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AUDIT SCOTLAND

Mr Stephen Herbert
Secretary to the SCPA
Scottish Commission for Public Audit Scotland
T3.40
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Edinburgh
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19 October 2016

Dear Secretary to the SCPA

Thank you for your recent request for further information following the meeting of the Scottish Commission for Public Audit on 28 September 2016. I hope that the following information provides the additional detail requested.

More detailed breakdown of Audit Scotland under-spend

Audit Scotland cannot hold reserves, and an overspend would result in an automatic qualification of our accounts. Therefore, we aim to be within budget at the end of each financial year, which will always result in a small underspend.

Our total resource requirements in 2015/16 were £834k less than the available budget. Appendix 1 attached provides a fuller analysis, and we summarise this below.

Of the £834k resource underspend reported for 2015/16, £125k mainly related to capital investment in our new offices at 102 West Port and was the financial benefit from the competitive tender for the office fit-out.

Revenue expenditure was £709k less than budget mainly as a result of increased income levels (+£357k), lower property costs (-£303k) and lower pension adjustments than allowed for in our budget (-£140k).

We earned £357k more fee income than budgeted because of increased work required in some individual audits, as well as the expansion of the European Agricultural Fund Audit and the impact of college mergers.

Property costs were £303k lower than budget largely because the agreement we reached on dilapidation charges for our old office leases was £284k lower than the provisions we held for this cost.

IAS 19 pension adjustments were £140k less than the available budget as a result of changes in pension assumptions for unfunded pension provisions. These adjustments are provided by our pension scheme actuary.

Benefits in kind

The Remuneration report in the annual report and accounts is presented in line with the Government Financial Reporting Manual (FReM) and primarily relates to directors of the organisation. Benefits in kind are non-cash benefits received by employees from employers that are subject to tax and national insurance contributions. The benefit in kind we reported relates to a lease car.

The benefit in kind value of each lease car is determined annually by HMRC and does not indicate the cost to Audit Scotland of providing the car. In recent years the benefit in kind values assigned by HMRC have increased and this has increased individuals' tax liabilities on such benefit. In 2015/16 the benefit in kind percentage HMRC applied to the list price of the car leased by the Director of Audit Services increased from

22% to 24%. This added £700 to the benefit in kind. As the Director’s contribution was fixed, the £700 increase represented an 18% increase on the value assigned in the previous year.

The benefit in kind figure reported reflects the sum on which the employee is taxed – it is not an amount paid by Audit Scotland.

Audit Scotland currently has 105 lease cars provided to financial audit staff who are required to travel for work and as part of their contractual terms and conditions. Audit Scotland makes a flat rate contribution, currently, £2,849 plus vat per annum, to the cost of lease cars for eligible employees, and employees must pay any additional costs above that limit fixed for the four year period of the lease. All lease cars must have carbon dioxide emissions below 140g/km.

In 2015/16 the cost to Audit Scotland of running the lease car scheme reduced to £378k from £417k the previous year following a procurement exercise.

Code of Audit Practice

A copy of our new Code of audit practice is enclosed for your reference.

Please do not hesitate to get in touch if you would like any further information.

Yours sincerely

Diane McGiffen
Chief Operating Officer

Enc.

Appendix 1

Analysis of Resource underspend reported for 2015/16

	Variance* £k	£k	Comment
Revenue			
Income	+357		Generated by additional audit work at individual audits, the expansion of the European Agricultural Fund Audit and the increased audit work associated with college mergers.
Property costs	+303		£284k relates to dilapidation provision settlements
Pension charges	+140		Favourable movements on unfunded pension provisions as a result of changes in actuarial assumptions
Leased car costs	+57		Benefits from change in lease provider and rebates arising from reduced mileages at contract ends
Travel & subsistence	+117		Lower travel and subsistence expenditure incurred on financial audit work.
Staff costs	+49		
Legal, professional & consultancy	+84		Consultancy contingency funding not required
VERA provision	-346		Provision for 11 staff who had accepted voluntary early retirement or severance. Recurring annual savings of £289k will accrue from April 2017 as a result of the departures.
IT running costs	-112		Additional work to enhance our network security and resilience and to support of the move to our new Edinburgh office including one off communications set up costs and double running costs.
Other	+60		Mainly lower training expenditure
Total Revenue		**+709**	
Capital			
New office fit-out	+115		Benefits of a competitive tender for the fit out of the office and tight contract management throughout the construction process.
IT assets	+10		
Total capital		**+125**	
TOTAL		**+834**	

*** +** reduced cost / increased income, **-** increased cost / reduced income