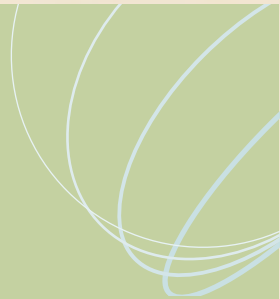


# Annual report 2002/03

Auditor General, Accounts Commission, Audit Scotland



September 2003



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# Introduction

Welcome to the second combined annual report of Audit Scotland, the Auditor General and the Accounts Commission. Together we ensure that the Scottish Executive and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public money.

We have structured this report to reflect the five priorities that have guided our work since Audit Scotland was set up in 2000. Our priorities are:

1. supporting democratic scrutiny and continuous improvement
2. delivering the audit
3. maximising the value of the audit
4. creating an integrated organisation with effective business processes
5. improving Audit Scotland by supporting learning and growth

The report includes a short overview of Audit Scotland's financial performance during the year.

# Statement by the Auditor General and the Accounts Commission Chairman



Robert W Black,  
Auditor General



Alastair MacNish,  
Accounts Commission  
Chairman

We are pleased to present this Annual report which describes the work which Audit Scotland has carried out for the Auditor General and the Accounts Commission in 2002/03. We believe that the impact and value of public audit continues to be strengthened in Scotland. The reports which our auditors make to audited bodies give them assurance on their financial position and help them to improve the delivery of services. The reports which the Auditor General and the Accounts Commission make on the performance of those bodies play an important part in the democratic scrutiny process and we believe that our stakeholders... the Parliament, the Executive and ultimately the public... value the contribution which we make.

This report covers the period when accounting standards and audit were international front page news. Many of the proposals for regulating these matters in the private sector are already in place in the public sector. Independent appointment of auditors, rigorous audit standards, tight controls over non-audit work and the rotation of audits are all common elements of the public audit model.

The increased profile of audit has been a factor in our changing environment. There have also been legislative changes, particularly the passage of the Local Government in Scotland Act 2003 introducing new statutory duties of Best Value and community planning. Audit Scotland is working hard with its partners to

develop the Best Value audit to take the public audit model to a new level of effectiveness and added value. Best Value will lead to a shift in emphasis towards performance audit and council-wide performance reporting. We look forward to playing our part in delivering the commitment to roll out Best Value principles from local government across the rest of the public sector. As a result of these and other major changes in our business environment we in Audit Scotland have embarked on our own continuous improvement process. We carried out a fundamental review of our organisational structure and working practices to ensure that we are able to effectively meet the challenges which we face. These include

- reorganising so that we can effectively respond to our changing environment including the impending requirements of the Best Value regime
- keeping pace with changes in the auditing profession and finding more effective and efficient ways of conducting our business
- finding ways of increasing our effectiveness and the impact of our work in order to meet client expectations and reach our goal of supporting improvement in the

## The public audit model

### The scope of public audit is wider than in the private sector covering:

- the independence of public sector auditors from the organisation being audited
- the audit of financial statements as well as regularity, probity, value for money and governance
- the ability of public auditors to make the results of their audits available to elected representatives and the public.

quality and management of public services.

We now have the opportunity to build on our success and take our new organisation to a higher level of effectiveness.

We continually look for new ways to make our work as relevant and meaningful as possible. A great benefit of having a single public audit body in Scotland is that we can do valuable work in areas of activity that cut across organisational and service boundaries. We are increasingly going down the road of joint studies involving the Auditor General and the Accounts Commission in looking at themes from a broad perspective. One example of this kind of work was our report on the youth justice system in Scotland.

Our stakeholders, including the Scottish Commission for Public Audit, are robust in holding us to account for delivery and performance. In order to meet their expectations and those of our audit clients we need to deliver more and different products in the future and demonstrate value in the delivery of our own business operations.

Our goals for the next three years will be to:

- improve the quality of audits through consistently applying a risk-based approach to our work
- deliver a successful Best Value audit regime, not just for local authorities, but to the other sectors through the application of risk-based audit
- enhance and develop the content, coverage and impact of our products and services as a contribution to improving the management and delivery of public services

- develop the delivery of optional services as part of our business

- modernise and re-engineer our processes so that we deliver our work efficiently, effectively and economically

- ensure we have the right people, in the right numbers, with the right skills, in the right place, at the right time.

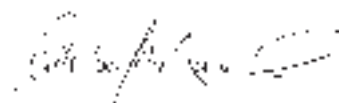
Our staff have coped with an extremely challenging workload including problems of audit backlogs and have delivered quality products to tight deadlines. We thank our colleagues, stakeholders and clients, for their cooperation and help during the year.

We are pleased that the Secretary, Bill Magee, received the OBE during the Queen's Jubilee year in recognition of his service.

Wendy Goldstraw, Frank Kirwan, Bruce Merchant and Geoffrey Millar retired from the Accounts Commission in September 2002. We are grateful to them for their enthusiastic service as Commission members. We welcome the new members who joined in October 2002, Alan Alexander, Jean Couper and Keith Geddes.



Robert W Black  
Auditor General



Alastair MacNish  
Chairman, Accounts Commission

# Our performance

## Our corporate priorities are:

- **supporting democratic scrutiny and continuous improvement**
- **delivering the audit**
- **maximising the value of the audit**
- **creating an integrated organisation with effective business processes**
- **improving Audit Scotland by supporting learning and growth**

Over the past three years our work has been guided by five corporate priorities which reflect the strategic objectives of the Auditor General and the Accounts Commission. Our progress in achieving these priorities is reviewed in the following sections. We have also developed performance indicators for the first four of these objectives and these are reported under each heading.

This information, along with the following summary of our key achievements is designed to give a representative and transparent account of our performance during the year.

## Key achievements

100% (216) of audits completed covering central government, local government, health and further education

89% (192) of financial audits were completed on time

Nine performance audit and three overview reports published and all key recommendations accepted

Supported parliamentary scrutiny across the public sector and in individual bodies

Helped to develop a unique Best Value regime for Scotland

Fee for audit successfully introduced

New quality appraisal process introduced

Achieved high satisfaction results in a survey of NHS audited bodies

Supporting democratic scrutiny and continuous improvement	Performance indicator	Outcome
	Number of performance reports published	Nine performance audit reports were published
	Impact of performance audit reporting	The Scottish Executive and/or audited bodies have accepted the main recommendations in our reports
	Response times for correspondence from members of the public concerning potential audit issues.	99% of correspondence was acknowledged within 10 days  71% of correspondence was responded to in full within one month of being acknowledged

During the year we published:

- nine performance audit reports
- three overview reports
- four statutory reports
- one major reference work
- six performance information pamphlets, the data compendium and the council profiles.

### Performance audit reports

Performance audit reports covered the following subjects:

- the standard of cleanliness in Scottish hospitals
- performance measurement in the Scottish Environment Protection Agency (SEPA)
- the performance of a range of central and local government bodies in dealing with offending by young people
- the level and quality of trading standards services
- the management of hospital waiting lists

- the administration of the Individual Learning Account (ILA) scheme in Scotland
- the use of the Private Finance Initiative (PFI) to refurbish or build new schools
- the problems facing local economic forums and how they propose to tackle them – baseline report
- levels of ward nursing – baseline report.

All of our reports can be accessed and downloaded from the publications section of our website.

### Impact of performance audit reports

Our reports are designed to help public bodies improve their economy, efficiency and effectiveness and to achieve best value in the delivery of services. They also provide a vehicle for holding audited bodies to account.

Reports produced for the Auditor General can lead to accountable officers for the audited bodies appearing before the Parliamentary Audit Committee. Some reports provide the Committee with the

opportunity to consider a thematic issue which affects a number of audited bodies.

Reports to the Accounts Commission can lead to local hearings and ultimately recommendations to Ministers.

### Hospital cleaning

This follow-up study shows that progress has been made in a number of areas. However it also identified that many hospitals were not reaching high enough levels of cleanliness. The Health Department intends to use the action plans agreed as part of this follow-up in the next round of Accountability Reviews and has supported this by writing to all trusts and boards stating exactly what is expected. A task force has been set up to develop national specifications for cleaning processes and frequencies. Draft national standards were issued for use in August 2003.

### Measuring up? A follow-up report on performance measurement in the Scottish Environment Protection Agency (SEPA)

This follow-up report found that all 11 recommendations from our first report had been addressed by SEPA.

### Dealing with offending by young people

This cross-cutting study examined the performance of a range of central and local government bodies in dealing with offending by young people. We made 38 recommendations for the Scottish Executive, councils, police and other public bodies.

The Audit Committee carried out its own inquiry following our report. The Committee supported all of our recommendations and made 22 of its own.

To date, the Scottish Executive has accepted 35 of our recommendations and action is under way to address all of these. This includes reducing the time taken to reach decisions about offending by young people; reducing variation in decision making and service provision; more efficient use of resources; tackling problems with social work staffing and improving the quality of information about needs and services.

### Made to measure? An overview of trading standards services in Scotland

A local authority Task Group is being set up to consider and report back on the implications of our findings and recommendations. The Task Group will involve elected members, council officers and key stakeholders (eg Scottish Consumer Council).

On a UK level, the service standards guides that we developed within Scotland are being used by around 100 (over half) trading standards authorities across Britain. Our work has also informed the DTIs development of outcome measures for trading standards, which are currently out for consultation.

### Review of the management of hospital waiting lists in Scotland

Following the publication of our report on the management of waiting lists in June 2002, the Scottish Executive Health Department accepted all our recommendations and has produced an action plan, approved by the health minister which included actions for the Health Department and NHSScotland boards and trusts.

### Taking the initiative – using PFI contracts to renew council schools

Key recommendations for future PFI school building or refurbishment projects included:

- the need for a wider choice of procurement options
- transfer of skills to future projects
- the need for guidelines on standards for classroom size, heating, lighting etc.

The Scottish Executive accepted the report and all of its recommendations. The full impact of the report will be clearer after the introduction of the new prudential framework for capital investment and borrowing for councils from 2004 and as the next major round of schools PPP contracts are tendered and awarded in 2005 and 2006.

### Planning ward nursing – legacy or design?

The Scottish Executive Health Department has made progress across the Audit Scotland recommendations on workforce planning, workload, quality of care and information for managing staffing. The recommendations in our report have been discussed with all trusts.

### Baseline reports

Our reports on ward nursing and local economic forums were both initial or baseline reports. This type of report aims to establish current issues and performance levels and give audited bodies the opportunity to learn from their peers and make improvements. The reports, which follow on from these, will assess whether performance has improved.

### Previous year's work

Following Auditor General reports on the further education sector and recommendations by the Audit Committee, the Scottish Executive carried out a review of governance in this sector. The results were published and Ministers endorsed many of the recommendations made.

### Our performance audit forward work programme

During the year we consulted on and devised a forward programme of performance audit work. The approved programme includes:

- implementation of the McCrone agreement in the education service
- the use of medicines in hospital
- a review of colorectal cancer services
- housing stock transfers
- the condition of Scottish roads
- property management
- business support services.



### Auditor General reports

During the year, two overview reports were produced for the Auditor General, one on the NHS and another on further education colleges.

- In the 2001/02 NHS overview the Auditor General reported that overall, financial stewardship was of a good standard and there was also a reduction in the number of trusts facing deficits. This improvement is partly attributed to a one-off extra payment of £90 million from the Scottish Executive to help balance the books.
- In his 2000/01 overview of further education colleges the Auditor General expressed concern about the length of time colleges expect to take to clear their debts. Deficits for the sector as a whole amounted to £17.5 million and some colleges expected to take between three and 10 years to balance their books. The Audit Committee held its own inquiry based on this report, taking evidence from the Chief Executive of the Funding Council and chairs and principals of three colleges.

A reference report *How government works in Scotland* was also prepared for the Auditor General. This report set out, for the first time, the organisation of public bodies in Scotland and their responsibilities and accountabilities. The Audit Committee carried out an inquiry and as a result of this work, the Scottish Executive published guidance setting out the roles and responsibilities of board members of public bodies, including standards of behaviour. The Scottish Executive also provided a commitment to the public reporting of the performance of public bodies.

### Accounts Commission reports

During the year, four statutory reports were prepared for the Commission including the 2001/02 overview of local authorities. Statutory reports to the Commission raise matters which may affect one or more local authorities or cases where there is evidence of illegality, loss or impropriety in the way a local authority has conducted its business. The Commission may hold the local authority or individual concerned to account through a hearing.

The overview report identified improvements in the overall delivery of council services. It also identified continuing evidence of budgetary and financial control weaknesses, an issue which has been highlighted in successive overview reports. Auditors will monitor take-up of the Commission's findings and recommendations.

The Commission also finalised its consideration of Fife Council's involvement with the Third Age Group. The report noted that the council accepted in full the findings and conclusions made by the Controller of Audit.

Two reports were made on the overspend by Scottish Borders Council Education Department. The Commission welcomed the progress being made by the council and that it accepted the Controller of Audit's conclusions. The council's progress will be monitored through the normal audit reporting process.

### Performance information

During the year, councils, fire brigades and police forces reported their service standards against 76 statutory performance indicators specified by the Commission. The products we prepared highlight both the variation in performance between councils and change in performance over time.

We produced six pamphlets covering specific service issues. These were distributed to the media, councils, libraries, MSPs and other stakeholders with an interest in council service standards and published on our website.

We developed a dedicated Performance Information website containing the Council Profiles and Data Compendium which, for the first time, were only published electronically. This development allows for much better searches and analysis of the information.

### Developing the Best Value audit

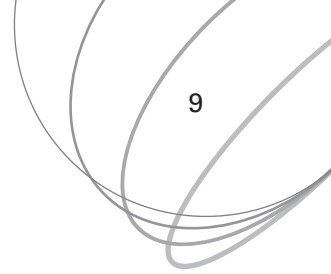
The Local Government in Scotland Act 2003 gave local authorities statutory responsibility for achieving Best Value and for Community Planning. This introduced a distinctive Scottish approach to Best Value, setting out the broad goals which local authorities should aim for, but allowing them discretion on the methods and routes they use.

A small project team is developing our approach to auditing the way councils are responding to their new duties. A series of consultation meetings, together with two pilot audits, are currently being carried out before the Accounts Commission formally approves the new audit arrangements. The audits are expected to begin at the end of 2003.

Early in 2004, work will start on developing our approach to Best Value in other parts of the public sector.

### Community Planning Task Force

We played a key role on the Community Planning Task Force which made a significant contribution to shaping the Local Government in Scotland Act 2003 and developed associated statutory guidance and advice for councils.



### Working with others

We continued to work with Inspectors and Regulators to optimise the overall scrutiny regime while minimising the audit and inspection burden on public sector bodies.

We continued to participate in the joint scrutiny of Police and Fire services with the respective Inspectorates and will be reviewing our protocols with them to take account of the new Best Value audit responsibilities.

We met with the new Scottish Public Services Ombudsman to discuss how our work fits together. We also

met with the convener of the new Scottish Standards Commission which has now begun its work on implementing the codes of conduct for members of local authorities and other public bodies. We agreed to draw up protocols with them both to avoid duplication and clarify the boundaries of our work.

### Correspondence and complaints

In 2002/03 we received 98 items of correspondence in which issues were raised about the finances of the bodies we audit. We treat these as complaints. The number we deal with each year varies, but is a significant part of our work and reflects the level of awareness

among the public and other stakeholders of our role in supporting democratic scrutiny.

Issues are raised by MSPs, members of the public and other stakeholders; each is considered in the context of the Auditor General's or the Accounts Commission's responsibilities. The nature and complexity of cases is highly variable but we focus on whether audited bodies have incurred expenditure in accordance with their statutory powers and have in place appropriate procedures to ensure financial probity, and best use of resources.

Auditors may need to undertake specific examinations for us to respond – the amount of time spent doing this will vary from case to case. Equally, the response to correspondence may be a letter or may result in a formal public audit report. The Accounts Commission's report on Fife Council and the Third Age Group, published in May 2002, is an example of a published report arising as a result of an issue raised through correspondence.

### Correspondence received

Sector	2002/03	2001/02
Local government	67	107
NHS boards and trusts	6	7
Further education	4	3
Central government	21	15
<b>Total</b>	<b>98</b>	<b>132</b>

<b>Delivering the audit</b>	<b>Performance indicator</b>	<b>Outcome</b>
	Percentage of audits delivered against statutory or Accounts Commission timescales for each sector	89% of audits were completed on time. Details for each sector are provided below.

Public bodies in Scotland spend over £20 billion of public money each year. Our job is to check that this money is spent properly, efficiently and effectively.

During the year we were responsible for the audit of 216 public bodies.

Around 30% of audits were carried out by private firms of accountants. We believe that the combination of in-house audit providers and private firms helps to ensure the cost effectiveness of the audit and that it broadens the knowledge and skill base available.

#### **Audits delivered on time**

During the year, 89% of audits were delivered against required timescales (87% last year).

The audited accounts of bodies within the remit of the Auditor General are sent to Scottish Ministers to be laid in Parliament. The deadline for laying the accounts and the auditor's report on them is

no later than nine months after the end of the financial year to which they relate. We set annual audit deadlines for auditors to complete their audits so that Ministers can comply with their statutory responsibilities.

The audits of local authorities are not subject to the same statutory deadlines but the Accounts Commissions require auditors to complete their audits within certain time periods.

There are many reasons why the issue of audit certificates may be delayed ranging from delays in the provision of draft accounts in a suitable format for audit, to the consideration of complex audit issues. In most cases, however, the delay was no longer than two weeks.

#### **Clearing the backlog**

During the year we successfully cleared the backlog of health and local authority audits and are working

to bring forward the target completion date for central government audits.

#### **Audited bodies and their auditors**

A full list of the organisations we audit is available from the Audit Scotland website.

#### **Reports on accounts**

The Auditor General made 49 reports on accounts (54 last year) during the year. These reports are laid in the Scottish Parliament by Scottish Ministers. The purpose of these reports was to bring to Parliament's attention matters which arose during the audit process.

<b>Sector</b>	<b>Number of 2001/02 audits</b>	<b>Delivered against statutory or Accounts Commission timescales</b>		<b>Comparative performance for 2000/01 (%)</b>
		<b>Number</b>	<b>%</b>	
Central government	55	52	95%	87%
NHS boards and trusts	52	52	100%	100%
Further education	42	42	100%	100%
Councils	32	25	78%	75%
Joints boards	35	21	60%	66%
<b>Total</b>	<b>216</b>	<b>192</b>	<b>89%</b>	<b>87%</b>

Maximising the value of the audit	Performance indicator	Outcome
	Percentage of audits plans and fees agreed within specified timescales	81% of audit plans were agreed within specified timescales  55% of fees were agreed within specified timescales
Results of quality appraisal reviews	All of the auditors reviewed were assessed as at least 'B' grade*	
* Auditors are awarded an overall assessment of A, B or C. 'A' represents a good standard. 'B' indicates a generally acceptable standard but with areas for improvement and 'C' represents significant improvement required.		

### Audit plans and fees agreed within timescales

This new approach has been successfully introduced with all 2001/02 audits carried out on this basis.

Rather than bodies simply being charged at the end of the audit for the number of days it took, auditors agree a fee with them in advance based on guidelines approved by the Auditor General and the Accounts Commission. The new arrangements aim to provide greater transparency to audited bodies by relating audit activity to cost. It should also provide incentives to improve efficiency and reduce the costs of external audit where effective internal controls and sound financial management are in place in the audited body.

### Quality appraisal

During the year we revised our quality appraisal processes to bring them into line with the revised Code of Audit Practice and developments in auditing standards. These rigorous processes ensure that auditors are complying with the requirements of the Accounts Commission or the Auditor General. They also aim to identify and spread good practice, so that the quality of the audit work, and of the service received by audited bodies, is always improving.

An integral part of these processes is a survey of audited bodies to gain

their views on the quality of the audit. The 2002/03 survey covered NHS bodies and this revealed a high satisfaction level with 98% of respondents assessing the overall quality of the audit as good or very good. Given that auditors have to criticise and challenge audited bodies, this is a clear indication of the added value that the audit process brings to the management of public sector bodies.

### Adopting a service user perspective

In much of our work we act as the advocate of citizens both as users and paymasters of services. Our work not only provides assurance that public money is being spent properly but can also result in real improvements in services. The following are examples of improvements resulting from our work:

- national specifications for levels of cleanliness in hospital are being developed and will help in achieving cleaner wards
- the list of 'deferred' hospital patients was scrapped and this will help in ensuring that more patients get timely treatment
- improvements to the youth justice system such as fast track children's hearings will help in dealing more quickly and effectively with young offenders

- national specifications for school classrooms are being developed and will help in ensuring that all new or refurbished schools meet accepted standards for size, heating and lighting.

Our role in publishing council performance information is also important in allowing citizens to hold councils to account for their performance. During the year we reported the following changes in council service standards:

- Scotland's fire brigades attended more fires on time despite an overall increase in the number of fires
- more of the council tax owed to councils was collected than ever before
- only six councils reduced the amount of rent owed to them by tenants
- 90% of three year olds had a grant aided place in pre-school education – a 15% increase compared with two years before
- In residential homes for children, the proportion of care staff with some form of appropriate qualification increased to just over 50%.

<p>Creating an integrated organisation with effective business processes</p>	<p><b>Performance indicator</b></p>	<p><b>Outcome</b></p>
	<p>Percentage of invoices paid within 30 days</p>	<p>77% were paid within the target time</p>
	<p>Sickness absence</p>	<p>This is measured using the Bradford Factor* and shows that sickness levels are comparable with our benchmark organisations.</p>
	<p>Staff turnover</p>	<p>18 people (8.4%) left during the year</p>
<p>* We have adopted a system known as the Bradford Factor to measure and report absence levels. The system allocated points to each employee based on the number of spells of absence in the year and the number of days off.</p>		

### Continuous improvement

We are a new organisation and are now engaged in our own continuous improvement exercise to take us to a higher level of effectiveness. In the light of the experience of the first three years of our operation, and to take account of the changes in our environment, we have initiated a project for change in Audit Scotland. This will help to make sure that we are organised in the best way to carry out our work effectively. We have made some initial changes to our senior management structure, with the addition of the Director of Audit Strategy and the Director of Corporate Services to the Senior Management Team.

During the year our Audit Committee worked with our external and internal auditors on our final accounts, which are submitted to the Scottish Commission for Public Audit, and on a range of internal control issues such as fee for the audit and performance indicators.

Another development was a successful pilot of new technology to help automate the audit process and support smarter working. This will cut down the volume of paper files and allow off-site access to files.

### Accommodation

We rationalised our office accommodation needs for our audit services teams in East Kilbride and Edinburgh. By doing this we were able to bring together staff from various locations throughout the central belt and Fife. This development will help us to deliver an integrated audit service; develop expertise, critical mass and economies of scale; improve the coordination of audits; and provide greater opportunities for staff development.

We continued to occupy offices in Inverness and Aberdeen to provide services to our clients in the north of Scotland.

Health and safety inspections were carried out at all major locations in which our staff are based, with a view to ensuring the safety and quality of our accommodation.

### Paying suppliers

We have a policy of paying invoices, not in dispute, within 30 days. Of invoices monitored during the year 77% were paid on or before the due date (86% last year). We have introduced improved cash-flow monitoring arrangements to improve our performance in this area.

## Improving Audit Scotland by supporting learning and growth

Audit Scotland's key asset is our staff. We have around 230 staff, some of whom are based in Edinburgh where we have our headquarters, and others are in offices throughout Scotland. Our fifth corporate priority is all about our staff and our commitment to supporting their learning and growth. During the year we made significant progress in implementing this priority. Developments include:

- the introduction of a Personal Development System which was supported by thorough training for all staff
- carrying out a staff attitude survey through an independent consultancy
- improved communications through the introduction of a newsletter on Human Resources and management issues and the development of an on-line staff handbook
- setting up a web-based knowledge bank for management development
- carrying out a comprehensive training needs analysis leading to a programme of training courses and other solutions

- piloting innovative training workshops on stress management, problem solving and coaching
- the secondment of five staff to a range of internal and external secondments
- improved communication with the union, PCS, through regular Partnership Forum meetings

### Exam success

Two assistant auditors successfully completed their CIPFA exams and Esther Davidson won the Audit Scotland prize for the best public sector audit student in Scotland.

# Who we are

## Audit Scotland board

Audit Scotland provides services to the Auditor General and the Accounts Commission to enable them to carry out their duties. Our work is overseen by a board which meets regularly to consider our plans and strategic direction. The board comprises:

**Alastair MacNish**, Chairman, Accounts Commission

**Robert W Black**, Accountable Officer and Auditor General

**Phil Taylor**, Non-executive member

**Caroline Gardner**, Deputy Auditor General

**Ronnie Hinds**, Deputy Auditor General

Robert W Black was chairman of Audit Scotland from April to December 2002. In January 2003 Alastair MacNish took on the role of Chairman.

## Auditor General

The Auditor General is appointed by the Crown, is independent and reports the findings of his work to the Scottish Parliament, mainly through the Audit Committee.

The Auditor General is Robert W Black.

## Accounts Commission Members

The Accounts Commission can have between six and 12 members who are appointed by Scottish Executive Ministers. In 2002/03 the members were:

**Chairman: Alastair MacNish**

Formerly Chief Executive of South Lanarkshire Council. Served as Chairman of the Leadership Advisory Panel.

**Deputy Chairman: Brian W C McGhee MA CA MSI**

Director of a number of public and private companies. Formerly a partner of Arthur Andersen and Chairman of the Audit Practices Committee of ICAS.

**Alan Alexander**

Emeritus Professor of Local and Public Management, Strathclyde Business School. Chairman of Scottish Water.

**Jean Couper BSc MCMI**

Partner in a Management Consultancy. Chairman of Scottish Legal Aid Board.

**Keith Geddes**

Policy Director, Pagoda PR. Board member of Scottish Natural Heritage (SNH). Chair of SNH Audit and Risk Management Committee. Chair, Greenspace Scotland. Former Leader, City of Edinburgh Council and Lothian Regional Council. Former President, Convention of Scottish Local Authorities.

**Wendy Goldstraw BCS MDIPD DBA\***

Member of the Governing Body of the Scottish Crop Research Institute and Member of the Standards Commission for Scotland. Formerly Regional General Manager, Post Office Counters Ltd, for Scotland and Northern Ireland. Member of Management Committee of Haddington Citizens Advice Bureau.

**Frank Kirwin BA MA\***

Director of a number of companies. Visiting Professor at the University of Edinburgh Management School. Formerly Director of UK Retail Banking, The Royal Bank of Scotland plc.



Alastair MacNish



Robert W Black



Phil Taylor



Caroline Gardner



Ronnie Hinds

**Isabelle Low MA MEd PhD**

Non-executive Director of the State Hospitals Board for Scotland. Formerly Director of 21st Century Government, Scottish Executive.

**Bruce A Merchant OBE LLB\***

Senior Partner in South Forrest, Solicitors, Inverness. Formerly Vice-Chairman of Highland Health Board.

**Donald McNeill OBE FHSM**

Secretary, Scottish Council of Institute of Health Services Management. Development Officer, Multiple Sclerosis Society (Ayrshire). Former Chief Executive, South Ayrshire Hospitals NHS Trust.

**Rosalyn Marshall BSC FCCA**

Vice Principal (Strategic Corporate Services), Queen Margaret University College, Edinburgh. Member of the UK Higher Education Value for Money Committee and Member of the Board of Edinburgh Academy.

**Geoffrey T Millar MB FRCS ED FRC OPTH D OBST RCOG\***

Formerly Consultant Ophthalmologist at the Royal Infirmary and Western General Hospitals, Edinburgh, and St John's Hospital, Livingston.

**John G Mullin**

Chairman of NHS Argyll and Clyde. Formerly member and Finance Chairman of Strathclyde Regional Council.

**Mahendra Raj BSc MBA MS PhD ILTM FASBBS**

Professor of Finance and Director of Research at Aberdeen Business School in the Robert Gordon University. Treasurer, Grampian Racial Equality Council. Lay Advisor, Grampian Police.

**Ian Stewart OBE CPFA**

Member of the Board of Dumfries and Galloway College. Former Director of Finance and Depute Chief Executive, Dumfries & Galloway Regional Council.

\* members who retired in September 2002

Full details of members' interests are recorded in the Accounts Commission section of our website.



# Financial overview

This financial summary is for Audit Scotland's third year of operation - from April 2002 to March 2003.

Audit Scotland is required to produce accounts for each financial year detailing the resources we acquired, held or disposed of during the year and the way in which we used them. The Auditor General for Scotland has been appointed as our Accountable Officer and is responsible for the preparation of our accounts. Our accounts are sent to the Scottish Commission for Public Audit (SCPA) for auditing. The SCPA has appointed Mazars as our auditors. We are pleased to report that yet again, Mazars placed an unqualified audit certificate on our accounts.

The following sections provide a short summary of selected items from our accounts. To view our accounts in full visit [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)

## Sources of income

Most of our costs are recovered through charges to the organisations we audit and we receive some direct funding from the Scottish Parliament. Our income from charges in the year was £15 million and can be broken down as shown in the table below. We also received £6.1 million in funding from the Scottish Consolidated Fund (£4.5 million in 2001/02), for auditing bodies that are not charged directly, and for covering the cost of investigations.

## Analysis of expenditure

In 2002/03, we spent just over £20 million on services for the Auditor General and the Accounts Commission. The increase in our expenditure was mainly due to an increase in staff numbers and costs, increased fees for auditors and irrecoverable VAT.

77% of our expenditure was spent on staff and fees to auditors. This compares with 79% last year.

## Staff and members' costs

During the year, the average number of directly employed staff was 227 (203 in 2001/02). The number of staff, excluding the Auditor General, whose salaries were over £70,000, was five (four in 2001/02).

The Accounts Commission Chairman and members were remunerated as follows:

Banding	£000
Chairman	20 - 25
Depute chair	5 - 10
Commission members	0 - 5

Payments made during the year to Phil Taylor, non-executive member of the Audit Scotland board, fell within the band £0 to £5,000.

## Sources of income

	2002/03		2001/02		2000/01	
	£000	% total	£000	% total	£000	% total
Income						
Fees paid by local authorities	9,407	62%	7,153	60%	7,690	63%
Fees paid by health bodies	3,991	26%	3,781	31%	3,621	29%
Fees paid by water bodies	207	1%	55	1%	-	-
Fees paid by further education colleges	447	3%	27	-	-	-
Fees paid by Scottish Executive & sponsored bodies	1,031	7%	856	7%	717	6%
Bank interest	56	-	36	-	145	1%
Miscellaneous	185	1%	97	1%	37	1%
<b>Totals</b>	<b>15,324</b>	100%	<b>12,005</b>	100%	<b>12,210</b>	100%

Note: Our audit and financial years do not coincide. As a result, our income represents audit activity during the financial year rather than activity in the audit year.

## Analysis of expenditure

	2002/03		2001/02		2000/01	
	£000	% total	£000	% total	£000	% total
Expenditure						
Staff and members' costs	10,167	50%	8,870	55%	7,844	50%
Fees and expenses to appointed auditors	5,424	27%	3,848	24%	4,128	27%
Buildings, rent and depreciation	1,322	6%	1,271	8%	1,058	7%
Operating costs	3,520	17%	2,049	13%	2,513	16%
<b>Totals</b>	<b>20,433</b>	100%	<b>16,038</b>	100%	<b>15,543</b>	100%

# Annual report 2002/03

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