Item 18b
For Information

Annual report and accounts

2022/23

AUDIT SCOTLAND

Contents

Introduction **3**

Chair's introduction 4

Accountable Officer's report 5

Our year **6**

Delivering world-class public audit 7

Being a world-class organisation 21

Financial position 29

Accountability report **34**

Corporate governance report 35

Remuneration and staff report 45

Independent auditors' report 59

Financial statements **65**

Statement of Comprehensive Net Expenditure 66

Statement of Financial Position 67

Statement of Cash Flows 69

Statement of Changes in Taxpayers's Equity 71

Notes to the accounts 72

Direction by the Scottish ministers 95

Introduction

2022/23 in numbers

224
Accounts audited

8
National and local performance reports

15
Briefings, reports and blogs

26
Technical guides

£48.7bn
Payments under Comptroller function

479k
Visitors to our website

Our objectives

Our interim Corporate Plan 2022 set the following strategic objectives:

Delivering world-class public audit

Being a world-class organisation

Chair's introduction

After two years of dealing with the biggest challenge to face public services in living memory, Scotland's public sector has faced both the emergence of new pressures and the exacerbation of existing ones.

The cost-of-living crisis and inflation have added to existing inequalities. Public services also face major challenges in addressing climate change, rising demand, and dealing with the longer-term impact of the Covid-19 pandemic. Any one of these would be a major challenge to Scotland's public services; their combined effect at a time of financial constraint is unprecedented.

It is very clear from the work that Audit Scotland delivers on behalf of the Auditor General and the Accounts Commission that fundamental change is needed to the way public services are delivered and funded. Current models and approaches are not fit for the future.

This need for change also affects Audit Scotland. Over recent years we have reported on the delivery of our strategic programme that will ensure that we have the capacity, skills and people to do the job that Scotland expects from us. That delivery has continued over the past year, with a renewed emphasis on innovation, learning and development.

In 2022/23, we also took a fundamental look at our purpose: what do we and our stakeholders expect public audit to deliver? And how can public audit tangibly and positively affect the lives that Scotland's people and communities live and the outcomes they experience?

In partnership with the Auditor General and the Accounts Commission, we completed a major consultation and exploration to define our vision and mission for the next five years. We have set out the impact we want public audit to have in our shared statement of purpose, Public audit in Scotland.

We have also seen changes in the leadership of Audit Scotland. We welcomed Vicki Bibby as our new Chief Operating Officer, and Kenneth Oliver, John Cornett and Antony Clark to Executive Director roles, and Helena Gray as Controller of Audit. In the short time they have been in post and begun to work as a team, my board have ensured, through constructive challenge and collegial working that the organisation is in good hands. I thank them for everything they have brought to the leadership of Audit Scotland.

My thanks go also to my fellow board members. 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.

Most importantly, I want to thank everyone who works for Audit Scotland. I am always struck by their professionalism, resilience and empathy, and by their commitment to providing a high-quality public audit service that has an impact on public services, on public bodies, and on people's lives.

Professor Alan Alexander OBE
Chair of the Audit Scotland Board

Accountable Officer's report

In the face of the pressures on Scotland's public services, there have been three consistent themes over the past year: sustainability, reform and transparency.

Over the past year our audit work has told us that Scotland's public services cannot continue in their current form if they are to meet the rising demands from inequalities, demographic change and economic pressures. While the questions about the sustainability of key services are not new, they are now urgent as Scotland strives to recover from the pandemic and cope with new and existing stresses.

Central to achieving and protecting sustainable public services will be the major changes needed in how they are shaped and delivered. This includes better sharing of data and joint resources, as well as different delivery models and innovative thinking, among other things. And it requires a clear commitment to involving the public – the people who use and pay for services – in the conversation about how to change.

Aligned with this is the need for more transparency in spending and in financial reporting. Public spending in Scotland has risen significantly and quickly in the past two years. Information on how that money is spent and its impacts must be clearer and more accessible.

Audit Scotland has a part to play too: our audit work must be reliable, relevant and understandable. We have continued to focus on our quality, with improvements over recent years. In order to further improve, we have increased our emphasis on innovation and development. This has included the creation of a new Innovation and Quality business group to lead this agenda, strengthening our quality arrangements and ensuring public audit is fit for the future. As with other public bodies, we are also still managing the impacts of the pandemic on our work. While the work is being delivered, there is more to do to for our audit programmes to return to pre-pandemic timelines.

We have also explored our purpose and the outcomes we want to shape for Scotland. As an organisation, this has meant focusing on the strategic priorities that will deliver these. We have also agreed refreshed organisational values that will be at the heart of all we do and how we do it.

The change and development also continued with our senior leadership. I was delighted to welcome Vicki Bibby, Antony Clark, John Cornett and Kenneth Oliver to our revamped Executive Team during the year, and Helena Gray has since also joined our team.

Finally, I want to thank Audit Scotland's staff. The past three years have been challenging. Through it all, my colleagues have shown their commitment to delivering high-quality and impactful public audit.

Stephen Boyle
Auditor General for Scotland and Accountable Officer

Our year

Key messages

- We continued to deliver financial audits for all public accounts across Scotland in challenging circumstances. We are making progress in returning the timeliness of our financial audit to pre-pandemic timescales but have more work to do.
- Through our dynamic performance audit programme, we have delivered work to inform and support public services in difficult times, and increased the accessibility and range of our products. Key themes throughout our work this year were the need for better transparency and accountability, and the reform of services to ensure their sustainability.
- We completed the Accounts Commission's programme of Best Value reports on all of Scotland's councils, and developed a new model of integrating Best Value into councils' annual audits.
- On behalf of the Auditor General, the Commission and ourselves, we developed a new vision and mission for public audit in Scotland, including significant stakeholder consultation on our purpose and impact.
- We embedded new leadership in our organisation, and created a new Innovation and Quality business group.
- Our investment in and strengthening of our quality assurance and support arrangements delivered improvements in many areas.
- We achieved our financial targets, and consolidated the growth in our capacity over recent years.

Delivering world-class 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.

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

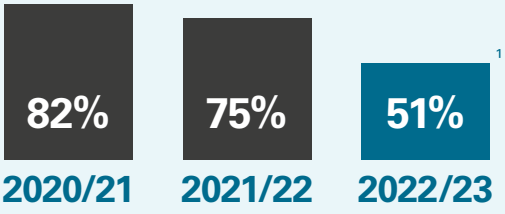
In a complex and challenging environment, made more complicated by the pandemic, it is important that independent, ethical and authoritative public audit continues to support a strong and effective system of financial accountability and transparency.

In 2022/23 we:

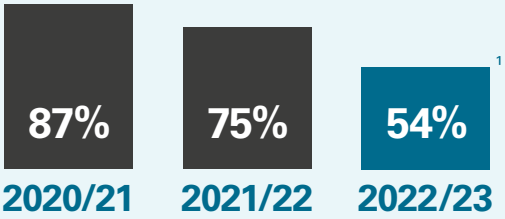
- delivered 224 audits under the Code of audit practice, to updated guidance and deadlines
- delivered our refreshed performance audit programme, including a more flexible and diverse range of audit outputs and products
- concluded the Accounts Commission's programme of Best Value Assurance Reports and completed the integration of BV into the annual audit
- further developed our audit approach to climate change
- continued the work to audit and report on devolved financial powers and Scotland's new social security service
- concluded the appointment of annual audits for the next five years, securing our mixed-market audit appointment approach for the next round
- strengthened our quality assurance and improvement arrangements
- continued the implementation of our Digital audit strategy to improve our use of technology.

Key performance indicators

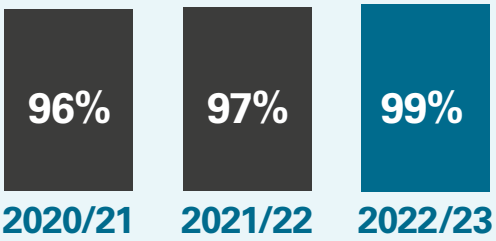
Annual audits delivered to schedule



Reports published to schedule



Correspondence responses issued to schedule



Note 1. As we recover from the pandemic's impact on audit delivery, our auditors have worked to compressing timelines over the past two years. We intend to make progress towards pre-pandemic performance over the coming year.

Annual audits

The annual audit of public bodies provides the bedrock 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 for Scotland's people.

During 2022/23 we delivered the following audits:

Accounts audited in 2022/23

101 Local government

79 Central government

23 NHS

21 Further education

Accounts audited in 2022/23

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. Under the 'wider scope' in the Code of audit practice auditors consider: financial management; financial sustainability; vision, leadership and governance; and the use of resources to improve outcomes.

We audited 224 sets of accounts this year. All accounts were judged to be true and fair, although we qualified Social Security Scotland's accounts for regularity reasons, and auditors gave 'disclaimers' – where they believed they were unable to give opinions due to the quality of information in the financial statements – on the accounts of Scottish Environmental Protection Agency and Scottish Canals.

While all but one of the audits have been delivered, we are yet to return to pre-pandemic delivery timelines. This remains a challenge, both at Audit Scotland and in the capacity at audited bodies, and we intend to make progress towards pre-pandemic performance against deadlines over the coming year.

Raising issues from annual audits

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

We issued six Section 22 reports in 2022/23. These covered: the Commissioner for Ethical Standards in Public Life in Scotland, the Crofting Commission, Ferguson Marine Port Glasgow (Holdings) Limited, National Records of Scotland, the Scottish Government's Consolidated Accounts and South Lanarkshire College.

Making a difference: Annual audits

Making a difference through annual audits

Our financial audit work does more than state whether public bodies are providing true and fair accounts and meeting regulatory requirements. Through our wider dimensions of public audit, we aim to add value through a range of areas:

Supporting scrutiny and understanding of public finances

The chair of the audit committee at a council thanked our audit team for the way the team's presentation and explanation of the annual audit helped non-financially trained elected members understand the issues and information, enabling them to confidently approve the annual accounts.

Making a difference: Annual audits

Improving financial reporting

Over the period that one of our audit teams has worked with a local government body, our auditors have worked to help the body address significant mistakes and errors of fact in their accounts. As a result, their latest accounts showed a marked improvement in quality, allowing them to provide better information to their stakeholders.

Avoiding material misstatements in published financial statements

We ensured that one body corrected a £272m mistake in their revaluation of non-current assets, and prevented another from overstating their expenditure on assets by £26m.

Strengthening financial controls

When we tested a sample of grants paid out by a central government body, we found that a grant of £1m did not have the full evidence required. The body double-checked the grant and found that many of the areas of spending that the grant was claimed for had not yet occurred. The body adjusted its accounts and introduced enhanced checks by a senior staff member for all claims over £100k.

Assisting compliance with legislation

One of our teams identified a number of areas where a central government body was going to fail to comply with the Government Financial Reporting Manual. The body corrected those. Another team prevented a different body from failing to meet accessibility legislation.

Audit appointments

One of the strengths of the Scottish model of public audit is the rotation of audit appointments every five years, for both our in-house audit teams and the external firms we contract. This system helps prevent the perception of auditors becoming too familiar with the bodies they audit, and thus avoids any questions about their objectivity and independence. It also means each audited body benefits from having new perspectives, and allows public audit to make the most of a mixed-market model.

The latest change in appointments was delayed for a year due to the Covid-19 pandemic and associated delays with finalising the new Code of audit practice and the procurement of external firms. We finalised the new appointments in late 2022, and these are available on our website.

During 2022/23 we implemented new audit fees across all the audits delivered for the AGS and the Accounts Commission by our in-house teams and external firms. While we have done everything possible to mitigate the factors affecting fees, all audit fees have risen, some significantly so, in percentage terms.

Our budget and resourcing is designed to ensure we can provide high quality, relevant and independent public audit. The fee increases reflected cost increases seen across the audit sector from factors such as inflation, new regulatory and industry requirements on audit and the additional work needed to complete audits at bodies disrupted by the pandemic.

Performance audits

On behalf of the Auditor General and the Accounts Commission, we produce performance audits and overview reports on issues which have a direct impact on people's daily lives. This ranges from the overview of key public services, reviews of major reforms and projects, to exploring how public bodies respond to the key issues facing Scotland.

Over recent years we have introduced a more flexible approach to our performance audits that enables us to react to the circumstances and emerging issues in Scotland. This innovation has continued in 2022/23 in both our audit methods and how we communicate our findings and recommendations, such as the range of diverse products we published in 2022/23. These included briefing papers, update reports and blogs, as well as longer detailed performance audit reports. We supplemented our more traditional audit reports with a variety of supporting products, such as more use of videos and animations, to reach a wider audience and get the audit messages across more effectively.

In May we reported on the roll out of new devolved social security benefits, saying that the programme was going well but that there was still a lot to be delivered. Our review of Scotland's financial response to Covid-19 (June) said the Scottish Government had moved at pace to respond. However, we emphasised that more clarity and transparency was needed about how money was spent and what impact it had.

We also reported in our NHS overview (February) on the need for transparency saying that the government had to be clearer about how long it would take the NHS to recover from Covid-19 and to reform services.

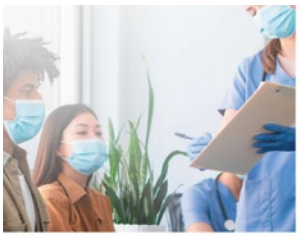
We supplemented the overview with a new web-page format, giving readers key messages in a graphical and video format. We repeated this approach with web-based outputs on the public sector gender pay gap and our Covid-19 finances follow-up reports.

The overview of local government reviewed how councils were responding and the key issues they were facing. In its 2022 performance overview (May), the Accounts Commission said councils could not just aim to return to pre-pandemic operations, they must reform how services are delivered. The overview was supplemented by a blog in June, and a financial bulletin in January that set out the major challenges facing local authorities.

Social security: Progress on implementing the devolved benefits

May 2022

NHS in Scotland 2022



February 2023

Local government in Scotland Overview 2022

May 2022

Our shorter briefing reports gave updates on subjects and themes we have previously reported on or intend exploring further in our audit work. In June we reported that funding to integration joint boards increased by ten per cent, mainly due to one-off Scottish Government Covid-19 grants. We also reported that Scotland's colleges (July) responded well to the pandemic but need to make changes to ensure their financial sustainability, and that longer-term planning was needed to address child poverty (August). The need for reform and sustainability were also key messages in our briefing on Scotland's public finances (November).

We further developed our audit response to climate change. In September we reported on how councils were addressing the issue, and in December we published our strategy for auditing climate change.

We published eight blogs on subjects including additional support needs for children and young people, inequalities and human rights, data gaps at public bodies, education outcomes, Covid-19 finances, the future of Best Value reporting, and the Accounts Commission's alliance with the Improvement Service.

Making a difference: Performance audits

Making a difference through performance audits

During 2022/23, our performance audit work during the year and from previous years continued to have a significant impact.

For example, during 2022/23 Scottish ministers and senior officials cited our February 2022 report on planning for skills as a catalyst and key influence on changing their approach to this issue, and our findings also prompted improvements in collaborative working between the Scottish Government, Skills Development Scotland and the Scottish Funding Council.

Our briefing on social care in January 2022 prompted significant political and media debate, and the Scottish Parliament called the Scottish Government and COSLA to give evidence about its findings. Following publication of our blog on children with additional support needs in May 2022, radio stations held live discussions on its points, and families contacted the author.

Reporting on Best Value in local government

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

Over the past year, we supported the Commission to complete its rolling programme of Best Value Assurance Reports (BVARs) covering all 32 councils. These provide a detailed and rounded insight for local people into how their council is performing, where it's doing well and where it needs to improve. This wider focus on Best Value is also part of the annual financial audits for every council. In several cases, we have also conducted follow-up reviews at those specific councils and produced reports on progress. Completing the reviews of all 32 councils since 2017, including those follow-up reviews, has been a significant achievement, particularly given that the last three years of the programme were completed during the Covid-19 pandemic and its after-effects.

Following the conclusion of its programme of BVARs the Commission reviewed and updated its approach to auditing Best Value in councils. The new BV audit approach is now fully integrated in the local government annual audit, and also involves annual Best Value thematic work identified each year by the Accounts Commission based on key local government risks identified by the Controller of Audit. The Accounts Commission's annual report 2022/23 provides further detail about the Best Value programme over the past year and the Commission's plans for future local government BV auditing.

During 2022/23 we published three BVARs on behalf of the Commission:

Angus Council
July 2022

Shetland Islands Council
August 2022

Comhairle nan Eilean Siar
September 2022

Making a difference: Performance audits

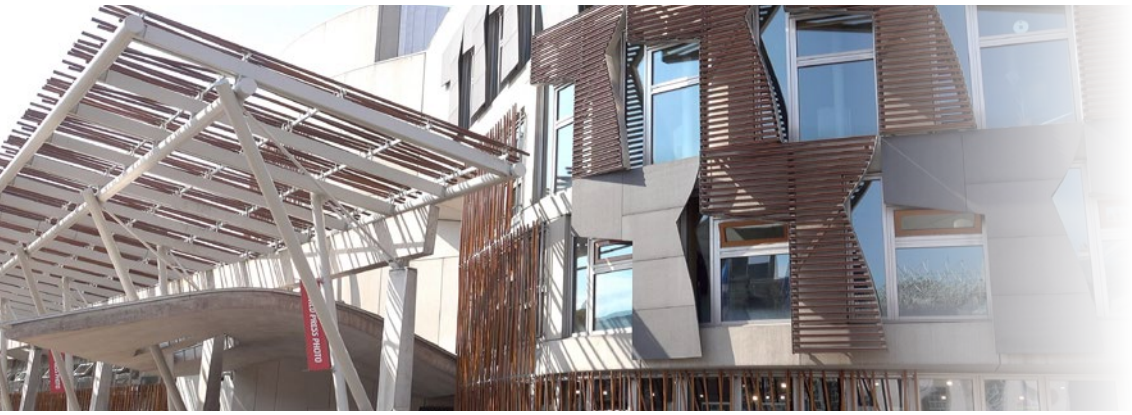
Making a difference through Best Value Assurance Reports

Our Best Value work from this year and previous years continues to have an impact. The Angus BVAR found the council had made 'impressive' improvements since previous critical reports in 2016 and 2010, with a clear vision, effective leadership, and strong partnership working and collaboration. During 2022/23, Falkirk Council responded to the highly critical BVAR published in January 2022. The council fully accepted the findings. It drafted and accepted a strategic action plan to address the issues identified, and the chief executive issued a video to all staff outlining how the council would respond.

Supporting scrutiny and countering fraud

Supporting the Scottish Parliament

Public audit plays a key role in helping the Scottish Parliament and policy-makers understand the key issues facing the public sector and how public money is spent. The Auditor General for Scotland is an independent appointment by the Crown, on the recommendation of the Scottish Parliament. He reports in public to the Scottish Parliament's Public Audit Committee (PAC).



In recent years we have strengthened our engagement with committees, MSPs and the Scottish Parliament Information Centre (SPICe) over the current session of Parliament to better help parliamentarians scrutinise the public sector's performance. We met with and gave oral and written evidence to a wide range of parliamentary committees and briefings to MSPs, with a total of 98 parliamentary engagements over the year. Alongside that formal reporting, we have responded to consultations and calls for evidence by parliamentary committees, and provided a range of informal briefings to committees, clerking teams and SPICe.

Scrutiny coordination

On behalf of the Accounts Commission we work closely with other scrutiny organisations to make sure that the scrutiny of local government is targeted and proportionate to identified risks. Audit Scotland sits on the Strategic Scrutiny Group (SSG), which is chaired by the Accounts Commission and supports the Scrutiny Co-ordination Group which produces an annual local government national scrutiny plan on behalf of the SSG and the Commission.

More details about the group membership and work is available at the scrutiny improvement section on our website.

Countering fraud

Public audit has an important role in raising awareness about fraud as well as helping to prevent and report on fraud. Our auditors also have a responsibility to review on how public bodies have discharged their counter-fraud responsibilities.

Auditors also report on frauds identified by audited bodies or those that are identified during the course of their audits and these reports help raise awareness of fraudulent activity across the public sector. Significant frauds highlighted by auditors may become the subject of statutory reports. In July, we published our annual Fraud and irregularity update on cases auditors reported on during 2021/22.

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. This year we published the biennial NFI report on the programme in August and worked on pilots on national entitlement cards and non-domestic rates. We supplemented this year's NFI with an interactive data output, allowing users to break information down by sector and public body. This tool reflects our developing approach to digital and data-led outputs.

More information is available at the Counter-fraud section of our website.

Fraud and irregularity 2021/22

July 2022

Audit quality

Quality is the bedrock of the assurance we provide and our ability to drive improvements and changes in public services. During 2022/23, we continued to reform and strengthen our approach, including the creation of our new Innovation and Quality (I&Q) business group (see Case study on page 25 for more detail).

This sits alongside our existing process under which our in-house independent Audit Quality and Appointments (AQA) team report on the quality of our audit work. Our work across all audit activities is also subject to independent external review by the Institute of Chartered Accountants for England and Wales (ICAEW), checking for quality and for compliance with auditing standards, regulatory and professional requirements, and other relevant frameworks. We use the results of the AQA and ICAEW reviews to inform our quality improvement activity.

During 2022/23 we continued our quality improvement programme aimed at addressing recommendations made in previous reviews. The latest quality reviews found continued improvement in many areas and in the proportion of audits meeting the quality benchmarks we have set for

our in-house and external teams. More information is in our Quality of public audit in Scotland annual report and our Transparency report.

The focus on quality and strengthened arrangements we have put in place are delivering improvements in our performance against quality benchmarks and reviews. However, improving the quality of our work will remain an ongoing organisational priority.

Public bodies continue to express high satisfaction with the usefulness of the audit and the performance of our audit teams. More than 90 per cent of our colleagues believe they are encouraged to deliver high-quality work; however, they also believe they need more time and resources.

We are working to address these issues. As well as increasing our staffing capacity, we have worked to improve efficiency and to focus our audits on priority areas.

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

We are represented on, and engage with, a wide range of international and UK professional bodies and audit agencies where we can influence professional standards and learn from and share good practice. Audit Scotland also has reciprocal arrangements with other audit institutions in the UK and internationally (see International work, page 28).

We also support continuous improvement in audit quality by ensuring that auditors' technical judgements are made on an informed basis. We produced comprehensive technical guidance and delivered relevant and appropriate training to our staff during the year.

Ethical standards

Independence, and conducting our work to the highest ethical principles, is fundamental to public audit and helps ensure its effectiveness. We comply with the Financial Reporting Council's (FRC) Ethical Standard for auditors, not just for financial audits but for all our work.

Our Ethics Partner works to ensure compliance with the Ethical Standard within the organisation. This role is performed by Executive Director of Innovation and Quality, Kenneth Oliver.

Being a world-class organisation

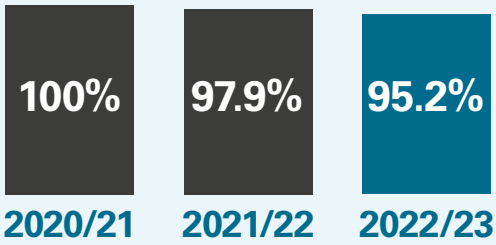
Our aim is to make Audit Scotland a great place to work by attracting and retaining highly skilled people, and by making the best use of public resources.

In 2022/23 we:

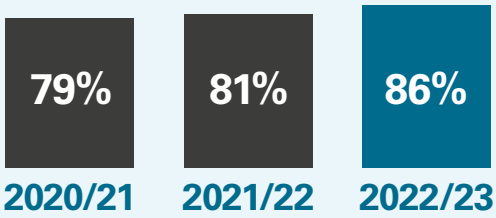
- undertook a review of our purpose, resulting in a new shared vision, mission and outcomes for Public audit in Scotland and a new Corporate plan for 2023-28
- created a new Innovation and Quality business group to lead new and revised approaches and methodologies, quality activities, organisational development, digital audit and transformation
- invested in learning and development to strengthen our skills and ensure we can continue to support the Auditor General and Accounts Commission and perform the role Scotland will require from us in future
- developed and introduced a new performance monitoring and impact assessment programme, and began work to refresh our stakeholder engagement
- supported all of our colleagues to embrace our approach to hybrid working, through organisation-wide events, discussions and guidance, and provision of equipment and technology
- continued to invest in the resilience and flexibility of our digital services, which has proved crucial over the past three years.

Key performance indicators

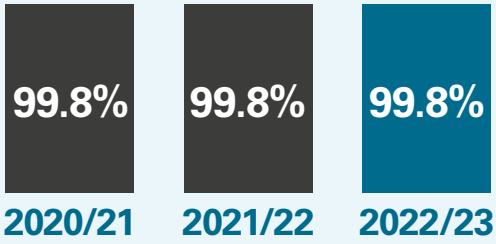
People in post



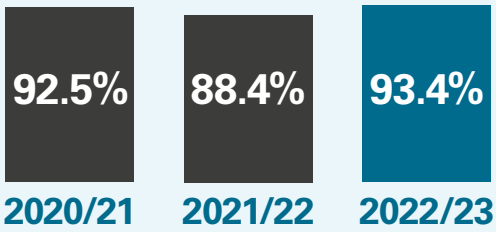
Exam pass rate for professional trainees



IT uptime



IT issues resolved within target times



Our people

During 2022/23 we implemented significant changes to our leadership and structure to ensure we have the capacity, skills and resilience we need to perform the role Scotland needs from us in future.

Our workforce in 2022/23

327.7
Whole-Time Equivalent (WTE)

4.5%
increase from March 2022

48
Trainees

At March 2023, our workforce was 327.7 WTE, an increase of 4.5 per cent from March 2022. Over the year we sought to consolidate, following two years of growth, and further develop our capacity to deliver audits and provide expert support functions. We also prioritised work to widen the diversity of backgrounds and life experiences of applicants, as well as continuing to attract graduate trainees, supported by our comprehensive graduate training programme. As with the wider audit and accounting sectors, and many other industries, recruitment has been challenging at times due to a shortage of skilled and qualified staff and intense competition for professionals of the required quality.

Leadership

During 2022/23 we embedded the reshaping of our leadership in order to strengthen our strategic capacity, skill-mix and resilience. Our new Executive Team consists of the Auditor General, our Chief Operating Officer, and our Executive Directors of Audit Services, Innovation and Quality, and Performance Audit and Best Value. Our new Controller of Audit joined in January 2023 and joined the Executive Team in May 2023.

They are supported by our Director of Corporate Support. Further organisational leadership comes from our Leadership Group, comprising Audit Directors and other key professionals from our corporate functions. We have worked to reshape the remits and operations of our leadership structures. At the heart of our approach is empowering our staff to innovate and drive quality.

Learning and development

For our financial audits, accountancy remains the main discipline. Every financial auditor undergoes rigorous professional training. We run one of the largest public financial audit training schemes in Scotland. We have 48 trainees working towards qualifications from the Institute of Chartered Accountants of Scotland. We also have three Modern Apprentices. Each Audit Scotland staff member received an average of 18 days training during 2022/23 (18 in 2021/22).

We launched our new corporate Learning Management System during 2022, with benefits including automated allocation of new starter learning content, three-year learning plans at junior auditor grades, and support for colleagues moving to senior grades.

Diversity, equality and inclusion

Audit Scotland seeks to be as diverse as the communities we serve, with a commitment to increasing representation of traditionally underrepresented minority groups at all levels.

We work to achieve our three equalities outcomes:

- Our work supports the public sector to address inequalities including protected characteristics and socio-economic disadvantage, and to protect human rights.
- We will increase the diversity of people into Audit Scotland and their progression through every level of our organisation.
- We will broaden our culture of diversity and inclusion, so all employees feel valued, engaged and contribute.

Our Equality outcomes 2021–25 report sets out how we will achieve these, and our performance is reported in our Mainstreaming equality: progress report 2021–23. More information and links to our equalities and diversity-related work are available at the Diversity, equalities and inclusion section of our website.

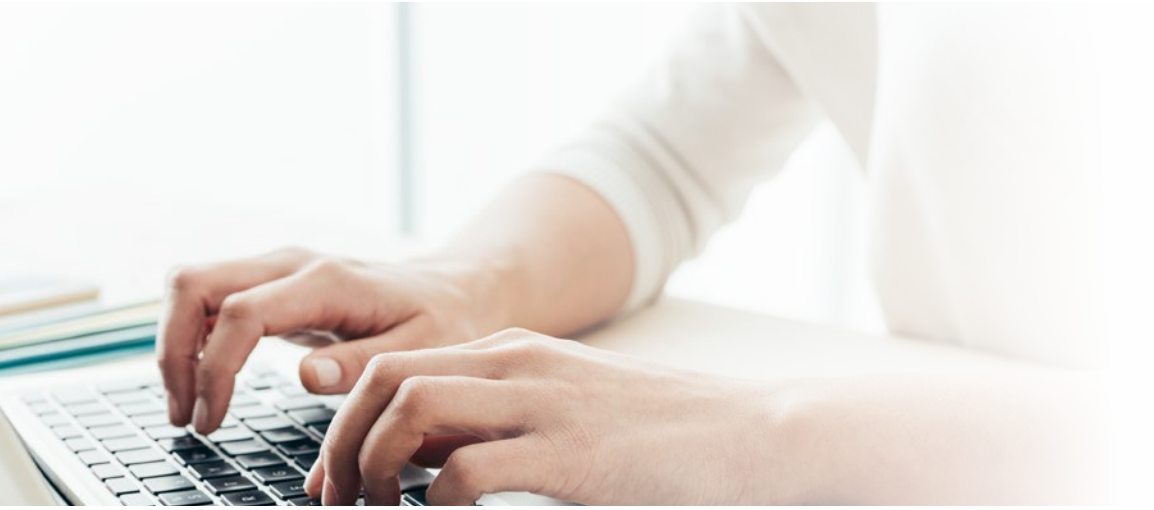
Our gender pay gap results show that men on average earn 12.5 per cent more than women at Audit Scotland. There are several factors behind the disparity. We have higher proportions of female colleagues at trainee and junior levels than male, reflecting the recruitment of women in recent years at the start of their careers. This has been combined with female representation at the most senior levels reducing in the past three years following the retirements and departure of some long-standing female colleagues. Also, as with other organisations, many female colleagues balance their careers with other responsibilities, and 80 per cent of Audit Scotland staff working part-time are female. We are confident that many of our more junior female colleagues will develop and progress into senior roles in future years. Our pay structure, pay

progression, flexible working policies and development opportunities are free of gender bias and have been Equality Impact Assessed (EQIA). We continue to monitor our approach to recruitment so that it follows good practice across all diversity and equality strands.

How we work

In the wake of the pandemic, the ways we work have changed significantly. Almost all colleagues now work in a hybrid pattern of offices, client sites and homes. During 2022/23 we continued our Developing Hybrid Working project to ensure the ways we work support both individual preferences and organisational needs. We also began a review of our premises to consider our future needs when our current leases expire in coming years. Our approach to working patterns is guided by our four principles of wellbeing and safety, effectiveness, equity and inclusion, and sustainability.

We were named a 'One to watch' organisation in the annual Best Companies workplace survey. The results were largely positive, reflecting progress in recent years and a supportive and inclusive culture and a pride among colleagues that our work plays an important role in making a difference to people's lives. However, in line with many other organisations taking part in the survey, the cost-of-living crisis has combined with the disruption of recent years, resulting in colleagues raising issues about stress and work pressures. During 2022/23 we started a programme of stress surveys and actions to address the findings, and are working with colleagues and our leadership to address the causes and effects of negative issues raised.



Making a difference: Innovation and quality

Driving innovation and quality

Our new Innovation and Quality (I&Q) business group aims to ensure our work is innovative and of the highest quality.

I&Q was established during 2022/23 under the leadership of I&Q Executive Director Kenneth Oliver. With a remit of organisational development, digital audit and transformation, quality, and professional support and learning, the group works collaboratively with other parts of Audit Scotland to support quality and helping ensure we have the resources, skills and capacity we need, and in safeguarding staff health and wellbeing.

I&Q works with other business groups to ensure that Audit Scotland:

- deploys world-class, cutting-edge audit methodologies
- embeds a culture of innovation and continuous improvement
- develops and retains staff, and attracts high calibre new recruits
- innovates to make audit delivery as efficient and impactful as possible, taking full advantage of new technologies.

I&Q also works to ensure that Audit Scotland is a leader in development and approach in the audit profession in the UK.

Making a difference:
Our purpose

Our vision, mission and impact

With the landscape of public services in Scotland undergoing major change and pressure, public audit also needs to examine its own purpose and priorities.

We have produced Public audit in Scotland, the shared statement of purpose between the Auditor General, Accounts Commission and Audit Scotland.

Our vision is that public money is well spent to meet the needs of Scotland's people. To support this our mission is to provide clear, independent and objective assurance on how effectively public money is being managed and spent, and this is supported by our four outcomes.

During 2022/23, we consulted widely across the public and third sectors and with other key external stakeholders, as well as with our colleagues internally. There was a strong consensus shaping our vision and support for the value that public audit brings, but also key areas of improvement, such as sharing best practice and driving innovation.

To support Public audit in Scotland, our new corporate plan sets out our priorities and activities, and how we will report in coming years on our progress.

Agreeing our values

At the heart of all we do and how we do it are our agreed values.

During 2022/23 we renewed these. The process included internal consultation with our leadership and People Focus Group, reviewing case studies from around Scotland and abroad, and liaising with other public bodies that have successfully embedded values in their work, culture and behaviour.

The project culminated in our staff event in March 2023, where we met as an entire organisation for the first time in four years. At the event we agreed our shortlists, explored what the values mean in practice and how we will embed and live them, and finally agreed our five organisational values:

- **Equality**
- **Independence**
- **Innovation**
- **Integrity**
- **Respect**

Sustainability and engagement

Climate change and sustainability

Climate change is a rapidly evolving issue at the centre of world attention, and tackling climate change is an increasing policy priority at international, national and local levels. We have set ourselves an ambitious agenda for improving carbon management, including net zero carbon emissions by 2030, 15 years ahead of the Scottish Government target for public bodies.

By March 2022, we had reduced our carbon footprint by 19 per cent from the previous year and by 75 per cent since 2008/09.

Our total emissions equate to less than 1 (tCO_2e) per WTE employee or 0.1 (tCO_2e) per m2 floor space we occupy, and we bettered our 2021/22 targets.

Updated details of our 2022/23 performance will be in our Environment, Sustainability and Biodiversity annual report, to be published in November 2023.

More information about our plans for reducing carbon emissions between 2021 and 2025 are in our Environment, sustainability and biodiversity plan 2021-25.

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

Environment, Sustainability and Biodiversity annual report 2021/22

November 2022

Responding to the public

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

In 2022/23, we received 292 items of correspondence compared to 188 in 2021/22, a 34 per cent increase. These included 16 under the Public Interest Disclosure Act 1998. These are often referred to as 'whistleblowers'. More information is in our Correspondence and whistleblowing annual report.

This year we recorded 70 Freedom of Information requests (37 in 2021/22) and no Environmental Information requests (none in 2021/22).

We recorded a total of three complaints over the year. This was the same number recorded during 2021/22. Three complaints were investigated and none were upheld.

Correspondence and whistleblowing Annual report 2022/23

June 2023

International work

Audit Scotland has long worked with audit colleagues and organisations abroad. While much our engagement is with the other UK and Irish audit agencies, we have regularly attended events further afield and support audit organisations globally.

International work 2022/23

During the pandemic we engaged remotely, and we continue to explore how to operate most effectively. We have started to engage in-person again, while continuing to recognise the flexibility and sustainability of remote engagement.

During 2022/23, we engaged with the UK and Irish audit agencies on a range of matters, both routine and specific. This included:

- participating in the Public Audit Forum, where the UK and Irish agencies discuss respective work programmes and areas of mutual interest
- working together on developing our quality assurance procedures to meet new International Standards on Quality Management, and on the approach and digital tools to support this
- engaging on a range of specific audits and particular areas, such as climate change and digital auditing
- our reciprocal arrangement to review a sample of each other's reports, and suggest improvements
- the UK-wide National Fraud Initiative (NFI) (see page 18)
- discussing corporate operational matters, sharing best practice and learning from each other on new areas such as hybrid working.

Beyond the UK and Ireland, we subscribe to several international audit databases which help inform our work programme. We also participate in international events organised by the European Organisation of Regional Audit Institutions (EURORAI), and during 2022/23 we presented at:

- a seminar in Frankfurt in May 2022 on public audit in times of digital change
- the EURORAI Congress in Palma in October 2022 on public sector audits covering public health.

During 2022 Audit Scotland was also approved as a member of the EURORAI Management Committee, consisting of seven members from the EURORAI membership of 73 full member organisations and 20 associate members.

Financial position

Financial overview

Expenditure

£24.5 million
Expenditure on people costs

£4.7 million
Fees and expenses paid to firms

£4.7 million
Other operating expenditure[1]

£0.7 million
Net finance expenditure incl. Corporation Tax

£0.2 million
Capital expenditure

Fees and funding

£19.0 million
audit fees and other income

£15.8 million
Scottish Parliament funding

Note: 1. More detailed analysis provided in Note 4. Other operating expenditure.

Sources of funding

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

Review of financial performance

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

The following sections provide a summary from the accounts. The financial statements are published from page 64.

Resource outturn

Our year in figures	Note	2022/23 Actual £000	2022/23 Budget £000	2022/23 Variance £000	2021/22 Actual £000
People costs	Staff Report	24,475	25,738	1,263	23,902
Fees and expenses paid to external firms	4	4,679	4,520	(159)	4,481
Other operating expenditure	4	4,735	4,807	72	3,871
Total operating expenditure		33,889	35,065	1,176	32,254
Operating income	5	(19,011)	(19,214)	(203)	(17,922)
Net operating expenditure		14,878	15,851	973	14,332
Net finance expenditure	6	670	736	66	939
Corporation Tax payable		-	-	-	-
Net expenditure after tax		15,548	16,587	1,039	15,271
Capital expenditure		203	250	47	600
Total resource required from Parliament		15,751	16,837	1,086	15,871

Net expenditure after tax

In 2022/23, Audit Scotland spent £33.9 million on services for the Auditor General and the Accounts Commission. Of these costs £19.0 million was recovered through charges to audited bodies and other income. The balance of £14.9 million net operating expenditure, net finance costs of £0.7 million and £0.2 million of capital expenditure were met from direct funding provided by the Scottish Parliament.

The 2022/23 financial year remained extremely challenging with the impact of cost of living pressures on colleagues and the organisation as well as the ongoing recovery from the Covid-19 pandemic.

In the Spring Budget Revision 2022/23 we requested additional Annually Managed Expenditure funding of £5.2 million to meet the additional non-cash costs arising from the annual IAS 19 pension in-year service cost adjustment. Following this adjustment our net expenditure budget increased from the original approved £11.4 million to £16.6 million. The overall closing position for the financial year was a favourable variance to budget of £1.0 million.

People costs represent 72 per cent of Audit Scotland's total operating expenditure, with the year-end highlighting an underspend to budget of £1.3 million. 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 savings generated by the level of vacancies during the year being higher than planned. This saving was reduced by the final cost of living pay settlement being higher than budget. The use of agency staff was required to provide cover for vacant positions within Corporate Services Group. IAS 19 pension costs were £0.8 million better than budget, with the current service cost for the funded pension scheme being £0.5 million lower than the estimates provided. The unfunded pension schemes were £0.3 million better than budget due to the significant adjustment to the discount rate leading to a reduction in the overall liability.

Other **operating expenditure** was £0.1 million below budget, mainly due to significant reduced travel and subsistence expenditure (£0.1 million) and unallocated management contingency (£0.3 million). These budget savings were reduced by overspends in information technology (£0.1 million), training and recruitment (£0.1 million) and property expenditure (£0.1 million).

Fees and expenses paid to external firms were £0.2 million more than planned. This is due to additional work undertaken and the market impact of the new audit appointments effective from the 2022/23 audit year. In respect of the additional work undertaken this is funded by additional fee income recovered from the audited bodies following their agreement. The procurement exercise for external audit provision highlighted that the audit market has changed with the cost of audit significantly increasing from the last procurement exercise. This has a small impact on the audit costs in financial year 2022/23. The full year impact of this will arise in 2023/24.

Operating income was £0.2 million worse than budget as we continue to focus on recovery over the medium term to the previous audit deadlines achieved before the Covid-19 pandemic.

In 2022/23, we delivered £1.6 million in savings, 4.5 per cent of our £35.3 million Operating and Direct Capital expenditure budget. Most savings came from people costs, travel and subsistence and management contingency.

Capital expenditure

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

The budget for 2022/23 was £0.3 million to invest in office infrastructure and IT hardware and software. Capital investment in 2022/23 totalled £0.2 million which was used to support our digital strategy of enhanced cyber secure IT equipment and we were also able to replace essential office equipment.

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.

Resources required for 2023/24

The 2023/24 budget has been approved by the Scottish Parliament with revenue resources totalling £35.0 million. Of these resources, £23.0 million will be recovered through charges to audited bodies and miscellaneous income. The £12.0 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
12 June 2023

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 2022.

Statement of Accountable Officer's responsibilities

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

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

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

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

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

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

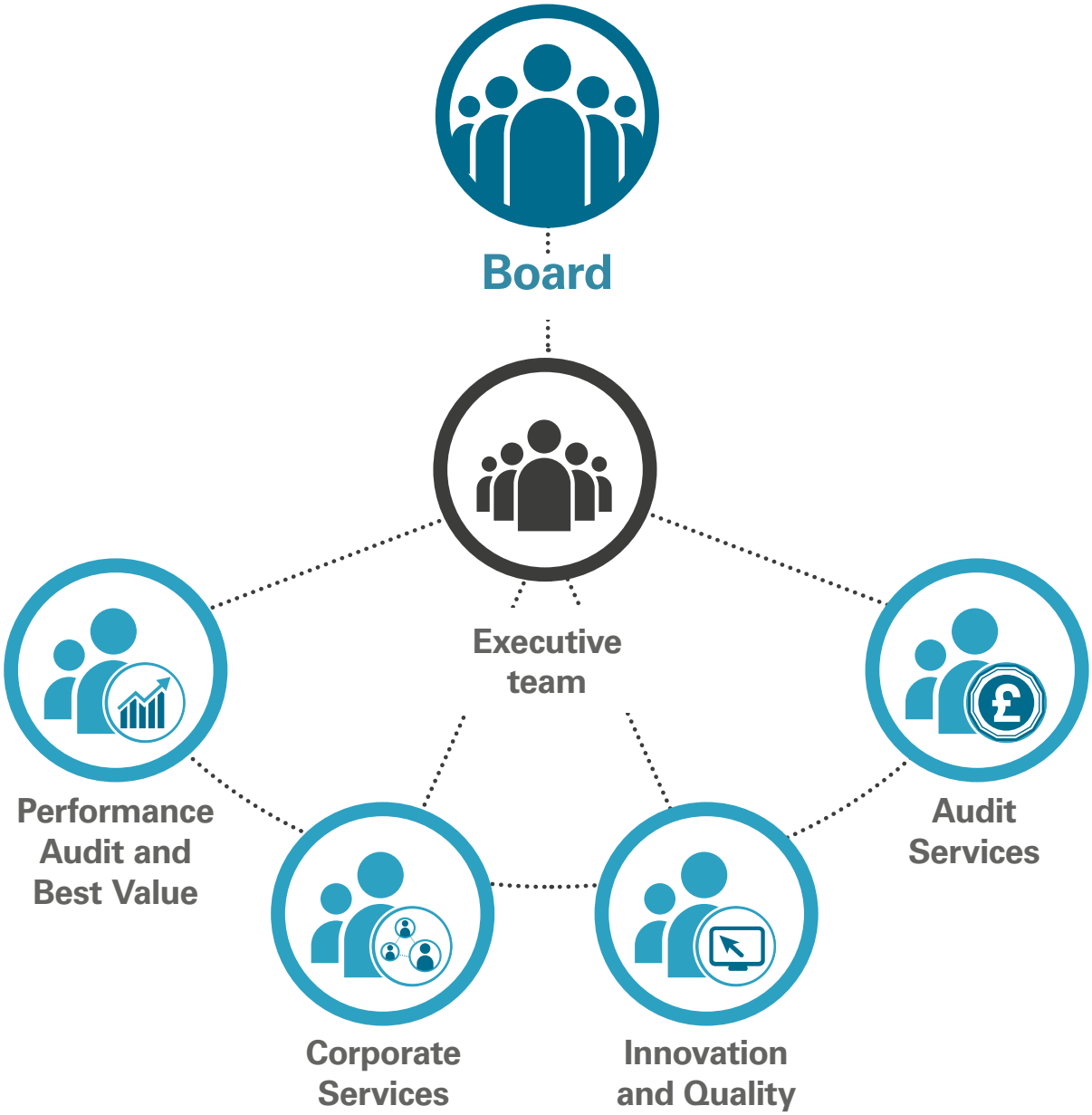
The Accountable Officer confirms that this annual report and accounts taken as a whole is fair, balanced and understandable. The Accountable Officer takes personal responsibility for the annual report and accounts and the judgements required for determining that it is fair, balanced and understandable.

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

Governance statement

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

Our governance and management framework



Board members

Professor Alan Alexander OBE
Chair of the board

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

Dr William Moyes
Chair of the Accounts Commission
(Dr Moyes resigned his post on 5 May 2023.)

Colin Crosby OBE
Independent non-executive member and Chair of the Audit Committee

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

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 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 comprised Colin Crosby (chair), William Moyes and Jackie Mann.

The committee appoints the internal auditors and approves the internal audit plan. Internal audit services are provided by an external firm. Following a procurement process, Wylie & Bisset were appointed in April 2022. Three of the seven audits in 2022/23 achieved Substantial ratings, while the other four audits received a Strong rating. Across the audits there were seventeen recommendations, of which ten were of low significance and three of medium significance.

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 comprised Jackie Mann (chair), William Moyes, Colin Crosby and Stephen Boyle.

Attendance during 2022/23: [1]

Committee	Alan Alexander	Stephen Boyle	William Moyes	Jackie Mann	Colin Crosby
Board[1]	6	6	6	6	6
Audit committee[1]	5	5	3	5	5
Remuneration and human resources committee[1]	4	4	1	4	4

Note 1. Board members who are not official members of the Audit Committee and the Remuneration and Human Resources Committee attend as observers.

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 2022/23 the executive team was made up of the Auditor General for Scotland, who is the Accountable Officer, the Chief Operating Officer and three executive directors, supported by the Director of Corporate Support. 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 2023/24 budget proposal, the SCPA explored a number of areas including: inflationary pressures on public bodies and audit, the public audit funding and fees model, the management contingency budget and Accounts Commission support provisions.

The SCPA passed the 2023/24 budget to the Finance and Constitution Committee. The SCPA reported that it was 'satisfied' with the rationale behind much of Audit Scotland spending plans but drew attention to its concerns about provisions for increased Accounts Commission support.

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 are grouped according to our two 2022/23 strategic objectives:

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

Delivering world-class audit

The key risks in 2022/23 under this objective were around any failure to deliver the audits (due to disruption in the public bodies and to Audit Scotland) and in particular the timeliness of audit delivery. We also had a key focus on the risk to audit quality, the independence of audit and a focus and impact of the audit work so that we can maximise the value of public audit in Scotland.

Being a world-class organisation

The key risks under this objective in 2022/23 included the health, safety and wellbeing of our colleagues, our organisational capacity (in terms of quantum, skills and deployment), and having a focus on innovation to ensure the efficiency and effectiveness of the organisation.

Cyber security continued to be an ongoing risk which required careful monitoring and management.

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

Information security

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

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

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

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

Training on data protection and information security is included in the induction process for all new staff. All staff receive periodic 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 2022/23 which required to be notified to the Information Commissioner.

Fraud, corruption and bribery

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

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

We maintain a hospitality and gifts register, which is updated regularly and published on our website.

We produce annual reports on fraud and bribery and hospitality and gifts. These are considered by the audit committee and this forms part of the annual assurance process. The 2022/23 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 2023 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 2023 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)	2022/23 £000	2021/22 £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 11 (11 in 2021/22). The total amount of remuneration to Commission members in 2022/23 was £158k (see page 54 for breakdown). They were remunerated in the following bands:

Remuneration banding (Audited)	2022/23 £000	2021/22 £000
Chair – William Moyes	45 - 50	10 - 15[1]
Deputy Chair – Tim McKay	15 - 20	15 - 20
Commission Members	5 – 10	5 – 10

Note 1. From 01 January 2022 the full year equivalent remuneration is £45k - £50k

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 (from 22 August 2022)

John Cornett
Executive Director of Audit Services (from 20 May 2022)

Kenneth Oliver
Executive Director Innovation and Quality (from 13 June 2022)

Antony Clark
Executive Director of Performance Audit and Best Value

The salaries (excluding employer's superannuation and national insurance contributions), benefits in kind and pension entitlements of the executive team are shown in the following tables. Information is presented for the whole year to 31 March 2023. Further information on the pensions payable to Audit Scotland staff, including senior management, can be found in Note 3. Pension assets and liabilities (page 74).

Single total remuneration (Audited)	2022/23 Salary £000	2021/22 Salary £000	2022/23 Benefit in kind[1] £	2021/22 Benefit in kind[1] £	2022/23 Pension benefit[2] £000	2021/22 Pension benefit[2] £000	2022/23 Total £000	2021/22 Total £000
Stephen Boyle Auditor General for Scotland	150 – 155	140 - 145	-	-	59	56	210 - 215	200 - 205
Vicki Bibby Chief Operating Officer[3]	75 – 80	-	-	-	198	-	275 – 280	-
Diane McGiffen Chief Operating Officer (until 4 January 2022)[4]	-	95 - 100	-	-	-	-	-	95 – 100
Antony Clark Executive Director of Performance Audit and Best Value and Controller of Audit	120 - 125	115 - 120	-	-	9	144	125 – 130	260 - 265
Fraser McKinlay Director of Performance Audit and Best Value and Controller of Audit[5]	-	0 - 5	-	-	-	-	-	0 – 5
John Cornett Executive Director of Audit Services[6]	115 - 120	-	-	-	46	-	160 - 165	-
Fiona Kordiak Director of Audit Services (until 8 April 2022)[7]	0 - 5	110 – 115	-	9,200	-	-	0 - 5	120 – 125
Kenneth Oliver Executive Director Innovation and Quality[8]	90 - 95	-	-	-	33	-	125 – 130	-
Martin Walker Interim Director of Corporate Services (until 21 August 2022)[9]	40 - 45	40 - 45	-	-	33	37	75 - 80	75 – 80

Notes:

1. The estimated value of benefits in kind relates to tax benefits associated with the provision of vehicles. Values to the nearest £100.
2. The value of pension benefits accrued during the year is calculated as the real increase in pensions and applying the HMRC methodology multiplier of 20 plus the real increase in any lump sum. The real increases exclude increases due to inflation (10.1 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.
3. 2022/23 full year equivalent salary £130,000 to £135,000.
4. 2021/22 full year equivalent salary £125,000 to £130,000.
5. 2021/22 full year equivalent salary £115,000 to £120,000.
6. 2022/23 full year equivalent salary £120,000 to £125,000.
7. 2022/23 full year equivalent salary £110,000 to £115,000.
8. 2022/23 full year equivalent salary £115,000 to £120,000.
9. 2021/22 and 2022/23 full year equivalent salary £110,000 to £115,000.

Pensions (Audited)	Accrued pension at 31 March 2023 £000	Accrued lump sum at 31 March 2023 £000	Real increase in annual pension £000	Real increase in lump sum £000	CETV at 31 March 2023[1] £000	CETV at 31 March 2022[1] £000	Real increase in CETV[1] £000
Stephen Boyle Auditor General for Scotland	5 - 10	-	2.5 – 5.0	-	106	63	27
Vicki Bibby[2] Chief Operating Officer	25 - 30	20 – 25	7.5 – 10.0	7.5 – 10.0	370	-	362
Diane McGiffen Chief Operating Officer	-	-	-	–	-	1,083	-
Antony Clark Executive Director of Performance Audit and Best Value and Controller of Audit	35 - 40	25 – 30	0.0 – 2.5	-	645	564	69
Fraser McKinlay Director of Performance Audit and Best Value and Controller of Audit	-	-	-	-	-	422	-

Pensions (Audited)	Accrued pension at 31 March 2023 £000	Accrued lump sum at 31 March 2023 £000	Real increase in annual pension £000	Real increase in lump sum £000	CETV at 31 March 2023[1] £000	CETV at 31 March 2022[1] £000	Real increase in CETV[1] £000
John Cornett [2] Executive Director of Audit Services	5 - 10	-	2.5 – 5.0	-	119	-	108
Kenneth Oliver Executive Director Innovation and Quality	0 - 5	-	0.0 – 2.5	-	21	-	12
Martin Walker Interim Director of Corporate Services	45 - 50	70 – 75	0.0 – 2.5	-	834	764	66

Notes:

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

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.

	2022/23	2021/22
Remuneration banding for highest paid individual	£150,000 - £155,000	£140,000 - £145,000
Percentage change from previous financial year for highest paid individual	+6.5%	-6.6%
Average percentage change from previous financial year for employees	+5.5%	-1.8%
Lower quartile remuneration	£33,348	£31,103
Lower quartile ratio	4.6	4.6
Median remuneration	£46,226	£45,197
Median ratio	3.3	3.2
Upper quartile remuneration	£58,047	£57,257
Upper quartile ratio	2.6	2.5
Remuneration range	£20,500 - £150,000 to £155,000	£18,500 - £140,000 to £145,000

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 lower quartile, median and upper quartile are not significant and indicates that Audit Scotland has consistent pay, reward and progression policy for its employees.

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 53–54 are covered by the audit opinion.

Staff report

	2022/23	2021/22	2020/21
People (WTE)	327.7	313.2	292
Gender	Female 54% Male 46%	Female 57% Male 43%	Female 57% Male 43%
Board	Female 20% Male 80%	Female 40% Male 60%	Female 40% Male 60%
Executive team	Female 20% Male 80%	Female 50% Male 50%	Female 50% Male 50%
Absence	4.66 days	5.75 days	5.82 days
Turnover rate	9.02%	9.4%	5.09%
Trainee auditors	48	44	44

In March 2023, staff headcount was 340 (327.73 WTE), compared with a headcount of 327 (313.23 WTE) in 2022.

People costs and numbers

People costs	2022/23 £000	2021/22 £000
Wages and salaries	15,539	14,384
Social Security costs	1,899	1,716
Superannuation	2,975	2,783
Temporary staff[1]	88	139
Pensions in payment	-	15
Provision for early retirement and severance costs (note 14)	-	114
Movement in early retirement costs	(189)	(33)
Adjustment for retirement benefit scheme costs (see below)	4,005	4,643
	24,317	**23,761**
Accounts Commission members		
Salaries	140	135
National Insurance	7	6
Travel and subsistence	11	-
	158	**141**
	24,475	**23,902**

Note 1. Equivalent to 1.68 WTE in 2022/23 and 3 WTE in 2021/22.

Analysis of local government retirement benefit scheme costs	2022/23 £000	2021/22 £000
Current service costs	7,970	8,337
Past service costs	-	119
	7,970	**8,456**
Less: Actual employees' contributions	(1,087)	(1,021)
Charge to revenue	**6,883**	**7,435**
Employer contributions	(2,878)	(2,792)
Adjustment for retirement benefit scheme costs	**4,005**	**4,643**

Learning and development

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

Sickness absence at Audit Scotland in 2022/23 is broadly comparable with the other UK public audit agencies. An average of 4.66 days per employee was lost to sickness absence.

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

Organisational development

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

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

Early retiral and severance (Audited)

In the year to March 2023 no staff left under a voluntary early release arrangement where they were entitled to early access to pension. Under this arrangement Audit Scotland are required to meet the additional costs and not the Local Government Pension Scheme.

Further disclosure on early retirement and severance is set out in Note 14. Provision for early retirement and severance (page 88).

	Number of arrangements	
Exit package cost band	**2022/23**	**2021/22**
£25,001 - £50,000	-	-
£50,001 - £100,000	-	-
£100,001 - £150,000	-	1
£150,000 +	-	-
Total costs disclosed in financial statements (£000)	-	114

Staff relations

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

The Trade Union (Facility Time Publication Requirements) Regulations 2017 came into force on 1 April 2017 and the information requirements of the Regulations for 2022/23 are disclosed in the tables below.

Relevant union officials

Number of employees who were relevant union officials during the relevant period	9
Full-time equivalent employee number	8.59

Percentage of time spent on facility time

Percentage of time	Number of employees
0%	-
1% – 50%	9
51% – 99%	-
100%	-

Percentage of pay bill spent on facility time

Total cost of facility time	£24,245
Total pay bill	£20.259m
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.

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

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

We published our fifth Audit Scotland: Gender pay gap report on 31 March 2023. The information is based on a snapshot date of 31 March 2022. Audit Scotland's workforce, at the snapshot date of 31 March 2023, comprised of 321 full pay employees, 137 men (42.68 per cent of the workforce) and 184 women (57.32 per cent of the workforce). Included in our overall headcount were 46 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, 23 trainees were male and 23 were female.

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

Our three equality outcomes for 2021-25 state: Our work supports the public sector to address inequalities including protected characteristics and socio-economic disadvantage, and to protect human rights.

Work to deliver our outcomes 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.

Community, social and human rights

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

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

In January 2023, we concluded our corporate partnership with MND Scotland. We have raised more than £14,000 and helped raise awareness of the charity's vital work and the people it supports.

Audit Scotland: Mainstreaming equality: progress 2021-23

April 2023

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 2023 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. We have also audited the relevant disclosures in the Remuneration and Staff Report as required under the direction of the Scottish ministers. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the UK, and as interpreted and adapted by the 2022/23 Government Financial Reporting Manual (the 2022/23 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 2023 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 2022/23 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
Accountants and Business Advisers
Edinburgh
12 June 2023

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 2023

	Note	2023 £000	2022 £000
People costs	Staff Report	24,475	23,902
Fees and expenses paid to external firms	4	4,679	4,481
Other operating expenditure	4	4,735	3,871
Total operating expenditure		33,889	32,254
Operating income	5	(19,011)	(17,922)
Net operating expenditure		14,878	14,332
Net finance expenditure	6	670	939
Net expenditure before tax		15,548	15,271
Corporation Tax payable		-	-
Net expenditure after tax		15,548	15,271
Other comprehensive net expenditure			
Net (gains) / losses on pension schemes	3	(27,879)	(25,238)
Net expenditure after tax		(12,331)	(9,967)

Statement of Financial Position

As at 31 March 2023

	Note	2023 £000	2022 £000
Non-current assets			
Property, plant and equipment	7	799	969
Intangible assets	8	108	161
Right-of-use assets	15	1,176	-
Total non-current assets		2,083	1,130
Current assets			
Trade and other receivables	9	3,689	2,823
Cash and cash equivalents	10	2,839	3,101
Total current assets		6,528	5,924
Total assets		8,611	7,054
Current liabilities			
Trade and other payables	12	7,403	6,431
Obligations under leases	15	598	-
Provision for early retirement and severance	14	105	105
Other provisions	16	543	1,320
Total current liabilities		8,649	7,856
Non-current assets plus / less net current assets/liabilities		(38)	(802)

	Note	2023 £000	2022 £000
Non-current liabilities			
Deferred liabilities	13	-	(374)
Obligations under leases	15	(745)	-
Provision for early retirement and severance	14	(1,345)	(1,640)
Other provisions	16	(661)	(543)
Net funded pension asset / (liability)	3	-	(23,195)
Total non-current liabilities		(2,751)	(25,752)
ASSETS LESS LIABILITIES		(2,789)	(26,554)
Represented by:			
TAXPAYERS' EQUITY			
Net funded pension asset / (liability)	3	-	(23,195)
General fund		(2,789)	(3,359)
		(2,789)	(26,554)

Stephen Boyle
Accountable Officer
12 June 2023

Statement of Cash Flows

Year ended 31 March 2023

	Notes	2023 £000	2022 £000
Cash flows from operating activities			
Net (expenditure) after tax		(15,548)	(15,271)
Adjustment for non-cash items:			
- Depreciation	7, 8	415	321
- Depreciation - right-of-use assets	15	683	-
- Pension scheme - net revenue debit		4,684	5,546
(Increase) in trade and other receivables		(866)	(102)
Increase in trade / other payables / deferred liabilities		1,393	15
(Decrease) in provisions for early retirement		(295)	(102)
(Decrease) / increase in other provisions		(776)	314
Other non-cash items		11	-
Net cash outflow from operating activities		(10,299)	(9,279)
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(201)	(467)
Purchase of intangible assets	8	(2)	(133)
		(203)	(600)
Cash flows from financing activities			
Payments of lease liabilities		(932)	-
From Consolidated Fund (Supply)		11,172	10,785
		10,240	10,785

	Notes	2023 £000	2022 £000
"Net (decrease) / increase in cash and cash equivalents in the period"		(262)	906
Cash and cash equivalents at the beginning of period		3,101	2,195
Cash and cash equivalents at the end of period	10	2,839	3,101
Net cash requirement			
Cash flows from Consolidated Fund		11,172	10,785
Decrease / (increase) in cash		262	(906)
		11,434	9,879

Statement of Changes in Taxpayers's Equity

Year ended 31 March 2023

	Note	Net funded pension £000	General fund £000	Total £000
Balance at 31 March 2021		(42,887)	(3,513)	(46,400)
Transfers between reserves				
Transfer to net funded pension liabilities	Staff Report	(4,643)	4,643	-
Net return on funded pension assets	3	(903)	903	-
Net gains on pension schemes	3	25,238	-	25,238
Net (expenditure) after tax		-	(15,271)	(15,271)
Net funding from the Scottish Parliament	11	-	9,879	9,879
Balance at 31 March 2022		(23,195)	(3,359)	(26,554)
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)

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 2023/24 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) Adoption of new accounting standards

The IFRS 16 – Lease accounting standard is effective from 1 April 2022 and has been adopted for the first time in the financial statements. Further information is available in i) Leases and Note 15 – Leases.

c) 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.

d) 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.

e) 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

f) Amortisation of rent-free periods

Prior to the adoption of IFRS 16 – Leases the benefit of rent-free periods on leases of premises was amortised over the period of the lease or over the period to a lease break point when this is the most probable end of lease, whichever is the shorter. This incentive has now been included in the initial recognition of the carrying amounts for the right of use asset and lease liability at 1 April 2022.

g) 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.

h) 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.

i) Leases

IFRS 16, as adapted and interpreted by the FReM, has been applied with the initial application date of 1 April 2022. Previously leases were classified as either 'operating' or 'finance' leases based upon the assessment of the risks and rewards being incidental to ownership of the underlying asset. Under IFRS 16 Audit Scotland recognises assets where they consider they have exclusive right to use the asset (right-of-use assets) and the lease liability for most leases on the balance sheet. Recognition exemptions have been applied for short-term and low-value leases.

At transition, lease liabilities have been measured at the cost excluding VAT of the remaining lease payments at 1 April 2022. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

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 is recognised measured at cost, being the initial amount of lease liability adjusted for any lease payments made before the commencement date, less incentives received. 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.

Upon commencement of a new lease Audit Scotland recognises a lease liability measured at cost excluding VAT of unpaid lease payments. During the transition process a comparison of the discounted present value approach to lease liabilities compared to the cash approach was undertaken. The outcome of this exercise highlighted that due to the duration and values of the new leases (e.g. vehicles with 3 year lease liability) the differences were not material. A review will be undertaken regularly and should this change the necessary remeasurement adjustments will be made accordingly.

j) 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.

k) Pension arrangements

Audit Scotland complies with the requirements of International Accounting Standard No 19 (IAS 19) for the year ended 31 March 2023. 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.

l) 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). 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 considering 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. These estimates project that minimum funding contributions will be in excess of future service costs and, in accordance with IFRIC14, no pension asset is recognised and an asset ceiling of Nil has been applied. Note 3 provides more detail on the movement in the net pension position.

2. People costs and numbers

	2023	2022
Wages and salaries	15,778	14,658
Social Security and Employment Tax costs	1,906	1,722
Pension and Early Retirement / Severance Costs	6,791	7,522
	24,475	23,902

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

3. Pension assets and liabilities

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

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 2023 were as follows:

	2023	2022
Salary increases	3.45%	3.70%
Pension increases	2.95%	3.20%
Discount rate	4.75%	2.70%
The assumed average life expectancy for a retiral at age 65 are as follows:	Male years	Female years
Current pensioners	19.9	22.9
Future pensioners	21.2	24.7

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 2023 have been prepared by Hymans Robertson LLP.

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

	Period ending 31 March 2023			
	Assets £000	Obligation £000	IFRIC 14 Adjustment £000	Net (Liability) / Asset £000
Fair value of employer assets	138,307	-	-	138,307
Present value of funded liabilities	-	161,502	-	(161,502)
Opening position as at 1 April 2022	138,307	161,502	-	(23,195)
Current service cost	-	6,883	-	(6,883)
Past service cost	-	-	-	-
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

	Period ending 31 March 2023			
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)
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
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)	-

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	58,226	54.4%
Deferred members	14,352	13.4%
Pensioner members	34,491	32.2%
Total	107,069	100.0%

Statement of Comprehensive Net Expenditure (SOCNE): The net charge to SOCNE of £4,684k 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 decrease compared to the charge for this year as a result of the higher net discount rate at the Accounting Date.

Return on assets: In the period to the Accounting Date, investment returns have been lower than expected (compared to last year's accounting discount rate assumption). This has led to a negative of £250k in the "Return on assets excluding amounts included in net interest" line within the Results Schedule.

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

- As at the Accounting Date, the net discount rate (discount rate net of inflation) has significantly increased compared to the previous year's Accounting Date, leading to the recognition of a large gain of £70,831k 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 the obligations of £1,070k.
- The "Other experience" item captures a loss of £7,773k by applying the rollforward 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 2023 of 10.1% to the benefits, as 10.1% is significantly higher than the pension increase rate assumption built into the obligations at the start of the accounting period.
  - The remainder of the 'Other experience' item is in relation to any unfunded obligations experience (only in cases where we have historically granted such unfunded benefits). The unfunded obligations are valued annually using updated individual membership data which can lead to (typically small) experience items if there have been more or less deaths than expected over the period.

High inflationary environment: The CARE, deferred pensioner and pensioner obligations in the LGPS are increased each April in line with the previous September's rate of CPI, and the April 2023 Pension Increase Order of 10.1% has been applied to the obligations within the 31 March 2023 closing statement of financial position figures.

The Accounting Standard prescribes quite narrowly how the inflation assumption should be derived from market information at the year-end date. Therefore, the current period of high inflation is somewhat allowed for insofar as it captured in long-term market expectations as at 31 March 2023. However, the actuary has adjusted the assumption to recognise that the 2024 Pension Increase Order is currently expected to be higher than the single CPI assumption set for accounting purposes.

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

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

	Period ending 31 March 2022		
	Assets £000	Obligation £000	Net (Liability) / Asset £000
Total remeasurements recognised in Other Comprehensive Income	11,450	(13,788)	25,238
Fair value of employer assets	138,307	-	138,307
Present value of funded liabilities	-	161,502	(161,502)
Closing position as at 31 March 2022	**138,307**	**161,502**	**(23,195)**

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

	At 31 March 2023				At 31 March 2022			
Asset Category	Quoted Prices in Active Markets £000	Prices not quoted in Active Markets £000	Total £000	%	Quoted Prices in Active Markets £000	Prices not quoted in Active Markets £000	Total £000	%
Equity Securities:								
Consumer	17,601.9	-	17,601.9	12	17,014.9	-	17,014.9	12
Manufacturing	19,790.5	-	19,790.5	14	18,304.5	-	18,304.5	13
Energy and Utilities	8,660.4	-	8,660.4	6	7,635.3	-	7,635.3	6
Financial Institutions	8,636.4	-	8,636.4	6	7,971.2	-	7,971.2	6
Health and Care	10,545.7	-	10,545.7	7	9,580.5	-	9,580.5	7
Information Technology	5,962.6	-	5,962.6	4	6,284.6	-	6,284.6	5
Other	9,803.1	-	9,803.1	7	10,311.2	-	10,311.2	7
Debt Securities:								
Corporate Bonds (investment grade)	2,239.1	-	2,239.1	2	-	-	-	0
UK Government	16,643.9	-	16,643.9	12	12,078.1	-	12,078.1	9
Other	2,998.4	-	2,998.4	2	2,594.2	-	2,594.2	2

Asset Category	At 31 March 2023 Quoted Prices in Active Markets £000	Prices not quoted in Active Markets £000	Total £000	%	At 31 March 2022 Quoted Prices in Active Markets £000	Prices not quoted in Active Markets £000	Total £000	%
Private Equity:								
All	89.8	471.0	560.8	0	14.5	635.8	650.3	0
Real Estate:								
UK Property	962.1	5,505.1	6,467.2	5	1,287.7	6,023.8	7,311.5	5
Overseas Property	190.7	39.8	230.5	0	-	39.0	39.0	0
Investment funds and Unit trusts:								
Equities	1,911.4	111.3	2,022.7	1	2,377.4	106.9	2,484.3	2
Bonds	-	4,157.0	4,157.0	3	2,599.1	3,877.5	6,476.6	5
Infrastructure	-	20,461.1	20,461.1	14	-	14,022.8	14,022.8	10
Derivatives:								
Foreign exchange	6.1	-	6.1	0	6.6	-	6.6	0
Cash and cash equivalents:								
All	6,780.6	-	6,780.6	5	15,541.4	-	15,541.4	11
TOTALS	112,823	30,745	143,568	100	113,601	24,706	138,307	100
Effect of Asset Ceiling			(36,499)				-	
			107,069				138,307	

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

Sensitivity analysis at March 2023	Approx.% increase to employer obligation	Approx. monetary amount £000
0.1% decrease in real discount rate	2%	2,265
1 year increase in member life expectancy	4%	4,283
0.1% increase in salary increase rate	0%	304
0.1% increase in pension increase rate	2%	1,993

During the year ended 31 March 2023, Audit Scotland's contribution to the pension fund represented 19.4% (2022 – 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 2020 recommended employers' contributions be set at 19.4% over the next three-year period from 2021/22 to 2023/24. The estimate for employer contributions in 2023/24 based on this rate will be approximately £2,878k.

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 2023, Audit Scotland paid an employer's contribution of £89k (2022 – £104k) into the PCSPS at one of four rates in the range 26.6% to 30.3% of pensionable earnings, based on salary bands.

The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2022/23 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 2023/24 will continue at the rates in the range 26.6% to 30.3%.

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	2023 £000	2022 £000
Fees and expenses to appointed audit firms:			
Local authorities	2,006		2,371
National Health Service bodies in Scotland	1,121		903
Further education colleges	485		598
Scottish Government and sponsored bodies	1,067		1,106
Additional audit costs (see note 16)	-		(497)
		4,679	4,481
Other:			
Rent and rates	293		487
Other accommodation costs	393		431
Travel and subsistence	151		323
Legal and other professional fees	843		636
Stationery and printing	137		78
Training	560		452
Staff recruitment	240		235
Communications (telephone, postage)	41		54
Insurance	92		94
Information technology	751		666
Internal Audit	27		26
External Audit - financial accounts	32		30
Other	77		38
Non-cash items: Depreciation - tangible assets (see note 7)	369		309
Depreciation - intangible assets (see note 8)	46		12
Depreciation - right-of-use assets (see note 15)	683		-
		4,735	3,871
		9,414	8,352

5. Operating income

	2023 £000	2022 £000
Fees and charges payable:		
- by Local authorities	12,062	12,509
- by National Health Service bodies in Scotland	3,377	3,053
- by Further education colleges	603	703
- by Scottish Government and sponsored bodies	3,019	2,966
- Rebate (see note 16)	(36)	(1,320)
	19,025	17,911
Miscellaneous income	(14)	11
	19,011	17,922

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 h). 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 £2,621k (2021/22 £1,271k) was included in the opening contract liability (payment on account).

At 31 March 2023 forecast future income on audits still in progress is £17,269k (31 March 2022 £13,887k). The typical audit cycle is a year and therefore we expect to recognise this income in 2023/24.

6. Net finance expenditure

	2023 £000	2022 £000
Interest income on pension scheme assets	3,749	2,472
Interest cost on pension scheme defined obligations	(4,428)	(3,412)
Bank interest	9	1
	(670)	(939)

7. Property plant and equipment

	Leasehold premises	Furniture and fittings	Furniture and fittings	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
Depreciation on 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

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

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	
Cost	2023 £000	2022 £000
At 1 April	262	129
Reclassified in year	-	-
Additions	2	133
Disposals for year	(73)	-
At 31 March	191	262

	Software	
Cost	2023 £000	2022 £000
Depreciation		
At 1 April	101	89
Charge for the year (note 4)	46	12
Disposals for year	(64)	
At 31 March	83	101
Net Book value at 31 March	108	161

9. Trade and other receivables

	£000	2023 £000	2022 £000
Amounts falling due within one year:			
Trade receivables:			
- Central Government bodies	169		60
- Local authorities	550		355
- NHS bodies in Scotland	488		137
- Bodies external to government	-		3
		1,207	555
Work in progress in advance of billing		1,972	1,532
VAT		186	142
Prepayments		324	594
		3,689	2,823

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

10. Cash and cash equivalents

	2023 £000	2022 £000
Balance at 1 April	3,101	2,195
Net change in cash and cash equivalents	(262)	906
Balance at 31 March	2,839	3,101
The following balances at 31 March were held at:		
Commercial banks	2,839	3,101

11. Net funding from the Scottish Parliament

	2023 £000	2022 £000
Opening cash balance payable to the Consolidated Fund	3,101	2,195
Funding received from the Consolidated Fund	11,172	10,785
Closing cash balance payable to the Consolidated Fund	(2,839)	(3,101)
Net funding from the Scottish Parliament	11,434	9,879

12. Trade payables and other current liabilities

	£000	2023 £000	2022 £000
Amounts falling due within one year:			
Trade payables:			
- Central Government	-		-
- Local authorities	-		-
- NHS bodies in Scotland	-		-
- Bodies external to government	351		392
		351	392
- Cash balance payable to Consolidated Fund		2,839	3,101
- Deferred income		2,621	1,271
- VAT		68	77
- Corporation Tax		-	-
- Accruals		394	378
- Staff benefits - untaken holidays		1,130	1,053
- Rent free period on premises – current liability (note 13)		-	159
		7,403	6,431

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

13. Deferred liabilities

Audit Scotland rents premises in various locations in accordance with its operational requirements. During the years ended 31 March 2013, 31 March 2015 and 31 March 2018 various leases were negotiated with rent-free periods. On adoption of the new accounting standard IFRS 16 Leases with effect from 1 April 2022 the deferred liability balance has been transferred into the Right-of-use asset to ensure compliance with the international standard. See note 15 for further information.

	2023 £000	2022 £000
Opening balance at 1 April		
Current	159	159
Deferred	374	533
	533	692
Additions	-	-
Released during year	(533)	(159)
Closing balance at 31 March	-	533
Whereof:		
Current	-	159
Deferred	-	374
	-	533

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:

	2023 £000	2022 £000
Opening balance at 1 April	1,745	1,847
Additions	-	-
Utilised in year	(103)	(105)
Revaluation	(192)	3
Closing balance at 31 March	1,450	1,745
Payable within 1 year	105	105
Payable after 1 year	1,345	1,640
	1,450	1,745
Discount rate used	4.75%	2.7%

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 2023 was £223k (31 March 2022 – £259k).

15. Leases

Right-of-use assets

Audit Scotland recognises a right-of-use asset upon lease commencement. The right-of-use asset is initially measured at cost, being the initial amount of the lease liability adjusted for any lease payments made before the commencement date, less incentives received.

At transition to IFRS 16 on 1 April 2022 the right-of-use assets have been measured at an equal amount to the lease liability adjusted by the amount of any prepaid or accrued lease payments.

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 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 have been measured at cost of the remaining lease payments at 1 April 2022. Upon commencement of new leases the liability is measured at cost of unpaid lease payments. A judgement not to use the present value approach has been made as currently the difference is not material. Periodic reviews of this approach will be undertaken and any remeasurement adjustments will be made as required.

	2023 £000
Premises	
Within one year	494
Later than one year and not later than five years	640
Later than five years	-
	1,134
Vehicles	
Within one year	104
Later than one year and not later than five years	105
	209
Total lease obligations	
Within one year	598
Later than one year and not later than five years	745
Later than five years	-
	1,343

16. Other provisions

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

Remote audit and expenses rebate: Indications from auditors in financial year 2020/21 suggested that remote audit added approximately 25% to the time and cost of a large number of audits and a provision of £886k was raised to meet this additional unplanned expenditure. Following detailed review of the estimated costs Audit Scotland concluded negotiations and agreed a final settlement of £389k with the £497k balance of the provision released in 2021/22.

In 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 some of this provision was released and as at 31 March 2023 there is a balance of £418k being held for potential savings on pooled costs for 2021/22 audits. Further analysis is required to quantify this financial liability accurately and the accounts continue to hold a provision to meet this legal obligation.

Rent review/contractual obligation: Our offices in Glasgow and Inverness are scheduled rent reviews in accordance with the existing lease agreements and we also have a potential contractual obligation that needs to be provided for. These financial liabilities cannot be accurately quantified at the time and a provision has therefore been raised. Settlements for these obligations are expected in 2023/24.

Dilapidations: Audit Scotland leases three properties across Scotland. Each lease contains provisions in respect of obligations for property dilapidations, reinstatement and decoration. Estimates of likely costs in respect of obligations under our property leases for dilapidations, reinstatement and property decorations are charged in accordance with IFRS 16 Leases, which requires dilapidation estimates to be added to the right-of-use asset and depreciated.

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

	2023 £000	2022 £000
Opening balance at 1 April	1,863	1,549
Provided in year	279	1,420
Released in year	(938)	(1,106)
Closing balance at 31 March	1,204	1,863
Payable within 1 year	543	1,320
Payable after 1 year	661	543
	1,204	1,863

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 2023 that require adjustment to, or disclosure in, the financial statements.

The financial statements were authorised for issue by the Auditor General for Scotland on 12 June 2023.

19. Contingent liabilities

At 31 March 2023, there were no contingent liabilities.

20. Capital commitments

At 31 March 2023, 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 2022/23

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

For the latest news follow us on social media or **subscribe to our email alerts**.

AUDIT SCOTLAND

Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
Phone: 0131 625 1500 Email: **info@audit-scotland.gov.uk**
www.audit-scotland.gov.uk

ISBN 978 1 915839 10 7