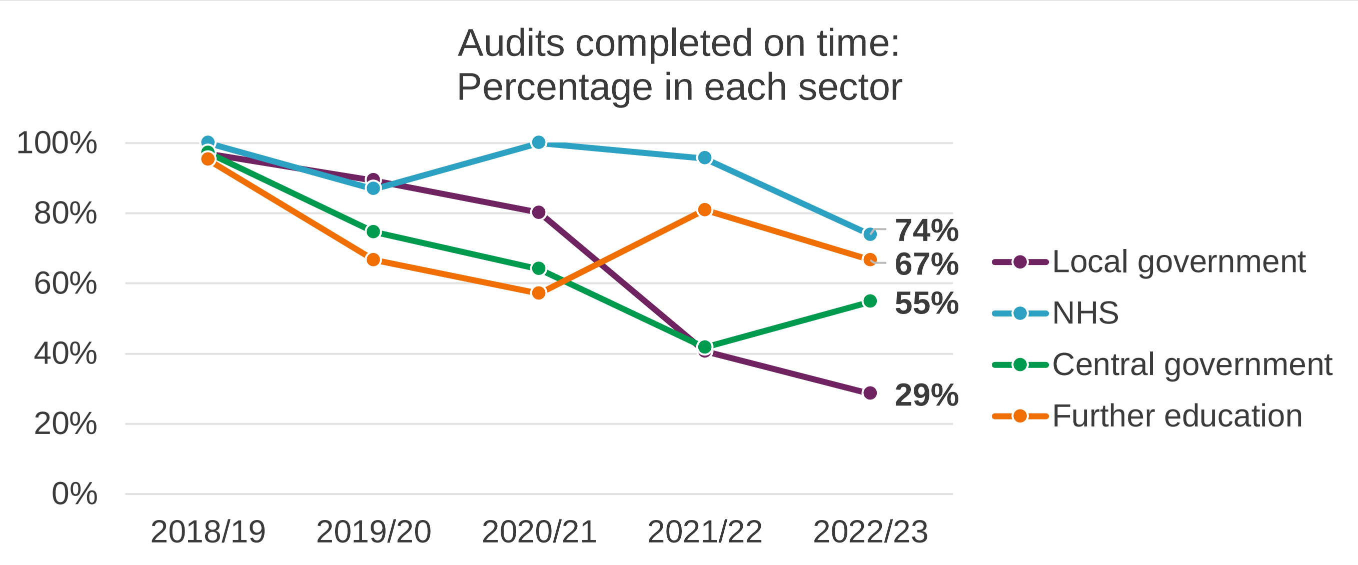
- The 2022/23 audits were the first in the new round of appointments where auditors rotated which increases the work required in the first year.
- Target dates for audit completion returned to pre-pandemic dates for all sectors. This meant that there was ten months between target dates in the NHS sector and 11 months in the local government sector.
- 48 per cent of 2021/22 audits were completed on time, resulting in half of 2022/23 audits being unable to start on time (this year and prior year have been adjusted to include local government charitable trusts for the first time).

44. Auditors also reported that delays were caused by:

- the quality of draft accounts and working papers submitted for audit
- significant adjustments required to accounts
- prioritisation of audits by auditors

- availability of staff, both among auditors and finance staff in audited bodies
- obtaining assurances from auditors at other delayed audits
- scheduling of committees by audited bodies to consider the accounts.

45. Auditors' performance in meeting the targets for 2022/23 audits and the previous four years is shown in the graph below.



46. Delayed audit opinions impact on the value of external audit assurance and the ability of public bodies to make decisions based on information that has been subject to independent review.

47. All auditors are working towards achieving earlier completion of audits. We expect an improvement in auditors' capacity to deliver audits by target dates in future years as auditors are not having to manage a handover and have a full 12 months between target dates. However, it is likely to take a further three years before we return to pre-pandemic delivery performance, particularly for audits that were delivered late this year.

(Recommendation 1.)

Prior period errors

A significant number of material prior year adjustments have been incorporated in the 2022/23 financial statements. This may be an indicator of an audit quality issue requiring further investigation. Further analysis will be undertaken by AQA to identify any implications relating to audit quality.

48. Accounting standards describe prior period errors as omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, available reliable information.

49. Auditing Standards require audited bodies to correct material prior period errors retrospectively by restating the comparative amounts for the prior period(s) presented in which the error occurred.

50. The AQF sets a limit of less than 10 per cent of audits to contain material prior period adjustments due to error. Where there is a higher level of prior period errors, AQA should investigate to determine if there is scope for any improvements in audit methodologies. This percentage has increased to 11 per cent (6.7 per cent for 2021/22 audits) which is above the AQF target of ‘less than 10 per cent’.

51. We acknowledge that in the first year of the five-year audit appointment it is expected that there will be an increased volume of adjustments due to different judgements and approaches adopted by audit providers. AQA will analyse this further in 2024 to identify the common reasons for prior period adjustments being required at audited bodies and what can be learned for the future.

Modification of audit opinions

52. 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.

53. The auditor of Glasgow City Council qualified their opinion on the financial statements in respect of City Building (Glasgow) LLP and City Building (Contracts) LLP. The auditor concluded:

- ‘At the date of our appointment, the audits for the year ended 31 March 2022 had not been completed for one subsidiary and one joint venture of the Council Group – City Building (Glasgow) LLP and City Building (Contracts) LLP respectively. The audits have now been completed for both entities, but the audits for the year ended 31 March 2023 have not commenced for either entity. We have therefore been unable to issue group instructions to the auditors of these entities, for them to report to us accordingly, or to review any related prior period audit working papers to complete required audit work on opening balances. We were also unable to satisfy ourselves by alternative means using other audit procedures on the entities’ consolidated balances, as included in the group financial statements, for the years ended 31 March 2022 or 31 March 2023. These amounted to net assets of £67 million included in the balance sheet as at 31 March 2023 (2022: £39 million net liability), and £48 million of net income in the CIES for the year ended 31 March 2023 (2022: £14 million net income). Consequently, we were unable to determine whether any adjustment to these amounts was necessary.'

54. The auditor of Social Security Scotland qualified their opinion on regularity. The auditor concluded:

- 'There are estimated overpayments of £60.7 million paid to Scottish residents as a result of fraud and error. This is based on estimates by the Department for Work and Pensions that overpayments as a result of fraud and error in relation to each type of benefit ranges between 1.1 per cent and 5.2 per cent. Overpayment as a result of fraud and error means the expenditure was not incurred in accordance with legislation specifying benefit entitlement. The expenditure is therefore irregular. I consider this level of overpayments to be material to my opinion on regularity. I have therefore qualified my opinion on regularity because the expenditure resulting from such overpayments was not incurred in accordance with the applicable enactments.'

55. The auditor of Ferguson Marine Port Glasgow modified their opinion by providing an emphasis of matter about uncertainty related to going concern. The auditor concluded:

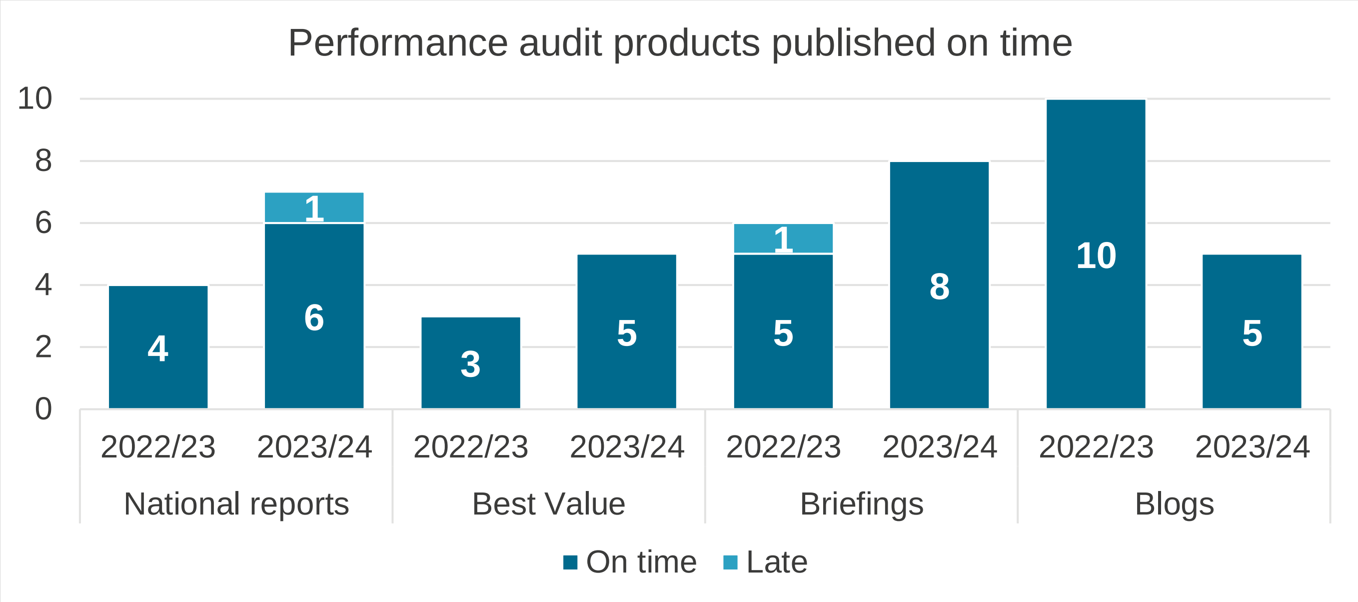
- 'I draw attention to the going concern narrative on pages 4 and 5 in the financial statements, which highlights several risks and uncertainties over the future direction of the business.

  As stated on pages 4 and 5 (Going Concern), these risks and uncertainties, along with other matters as set forth in the Accounting Policies (Note 2), indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. This material uncertainty is a matter that is important to users' understanding of the financial statements. My opinion is not modified in respect of this matter. I have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.'

Publication of Performance audit outputs

56. The Auditor General for Scotland and Accounts Commission each have a dynamic work programme that covers a range of public sector bodies and services. The PABV Work programme is reviewed quarterly to ensure it remains relevant, focussed, and up-to-date and reflects the strategic priorities of the Auditor General and the Accounts Commission.

57. Ninety-six per cent (24 out of 25) of performance audit outputs were published within five weeks of the originally planned publication date during 2023/24 (96 per cent in 2022/23).



58. The performance audit report on Adult Mental Health Services was delayed due to significant absences in the audit team.

59. The Auditor General and Controller of Audit published eight statutory reports in 2023/24, three of which were published after the statutory laying or reporting date. Two were because the audit of the relevant body was completed late and one because of the complexity of the subject coupled with new reporting arrangements.

Quality monitoring

Cold reviews

60. This section summarises the results of independent and internal cold reviews, using the FRC grading system for all audit work. ICAEW replaced ICAS as the external reviewer for 2021/22 audits and carried out the independent cold reviews.

61. ICAEW has extensive experience of conducting audit quality reviews for public sector audit providers including Audit Wales, Northern Ireland Audit Office, and Public Sector Audit Appointments body in England. ICAEW's wide experience further increases the usefulness of the external audit quality review process and provides opportunities to create and evaluate benchmarking data.

62. Internal quality reviews are conducted by senior and appropriately experienced colleagues who have not been involved in the audits being reviewed.

The FRC's scoring methodology applied to quality activities

Grade	Standard	Description
1	**Good**	We identified no areas for improvement of sufficient significance to include in our report.
2	**Limited improvements required**	We identified one or more areas for improvement of limited significance.
3	**Improvements required**	We identified one or more key findings requiring more substantive improvements.
4	**Significant improvements required**	We identified significant concerns in one or more areas regarding the sufficiency or quality of audit evidence, the appropriateness of key audit judgments or another substantive matter such as auditor independence.

63. The AQF expects audits to be assessed as 'Good' (1) or 'Limited improvements required' (2) with no concerns about the audit opinion. Auditors are expected to address any findings. Where an audit is assessed as 'Improvements required' (3) or 'Significant improvements required' (4), the auditor is expected to put in place a plan to address the required improvements.

64. 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.

65. 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.

66. The target for the percentage of cold reviews showing good compliance with auditing standards (1 and 2) is 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	64%	78%	**70%**	70%
Independent performance and Best Value audits	100%	100%	**100%**	100%
Internal financial audits	86%	88%	**87%**	80%
Internal performance and Best Value audits	80%	100%	**80%**	75%[2]

Notes:
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.
2.Where joint performance audits have been carried out by the Auditor General and the Accounts Commission these have been counted in both their separate results but only once in the aggregate result for internal performance audit and Best Value reviews.

Independent external reviews

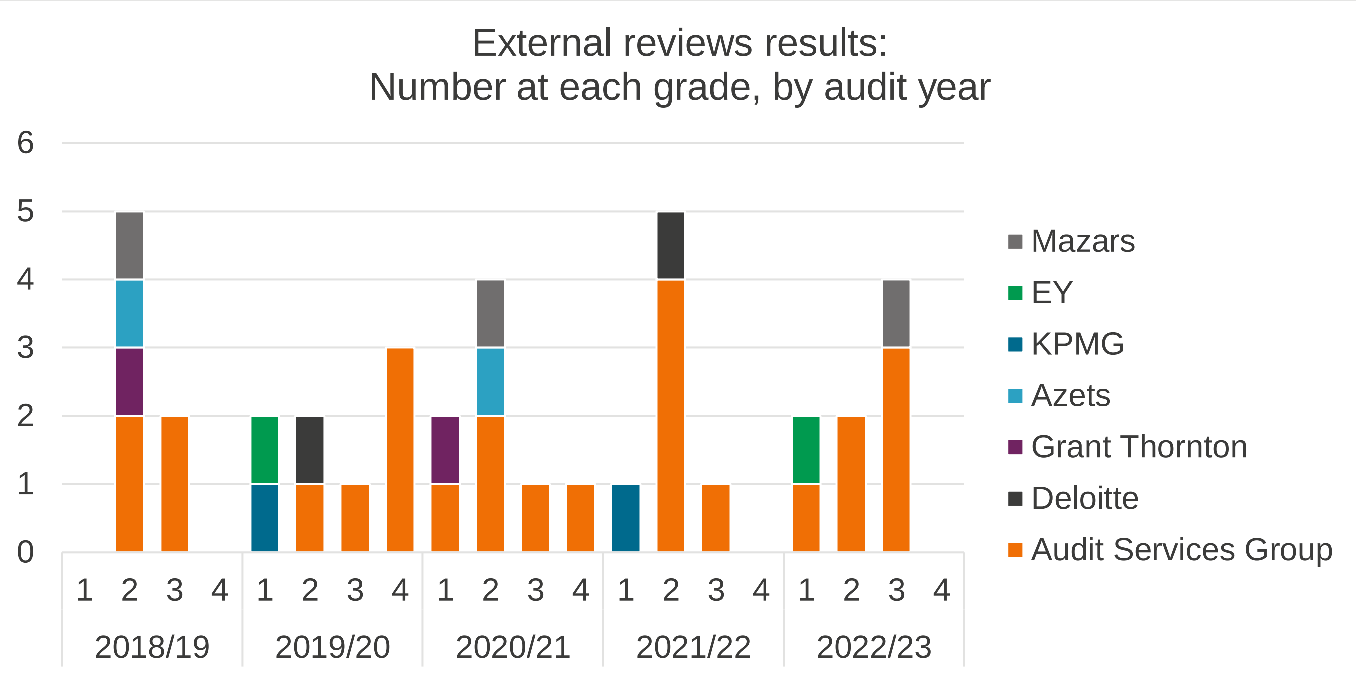
67. Independent external assurance offers the highest level of assurance to stakeholders. ICAEW replaced ICAS for 2021/22 independent reviews following a successful tendering exercise in 2022.

68. ICAEW reviewed 2022/23 audit files to assess the quality of audit work and compliance with the International Standards on Auditing (UK), Financial Reporting Council's Practice Note 10 and Audit Scotland's Code of Audit Practice. External reviews cover the firms and Audit Directors in Audit Scotland over a three-year cycle.

69. ICAEW assessed 50 per cent of 2022/23 financial audits reviews as 'good' or 'limited improvements required' (1 or 2) compared to 86 per cent of 2021/22 financial audits.

70. Over the last three years ICAEW and ICAS have assessed 70 per cent (70 per cent previous year) of financial audits as 'good' or 'limited improvements required'. The ICAEW and ICAS reviews of financial audits over this three-year period show the external auditors did not meet the aggregate three-year target of 80 per cent.

71. ICAEW assessed that 100 per cent of performance and Best Value audits reviewed met the expected quality standard. The ICAEW reviews show that performance audit met the aggregate three-year target of 80 per cent.



Audit Services Group

72. ICAEW reviewed six 2022/23 ASG audit files. ICAEW graded one financial audit as ‘good’ (1) and two financial audits as ‘limited improvements required’ (2). These three audits met the expected quality standards.

73. Three audits were graded as ‘improvements required’ (3) which is below the expected quality standard. ICAEW did not find any issues which impacted directly upon the auditors’ opinion in the independent auditors’ report. ICAEW also did not grade any ASG audits as ‘significant improvements required’ (4). The overall results represent a decline upon 2021/22, when four out of the five financial audits reviewed met the expected standard.

74. ICAEW also reviewed the work to support the wider scope responsibilities on five of the six financial audits. As this was the first period of review under the 2021 Code, ICAEW did not grade the wider scope audit work. Instead, ICAEW communicated any relevant findings and examples of good practice to the engagement teams and AQA. The sixth financial audit was not required to conclude on the wider scope.

75. ICAEW also performed one focused engagement review to follow up an audit that was found to require improvements during ICAEW’s review of the 2021/22 audits. ICAEW found that the audit team had addressed the majority of ICAEW’s previous concerns.

76. ICAEW reviewers identified several areas of good practice in the individual audit files, which included:

- The audit work conducted on the four wider scope areas in all the audits reviewed was consistently of a good standard, with no findings identified.
- Multiple examples of comprehensive and clearly documented audit work in the individual audits reviewed were identified.
- One of the audits reviewed used a schedule to document their approach to sampling at the planning which stage which helped to provide a greater understanding into the final conclusions of the completed sample testing.
- Two instances of appropriate, timely and well documented consultation with Professional Support on matters concerning modifications to audit reports.
- One example where the audit opinion clearly set out the judgement and basis for the regularity qualification.

77. The main thematic finding from ICAEW reviews was that more audit work is required by ASG to evaluate the appropriateness of management expert's work on non-current assets. This finding relates to several of the ASG audits reviewed by ICAEW. The audit work in this area should include:

- properly documenting an understanding of the expert
- testing the source data used by the expert for accuracy and reliability, and appropriate evaluation
- where applicable, challenge of the reasonableness of expert assumptions. ICAEW raised similar findings during their 2021/22 quality reviews in two of the five ASG audits
- lack of sufficient documentation of their understanding of the credentials of, or the work undertaken by, two internal management experts used by the audit body to value heritage assets.

78. The other key areas for improvement found by ICAEW were:

- Insufficient review by ASG of the working papers of the previous auditor:
  - ICAEW found that audit procedures over opening balances in most cases have been appropriately conducted but also identified several instances where audit teams have relied more specifically on previous year's audit work, but the review of predecessor auditor's working papers have not adequately considered some areas.

- Litigation and claims not adequately considered:
  - ICAEW found that the letter of representation obtained on all six audits did not include the litigation and claims representation required by ISA 501 (paragraph 12). For three of the audits, there was no other documented audit work carried out to obtain evidence over litigation and claims recorded on file.
- Weaknesses in ASG's audit planning procedures:
  - ICAEW found two separate instances where ASG's audit planning procedures did not comply with auditing standards. In one example, the audit team did not adequately document their understanding of the basis that the audit body's income streams were not materially under-stated. In a second instance, due to lack of communication between the audit team (as group auditor) and the component auditor, the audit team was unable to assess whether the materiality used by the component auditor for group purposes was appropriate.
- Insufficient appropriate audit evidence:
  - A lack of sufficient challenge of management over whether a significant change in use of an asset should have resulted in an impairment review.
  - Wholly relying on fund manager statements to provide assurance over the existence and valuation of investments.
  - No review of a component auditor's procedures linked to the significant fraud risk of management override.
  - Audit work on some estimates was limited to reasonableness checks.
  - Expenditure cut-off testing included three items above performance materiality, none of which were then selected for testing. The basis for their exclusion was not sufficiently justified.
  - Using a substantive audit procedure to get assurance over payroll costs, which did not adequately consider the impact of industrial action when developing their expectation.

Recommendation 2.

ASG need to prepare an action plan, including timescales, in response to the 2022/23 ICAEW review findings that is focussed on the areas that will improve audit quality.

Private firms

79. ICAEW and ICAS found that most of the accountancy firm audits met the expected quality standard of audits being graded as ‘good’ or ‘limited improvements required’ for the last five years.

80. ICAEW reviewed one 2022/23 audit for two private firms (EY and Mazars) this year.

81. ICAEW graded EY as ‘good’ (1), meeting the expected standard. ICAEW concluded that EY’s work on the financial statements was conducted to a high standard without any major issues identified. ICAEW identified no principal findings on the work done in support of the auditor’s wider scope and best value responsibilities. EY has consistently graded highly in all previous independent external quality reviews.

82. ICAEW graded Mazars as ‘improvements required’ (3), meaning that Mazars did not meet the expected standard. ICAEW stated that the grade was driven by gaps in audit work in the following areas:

- Failure to sufficiently challenge management’s assumptions and address likely risks around a year-end provision which was an area of significant estimation.
- Several weaknesses in substantive analytical procedures when developing a suitable expectation model for staff expenditure.
- Weaknesses in the audit team’s assessment of the potential impairment to carrying value of property, plant, and equipment.
- The team’s risk assessment for wider audit work was not communicated to those charged with governance in a timely manner, which potentially limited the opportunity for those charged with governance to scrutinise the audit team’s proposed approach to this work.

83. As part of ICAEW’s review process, ICAEW sent a report to Mazars of their findings that require urgent attention by Mazars. Mazars has agreed the findings with ICAEW and stated in their response that they are committed to addressing the findings. Mazars’ Root Cause Analysis (RCA) team will undertake a review of the findings to identify the underlying reasons for the failings in audit quality.

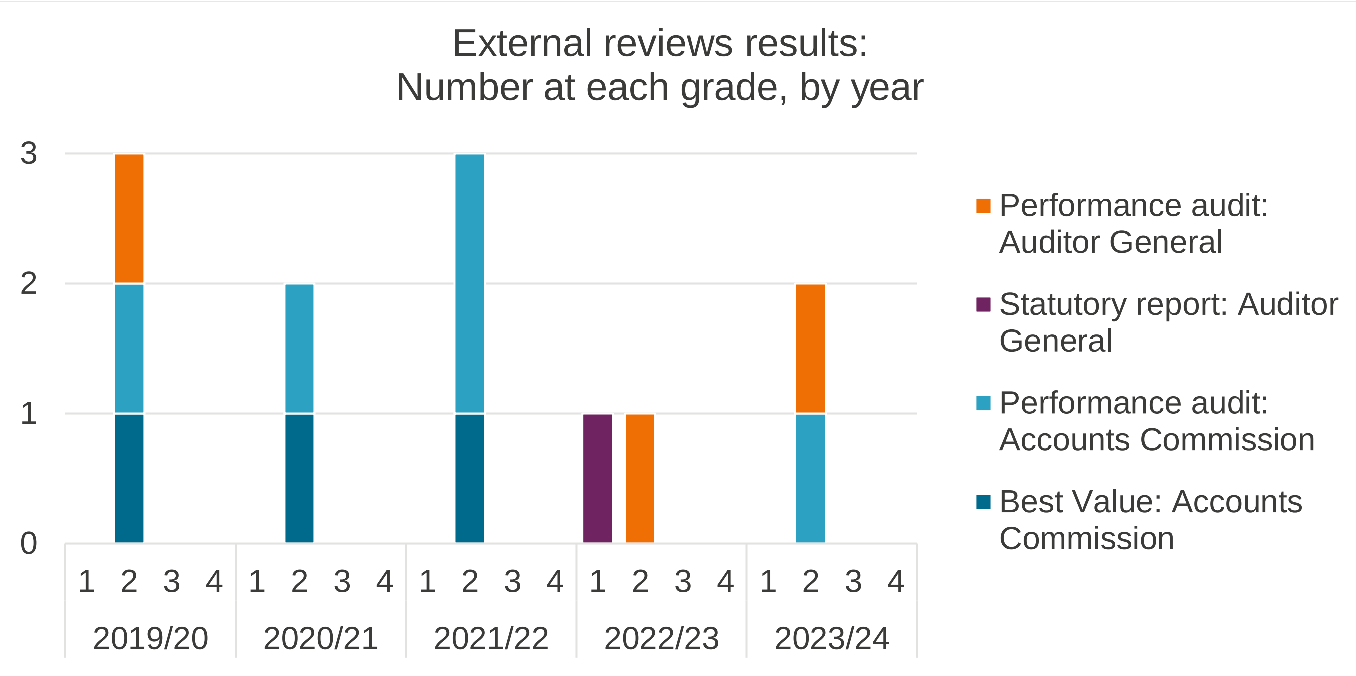
84. AQA will discuss this quality result with Mazars to establish what actions Mazars will take to improve the quality of their work in the future.

Recommendation 3.

Mazars need to prepare an action plan, including timescales, in response to the 2022/23 ICAEW review findings that is focussed on those areas that will improve audit quality.

Performance audits and Best Value audits

85. ICAEW reviews of Audit Scotland's performance audits aim to cover work prepared on behalf of the Auditor General for Scotland and the Accounts Commission, as well covering different product types and PABV Audit Directors. The performance audit reviews consider the content of the report, the likely impact of any recommendations made, aspects of the reports consistency with the evidence obtained and compliance with the International Organisation of Supreme Audit Institutions (INTOSAI) standards.



86. ICAEW reviewed two performance audits during the year and graded both reviews as 'limited improvements required' (2). These results mean that this is the fifth year that performance reports have met the expected standard for the quality of their audit work, being graded as 'good' or 'limited improvements required'.

87. ICAEW reviewers identified several areas of good practice in the individual audit files, which included:

- Both reports had examples of structure, wording and linking which enabled the understanding and accessibility of the reports.

- The performance audit team's record of evidence was well documented and clearly referenced.

- The performance audit team's key decisions and approvals log provided a clear trail of the quality control procedures applied to the engagement.

88. ICAEW reviewers also identified several areas where further improvements could be made, which included:

- On both files, the audit teams did not sufficiently document their assessment of fraud or consideration of materiality.

- One of the audits was the third in a series of overview reports. The audit team did not document to following up on progress made against the recommendations made in the previous reports. ICAEW raised a similar finding on another engagement at their previous visit.

- The audit team could have documented some elements of the evidence log more comprehensively. ICAEW found several examples where documentation linked to the evidence log was inconsistent with the report narrative.

89. AQA would encourage PABV to prioritise these areas as part of their overall efforts to improve compliance with professional standards.

ICAEW Audit Scotland summary

ICAEW provided the following comments on the audits that they reviewed:

ICAEW undertook eight cold file reviews of financial audits, six covering Audit Scotland and two covering a sample of the six appointed firms. In addition, a further focused cold file review covering Audit Scotland was conducted to follow up issues in a file that required improvement at our previous visit. Two performance audits, both conducted by Audit Scotland were also inspected.

The quality of audit work, across financial and performance audits, was of a generally good standard. On the financial audit files reviewed, four of eight files reviewed achieved this grade, including two files graded as good. The one significant thematic area identified, relevant to several engagements conducted by Audit Scotland, relates to improving audit work over the valuation of non-current assets. The area requiring improvement on the appointed firm relates to sufficiently challenging key assumptions on a significant year-end provision. The performance audits were both generally of a good standard.

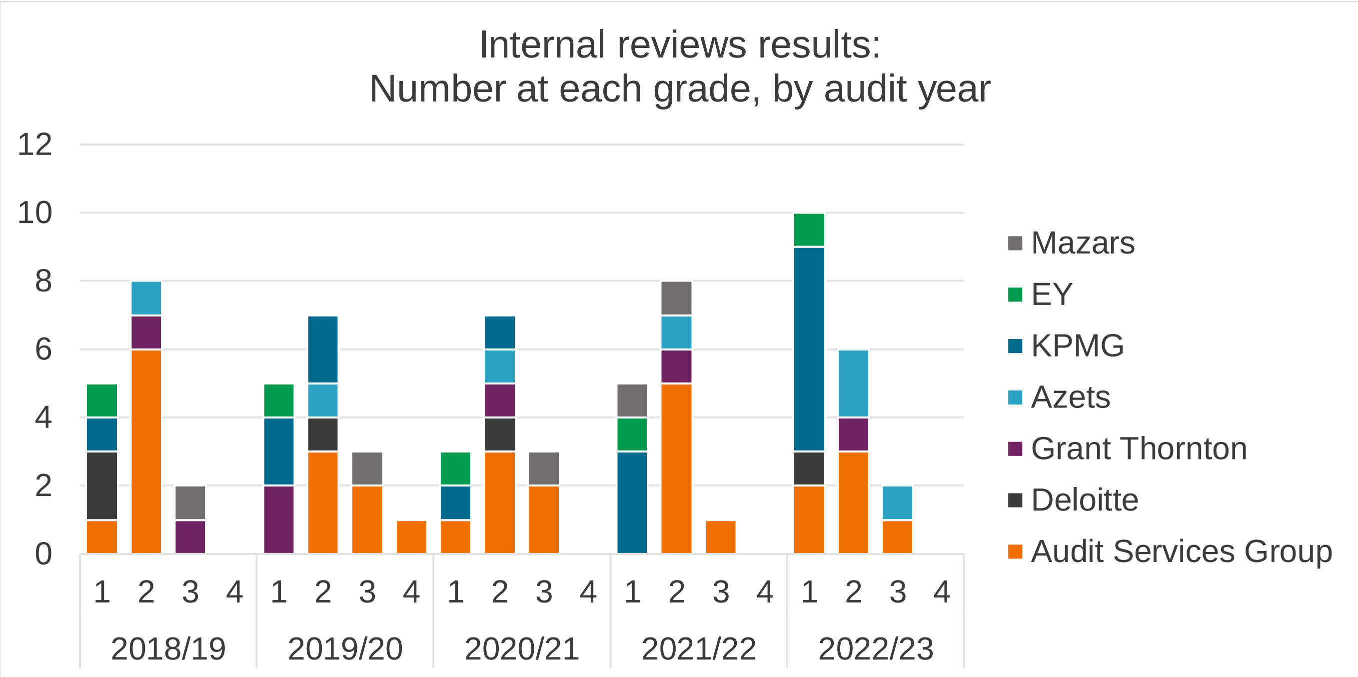
We also reviewed audit work to support the wider scope responsibilities on seven of the eight financial audit files to assess compliance against the requirements of the 2021 code of audit practice. Only one finding, on an engagement conducted by an appointed firm, was identified in this area. For the one financial audit where the assessment was not undertaken, wider scope was not applicable.

The responses of both Audit Scotland and the appointed firm, which includes plans to conduct detailed root cause analysis on files that require improvement, demonstrate they are intending to take appropriate action to address all the findings raised.

Good practice was identified across all files reviewed and mainly related to aspects of comprehensive and clearly documented audit work.

Audit Scotland's whole-firm procedures remain generally appropriate for the size and nature of the organisation and it has made appropriate progress in implementing the next phase of International Standard on Quality Management (ISQM)1. The key aspects of whole-firm procedures, relevant to auditing public bodies, for the two appointed firms covered in this limited review are also generally appropriate.

Internal cold reviews carried out by appointed auditors



90. Internal audit quality reviewers assessed 89 per cent of 2022/23 financial audits as 'good' or 'limited improvements required' (1 or 2, 92 per cent of 2021/22 financial audits).

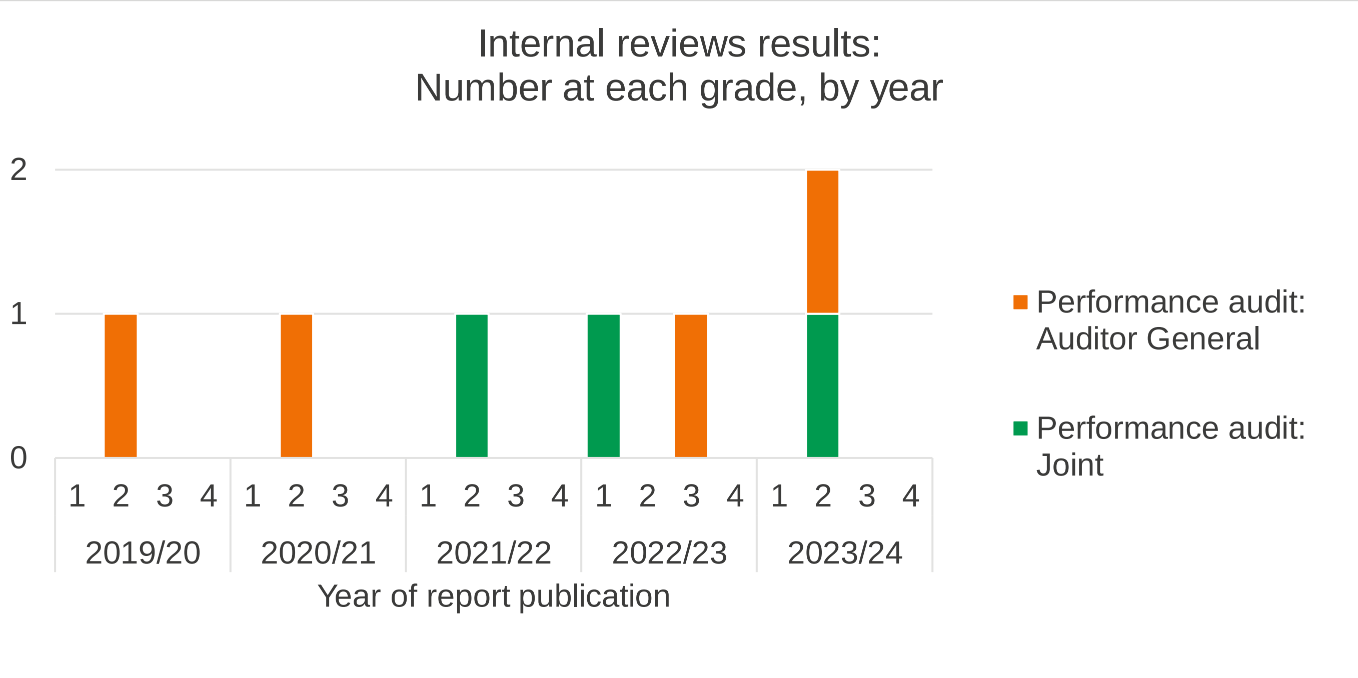
91. The overall aggregate three-year grading for internal quality reviews of financial audits was 87 per cent (80 per cent in 2021/22). Internal reviewers did not identify any concerns with audit opinions for 2022/23 or find any audit required significant improvements (grade 4).

92. Audit Scotland conducted six internal quality reviews of 2022/23 financial audit work. One was graded 'good' (1) and four were graded 'limited improvements required' (2) and met the expected quality standard. The sixth internal review was graded as 'some improvements required' (3) and did not meet the expected standard. The review found that the quality of the audit work required some improvement regarding the risk assessment and understanding of financial IT applications and the control environment, and some aspects of substantive work in relation to pension estimations and journals testing.

93. Azets conducted three internal quality reviews of 2022/23 financial audit work. Two were graded 'limited improvements required' (2) and met the expected quality standard. The third internal review was graded as 'some improvements required' (3) and did not meet the expected standard. The review found that the quality of the audit work required some improvement in relation to property, plant and equipment valuations.

Internal reviews carried out by PABV

94. Audit Scotland's internal quality review team carried out two internal cold reviews of performance audit reports published in 2022/23 (two in 2021/22). Both reviews were graded as 'limited improvements required'. The quality reviews highlighted good practice, including engaging with people with lived experience by setting up focus groups to provide context for the audit findings and the audit team made good use of data analytics.



Improvement feedback for auditors

95. Auditors received detailed reports on each audit reviewed. Root cause analysis and action plans should be developed by auditors to include improvement areas identified. Good practice areas should be shared to ensure auditors are aware of and adopt practice that meets professional standards. AQA will monitor how well the action plans are delivered as part of their regular meetings with auditors. Audit Scotland, working together with all auditors through sector meetings, will continue to share best practice to support improvements in the quality of public audit in Scotland.

Review of annual audit reports

96. AQA reviewed 32 2022/23 annual audit reports (AARs) for compliance with the requirements of the 2021 Code of Audit Practice, Guidance on planning the audit 2022/23 and International Standards on Auditing (UK) (ISAs (UK)).

97. The sample was selected to give a good representation of all sectors and auditors. The reviews covered financial audit work; wider scope and best value audit work; the quality of the recommendations made by auditors; and an overall assessment of the readability and understandability of the AARs.

98. The majority of the AARs (85 per cent) demonstrated a high level of compliance with the Code and related guidance. Examples of good practice included:

- Clear narrative on the significant financial and wider scope risks and other key audit matters and how these were addressed by the auditor.
- Well written, balanced annual audit reports that explains to the reader, the audit process from planning to completion in a clear and concise manner.
- Recommendations that when implemented will assist the audit bodies to further improve their governance arrangements.

99. We also found the following areas where AARs could be improved. The recommended improvements are:

- Deloitte, KPMG and Mazars should ensure that all their AARs contain a reference to the level of performance materiality that has been set and how this was applied by the auditor in their audit of the accounts.
- Azets, KPMG and Mazars should ensure that all their AARs contain a clear conclusion on the effectiveness of arrangements by the accountable officer to secure Best Value for central government, NHS, and further education bodies.
- Mazars and Grant Thornton should ensure that all recommendations have an agreed target date and responsible officer for implementing recommendations.

- Mazars and KPMG should improve the clarity of judgement on wider scope areas to ensure they go beyond descriptions of the arrangements in these areas.

100. We have discussed the areas for improvements, along with the areas of good practice, with the relevant auditors.

Impact

Audited bodies' views on audit work

Feedback on the annual audit from audited bodies continues to show a high level of satisfaction with 87 per cent of respondents considering the annual audit to be fairly or very useful. Satisfaction has continued to decrease slightly from the highs of 2019/20 and 2020/21 and is now back to 2018/19 levels. Meanwhile perceptions of the quality and usefulness of performance audit outputs have improved slightly.

101. The Diffley Partnership was commissioned in 2023 to undertake the annual independent stakeholder feedback survey. It surveyed 501 individuals (472 in 2022/23) in audited bodies to gather feedback on the 2022/23 financial audits and Performance audit outputs published in the past year. There were 247 complete responses (49 per cent, 42 per cent 2021/22). 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'.

102. We analyse responses by using the Mean score. This is the average of respondents' views on a question within a particular category, either by sector or auditor. We aim for auditors to receive a mean score of 4.0 which equates to 'good.' Where scores fall below this level, we investigate the reasons and, if necessary, discuss these with the auditor to ensure action is taken to improve performance.

Financial audit

103. The 2022/23 audits were the first conducted after the appointment of new auditors, meaning almost all audit teams were rotated resulting in new audit teams conducting the audits for the next five years. We asked how audited bodies' auditors managed the handover of audits. Almost two-thirds (65 per cent) had a positive perception of the handover process, however, almost a fifth (19 per cent) felt the handover did not go well leading to a Mean score of 3.8.

'Overall, we have a very good experience…. The first year of a new auditor can be difficult, however, the audit was completed to time and we felt like a very robust audit had been undertaken. [New audit team] had a very different auditing approach [than our previous auditor] which took time to get used to.'

(Central government)

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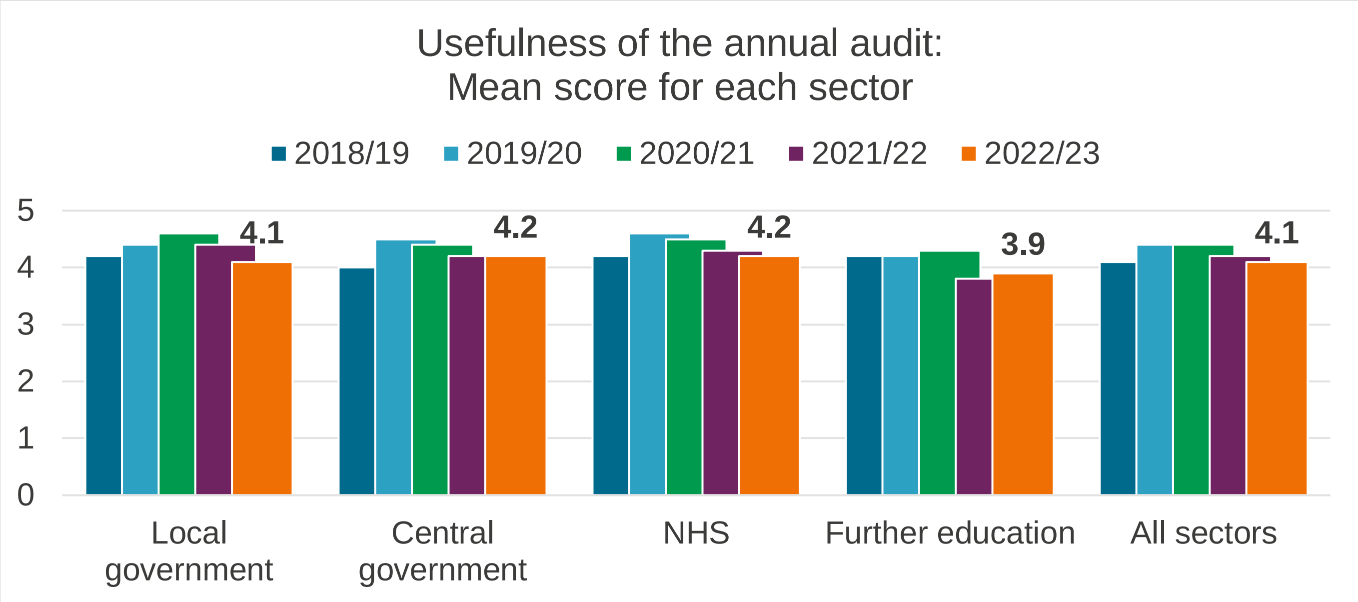
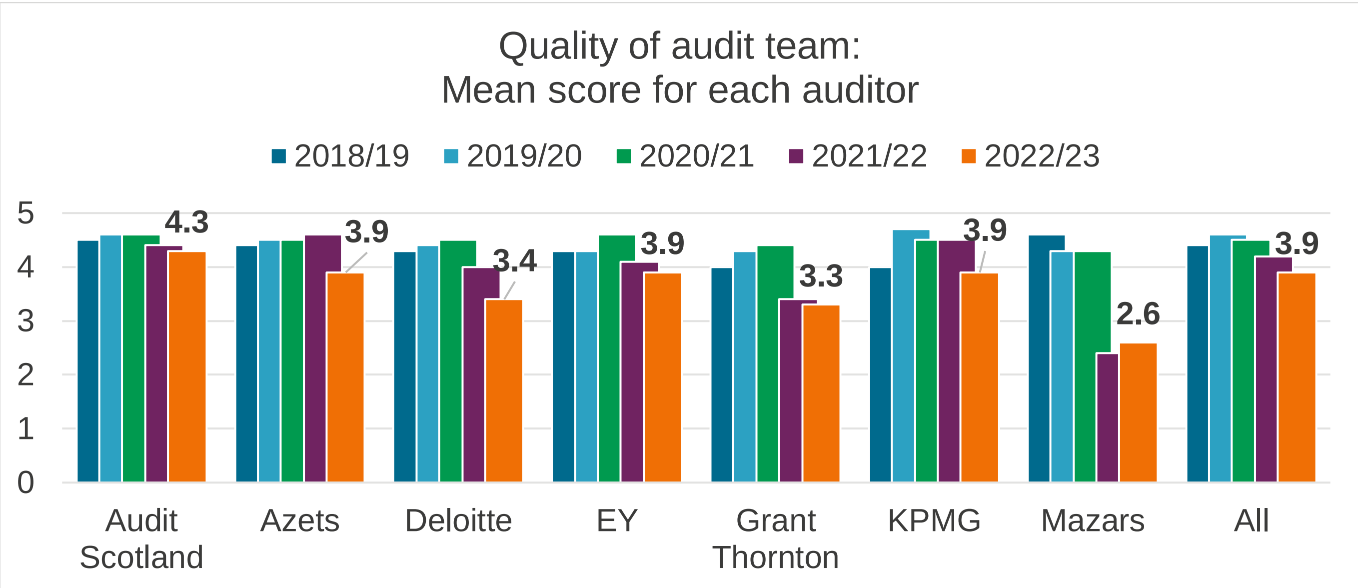
104. Audited bodies' views on the usefulness of the annual audit have continued to decline from the highs observed in 2019/20 and 2020/21, during which time nearly 60 per cent of respondents considered the annual audit to be very useful. The levels have returned to those seen in 2018/19. In all, 87 per cent of respondents considered the annual audit to be fairly or very useful with a Mean score of 4.1. Where respondents had a positive view of the handover, they were more likely to say that the annual audit was useful or very useful.

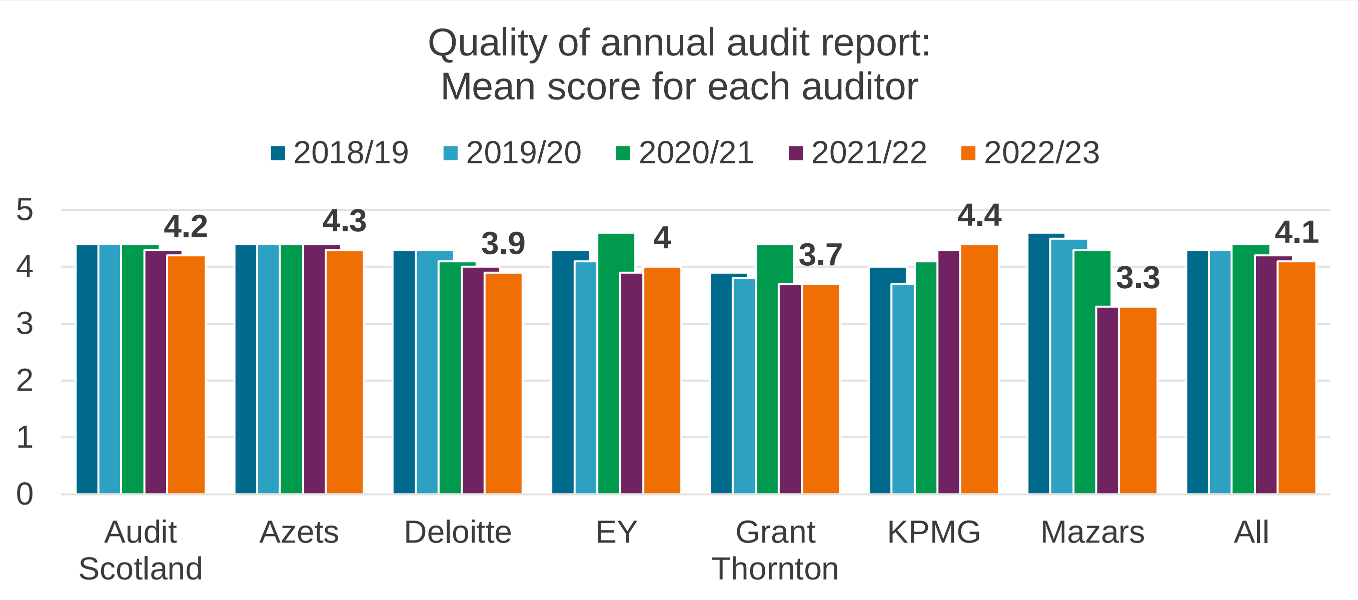


105. Audited bodies' views about the quality of the audit team followed a similar slight reduction to views on the usefulness of the annual audit. Around two thirds of respondents (68 per cent) believe the audit team performed very or fairly well with a Mean score of 3.9. Views on the quality of the audit team were significantly influenced by whether the audit was completed on time (4.1) or not (3.7). Where respondents had a positive view of the handover, they were more likely to say that the audit team performed well or very well.



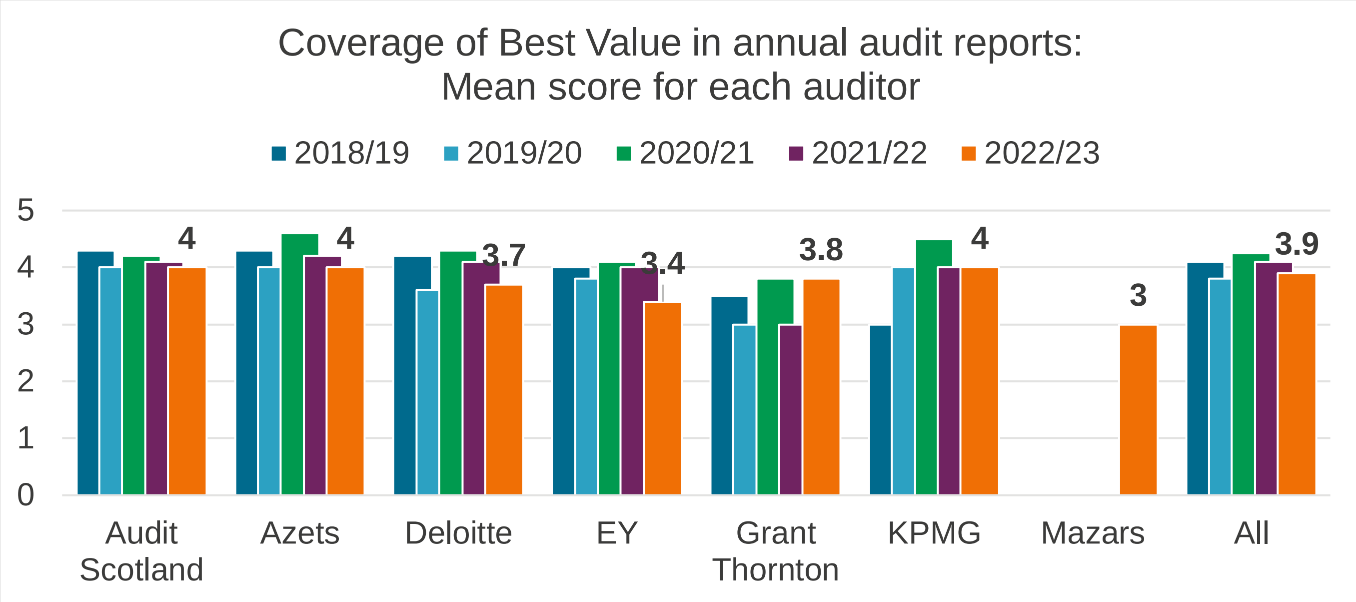
106. Three quarters of respondents find the annual audit report useful (74 per cent) with a mean score of 4.1. The usefulness of the annual audit report continues to score well but it continues to decline from the high observed in 2021/21 (87 per cent). There is no significant change since 2021/22 but those which fell in 2021/22 have remained lower.

107. A new question this year asked how well the annual audit report makes useful recommendations that help to influence improvement. Where respondents had a positive view about the annual audit report, they were more likely to say that the recommendations were useful or very useful. This suggests that the recommendations are a critical element in how readers assess the usefulness of the annual audit report.



108. Local government auditors are required to assess and report on audited bodies' performance in meeting their Best Value and community planning duties. Audited bodies were asked how well auditors covered Best Value in their annual audit report.

109. Mazars' portfolio includes local government audits for the first time in 2022/23 and many of their audits are delayed. This means that the number of respondents is very small, so the result is particularly sensitive to one or two poor results.



110. Respondents commenting on the annual audit report often talked about the report providing assurance, support, and improvement showing that the audit report is viewed by organisations as providing assurance with an eye towards helping the organisation improve.

> 'Confirmed where progress had been made, which has a positive impact on morale and assurance, and confirmed areas for attention in the year ahead, which provides focus and measurable plans.'
>
> **(Central government)**

111. In contrast, where respondents were more negative they often talked about delays and difficulties related to the audit process and the final report overall.

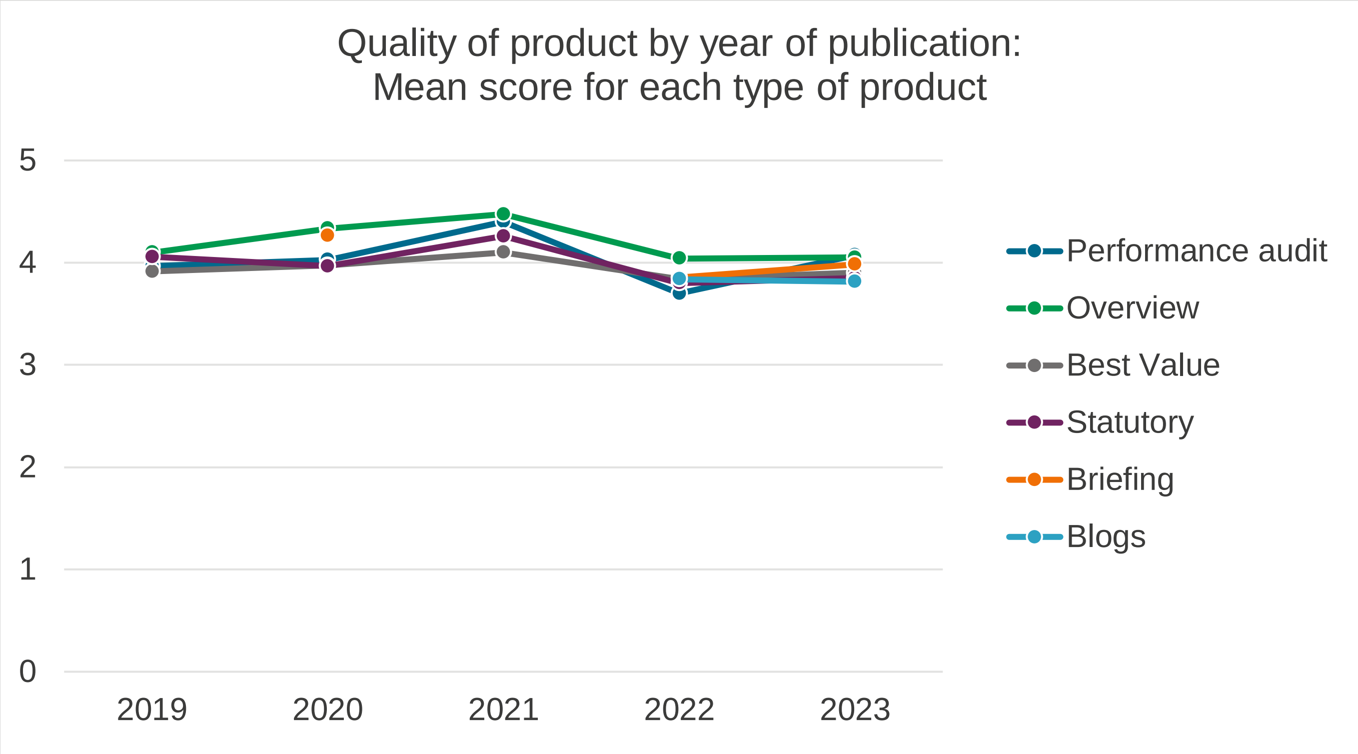
> 'The draft was reasonably well received at the time (September 2023). However, a final report is still awaited wish undermines the usefulness of the exercise.'
>
> **(Local government)**

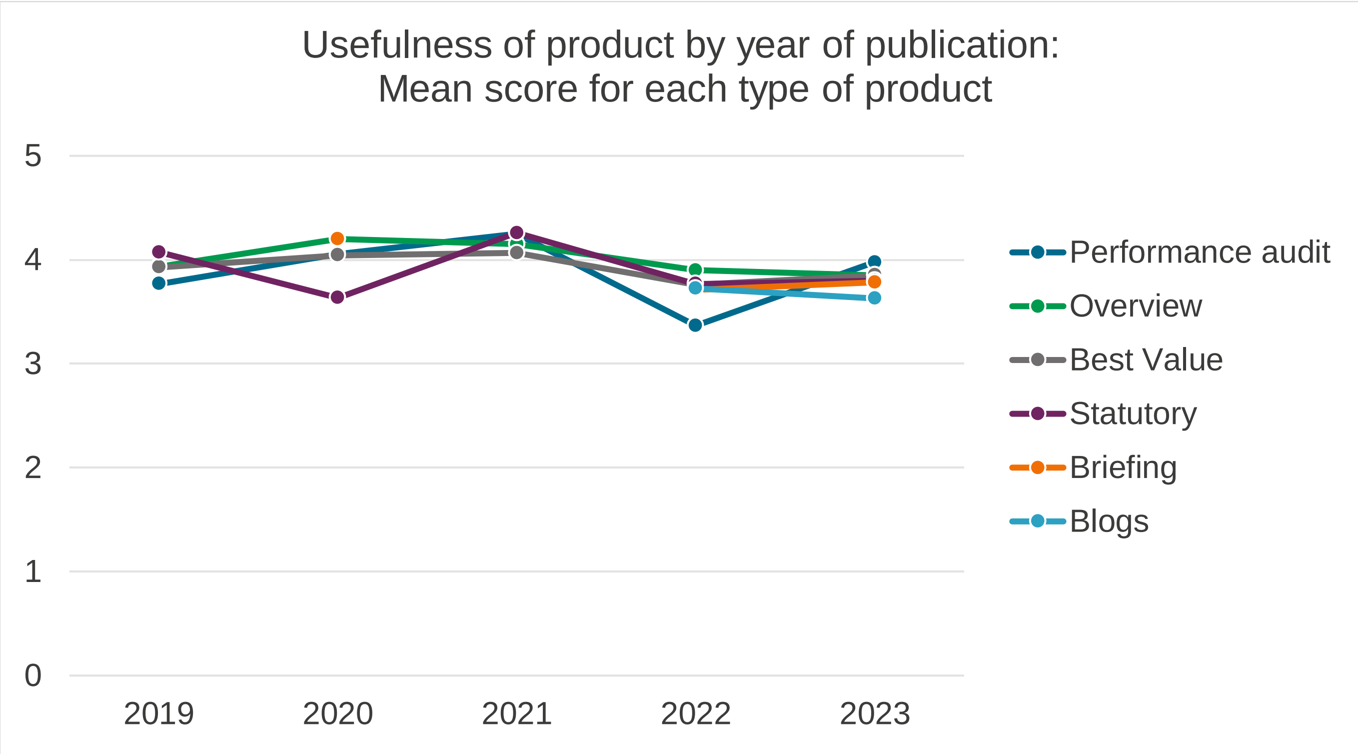
Performance audit outputs

112. Audited bodies were asked for their views on the quality and usefulness of outputs published by Audit Scotland in 2023 that they had read. Factors indicating quality included if a report is comprehensive, convincing, timely, reader-friendly, and balanced. Factors indicating usefulness included if the report provides assurance, focuses on relevant area for development, makes useful recommendations for improvement, and influences improvement.

113. Perception of the quality and usefulness of performance audit outputs published in 2023 improved slightly over 2022. The mean score for the quality and usefulness of outputs was 3.9 and 3.8 respectively

(3.9 and 3.7 for outputs published in 2022). The usefulness of performance audits has improved the most, from 3.4 to 4.0 resulting in all types of report now viewed at a similar level. The most highly rated report in 2023 was the Criminal courts backlog which was assessed a 4.5 in both quality and usefulness.





Adding value

114. The Auditor General, the Accounts Commission and Audit Scotland have a shared vision, mission and outcomes for public audit that will strengthen the impact of the public audit partnership by giving a shared purpose and focus for audit work.

115. The audit process provides assurance that money is spent as intended and that the accounts are true and fair, but auditors seek to provide value beyond this. Examples of these include:

- Making recommendations for improvements to processes within the body, such as recommending:
  - a new programme structure and approach to change management in a body implementing a new Enterprise resource planning system or
  - improvements in climate change preparedness and the establishment of effective performance measurement area so that national climate change priorities can be accurately tracked.
- Supporting or facilitating learning about technical matters such as the new lease accounting standard or how to account for the pension assets this year. In some cases, this included inviting staff from audited bodies to sectoral workshops or technical training.
- Sharing intelligence from other work, such as national reports by Audit Scotland or the firms' own sectoral or cross sectoral reports, or relevant reports by the National Audit Office. In some cases, the auditor pulls out the information most relevant to the body.
- Meeting with audited bodies either before or after the audit to set expectations and learn what could be done by each side to improve the quality of the audit process.
- Attending regular audit committees to contribute beyond the audit, to the wider items on the Audit Committee agenda and bring sector knowledge and recommended practice.
- Engaging with Audit Scotland through sector meetings, responding to consultations, and highlighting emerging risks so that auditors develop a consistent approach to key developments.

4. Areas for improvement and wider audit profession focus

Areas for improvement

116. 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.

117. 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 high quality public audit. AQA will monitor improvement areas identified this year.

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

- **Audit work on the valuation and existence of non-current assets. ICAEW** found that for ASG audit testing needs improvement in this area to enable reliance on work conducted by management experts supporting the valuation of various non-current assets.
- **Challenge of key assumptions in a significant year-end provision.** ICAEW found that for Mazars improvements could be made by the audit team in sufficiently challenging management assumptions and address likely risks around a significant year-end provision.

FRC audit inspections 2022–23

119. The FRC and ICAEW quality review work provide useful benchmarks for comparing the audit quality review findings for public audit in Scotland.

120. In July 2023, the FRC released its latest audit quality reviews reports, covering seven Tier 1[2] firms' audit work in the private sector, for their 2022/23 inspection cycle. All seven audit firm reports can be found on the FRC's website (five of these firms are appointed to conduct public audit in Scotland).

[2] The Tier 1 audit firms currently comprise the largest audit firms: BDO LLP, Deloitte LLP, Ernst & Young LLP (EY), Grant Thornton UK LLP (GT), KPMG LLP, Mazars LLP, PricewaterhouseCoopers LLP (PwC). Out of these audit firms, BDO LLP and PWC LLP are not appointed to carry out public audit in Scotland.

121. The FRC's 2022/23 results show that audit quality continues to improve at the largest audit firms and on the largest audits. Of the audits inspected, 77 per cent were categorised as 'good' or 'limited improvements required' (audit quality grades of 1 or 2). This is an improvement on the last two years (up from 75 per cent and prior to that 71 per cent).

122. In December 2023, the FRC also published its report on the audit quality inspection of Major Local Audits, which covers the audits of local government and NHS bodies in England. This audit work was conducted by six large audit firms, five of whom are also appointed to conduct audits of Scottish public sector bodies.

123. The FRC found that 100 per cent of financial statements audits required no more than 'limited improvements required', compared to 70 per cent in the previous year. However, the FRC could only review 10 audits because of the large number of audits of public bodies in England that have not been completed (in the last two audit review cycles the FRC had reviewed 20 audits each year).

124. As a result of this backlog the FRC is proposing that they will not routinely conduct audit quality inspections of local government audits in England for financial years up to and including the year ended 31 March 2023, unless there is a clear case in the public interest to do so. The FRC plans to resume a programme of routine audit quality inspections once the backlog has been cleared. The FRC plans to continue to inspect a sample of NHS audits in England.

Audit quality inspections conducted by chartered accountancy bodies

125. In December 2023, the ICAEW published its audit monitoring report for 2022/23. ICAEW's report shows that 95 per cent (90 per cent in 2021/22) of audits reviewed at the largest seven firms in 2022/23 were rated as 'good' or 'limited improvements required'. This was the best set of results ever for these firms. There was, however, a slight dip in the quality of audits reviewed in 2022/23 across all firms, with 71 per cent of audits being rated 'good' or 'limited improvements required', compared to 76 per cent in 2021/22. The key messages from the report are:

- The investments made by the larger audit firms are paying off in improving audit quality results. However, it may be that, in terms of audit quality, there is a divide between the larger audit firms and the rest.

- Audit firms should build on their implementation of ISQM1 to continue to drive further improvements. The ICAEW believes that ISQM1 provides an opportunity for audit firms to build upon and improve their processes for ensuring audit quality even further in the future.

- All audit firms should continue to challenge themselves by asking themselves questions such as: have we got the right processes in place, do we need to change anything, are we undertaking the most effective monitoring and remediation activities, including internal or external cold file reviews, what do the findings of our root cause analysis tell us, and are there any other areas of improvements?

Wider issues that impact the audit profession

126. There is growing evidence that audit fees are increasing across both the private and public sectors. A recent survey conducted by the Quoted Companies Alliance, an umbrella group for smaller companies listed on the UK stock market, states that audit fees have increased by 127 per cent for their members during the last five years. The FRC is also reporting in their Key Facts and Trends in the Accountancy Profession that audit fees increased by 7.6 per cent for largest four audit firms in 2022 and 23.3 per cent for the other audit firms. In the public sector there is also evidence of rising audit fees. Public Sector Audits Appointments (PSAA), the organisation responsible for appointing auditors for local government and NHS bodies in England, has increased the new contract rates for audit firms by 151 per cent for 2023/24 public sector audits compared to 2022/23.

127. There is also some early evidence that indicates that financial audit may be becoming a less attractive option for chartered accountants when choosing their future career paths. The FRC's data shows that the number of audit firms registered to carry out statutory audit work has fallen by 20 per cent between 2018 and 2022 (from 5,394 to 4,310).

128. Increasing audit fees and a declining number of registered statutory auditors are both likely to impact upon the market for the audit of Scottish public sector bodies in the future. AQA will continue to monitor these issues.

FRC publishes thematic review of audit sampling

129. In November 2023 the FRC published its thematic review of audit sampling. Audit sampling is a methodology which allows auditors to draw conclusions about a population of items as a whole, based on the sample selected. The FRC reviewed the sampling methodologies of the largest audit firms to identify areas of good practice and to highlight any concerns that will drive improvements and support our monitoring of the firms' systems of quality management. The review found all audit firms should:

- Ensure that they provide engagement teams with sufficient guidance and training to support their use of professional judgement in audit sampling.
- Update their methodologies and guidance to drive better documentation of key professional judgements in this area.

130. The FRC's review also strongly encourages the use of random (or statistical) sampling methodologies over haphazard sampling methodologies.

5. International Standard on Quality Management (UK) 1

Implementation of International Standard on Quality Management by Audit Scotland and audit firms

131. ISQM1 deals with an auditing firm's responsibilities to design, implement and operate a system of quality management for audits. ISQM1 replaced the previous standard, International Standard on Quality Control (UK) 1, on 15 December 2022. ISQM1 emphasis that the public interest is best served by auditors if they consistently perform audits to a high level of quality.

132. ISQM1 required all audit firms to implement a system of quality management by 15 December 2022. It also required each firm to evaluate the effectiveness of their system of quality management within one year, that is, by 15 December 2023.

133. As part of our responsibilities to monitor and report on audit quality to the Auditor General of Scotland and the Accounts Commission, AQA prepared a questionnaire for the six appointed audit firms and Audit Scotland to complete.

134. Audit Scotland's framework agreement with the firms and letters of appointments with auditors from Audit Scotland's Audit Services Groups states: that they should submit when requested information about the arrangements in place to meet the requirements of the FRC's international standards of quality management currently in force.

135. As well as aiding AQA to appraise the audit quality and Audit Scotland, the questionnaire also assisted firms and Audit Scotland as they evaluate and improve their systems of quality management. The questionnaire comprised eight sections, based upon the ISQM1's eight components of a good system of quality management:

- Risk assessment process
- Governance and leadership
- Relevant ethical requirements
- Acceptance and continuance of client relationships and specific engagements

- Engagement performance
- Resources
- Information and communication
- The monitoring and remediation process.

136. We assessed each of the completed questionnaires against the requirements of ISQM1. Our primary aim was to evaluate whether the firm had considered and implemented the specific requirements of ISQM1. This review will be used alongside other evidence, primarily the quality reviews conducted by ICAEW and internally by each of the firms to provide overall assurance over the quality arrangements of each firm and Audit Scotland.

Results

137. Our assessment found that all the audit firms and Audit Scotland have fully implemented the requirements of ISQM1 by the due date of 15 December 2022. They also evaluated the effectiveness of the system of quality management within one year, and before the 15 December 2023 deadline.

138. Our conclusions are supported by ICAEW's Quality Assurance Department who reviewed Audit Scotland's organisational audit quality processes. In their 2024 report to Audit Scotland, ICAEW stated: 'Audit Scotland's system of quality management (SoQM) continues to be generally appropriate for the size and nature of the organisation. It has made appropriate progress in implementing the next phase of ISQM1'.

139. Our review also found several areas of good practice which included:

- All auditors stated that they had conducted a thorough risk assessment process to identify risks to their ability to consistently conduct audits that fully comply with the international auditing standards.
- All auditors' responses emphasised the importance of quality management and continuous improvement in implementing ISQM 1. This is important as the new standard represents an important shift in expectations of audit procedures within firms, with a more proactive, iterative approach to maintaining audit quality than its predecessor.
- All the auditors' leadership teams have taken responsibility for fully implementing the requirements of ISQM1. ISQM1 emphasises the important role of leadership for taking responsibility and accountability for improving audit quality.

Going forward

140. ISQM1 requires that the firm evaluates the system of quality management once a year and concludes whether it provides the firm with reasonable assurance the system of quality management is achieving its objectives. All auditors have stated that they intend to do this.

141. In July 2021, the FRC issued International Standard on Quality Management (UK) 2 (ISQM 2). ISQM2 builds upon the requirements of ISQM1 and specifically deals with the appointment, eligibility and responsibilities of an engagement quality reviewer relating to the performance and documentation of an engagement quality review. ISQM2 is effective for audits of financial statements for periods beginning on or after 15 December 2022.

142. To drive further improvements across all areas of audit, we urge firms and Audit Scotland to continue to build on their implementation of ISQM1 and fully implement the requirements of ISQM2.

Appendix

KPI	Target	Actual	Conclusion
Value of non-audit services carried out during the audit year. (Paragraphs 28. to 30.	Steady or declining value	£19k representing 0.07 per cent of total fees during the 2022/23 audits (£58k representing 0.26 per cent of total fees during 2021/22 audits)	Target met
Percentage of audit providers confirming compliance with ethical guidance. (Paragraph 27.	100%	100%	Target met
Percentage of audit staff with appropriate qualifications and in training. (Paragraphs 37. to 38.	100%	100% for private firms	Target met
		96% for Audit Scotland	Target not met
Number of training and development days delivered per member of staff. (Paragraphs 39. to 40.	Steady or increasing	14 days (14 days 2022/23)	Target met
Percentage of cold reviews showing good compliance with auditing standards. (Paragraphs 67. to 93.	80% Cumulative over 3 years	ICAEW/ICAS financial audits: 70%	Target not met
		Internal financial audits: 87%	Target met
		ICAEW/ICAS PABV audits: 100%	Target met
		Internal PABV audits: 80%	Target met

KPI	Target	Actual	Conclusion
Percentage of audits completed on time. (Paragraphs 42 to 47.	95%	44% (49% for 2021/22 audits)	Target not met
Percentage of audits with material prior period adjustments due to error. (Paragraphs 48. to 51.	Less than 10%	11% (6.7% for 2021/22 audits)	Target not met
Percentage of Performance Audit and Best Value assurance reports published as planned. (Paragraphs 56. to 59.	90%	96% (96% for 2022/23)	Target met
Perception of the usefulness of the audit overall (Paragraphs 104 to 107.	4.0	4.1 (4.2 for 2021/22 audits)	Target met
Perception of the appropriateness of coverage of Best Value (LG only). (Paragraphs 108. to 109.	4.0	3.9 (4.1 for 2021/22 audits)	Target not met
Perception of the quality of:			
• Overview reports	4.0	4.1 (4.0 for 2022 outputs)	Target met
• Performance audits	4.0	4.1 (3.7 for 2022 outputs)	Target met
• BV	4.0	3.9 (3.8 for 2022 outputs)	Target not met
(Paragraph 113.			

KPI	Target	Actual	Conclusion
Perception of the usefulness of:			
• Overview reports	4.0	3.9 (3.9 for 2021/22 audits)	Target not met
• Performance audits	4.0	4.0 (3.4 for 2022 outputs)	Target met
• BV	4.0	3.9 (3.8 for 2022 outputs)	Target not met
(Paragraph 113.			
Staff survey results:	Steady or increasing		
• I am encouraged to carry out a high-quality audit		90% (94% 2022/23)	Target met
• The time and resources available to me enables the delivery of a high-quality audit		61% (61% 2022/23)	Target met
• The training and development I receive enables a high-quality audit.		75% (77% 2022/23)	Target met
(Paragraphs 32. to 36.			

Quality of public audit in Scotland

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