



Annual Report and Accounts

Year ended 31 March 2008

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Management Commentary

AUDIT SCOTLAND ANNUAL REPORT 2007/08

Statement from the Auditor General and from the Chair of the Audit Scotland Board

Welcome to Audit Scotland's annual report and accounts for 2007/08.

This year has seen major developments in moving towards a more integrated scrutiny landscape, highlighted by the Crerar report and the response of the Scottish Government (see page 8). Audit Scotland will have a key role to play for the Auditor General and the Accounts Commission in supporting this changing environment. Indeed we are already participating in the follow up discussions set up by the Scottish Government.

Audit Scotland works hard to place the minimum burden on public bodies wherever possible. Where they share a common interest, joint studies for the Auditor General and the Accounts Commission are already conducted by Audit Scotland as a single exercise. Details of such joint reports are contained in this annual report. The fact that Audit Scotland works across the public sector allows us to have this joined up approach.

As we say elsewhere in this report, we continue to work hard to support the Scottish Parliament and the Audit Committee in their roles. We also carried out a series of visits and meetings with our key clients and stakeholders following the local and national elections in May 2007.

This report will give you a real flavour of the breadth, depth and sheer variety of work in which Audit Scotland is now involved. From high profile reviews of key policy areas such as free personal care to rapid analysis of capital projects such as the Edinburgh transport projects review, our work this past year has had major local and national impact. Our work on the National Fraud Initiative in 2007/08 identified £9.7 million of overpayments and savings in Scotland. Cumulative savings from the NFI have now reached £37 million.

The keynote of Audit Scotland is our independence and professionalism. At the same time as we are anticipating ever more financial pressures on public services, we have seen a year of political change at local and national level. There is an ever growing appetite for independent scrutiny. Our services are continually in demand and the results of our studies rarely out of the news.

All of this makes for a busy, interesting, and often challenging time for the staff of Audit Scotland whose work is highlighted in this report.

Finally, we would like to take this opportunity to record our sincere thanks to Alastair MacNish who retired from his posts as Chair of the Accounts Commission and of the Audit Scotland Board. Alastair was six years with the Commission. His work was also recognised in the December honours list when he was awarded the OBE for services to local government. We also wish to thank Bill Magee who retired from the position of secretary to the board and to the Commission after many years of excellence advice and service.

Robert W Black (Auditor General for Scotland and Accountable Officer)
John Baillie (Chairman of Audit Scotland Board)

Management Commentary

Our Performance

Supporting effective democratic scrutiny

Reporting in Public

Public reporting programme

Our public reporting work covers key areas of public interest. We develop our forward work programme after extensive consultation with stakeholders, audited bodies and the public in order to target areas where we can support improvement in public services. We also carry out some studies in response to external requests to investigate particular issues when we believe it is in the public interest.

The reports we produce are presented in four themes:

- Central government
- Health and community care
- Local government
- Across-government.

Reports on the central government sector and the health and community care sector are prepared for the Auditor General and in some cases, where there is joint responsibility, for the Auditor General and the Accounts Commission. The Auditor General presents these to the Scottish Parliament's Audit Committee. Reports on local government are prepared for the Accounts Commission. For more on what happens to Audit Scotland reports once they are published and how the Scottish Parliament reviews and uses them, see Appendix 1 on page 21.

As public services are increasingly delivered across traditional sector boundaries, many of our reports cover more than one sector. Typically these will include local government, so we prepare these across-government reports for both the Auditor General and the Accounts Commission. An example of this is our report *Improving the school estate*, which looked at completed and planned work worth £10 billion across local and central government.

In 2007/08 we published 18 public performance reports. This was fewer than in some previous years, partly due to the national and local elections in May 2007 during which time Audit Scotland followed a six week embargo on issuing reports, in line with civil service advice.

In 2007/08 we published:

- 2 Central government reports
- 3 NHS reports
- 7 Local government reports*
- 6 Across-government reports.

* four Best Value reports and three other local government reports

Supporting Parliament

In 2007/08 the Scottish Parliament's Audit Committee held evidence sessions into three of our reports, *Dealing with offending by young people*, *Police call management* and *Overview of Scotland's health and NHS performance 2006/07*.

The committee called the relevant Scottish Government accountable officers to give evidence and answer questions about issues raised in these three reports. In the case of *Dealing with offending by young people*, the committee also asked the Community Safety Minister to give evidence.

Management Commentary

The Auditor General and the Chair of the Accounts Commission gave evidence to the Justice Committee's inquiry into the effective use of police resources. This evidence drew on the *Police call management* report and our audit work in police authorities. Audit Scotland staff also briefed the Health and Sport Committee on cost pressures in the NHS, and gave evidence to the Finance Committee's inquiry into methods of funding public capital projects.

Many of our reports in 2007/08 highlighted the need for public sector bodies to develop more rigorous approaches to performance monitoring and reporting, and to focus more on outputs and outcomes. At the moment it can be difficult to find robust evidence that particular policy initiatives or developments are actually delivering best value. Our local government Best Value reports specifically set out to ascertain whether councils are achieving best value.

The impact of our reports can be seen in different ways. For example, our report *Managing long term conditions*, published in August 2007:

- Audit Scotland staff were the opening speakers at the Scottish Respiratory Conference in Edinburgh in November 2007. At this conference Health Secretary Nicola Sturgeon highlighted this report. She said the Scottish Government plans to address the level of variation in chronic, obstructive pulmonary disease (COPD) services across Scotland, and noted the link with health inequalities – both key messages in our report.
- The Scottish Government has announced that clinical standards for COPD will be developed for Scotland in 2008/09 and respiratory managed clinical networks will be encouraged to reduce variation in services across Scotland. Our report was quoted in highlighting links with deprivation, variation in services, and inadequacy of pulmonary rehabilitation services.
- NHS Quality Improvement Scotland (NHS QIS) is taking this report into account when developing their own work programme on long term conditions. Audit Scotland staff attended a NHS QIS meeting on supporting the present and future long-term condition agenda in Scotland in September 2007.

The number of PRG reports published in each past three years was

2005/06 - 26
2006/07 - 25
2007/08 - 18

Full details of all our reports published in 2007/08 are in Appendix 2 on page 23.

Highlighting issues from accounts (“Section 22s”)

Auditor General reports, made under Section 22 of the Public Finance and Accountability (Scotland) Act 2000, raise issues arising from the annual audits of public bodies under his remit. We presented four Section 22 reports to Parliament in 2007/08. These reports, while produced in the 2007/08 year, are on the audits of the 2006/07 year. Details of the Section 22 reports published in 2007/08 are in Appendix 2 on page 25.

The number of S22s reports made over past three years was

2005/06 - 12
2006/07 - 9
2007/08 - 4

The fact that we produced fewer Section 22 reports than in the past years reflects generally improved financial performance at many of the bodies we audit.

In 2007/08 the Scottish Parliament's Audit Committee chose to hold an inquiry into the issues raised by our Section 22 report on NHS Western Isles.

Management Commentary

Monitoring financial management and governance

Delivering the audit

Audit Scotland met all its targets for delivering the audits to statutory or Accounts Commission timescales for each sector. One hundred per cent of all the audits completed in 2007/08 in health, central government, further education and local authorities were completed on time compared with 99% overall in 2006//07. There was also improvement in the delivery of audit plans and agreement of fees with timescales

There were 201 final annual audits for the year 2006/07 completed in 2007/08. Of these, 94, or two thirds by public sector expenditure, were delivered by Audit Scotland and 107, or one third by monetary value, by private firms.

The annual audits continue to be the foundation of our work. These provide assurance to local elected representatives and board members and support improvement in public organisations. This work also informs much of our national performance studies. The work is conducted according to the Code of Audit Practice which reflects the ever changing international standards for the quality of audit. It is therefore important that we continually strive to improve the way we conduct the audit, ensuring our clients and stakeholders gain maximum value from the audit process.

Our current audit approach has a clear focus on priorities and risks and is based on a sound understanding of the business.

Audit Scotland performance indicators

<p>Percentage of audit plans submitted and fees agreed within specified timescale</p>	<p>99% of audit plans submitted to Audit Scotland within specified timescales (96% for 2006/07 and 89% for 2005/06).</p> <p>90% of fees agreed within specified timescales (56% for 2006/07 and 60% for 2005/06).</p>
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Appointing the Auditors

The Auditor General and the Accounts Commission appoint the auditors from Audit Scotland and private sector firms to undertake audits of Scottish public bodies. Approximately one third, by public sector expenditure, of the public audits in Scotland are conducted by private sector accountancy firms, with the remaining two thirds conducted by Audit Scotland. A full list of appointed auditors is available on our website at <http://www.audit-scotland.gov.uk/about/as/audits.php>

The appointment mix is designed to develop greater collaborative working between private firms and Audit Scotland in order to deliver greater value to clients and stakeholders. All auditors involved in the audit of particular sectors meet regularly to share experiences, keep up to date with policy developments and discuss technical auditing matters.

Management Commentary

Reporting arrangements

Auditors report to the Auditor General and the Controller of Audit. In some cases their work results in requests for further reports on specific issues, or the audits may be used as the basis of wider overviews of entire sectors. Auditors also report directly to the public bodies they audit, enabling them to identify problems and plan improvements themselves. In 2007/08 Audit Scotland's auditors produced around 530 separate reports for the public bodies they audit. These management reports cover a wide range of areas, for example:

- main financial systems
- partnership working in community Health Partnerships
- information and communication technology.

Annual audit reports cover the full range of audit work undertaken in the year, providing clients and stakeholders with a comprehensive and independent view of financial management, governance and performance in public bodies. The annual audit reports can be found on Audit Scotland's website. Auditors also attended some 250 audit committees of public bodies across Scotland.

Overall, the standard of financial stewardship in Scotland remains sound. One of the prime responsibilities of appointed auditors is to carry out a body of work which will enable the provision of an audit certificate, or opinion, in relation to each year's transactions and activities.

The great majority of opinions given by appointed auditors are clear and unqualified. However, there are situations where an auditor may disagree with whether an organisation's financial statements offer a true and fair view of its financial position or where they may wish to limit the scope of that opinion. In these cases the auditor will qualify their opinion. There were nine audit qualifications across all sectors in 2006/07 financial year.

There were no reports to the Accounts Commission as a result of illegality, loss or impropriety in the way a local authority conducted its financial affairs. However, there was one report conducted by the Controller of Audit under section 102(1) of the Local Government (Scotland) Act 1973, on the departmental re-organisation and voluntary redundancy of the chief executive of East Lothian council.

The breakdown of audits completed in 2007/08 on the 2006/07 financial year was:

- | | |
|----------------------|-----|
| • Central government | 65 |
| • NHS | 23 |
| • Further education | 39 |
| • Councils | 32 |
| • Joint boards | 41 |
| • Water sector | 1 |
| • Total | 201 |

Delivering quality

We remain committed to delivering a public audit service that is valued by clients, stakeholders and the general public. Our Audit Strategy Group is responsible for setting the standards expected of all public sector auditors through a Code of Audit Practice.

In 2007/08 we conducted a detailed survey of the compliance arrangements of all auditors involved in financial audit work with International Standards on Quality Control and concluded that all the auditors had appropriate arrangements in place to meet the required standards.

Management Commentary

We also conducted a service quality survey as part of our audit quality appraisal framework. We surveyed the local government and central government sectors on the 2006/07 audits. The local government survey showed that 97 per cent of respondents considered that their auditor provided a high quality audit service and that 97 per cent also thought the audit makes a positive impact. The corresponding figures for the central government survey were 86 per cent and 92 per cent respectively.

Our performance audits follow a rigorous project methodology to ensure quality at every stage in the process, from project scoping to reporting and follow up.

UK and international standards setting

Audit Scotland contributes to the development of accounting and auditing standards in the UK through membership of a number of bodies including the Financial Reporting Advisory Board, the CIPFA/LASAAC Local Government SORP Board and the Auditing Practices Board Public Sector Sub-Committee. Audit Scotland staff participate in many other panels and working groups that produce detailed guidance for public sector bodies. Reflecting the increasing importance of global standards to the UK public sector, we also contribute to the international auditing standard setting process through the work of the INTOSAI Expert Reference Panel and by responding to drafts of relevant standards.

Audit Scotland's Technical Services Unit, part of our Audit Strategy Group continues to provide technical advice and guidance for all public sector auditors in Scotland, ensuring they are aware of important developments in audit and accountancy and playing a key role in sustaining the high quality of public audit.

Ethical Standards

Audit Scotland expects the highest ethical standards to be applied by all our staff and partners. During 2007/08 Audit Scotland adopted the principles of the Ethical Standards issued by the UK Auditing Practices Board for all its staff and all of its work (not just the financial audit work formally covered by the standards) and issued guidance to our staff on the application of those standards to the particular circumstances of public sector audit in Scotland.

Our Director of Audit Strategy, Russell Frith, undertakes the role of ethics partner and provides advice on the application of the standards in particular cases.

National Fraud Initiative

The National Fraud Initiative (NFI) is a data matching exercise undertaken by Audit Scotland every two years in partnership with the Audit Commission in England and Wales. NFI compares information from a range of public bodies and financial systems (housing benefits, local authority and NHS payrolls, public sector pensions etc). NFI helps to identify fraud and error in the public sector.

Investigation work and data 'matches' were undertaken mainly between January 2007 and March 2008, and we published our report on the 2006/07 NFI in Scotland in May 2008. This identified £9.7m of overpayments and savings in Scotland, and cumulative savings have now reached around £37m.

This year's savings remain significant, even though they were less than the £15 million identified from the previous exercise in 2004/05.

The next NFI will commence in October 2008. We are also in discussion with the Scottish Government Justice Department about bringing Audit Scotland's powers to conduct data matching exercises into line with those available to other UK audit agencies.

Management Commentary

Housing and Council Tax Benefit

From 2008 the Accounts Commission is taking over the responsibility for the scrutiny of housing and council tax benefit (HB/CTB) services in Scotland. Audit Scotland will manage and resource this task on behalf of the Accounts Commission.

During the past year we have worked closely with the Department for Work and Pensions, the Audit Commission and the Wales Audit Office (WAO) to develop an approach to the new HB/CTB audit responsibilities.

In November 2007 we recruited two benefits auditors. A project advisory group, consisting of representatives from local authorities and other stakeholders, has scrutinised the new HB/CTB audit methodology. This was piloted in February and March 2008, and the new audit programme will be rolled out early in 2008/09.

Best Value in Scotland's public services

Reporting on Best Value in Scotland's councils

Our Best Value audit reports provide an overall picture of each council's performance and give the public an independent view on whether their council is achieving continuous improvement. When the Audit Scotland team has completed its work, the Accounts Commission considers each report and makes its findings, which are published. The council must meet to consider the report and findings and make a formal response, usually including an improvement plan to address the issues raised.

During 2007/08 we published four Best Value reports; full audit reports on East Lothian and Clackmannanshire Councils, and progress reports on West Dunbartonshire and the Moray Council. This was fewer than in some previous years, partly due to the national and local elections in May 2007 during which time Audit Scotland followed a six week embargo on issuing reports, in line with civil service advice.

We also submitted a Best Value report on Aberdeen City Council to the Accounts Commission in March 2008. The Commission decided to hold a public hearing in response to the report and this was due to be held in May 2008.

Reviewing and improving on Best Value

An independent review of the Best Value audit process has been completed and was reported to the Accounts Commission in May 2007. It concluded that the BV audit process is well established, credible and has been effective in contributing to improvement. We have tried to conduct the BV audits in a co-operative manner with councils, so we particularly welcomed the review's conclusions that in the main, they have found it a challenging but useful process. The report also identified a series of challenges for improving the audit in the future:

- The need for a stronger outcome focus.
- An increased emphasis on self assessment.
- The need for a more proportionate and flexible audit approach.
- An increased emphasis on community leadership and partnership working.
- Better use of benchmarks and existing good practice.

In late 2007 and early 2008, the Accounts Commission held a series of consultation meetings with councils and met other key bodies such as COSLA, SOLACE, the Scottish Consumer Council and the Scottish Government, to respond positively to these challenges and develop a fresh approach to the audit. Audit Scotland is supporting the Commission and we are also taking account of the changing landscape for local government, including new relationships with the Scottish Government, the greater focus on outcomes agreements and the developments in scrutiny as a result of the Crerar Review.

Management Commentary

Rolling Best Value out into health and central government

Building on the work we have done in local government, we are developing our approach to the audit of Best Value in health and central government. We are consulting with health and central government bodies to hear their thoughts on our plans.

A toolkit on financial management is being piloted in health audits, and a sample of central government audits, in 2007/08.

We have a number of national studies in our current programme which cover important Best Value dimensions, for example, performance management, asset management and strategic procurement.

Developments to extend single outcome agreements beyond local government, and the emerging outcomes from the Crerar review of scrutiny will influence our approach.

The Crerar review of scrutiny

In June 2006, Scottish Ministers commissioned Professor Lorne Crerar to evaluate the current systems of external scrutiny of public services and complaints handling across the Scottish public sector. They also asked him to make recommendations on a framework for the future.

Audit Scotland seconded a member of staff to the review team. We also submitted two reports to the review: *The cost of external scrutiny of public services in Scotland: a preliminary analysis*, and *Risk-based and proportionate scrutiny*. The Auditor General and the Accounts Commission submitted survey data to the review team, as well as more detailed submissions of evidence at the team's request.

The review reported in September 2007 and its report can be found at <http://openscotland.gov.uk/Publications/2007/09/25120506/0>

The Government has set up a board to oversee changes as a result of the review, and Deputy Auditor General and Controller of Audit Caroline Gardner has been appointed to that board.

The Government also created five teams to carry out the planning and implementation of the review's recommendations. Audit Scotland staff members are involved in the teams looking at:

- accountability and governance
- user focus
- policy and approaches
- reducing burdens

A fifth team is looking at complaints handling.

Further supporting democratic scrutiny

International and development work

Audit Scotland continues to be involved in international activities, in particular supporting developing countries in improving their own public audit arrangements. We have formed an international steering group to develop and deliver on our international strategy. Our future international work will focus around the European Union, the accession countries, those in the Balkans and the Baltic states and those on the periphery of the EU. Much of our work in the international arena is conducted in partnership with other audit agencies, particularly the National Audit Office (NAO) and the Swedish NAO.

Management Commentary

We hosted several visits from overseas delegations in the past year. Visitors were keen to hear about the public audit model in Scotland, which is of particular interest to countries which are developing their own public audit arrangements. These visits also allow us to learn from other countries and at times challenge our own thinking and assumptions. In the past 12 months we have welcomed visitors from:

- Uganda
- Bosnia-Herzegovina
- China
- Ethiopia
- Romania
- Norway
- Pakistan

In addition, Audit Scotland staff have been involved in capacity building projects overseas. As well as providing invaluable support to the recipient country, this international work provides development opportunities for our staff. In the past year, we have provided subject matter experts to projects in Moldova, Jordan and Bosnia-Herzegovina. Some of these projects will continue into 2008/09.

This year we were invited to deliver presentations on the audit of new forms of financing and outsourcing of public activities at the European Organisations of Regional External Public Finance Audit Institutions (EURORAI) sixth annual congress in Crans-Montana, Switzerland, and the representation of women in Scottish public life to the first Bangladeshi Audit and Accounts woman's forum conference.

Public correspondence and complaints

Audit Scotland receives many items of correspondence from members of the public wishing to draw our attention to issues.

The nature and complexity of correspondence varies widely. Provided the issues are within our remit we refer correspondence to the auditor of the public body concerned. Based on the auditor's response we decide whether the matter needs no further action, whether it should be included in our annual audits or whether it will be investigated further to form the basis of a public audit report.

In 2007/08, we received 216 items of correspondence which compares with 527 the previous year. The 2006/07 figure included 284 repeat items relating to East Lothian Council and Glasgow Housing Association. When these are excluded the year on year volume is similar.

Audit Scotland met its target of acknowledging correspondence within ten working days in 87 per cent of cases; and in 74 per cent of cases we met our target of providing a full response within one month of the date of acknowledgement. This compares with 97 per cent and 90 per cent respectively in 2006/07. As a result we have reviewed our correspondence processes and from April 2008, correspondence is centralised under the control of a senior manager.

	05/06	06/07	07/08	
Response times for correspondence from members of the public concerning potential audit issues	Numbers of Correspondence	187	527	216
	Acknowledgements	95%	97%	87%
	Full response	86%	90%	74%

Management Commentary

Maximising the value of the audit

Refining the audit

Sector planning

This year we continued to review and develop our approach to how we plan the audits for each sector. This is to make the most efficient and effective use of our organisation-wide resources. We are committed to further improvement in our partnership working between our Audit Services Group, our Public Reporting Group and the private firms to avoid duplication and overlap. Our sector plans follow, and underpin the achievement of the corporate plan, and last three years with annual updates to reflect changes to the environment in which we work.

The current sector plans for local government, central government and the NHS were internally published and cover the period 2007-10. The plans which replaced the previous versions reflect: the changed priorities of the new Scottish government; the outcomes of the Crerar review; the introduction of the concordat in local government; the proposal for NHS boards to be elected; and the introduction of the international financial reporting standards.

Improving efficiency and effectiveness

Audit Scotland is committed to delivering an efficient and effective public audit service, ensuring best value in everything we do. This involves a commitment to continuous improvement and to maximising the value that clients and stakeholders receive from the audit process.

This year we set up a business improvement unit in our Audit Services Group with a remit to improve efficiency and effectiveness. This development provides an opportunity to take a strategic view of our management information across the organisation, and to make further links between the two major business groups.

We implemented other changes and improvement initiatives during 2007/08 which are aimed at bringing efficiency, effectiveness and quality gains in the future. These include:

- a new approach to resource management in our Audit Services Group to deliver reduced use of agency staff and more consistent quality, and a new quality system that increases the efficiency and effectiveness of our work
- a cross-sector approach to professional development that increases the efficiency and effectiveness of our work in relation to planning and reporting
- implementing and managing a programme of secondments to develop staff and improve quality. External secondments into Audit Scotland have supported our studies – for example, an expert in palliative care joined our team reviewing this sensitive area.

Maximising our impact through sharing knowledge with others

We continually seek to increase the impact of our work by contributing to external bodies and forums where we share the knowledge and expertise gathered during the course of our work.

Our involvement in external bodies and forums provides the opportunity for us to listen to the experiences of those managing, delivering and using public services. This helps us continue to focus on the issues that really matter to public services in Scotland

In 2007/08, Audit Scotland staff presented to more than 50 external seminars, conferences, training events and to overseas visitors to Audit Scotland. Examples include:

- Scottish Government national procurement conference
- presentation to Heriot Watt university students on auditors' perspective on financial systems
- presentation to the NHS Lothian Board on Best Value.

Management Commentary

We remain committed to making the most of what we know and do and will continue to find new ways to share our experience more widely.

We aim to contribute fully to the development of public sector finance and scrutiny through our membership and contribution to external bodies and groups. During the year 52 members of our staff served on 54 external bodies and working groups. Examples of our involvement in bodies and groups are:

- Chair of CIPFA in Scotland (part year)
- Member of the CIPFA Board for regions
- NHS corporate governance and audit group
- Treasury Steering Group on Government Accounting
- Financial Reporting Advisory Board
- Cabinet Office Civil Contingencies Regulatory Forum
- Senior Strategic Steering Group on Police Performance
- Scottish Advisory Board on Gender Equality Duty
- ICAS audit and assurance committee.

Applying Best Value within Audit Scotland

In its Corporate Plan for 2007-10, Audit Scotland restated its commitment to continuous improvement and demonstrating best value in the way it conducts its business.

In 2007/08 we began internal Best Value reviews on our management of health and safety, and the use of internal resources. The reviews are ongoing and results will be reported in 2008/09.

Diversity and equality

Diversity and equality at Audit Scotland

Valuing diversity and promoting equality of opportunity are seen as core best practice for modern day organisations. Audit Scotland has an opportunity as an employer, a public body, an auditor and service delivery agent to the Auditor General and the Accounts Commission to take a leading role in the promotion and application of best practice in equality of opportunity and diversity.

During 2007/08 Audit Scotland:

- designed a module which specifically dealt with the application and promotion of equality within our management development programme. To date 57 senior managers have completed or part-completed this module
- introduced an online equality and diversity programme consisting of three modules and a comprehension and understanding test. The majority of staff have now completed the programme with the remaining due to complete in 2008/09. Results showed that managers and staff achieved high scores of 94 per cent and 92 per cent respectively
- included the concept of respect and understanding differences in a Customer Services programme for our front line staff
- started work to expand our current, three equality duties to additionally cover age, sexual orientation and religion and belief and to shape into one overarching equality scheme. This work will continue next year
- included equalities as a strand within the review of our staff competencies framework. This will ensure we measure performance on the delivery of appropriate individual, team and organisational equality objectives

Management Commentary

- started trialling the Scottish Government's equality impact assessment tool to help us consider the impact on different equality groups in a more robust way
- improved accessibility to our information and reports through the redesign and implementation of our new Audit Scotland website. The development benefited from the contribution of the Royal National Institute of Blind People who conducted an accessibility audit for us.

Our staff profile is as follows:

- Gender - 50% male; 50% female
- Ethnicity - 98.6 % white; 1.4% minority ethnic
- Age < 25 - 3.7%
- Age 25 - 34 - 28.6%
- Age 35 - 44 - 32.0%
- Age 45 - 55 - 26.2%
- Age > 55 - 9.5%

Mainstreaming diversity and making it a part of our work

Our Project Management Framework requires us to consider in-house any potential equalities issues at the scoping stages of every public reporting study. We also send copies of all study briefs to the main equalities organisations for comment as part of the normal consultation process for each study. When a study has significant equalities issues, we involve relevant experts at key stages of the study.

We produced a guidance document on how to make diversity and equality issues an intrinsic part of our public reports. The booklet, *Building diversity into our work*, gives technical advice to our report teams on areas including: identifying diversity issues; designing surveys that will get information from hard-to-reach groups and cover D&E issues; and relevant aspects of design, presentation and report writing.

An example of how we have addressed equality and diversity issues in our work in 2007/08 was our report *Managing long-term conditions*, published in August 2007.

The study team arranged venues for focus groups with people with a specific long-term condition that were near public transport links (and reimbursed travel expenses) to ensure that participants didn't need to have ready access to a car in order to attend. The venues for the focus groups all had wheelchair access; an important consideration in encouraging patients with disabilities to attend and have their views heard.

Building an effective and efficient organisation

Training our staff and developing our leaders

Developing staff, professional training and learning opportunities

We work to ensure that our people are effective, confident and able to deliver for our clients and stakeholders. Our Personal Development Scheme (PDS) is one of the primary vehicles for providing performance feedback and identifying training and development needs of our staff. Our PDS is now fully embedded, which means that all members of staff benefited from at least one formal appraisal meeting during the year with their manager.

In 2007/08 our staff received about nine days of training and personal development per person. This development ranged from formal training courses to self development through reading work-related articles.

Management Commentary

This year saw the continuation of the Management Development Programme begun in 2006 with a further 25 managers starting the programme. Fifty-seven senior managers have now taken part and the course will continue into 2008/09.

A new skills-building course was designed and piloted this year and is currently being rolled out to all first-line managers.

We also developed our staff in a range of technical and support skills, including diversity and equality, health and safety, information technology, Freedom of Information and customer care.

More than 100 staff members received training in preparation for the new International Financial Reporting Standards (IFRS) at four two-day courses in Glasgow, Edinburgh, Bridge of Allan and Perth. The training was delivered in partnership between CIPFA and PricewaterhouseCoopers and the course content was designed in consultation between the trainers and members of our Audit Services Group.

There were 29 auditors and trainees working towards their ACCA and CIPFA qualifications this year.

Investors in People (IiP)

The IiP standard fully embraces the ethos of continuous improvement and represents a useful framework with which to assess our progress and priorities.

In 2007/08 we conducted some preliminary work to assess our performance and development strategies against the IiP standards. This will inform our strategy for progressing towards IiP accreditation in 2008/09.

Managing our resources

Efficiency and effectiveness

During 2007/08 we undertook a number of initiatives to improve our efficiency, effectiveness and best value. We:

- implemented a new print contract for Audit Scotland's publications. In this first full year of the contract there was an overall cost and efficiency saving of £28,000 in the print budget for 2007/08, with further savings to be made over the duration of the contract
- continued to publish the local government SPI data on the Audit Scotland website only, resulting in annual re-occurring saving of £28,000 to Audit Scotland. This e-approach to publication has allowed us to publish the SPI data earlier each year, and improved our ability to meet the needs of our stakeholders who use this data for assessing performance and benchmarking progress
- conducted a review of our business insurances and stationery buying arrangements. As a result we have saved approximately £37,000 this year on insurance and have put in place a contract for stationery which will give combined insurance and stationery annual reoccurring savings of approximately £80,000. In addition we believe the new stationery contract will accrue efficiency savings in staff time
- refurbished our office at 18 George Street to increase the effectiveness of the floor space and utility usage. Staff desk capacity has been increased from 50 to 80 units; lights were fitted with movement sensors to reduce power consumption and toilets were fitted with dual flush controls to reduce water usage
- re-organised the administration support within the Audit Services Group reducing staff numbers by 2.5 w.t.e. which generated a saving of £54,000.

Management Commentary

Information and knowledge management

In early 2007/08 we updated our intranet system to enable better sharing and searching for information across Audit Scotland.

In 2007/08 we continued to build on our electronic document and records management system project by appointing a corporate project officer to support the project and to help ensure we clear out our old information and put our policies and procedures into practice. The way we hold and manage information has changed. Since the appointment of the project officer 6 per cent of our information is now held in public areas up from 38 per cent.

Internal Audit of systems processes and quality

During 2007 the Audit Scotland Board undertook a competitive tendering process for internal auditing services. RSM Bentley Jennison was appointed by Audit Scotland's Audit Committee as the sole provider of internal audit services until 2010. Bentley Jennison commenced their work on our systems and processes by interviewing senior staff and developing an Audit Needs Assessment Periodic Plan covering the next three years.

Internal audits were conducted on Corporate Governance, Information Technology, Key Financial Systems and Risk Management.

Reviewing performance information

Performance is monitored and reviewed at a personal, team, sector and organisational level and reported to Audit Scotland's management team and Board on a quarterly basis. This annual report is based on our corporate performance information.

Audit Scotland joined with the other UK audit bodies to develop performance indicators for public sector corporate services. The indicators were launched in May 2007 in a report called *Value For Money in public sector corporate services*. The indicators will enable comparisons to be made between the performance of public bodies on corporate matters such as sickness, absence, IT and finance. Benchmarking data was recorded from the 2006/07 year and will be compared in 2008/09 against this financial year.

Sickness levels were, on average, 8.11 days per employee (compared with 5.3 days in 2006/07). This compares favourably with the average days lost per employee/annum in public services of 10.3 days.

Developing our new finance system

A new finance system has now been fully implemented and we have developed web-based financial reporting which allows managers access to live information on their budgets. These have resulted in:

- being able to close the month end accounts one week earlier each month thereby achieving our internal performance target
- allowing managers to resolve queries and make financial decision more quickly without the need for finance staff input
- a reduction in workflow interruption, due to queries, within the finance team.

In 2007/08 we also began developing a web based purchase order process which will enable us to comply better with the requirements of the McClelland report on public sector procurement.

Initial development work began this year to identify efficiency and effectiveness savings through better integration of the finance system with payroll and our human resources systems. Work in this area will continue in 2008/09.

We continued with our target for the payment of invoices within 30 days. We achieved 88% within the target time, up from 84% in 2006/07.

Management Commentary

Information Regulations and Legislation

We recognise the value of openness and transparency and the potential public interest in the information we hold. A wide range of information is available through our publication scheme, details of which can also be found on our website.

We have improved the efficiency and effectiveness of the way we manage and handle information requests by extending the remit of our Freedom of Information Group to encompass the Environmental Information Regulations, the reuse of public sector information, and the Data Protection Act.

When information that we hold is requested, it is our normal policy to supply it. When the request for information is less straightforward we keep a log of it and have a formal process, for dealing with such enquiries. This includes consideration by a small internal panel. We logged eleven such Freedom of Information requests, details of which can be found on our website at www.audit-scotland.gov.uk. There were no Environmental Information or Data Protection requests in 2007/08.

FOI requests which required a panel decision:

05/06 - 9
06/07 - 13
07/08 - 11

Sustainability

Audit Scotland is committed to sustainability. We try to reduce the impact of our work on the environment by focusing on the key areas where Audit Scotland has its biggest environmental impact.

The highlights of our work in 2007/08 to reduce our impact on the environment were:

- the printing of our published reports on paper exceeded our target of having an 80 per cent recycled fibre content. We also managed to reduce our internal paper consumption this year by seven per cent from our 2006/07 usage
- the installation of recycling containers for plastic bottles, milk cartons, aluminium cans and glass in addition to paper. To encourage staff to recycle, the number of general purpose waste bins has been reduced
- working with the British Trust for Conservation Volunteers Scotland as part of our environmental management strategy. Some of Audit Scotland staff spent a day carrying out conservation work on Corstorphine Hill, Edinburgh. A seminar was delivered by a spokesperson from the World Wide Fund for Nature (WWF) on the subject of Scotland's environmental footprint, which was well attended
- introducing technology into our offices to allow us to video conference with other bodies to reduce the need to travel.

Further work and effort is required in a number of our environmental targets:

- Our use of less-environmentally friendly methods of transport:
 - we targeted a reduction in the number of miles we travelled on business but our mileage has increased by approximately one per cent over the last year
 - we targeted a reduction in our use of taxis. However after an initial reduction our usage has increased by approximately six per cent. We are examining the reasons for this.
- More work needs to be done on our utility infrastructure so that we can more accurately record our usage, analyse trends and identify reductions.

Management Commentary

Developing technology

We continued to develop new systems and focused on getting the most from our existing technologies. For example, we:

- implemented a new time recording system, allowing us to monitor and report more accurately on time and cost information
- concluded the roll out of our new telephony system which improves the service for external and internal callers and keeps call costs down
- developed a new financial management information system which allows real time online access to financial reports and information
- implemented a new intranet which facilitated improved information and knowledge sharing
- revised and re-launched Audit Scotland's website. The site has an improved design with clearer navigation and better accessibility and it is easier for non-technical staff to update the site than in the past. Between re-launching the site in September 2007 and the end of March 2008 there were 313,872 visits to the site, 62,148 total PDF and RTF downloads and 5,057 total podcast downloads.
- replaced all our aging printers with multi-functional devices to improve our efficiency and effectiveness and to control costs. This will deliver printing cost savings of about 60 per cent and savings in electricity usage of about 60 percent
- implemented enhanced systems to improve our IT management, work flow and disaster recovery capabilities
- have now connected 26 audit sites to the Audit Scotland network, allowing auditors to spend more time on client sites and work more effectively with their technology.

Management Commentary

Our organisation

Our People

Audit Scotland's senior management

Robert Black

Auditor General and Accountable Officer for Audit Scotland

Caroline Gardner

Deputy Auditor General and Controller of Audit

Caroline manages the Audit Services Group and the Public Reporting Group

The Audit Services Group carries out the audits of public sector bodies in Scotland. Caroline works with the audit services directors to support high standards of governance and accountability in public services, and to encourage performance improvements.

The Public Reporting Group carries out performance studies of public services and audits of Best Value in councils. They also produce overview reports on health, local government and central government policy areas, and investigate issues of public concern.

Russell Frith

Director of Audit Strategy

Russell is responsible for audit procurement, fees and income, auditing and accounting standards, technical support and quality assurance.

Diane McGiffen

Director of Corporate Services

Diane manages the corporate development of Audit Scotland. She leads on business planning and performance reporting and heads up the following services: human resources and organisation development, information services, finance, facilities management and communications.

Sector management

Audit services: our directors of Audit Services, **Fiona Kordiak** and **Lynn Bradley**, are responsible for the in-house audit services we provide to the health, central government and local government sectors, including the audit of financial statements, governance and performance management.

Public reporting: our directors of Public Reporting, **Barbara Hurst** and **David Pia**, are responsible for investigating issues of public concern, and producing overview reports and performance studies across the health, central government and local government sectors and Best Value audits for local government.

Staff statistics

- Audit Scotland employed an average of 278 whole time equivalent staff in 2007/08
- 52 Audit Scotland staff served on external bodies and working parties
- 57 senior managers have been through the Management Development Programme
- Audit Scotland staff attended 250 Audit Committees in 2007/08
- Audit Scotland Auditors produced 530 separate reports for public bodies in 2007/08

Management Commentary

Our governance

Board

John Baillie

Chair of the Board and chair of Accounts Commission

Phil Taylor

Non-executive board member

Isabelle Low

Deputy Chair of Accounts Commission

Robert Black

Auditor General and Accountable Officer for Audit Scotland

Caroline Gardner

Deputy Auditor General and Controller of Audit

Catherine Coull is Secretary to the Audit Scotland Board, and is also responsible for legal and procedural advice.

The board oversees Audit Scotland's work. The board has an audit committee which appoints our internal auditors and receives our annual accounts and internal audit reports.

The board also has a remuneration committee which sets and reviews the salaries of senior staff (excluding the Auditor General for Scotland whose salary is set by the Parliamentary Corporate Body) and the main terms and conditions for all staff.

Accountability to Parliament

Scottish Commission for Public Audit

Audit Scotland is held to account through statutory arrangements put in place by the Scotland Act 1998 and through the Public Finance and Accountability (Scotland) Act 2000. The Scottish Commission for Public Audit (SCPA) is central to these arrangements. The SCPA is a committee of five MSPs that meets in public. It scrutinises our budget, annual report and accounts and appoints our external auditor.

SCPA membership*:

Angela Constance (Convener)

Robert Brown

Derek Brownlee

George Foulkes

Hugh Henry

*Correct as of June 2008

The SCPA met four times during 2007/08. At those meetings, the commission considered Audit Scotland's annual report and accounts for 2006/07 and our budget proposals for 2008/09. We also provided the commission with updates on our progress against our 2007/08 budget.

The commission has also asked HW Chartered Accountants, the external auditors of Audit Scotland, to carry out a follow-up review to a previous commission report on our fees and charges.

Internal and external audit

Our external auditors are appointed by the SCPA, who are currently HW Chartered Accountants.

Our internal auditors are RSM Bentley Jennison.

Neither our internal or external auditors have any other professional relationships with us.

Management Commentary

Financial Performance

Financial Summary

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

Audit Scotland's accounts are independently audited on behalf of the Scottish Commission for Public Audit (SPCA), which appointed HW Chartered Accountants to carry out the audit.

The following section provides a summary of selected items from the accounts. The full accounts are published on pages 30 to 54 and are available on our website www.audit-scotland.gov.uk.

A summary of income and expenditure

The task of auditing Scotland's public bodies has expanded greatly since 2000. In 2007/08, Audit Scotland spent £25 million on services for the Auditor General and the Accounts Commission; this is less than 0.1% of the £31 billion spent by the bodies that are audited. The majority of these costs are recovered through charges to these organisations with the balance received as direct funding from the Scottish Parliament.

2007/08 Financial Results

In 2007/08 income earned from audited bodies and miscellaneous income was £20,106k. Expenditure in the same period was £25,024k with the resulting Net Operating Costs totalling £4,918k. These costs which were met from direct funding received from the Scottish Parliament were £3,208k less than the agreed budget of £8,126k.

Of the £3,208k above, £423k related to accounting benefits arising from compliance with Financial Reporting Standard 17 on Pensions and a further £997k was in respect of funding that was planned to be used in 2007/08. Increased income levels £586k (both fees charged to audited bodies and miscellaneous income), lower staff costs – including secondment income £413k, reduced property and depreciation charges £343k, printing £92k, insurance £42k and lower expenditure on external legal and consultancy support £240k were the main contributors to the balance.

Income levels in 2007/08 were £1,244k more than the previous year. Fee income was £1,095k higher than last year as a result of increased levels of work completed in the year and the effect of price increases. Additionally rebates totalling £500k were made to funding bodies in 2006/07. Miscellaneous income was £149k more than the previous year as a result of higher bank interest earned and increased recoveries for staff on secondment to other organisations.

Expenditure in 2007/08 was £106k higher than in the previous year. Increased staff costs including pension movements of £328k (+2.4%) and fees and expenses paid to appointed auditors of £64k were partly offset by lower overhead costs £286k. Within overheads the main category of cost reduction was staff training - in 2006/07 high levels of expenditure was recorded as a result of senior management leadership and middle management development training programmes being established.

Management Commentary

Sources of income

Most income is from charges to audited bodies and can be broken down as shown in the table below.

Income	2007/08		2006/07	
	£000	% total	£000	% total
Fees paid by local authorities	12,578	62	11,425	61
Fees paid by health bodies	4,142	20	4,067	22
Fees paid by Scottish Water	181	1	230	1
Fees paid by further education colleges	528	3	600	3
Fees paid by Scottish Government & sponsored bodies	1,579	8	1,591	8
Bank interest	196	1	147	1
Miscellaneous	346	2	248	1
Other finance income (pensions)*	556	3	554	3
Total	20,106	100	18,862	100

* Other finance income is comprised of income from expected returns on the local government pension scheme assets less the interest payable on the scheme liabilities

Other revenue funding	2007/08		2006/07	
	Required £000	Available £000	Required £000	Available £000
Direct Funding from Parliament	4,918	8,126	6,056	8,472

Analysis of expenditure

In 2007/08, 79 per cent of expenditure was spent on staff and fees to auditors. This compares with 77 per cent in the previous year.

Expenditure	2007/08		2006/07	
	£000	% total	£000	% total
Staff and members' costs	13,927	56	13,599	55
Fees and expenses paid to appointed auditors	5,669	23	5,605	22
Buildings, rent and depreciation	1,871	7	1,782	7
Operating costs	3,557	14	3,932	16
Total	25,024	100	24,918	100

Management Commentary

Appendix One: Where we fit in

Audit Scotland

Audit Scotland exists to provide services to the Auditor General for Scotland and the Accounts Commission, allowing them in turn to provide assurance to the Scottish Parliament and ministers that public money is being spent appropriately.

Auditors report the detailed findings of audits directly to the bodies they audit. In 2007/08, together with the private firms, we produced 201 final audit reports, which set out in detail the findings, conclusions and recommendations of the auditor. All of our reports are made public. Final audit reports are based on evidence and provide an opinion on public bodies' financial statements, performance and governance arrangements.

Audit Scotland also produces overview reports showing how different sectors perform during each financial year. We have recently extended our overview reporting to cover major policy areas, such as transport. In 2007/08, we published sector overviews of the NHS and local authorities.

We also produce reports that look at performance and value for money, either in an individual organisation or across a sector or sectors. For more information on our performance reports, turn to Appendix 2 (Audit Scotland's public performance reports).

The Auditor General for Scotland

The Auditor General for Scotland (AGS) is a Crown appointment, made on the recommendation of the Scottish Parliament. It is an independent position and not subject to the control of the Scottish Government or the Scottish Parliament.

The AGS is responsible for the audit of the Scottish Government and most other public sector bodies, except for local authorities and fire and police boards. He also performs the comptroller function in Scotland, which involves him formally approving the release of funds from Westminster to the Scottish Government.

The AGS reports to the Scottish Parliament on the proper, efficient and effective use of public funds. With the support of Audit Scotland, he also delivers a programme of performance audits to Parliament, after consultation with Parliament and other stakeholders.

The accountability process for reports to the AGS

The Auditor General can report to Parliament under Sections 22 and 23 of the Public Finance and Accountability Act (Scotland) 2000. After Audit Scotland prepares such a report for the Auditor General, he presents that report to Parliament and it is published.

The audit committee of the Scottish Parliament can then hold evidence sessions to explore the issues detailed in the Auditor General's report. Typically, the committee will question senior officials, including the relevant accountable officer, and can call ministers to give evidence.

Having taken evidence, the audit committee publishes its own report, with detailed recommendations aimed at ensuring lessons are learned. Where appropriate, the Scottish Government responds to the audit committee report by publishing its response and action plan for each recommendation.

Other committees of the Scottish Parliament can and have used Audit Scotland reports in their work.

Management Commentary

The Accounts Commission

Accounts Commission members are appointed by Scottish ministers following a public appointments process. The Commission is independent of local authorities and of the Scottish government. The Accounts Commission publishes its own annual report which is available at www.audit-scotland.gov.uk/accounts

The Commission is responsible for the audit of all local authorities and associated bodies (such as fire and police boards). It also supports improvement in local government and ensures councils are achieving best value. Each year, the Commission publishes information on how councils are performing against a number of indicators, which allows elected members and the public to compare performance within and across councils. The Commission can make recommendations and reports to ministers. The Commission also has powers to take action against councillors and council officials if they break the law or if their negligence or misconduct leads to money being lost.

The accountability process for reports to the Accounts Commission

Local government reports, including Best Value audits, are prepared by Audit Scotland under the direction of the Deputy Auditor General, who acts as the Controller of Audit. Reports are presented to the Accounts Commission and published. Having received a report from the Controller of Audit, the Accounts Commission can:

- report and make recommendations to the organisation being scrutinised
- hold a hearing
- report and make recommendations to Scottish ministers.

Working with scrutiny partners

Audit and inspection bodies must work effectively together to minimise the burden of scrutiny and maximise the value gained from all of our work. An independent audit function is a key element of the accountability framework in public services and helps maintain trust in public services, public servants and elected representatives.

Audit Scotland and other bodies put a significant amount of effort into working together to streamline our scrutiny of public services. We have agreed ways of working with our scrutiny partners, such as NHS Quality Improvement Scotland (NHS QIS) and the Scottish Public Services Ombudsman. These agreements set out each body's powers and responsibilities, and arrangements for joining up audit and review in public bodies where it is appropriate to do so. We also have a track record of joint work with inspectorates and other bodies, such as joint inspections of education authorities with Her Majesty's Inspectorate of Education (HMIE), and joint studies with HMIE, Her Majesty's Inspectorate of Constabulary and NHS QIS.

Where possible, we also seek to reduce the scrutiny burden on public bodies and avoid duplication of effort by sharing data. For example, in 2007/08 we liaised with Lord Sutherland when producing our report on free personal and nursing care to ensure we did not overlap with his review of the policy and thus place more burden on councils.

Audit Scotland is in regular contact with the other public audit agencies in the UK: the National Audit Office, the Audit Commission, the Wales Audit Office and the Northern Ireland Audit Office. Audit Scotland takes a full part in the Public Audit Forum (PAF), a body formed by the agencies in the four UK nations and the Republic of Ireland, to provide a focus for: developing public audit, making public audit more efficient and effective, advising on common technical problems and sharing good practice.

During 2006/07, the Scottish Executive commissioned an independent review, led by Professor Lorne Crerar, of the country's scrutiny bodies. The review looked at the arrangements for delivering audit, inspection, regulation and complaints handling in Scotland and reported in the summer of 2007. For more information, please turn to page 8 in the Our Performance section for details of the Crerar Review, the Scottish Government's response and Audit Scotland's actions.

Management Commentary

Appendix Two: Audit Scotland's public performance reports

Across-government reports

Improving the school estate - March 2008

Billions of pounds have been spent over the past decade on over 200 new schools and many school improvements. The Scottish Government and councils need to draw up detailed plans to ensure all the remaining schools are fit for 21st century education.

A review of free personal and nursing care - February 2008

Free personal and nursing care needs to be better planned, managed and funded for it to continue to benefit older people in the future. Demand will grow with the projected increase in the older population in Scotland.

Police call management - An initial review - September 2007

Scotland's police receive almost 16,000 calls a day and people are generally satisfied with the service when they call 999 or a non-emergency number. However, forces cannot show whether new systems they have installed are delivering value for money.

Sustainable waste management - September 2007

There has been a huge increase in the number of recycling schemes, services and facilities. But to meet EU Landfill Directive and Scottish Government targets, councils need to increase their recycling rates and achieve rapid reductions in the volumes of waste going to landfill.

Dealing with offending by young people: performance update - August 2007

Increased funding and a stronger focus on youth justice services over recent years has delivered some positive changes. However, it is still not possible to demonstrate clearly that resources provide value for money and are being used effectively

Managing long-term conditions - August 2007

The NHS in Scotland can improve the care it gives to people with long-term illnesses by better targeting resources, further developing community-based services and driving a national strategy.

Central government reports

Estate management in higher education - September 2007

There needs to be a sustained commitment to maintaining and developing Scotland's higher education estate, which is worth almost £5 billion.

Edinburgh transport projects review - June 2007

This reviewed the arrangements for managing the delivery of the Edinburgh trams and Edinburgh Airport Rail Link (EARL) projects.

Management Commentary

Health reports

Overview of Scotland's health and NHS performance 2006/07 - December 2007

The performance of the NHS is improving against key targets and boards are managing their finances better. However, the service needs to improve performance reporting so the impact of public spending is clear.

Overseas staff in the NHS – pre-employment checks - November 2007

This report looked at whether NHS boards were following their own procedures on pre-employment screening of staff recruited from outside the European Economic Area.

Primary care out-of-hours services - August 2007

Most patients are satisfied with NHS out-of-hours care. But fewer GPs are working during the out-of-hours period and there is a significant risk the service is unsustainable in its current form.

Local government reports

The Audit of Best Value and Community Planning

West Dunbartonshire Council - progress report - January 2008

In this follow-up study to the previous year's Best Value report, the Accounts Commission acknowledges the council's increased commitment to continuous improvement and the progress made by the council within a fairly short timescale.

East Lothian Council - October 2007

East Lothian Council is performing just below the Scottish average, and has made limited progress in establishing Best Value. The Accounts Commission said that the council has a very good opportunity to introduce change to address the major issues it faces.

Clackmannanshire Council - September 2007

Clackmannanshire Council faces a number of significant challenges specific to its situation.

The Moray Council - progress report - August 2007

In this follow-up report the Accounts Commission acknowledged improvement in the council's corporate leadership and strategic direction, but said that there are still areas of concern.

During 2007/08 we also submitted a Best Value report on **Aberdeen City Council** to the Accounts Commission. The commission has chosen to hold a hearing on the issues raised in the report.

Other local government reports

Overview of the local authority audits 2007 - February 2008

In this annual review of the issues facing local authorities the Accounts Commission recognised the improvement achieved by local government in Scotland. It highlights progress in services and the need for an increased focus on key areas to meet the challenges ahead.

Management Commentary

Local authority performance information website - December 2007

The Accounts Commission has a statutory responsibility to specify information that councils must publish about their performance, in the form of statutory performance indicators. The Commission then publishes information about the comparative performance of councils, police forces and fire and rescue services across Scotland. These can be found at <http://www.audit-scotland.gov.uk/performance/>

East Lothian Council: Departmental reorganisation and voluntary redundancy of the Chief Executive - June 2007

This report looked at the departmental reorganisation and voluntary redundancy of the chief executive at East Lothian Council. The process fell a long way short of the standards expected of public bodies. The Accounts Commission emphasised the wider lessons to be learned.

Section 22 reports

The Mental Health Tribunal for Scotland Administration (MHTSA)

During 2006/07, the MHTSA did not have appropriate governance in place. While it had made progress from the previous year, it still needs to improve in order to meet good governance standards.

Western Isles Health Board

The board's cumulative debt was at £3.36 million at the end of 2006/07, and its financial recovery plan is unrealistic. There were also serious weaknesses in the board's corporate governance arrangements, and significant failings in clinical governance and risk management.

Scottish Arts Council

The council paid £70,000 to its former chief executive in 2006/07 to terminate his employment. The council did not seek approval from the then Scottish Executive prior to the payment, as the Scottish Public Finance Manual stipulates.

Scottish Water

This S22 was an update to Parliament on the Auditor General's 2005 report *Overview of the water industry in Scotland*. It reported on Scottish Water's efforts to cut operating costs and generate savings, and the impact on household water bills. It also updated the body's progress on its capital investment programme and its customer performance.

Other documents

Quick Guide to Audit Scotland, the Auditor General and the Accounts Commission - February 2008

An updated introduction to our role in public audit and the relationship between these three bodies.

Audit Scotland Disability Equality Annual Report 2007 and Accounts Commission Disability Equality Annual Report 2007 - both December 2007

A review of the steps we have taken to fulfil our disability equality duties

Management Commentary

Priorities and Risks Framework - 2007/08 National Audit Planning Tool for Local Government and

Priorities and Risks Framework: A national planning tool for 2007/08 NHS Scotland audits - November 2007

The Priorities and Risks Framework (PRF) is a tool for auditors to use when planning the audits. It is an annual document which summarises the key national priorities and risks which face public bodies in the coming year.

Equal Pay Review - October 2007

Health and community care bulletin - October 2007

The bulletin primarily aimed to share information with non-executive health board members and elected members of councils. It also provided a summary of our work of interest to staff working in health and community care services.

Equal pay statement - September 2007

Independent review of the Best Value Audit process - July 2007

This report was commissioned by the Accounts Commission as part of its wider review of the progress of the Best Value and Community Planning council audits. The study was undertaken by a team from Cardiff and Edinburgh Universities and was based on consultation with stakeholders.

Audit Scotland Gender Equality Scheme - June 2007

The scheme contained an action plan and a prioritisation of Audit Scotland's policies and activities for impact assessment.

Accounts Commission Gender Equality Scheme - June 2007

An action plan and a prioritisation of the Accounts Commission's policies and activities

Audit Scotland Race Equality Scheme - June 2007

A review of the previous scheme's action plan, an updated action plan and a prioritisation of Audit Scotland's policies and activities for impact assessment.

Accounts Commission Race Equality Scheme - June 2007

A review of the previous Scheme's action plan, an updated action plan and a prioritisation of the Accounts Commission's policies and activities

Audit Scotland Annual Report and accounts 2006/07 - June 2007

Accounts Commission Annual Report 2006/07 - June 2007

Value For Money in public sector corporate services - May 2007

Audit Scotland joined with the other UK audit bodies to launch indicators to enable comparisons to be made between the performance of public bodies on corporate matters such as sickness absence and finance.

Remuneration Report

Remuneration Committee

The remuneration of senior managers is determined by Audit Scotland's Remuneration Committee. The membership and remit of the Committee are set out in Standing Orders as follows:

The Remuneration Committee will consist of a member or members of the board who are not employees of Audit Scotland. The board may appoint persons who are not members of the board to be members of or advisers to the Remuneration Committee, and may pay them such remuneration and expenses as the board decides.

The purposes of the Remuneration Committee are

To keep under review and make recommendations to the Board on

- Arrangements for the fixing of levels of remuneration and conditions of service for all employees of Audit Scotland
- General adjustments to remuneration and conditions of service affecting all employees
- Fixing of annual salary and other conditions of service of the Deputy Auditor General, Secretary and Management Team Directors.

The members of the Remuneration Committee during the year were:

- Chairman – P Taylor
- Member – A MacNish (until 30th September 2007)
- Member – J Baillie
- Member – I Low (from 28th November 2007)
- Member – R Black

In setting salary levels the Remuneration Committee has regard to the following considerations:

- the need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities
- regional/local variations in labour markets and their effects on the recruitment and retention of staff
- Government policies for improving the public services including the requirement to meet the output targets for the delivery of services
- the funds available subject to any expenditure limits
- other relevant Government policies or targets.

The Committee takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations.

Remuneration Report

Audit Scotland Board

Under the provisions of schedule 2 of the Public Finance and Accountability (Scotland) 2000 Act the Auditor General, the Chairman of the Accounts Commission and any employee of Audit Scotland or member of the Accounts Commission are not entitled to any remuneration in respect of their membership of the Audit Scotland Board. The remuneration of the independent member of the board fell within the band £5,000 to £10,000.

Senior Management

The salaries paid (including any overtime and bonus payable, but excluding employer's superannuation and national insurance contributions), pension entitlements (including the annual increase in real terms) and benefits in kind of the most senior managers of Audit Scotland during the year ended 31 March 2008 were in the bands shown as follows:

			R Black	C Gardner	R Frith	D McGiffen
			<i>Auditor General</i>	<i>Depute Auditor General</i>	<i>Director of Audit Strategy</i>	<i>Director of Corporate Services</i>
Salary	2007~08	£000	135 - 140	125 - 130	90 - 95	85 - 90
	2006~07	£000	135 - 140	120 - 125	85 - 90	85 - 90
Estimated value of benefits in kind <i>Note (i)</i>	2007~08	£	-	-	-	3,600
	2006~07	£	-	-	-	3,600
Real increase in value of accrued pension		£000	See Note 3c	2.5 - 5.0	0 - 2.5	0 - 2.5
Value of total accrued pension as at 31 March 2008		£000	See Note 3c	30 - 35	15 - 20	15 - 20
Lump Sum		£000	See Note 3c	100 - 105	45 - 50	50 - 55
Cash equivalent transfer value (CETV) as at 31 March 2007		£000	See Note 3c	371	236	198
Cash equivalent transfer value (CETV) as at 31 March 2008		£000	See Note 3c	446	293	222
Real increase in CETV <i>Note (ii)</i>		£000	See Note 3c	63	18	21

Notes

- (i) The estimated value of benefits in kind relates to the provision of vehicles. Values to the nearest £100.
- (ii) This is calculated after adjustment for inflation and changes in market investment factors.

Remuneration Report

Senior Management (continued)

Further information on the pensions payable to Audit Scotland staff, including the senior management, can be found in Audit Scotland's Annual Accounts (see Note 3).

Service Contracts

Senior managers hold appointments which are open-ended until they reach normal retirement age. Early termination, other than through misconduct, would result in the individual receiving compensation.

The Auditor General for Scotland is not an employee of Audit Scotland but is a Crown appointment following nomination by Parliament. His salary is determined by the Scottish Parliamentary Corporate Body.

Accounts Commission

Members of the Accounts Commission are not employed by Audit Scotland and a detail of their remuneration is not required under the policy outlined in the Financial Reporting Manual. The following information is included for information and to assist the reader of the report.

The average number of Members of the Commission throughout the period was 12 and their remuneration was as follows:

	Remuneration Banding
	<i>£000</i>
Chairman - Mr A MacNish (until 30 th September 2007)	10-15
Chairman – Mr J Baillie (from 1 st November 2007)	10-15
Depute Chair	10-15
Commission Members	0-10

Mr J Baillie was a Commission member prior to his appointment as Commission Chair.

R W Black

Auditor General
Accountable Officer

24 June 2008

Foreword to the Accounts

Statutory Background

Audit Scotland was formed on 1 February 2000 (and commenced operations on 1 April 2000), following the transfer of staff and property from the Accounts Commission and National Audit Office, under the Public Finance and Accountability (Scotland) Act 2000. Part 2 of the Public Finance and Accountability (Scotland) Act 2000 established Audit Scotland as a corporate body.

Basis of Accounts

These are the accounts of Audit Scotland for the year ended 31 March 2008. The accounts have been prepared in compliance with a direction given by the Scottish Ministers in accordance with section 19(4) of the Public Finance and Accountability (Scotland) Act 2000.

Sources of Funding

Audit Scotland may, under Part 2 of the Public Finance and Accountability (Scotland) Act 2000, make reasonable charges to audited bodies in respect of the exercise of its functions. Audit Scotland must seek to ensure that, taking one year with another, its charges for certain types of work are broadly equivalent to its expenditure. Any expenditure not met from charges is payable out of the Scottish Consolidated Fund.

Post Balance Sheet Events

There were no important events occurring after the year-end which fall under the definition of a post balance sheet event.

Pensions and Early Departure Costs

Details about the organisation's pension and early retirement costs are included in the notes to these accounts.

Board and Management

Details of the Board and Management Team are in the Management Commentary and the Remuneration Report.

Staff Relations and Equal Opportunities

Audit Scotland is committed to ensuring that recruitment and management of employees is carried out on merit on the basis of equal opportunity for all. Full and fair consideration is given to applications for employment from disabled persons where they have the skills and abilities to perform the job. Audit Scotland has a race equality scheme and a disability equality scheme.

Audit Scotland recognises the importance of good industrial relations and effective communication with all its staff. Regular meetings are held with staff representatives to discuss matters of mutual interest.

Payment to Suppliers

In line with CBI Prompt Payment Code Audit Scotland has a policy to pay all invoices not in dispute in 30 days or the agreed contractual terms if otherwise specified: 88% (84% 2007) of all invoices for the year were paid on or before the due date.

Foreword to the Accounts

Auditors

Accounts prepared by Audit Scotland 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 HW, Chartered Accountants, as auditors to Audit Scotland for a three-year period commencing March 2006.

So far as I am aware, there is no relevant audit information of which Audit Scotland's auditors are unaware, and I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that Audit Scotland's auditors are aware of that information.

R W Black

Auditor General
Accountable Officer

24 June 2008

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 the 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, resources applied to objectives, recognised gains and losses and cash flows for the financial year.

The Scottish Commission for Public Audit 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 Scottish Commission for Public Audit.

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

- observe the accounts direction including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards, as set out in the FReM, have been followed; and disclose and explain any material departures in the accounts;
- prepare accounts on a going concern basis.

The responsibilities of the Accountable Officer, including responsibility for the propriety and regularity of the public finances for which an Accountable Officer is answerable, for keeping proper records and for safeguarding assets, are set out in the “Accountable Officer’s Memorandum” which is available at www.scotland.gov.uk/Resources/Doc/923/0011293.pdf

Statement on The System of Internal Control

This statement is given in respect of the resource account for Audit Scotland. As Accountable Officer I have responsibility for maintaining a sound system of internal control which supports the achievement of Audit Scotland's policies, aims and objectives whilst safeguarding public funds and Audit Scotland's assets for which I am personally responsible, in accordance with the responsibilities as set out in the "Accountable Officer's Memorandum".

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. No significant weaknesses have been identified.

The system of internal control is based on a continuing process designed to identify the principal risks to the achievement of Audit Scotland's policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them effectively and economically. This process was in place throughout the year to 31 March 2008 and up to the date of approval of the annual report and accounts.

As Accountable Officer, I also have responsibility for reviewing the effectiveness of the system of internal control. Audit Scotland has established the following processes:

- a Board that meets regularly to consider the plans and strategic direction of Audit Scotland (the Board comprises the Auditor General, the Chairman of the Accounts Commission, The Deputy Auditor General and two non-executive members);
- an audit committee and a remuneration committee;
- a corporate risk strategy, and a risk register that is reviewed every six months;
- RSM Bentley Jennison were appointed internal auditors in October 2007. They replaced Chiene and Tait who had been our internal Auditors since October 2001. Our internal auditors report independently on the adequacy and effectiveness of Audit Scotland's system of internal control together with recommendations for improvement. Their internal audit plan is constructed on a risk-based approach;
- regular reports from managers on the steps they are taking to manage risks in their areas of responsibility including progress reports on key projects;
- facilitated workshops for risk awareness training and to identify the risks facing the organisation;
- establishment and development of key performance and risk indicators;

My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and of executive managers within Audit Scotland who have responsibility for the development and maintenance of the internal control framework, and by comments made by the external auditors in their management letter and other reports.

R W Black
Accountable Officer

24 June 2008

Summary of Resources Outturn Year ended 31 March 2008

	<i>2008 Estimate £000</i>	2008 Actual £000	2007 Actual £000
Net Total Costs	8,126	(4,918)	(6,056)
Net Cash Requirement (<i>see below</i>)		7,916	6,904
Reconciliation of resources to Net Cash Requirement			
	Note	2008 £000	2007 £000
Net Operating Cost		4,918	6,056
Capital: Purchase of fixed assets	7	1,362	990
		6,280	7,046
Adjustments			
Non cash items:			
- Depreciation	4	(346)	(255)
- Notional interest on capital	4	(50)	(20)
- Pension scheme - net revenue charge		251	960
- Movement in net pension liabilities		(6,000)	4,867
Opening net debtors/creditors		5,660	(1,700)
Closing net debtors/creditors		205	(5,660)
Creditor due to Consolidated Fund	9	1,916	1,666
		1,636	(142)
Net Cash Requirement		7,916	6,904

Operating Cost Statement Year ended 31 March 2008

	Note	2008 £000	2007 £000
Administration Costs			
People costs	2	(13,927)	(13,599)
Other administration costs	4	(11,097)	(11,319)
Gross administration costs		(25,024)	(24,918)
Operating income	5	19,550	18,308
Other finance income	6	556	554
NET OPERATING COST		(4,918)	(6,056)

Statement of recognised gains and losses (SRGL)

	Note	2008 £000	2007 £000
Actuarial gain/(loss) recognised			
Actual return less expected return on pension scheme assets		(4,366)	257
Experience gains/(losses) arising on pension scheme liabilities		(2)	(1)
Changes in financial assumptions underlying the present value of the pension scheme liabilities		10,117	(6,082)
Total (losses)/gains recognised since last annual report	3	5,749	(5,826)

Balance Sheet As at 31 March 2008

	Note	2008 £000	2007 £000
Fixed Assets			
Tangible assets	7	2,301	1,285
Current Assets			
Debtors	8	2,229	3,142
Cash at bank and in hand		1,916	1,666
		4,145	4,808
Creditors			
Amounts falling due within one year	9	3,739	4,293
Net Current Assets/(Liabilities)		406	515
Total assets less current liabilities		2,707	1,800
Deferred liabilities	10	(4)	(34)
Provision for early retirement	11	(1,593)	(1,787)
Net funded pension asset/(liability)	3	3,313	(2,687)
NET ASSETS/(LIABILITIES)		4,423	(2,708)
<i>Represented by:</i>			
TAXPAYERS' EQUITY			
Net funded pension asset/(liability)	3	3,313	(2,687)
General Fund	12	1,110	(21)
	16	4,423	(2,708)

R W Black
Auditor General
Accountable Officer

24 June 2008

Cash flow Statement

Year ended 31 March 2008

Cash Flow Statement

	Note	2008 £000	2007 £000
Net cash outflow from operating activities	(note a)	(6,655)	(6,154)
Capital expenditure and financial investment	(note b)	(1,261)	(750)
Financing from the Consolidated Fund (supply)	(note c)	8,166	8,116
Increase/(Decrease) in cash in the period		250	1,212

Notes to the Cash Flow Statement

		2008 £000	2007 £000
a) Reconciliation of operating cost to operating cash flows			
Net operating cost		(4,918)	(6,056)
<i>Adjustment for non-cash items:</i>			
- Depreciation	7	346	255
- Notional interest on capital		50	20
- Pension scheme - net revenue (credit)/charge		(251)	(960)
Decrease/(Increase) in debtors		913	4,546
(Decrease)/Increase in creditors		(879)	(2,293)
Adjustment for cash balance due to Consolidated Fund	9	(1,916)	(1,666)
Net cash outflow from operating activities		(6,655)	(6,154)
b) Capital expenditure and financial investment			
Purchase of fixed assets	7	(1,362)	(990)
<i>less</i> movement in accrued expenditure		101	240
		(1,261)	(750)
c) Analysis of financing			
Opening Cash balance payable to the Consolidated Fund		1,666	454
From Consolidated Fund (Supply)		6,500	7,662
Financing from the Consolidated Fund (supply)		8,166	8,116
(Increase)/Decrease in cash		(250)	(1,212)
Net cash requirement		7,916	6,904

Resources by Departmental Aims and Objectives For the year ended 31 March 2008

Aim: To provide high quality support to the Auditor General and the Accounts Commission

Net Operating Cost	Gross Expenditure £000	Income £000	Net Expenditure £000
2008 Actual	25,024	20,106	4,918
2007 Actual	24,918	18,862	6,056

Annual Report and Accounts 2007-08

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 applicable for the year. The particular 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. In accordance with the principles of resource accounting, the gross funding received from the Scottish Consolidated Fund is recorded directly within the General Fund (note 12) and therefore is not included in the operating income received in the year in Schedule 2.

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 for amounts for 2008/09 has already been given and there is no reason to believe that future approvals will not be forthcoming. We have accordingly considered it appropriate to adopt a going concern basis for the preparation of these financial statements.

b) Tangible fixed assets

All property occupied by Audit Scotland is leasehold. The minimum level of capitalisation of a tangible fixed asset is £5,000 for individual or group purchases.

c) 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 normally written off as follows:

<i>Leasehold premises</i>	<i>period of lease</i>
<i>Furniture and fittings</i>	<i>5 years</i>
<i>Computer equipment</i>	<i>2~4 years</i>

d) Amortisation of rent-free periods

The benefit of rent-free periods on leases of premises is amortised over the period of the lease, or over the period until the first break point in the lease, whichever is the shorter.

e) Operating income

Operating income relates directly to the audit activities of Audit Scotland. It principally comprises fees and charges for services provided on a full cost basis to audited bodies.

f) Work in Progress

Work in Progress is valued on the basis of a proportion of the agreed fee earned by the Balance Sheet date less an allowance for any foreseen losses. Payments received on account of work in progress in excess of or below the value of carrying out the relevant work are included in creditors or debtors as appropriate.

Annual Report and Accounts 2007-08

Notes to the Accounts (continued)

1: Statement of Accounting Policies (continued)

g) Cost of capital charge

A non-cash capital charge, reflecting the cost of capital utilised by Audit Scotland, is included in the operating statement. The charge is calculated on the average value of fixed assets and working capital held during the year at the Government's standard interest rate of 3.5% per annum.

h) Operating leases

The total cost of operating leases is charged to revenue in equal instalments over the life of the lease.

i) Value Added Tax

Input tax in respect of auditor fees and expenses incurred in the delivery of Local Authority audits on behalf of the Accounts Commission is reclaimed from HMRC. All other input tax is charged to the Operating Cost Statement.

j) Pension arrangements

Audit Scotland has complied fully with the requirements of FRS 17 for the year ended 31 March 2008. Audit Scotland makes pension provision for present and former employees through three pension schemes. The Auditor General has benefits provided through a scheme by analogy to the Local Government Pension scheme. 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 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

Annual Report and Accounts 2007-08

Notes to the Accounts (continued)

2: People Costs and Numbers

People costs comprise:	2008	2007
	<i>£000</i>	<i>£000</i>
<i>Administrative Staff</i>		
Salaries	11,046	10,536
National Insurance	927	920
Superannuation	1,667	1,602
Movement in early retirement costs	(216)	746
Adjustment for retirement benefit scheme costs (<i>see below</i>)	399	(328)
	13,823	13,476
<i>Accounts Commission Members</i>		
Salaries	92	104
National Insurance	5	6
Travel and subsistence	7	13
	104	123
	13,927	13,599

The average number of directly employed staff during the period was 278 (2007 – 267). The average full time equivalent number for agency staff used during the period was 14 (2007 – 11).

<i>Analysis of local government retirement benefit scheme costs:</i>	2008	2007
	<i>£000</i>	<i>£000</i>
Current service costs	2,264	1,776
Past service costs	-	(321)
Curtailed and settlements	-	-
	2,264	1,455
Less: Employees' contributions	(520)	(496)
Charge to revenue	1,744	959
Actual contributions	(1,345)	(1,287)
Adjustment for retirement benefit scheme costs	399	(328)

3: Pension assets and liabilities

In accordance with Financial Reporting Standard No 17 *Retirement benefits* (FRS 17) 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 Scheme, administered by the Lothian Pension Fund, and the Principal Civil Service Pension Scheme, or PCSPS. Audit Scotland is not required to record information related to the PCSPS scheme as the liability for payment of pension rests with central government. In addition, Audit Scotland operates a “by analogy” scheme outside the two main schemes.

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Notes to the Accounts (continued)

3: Pension assets and liabilities (continued)

a) Local government scheme

Audit Scotland has an agreement with 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, the independent actuaries to Lothian Pension Fund. The financial assumptions used for the purposes of their FRS 17 calculations as at 31 March 2008 were as follows:

	2008	2007
Price increases	3.6%	3.2%
Salary increases	5.1%	4.7%
Pension increases	3.6%	3.2%
Discount rate	6.9%	5.4%

Audit Scotland's estimated assets and liabilities in Lothian Pension Fund amounted to:

	<i>£000</i>	<i>£000</i>
Assets (see below)	43,355	43,359
Liabilities	(40,042)	(46,046)
Net Funded Assets/(Liabilities)	3,313	(2,687)
Unfunded liabilities – early retirement provision	(1,593)	(1,787)
Net Funded Assets/(Liabilities)	1,720	(4,474)

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

	Long Term Return at 31 March 2008	Assets at 31-Mar-08	Long Term Return at 31 March 2007	Assets at 31-Mar-07
	<i>% per annum</i>	<i>£000</i>	<i>% per annum</i>	<i>£000</i>
Equities	7.7%	32,912	7.8%	33,257
Property	5.7%	3,850	4.9%	2,348
Bonds	5.7%	5,162	5.8%	5,330
Cash	4.8%	1,431	4.9%	2,424
Estimated employer assets	7.2%	43,355	7.2%	43,359
Total value of liabilities		(40,042)		(46,046)
Net Pension Surplus/(Deficit)		3,313		(2,687)

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Notes to the Accounts (continued)

3: Pension assets and liabilities (continued)

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 are based on a valuation as of 31 March 2008 by Hymans Robertson.

The movement in the funded part of the net pension liability for the year to 31 March 2008 is as follows:

	2008	2007
	<i>£000</i>	<i>£000</i>
Opening net pensions liability at 1 April	(2,687)	2,180
Current Service cost	(2,264)	(1,776)
Employer and employee contributions	1,865	1,783
Past service costs	-	321
Impact of settlements and curtailments	-	-
Net return on assets	650	631
Actuarial (losses)/gains	5,749	(5,826)
Closing Net Pension Assets/(Liabilities) at 31 March	3,313	(2,687)

History of Gains and Losses

	2008	2007	2006	2005
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Difference between the expected and actual return on assets	(4,366)	257	6,095	726
Value of assets	43,355	43,359	39,140	24,247
Percentage of assets	-10.1%	0.6%	15.6%	3.0%
Experience gains/(losses) on funded liabilities	(2)	(1)	1,479	7
Total present value of liabilities	40,042	46,046	36,960	33,150
Percentage of total present value of funded liabilities	0.0%	0.0%	4.0%	0.0%
Actuarial (losses)/gains recognised in SRGL	5,749	(5,826)	10,372	23
Total present value of funded liabilities	40,042	46,046	36,960	33,150
Percentage of total present value of funded liabilities	14.4%	-12.7%	28.1%	0.1%

During the year ended 31 March 2008, Audit Scotland's contribution to the pension fund represented 15.8% (2007 – 15.8%) of contributing employees' pensionable pay. Under Superannuation Regulations contribution rates are set to meet 100% of the overall liabilities of the Fund. In their valuation as of December 2005, Hymans Robertson recommended employers' contributions of 15.8% for three years, commencing in 2006 – 07.

The significant movement from net liabilities to net assets in the local government scheme is primarily due to an increase in the discount rate.

Annual Report and Accounts 2007-08

Notes to the Accounts (continued)

b) PCSP Scheme

Employees of the NAO transferring to Audit Scotland on 1 April 2000 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.

The PCSPS is an unfunded multi-employer defined benefit scheme; however Audit Scotland is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2007. Total liabilities at 31 March 2007 were estimated at £128.8 billion. Further details may be found in the separate scheme statement of the PCSPS (www.civilservice-pensions.gov.uk).

During the year ended 31 March 2008, Audit Scotland paid an employer's contribution of £300k (2007 - £294k) into the PCSP scheme at rates between 19.5% and 25.5% of pensionable pay (2007 - 17.1% to 25.5%). Audit Scotland has been informed that contributions will remain at the 2007/08 rates in 2008/09. Employer contribution rates are reviewed every three years following a scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when costs are actually incurred, and they reflect past experience of the scheme.

c) By analogy scheme

Mr R W Black has benefits provided by analogy to the Local Government pension scheme. Contributions are paid to the Scottish Consolidated Fund. During the year ended 31 March 2008, Audit Scotland paid an Employer's contribution of £22.1k (2007 - £21.5k) into this scheme. No information is available regarding cash equivalent transfer values or lump sum benefits.

Early Departure Costs

Certain costs arising from the early retirement of staff are payable by Audit Scotland. These relate mainly to the granting of compensatory added years and early payment of pensions, which employers must make to the pension fund.

Annual Report and Accounts 2007-08

Notes to the Accounts (continued)

4: Administration Costs

	£000	2008 £000	2007 £000
<i>Fees and Expenses to appointed audit firms:</i>			
Local authorities	2,625		2,490
National Health Service bodies in Scotland	1,391		1,674
Scottish Water	188		239
Further education colleges	549		511
Scottish Government departments and sponsored bodies	916		691
		5,669	5,605
<i>Other Costs:</i>			
Rent and rates	819		1,020
Other accommodation costs	706		507
Travel and subsistence	809		838
Legal and other professional fees	815		784
Stationery and printing	324		359
Training	483		752
Staff recruitment	266		318
Communications (telephone, postage)	93		105
Insurance	131		125
Information technology	429		470
Internal Audit	33		29
External Audit - financial statements	19		19
External Audit - other work	-		37
Other	105		76
<i>Non-cash items:</i> Depreciation	346		255
Notional interest on capital	50		20
		5,428	5,714
		11,097	11,319

Rent and rates includes £586k in respect of property leases (2007 £783k) - see note 13.

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Notes to the Accounts (continued)

5: Operating Income

	2008	2007
	<i>£000</i>	<i>£000</i>
<i>Fees and charges payable:</i>		
- by Local authorities	12,578	11,425
- by National Health Service bodies in Scotland	4,142	4,067
- by Scottish Water	181	230
- by Further education Colleges	528	600
- by Scottish Government department and sponsored bodies	1,579	1,591
	19,008	17,913
Bank interest	196	147
Miscellaneous income	346	248
	19,550	18,308

6: Other finance income

	2008	2007
	<i>£000</i>	<i>£000</i>
Expected return on local government pension scheme assets	3,179	2,871
Interest on pension scheme liabilities	(2,623)	(2,317)
	556	554

Annual Report and Accounts 2007-08

Notes to the Accounts (continued)

7: Fixed Assets

	Leasehold premises	Furniture and fittings	Computer equipment	Total
<i>Cost</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
At 1 April 2007	1,112	46	1,273	2,431
Additions	704	-	658	1,362
Transfers	(118)	118	-	0
Disposals	-	-	(108)	(108)
At 31 March 2008	1,698	164	1,823	3,685
<i>Depreciation</i>				
At 1 April 2007	184	38	924	1,146
Charge for the year	104	15	227	346
Depreciation on Disposals	-	-	(108)	(108)
At 31 March 2008	288	53	1,043	1,384
<i>Net Book Value</i>				
At 31 March 2008	1,410	111	780	2,301
At 31 March 2007	928	8	349	1,285

Fixed assets are shown at historical cost. It is the opinion of Audit Scotland that inclusion of fixed assets at current costs would have no material effect upon the financial position of Audit Scotland.

All property leases are for periods of less than 50 years.

8: Debtors

	2008	2007
	<i>£000</i>	<i>£000</i>
Trade debtors:		
central government bodies	79	401
local authorities	33	235
NHS bodies	-	209
bodies external to government	<u>292</u>	<u>311</u>
	404	1,156
Work in progress	1,057	1,364
VAT	224	184
Prepayments	544	438
	<u>2,229</u>	<u>3,142</u>

Annual Report and Accounts 2007-08

Notes to the Accounts (continued)

9: Creditors

	<i>£000</i>	2008 <i>£000</i>	2007 <i>£000</i>
<i>Amounts falling due within one year:</i>			
Trade creditors:			
Local Authorities	8		2
Bodies external to government	<u>580</u>		<u>771</u>
		588	773
Cash balance payable to Consolidated fund		1,916	1,666
Deferred income		467	517
Superannuation		1	388
Accruals		737	919
Rent free period on premises – current liability (<i>Note 10</i>)		30	30
		<u>3,739</u>	<u>4,293</u>

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

10: Deferred Liabilities

Audit Scotland rents premises in various locations in accordance with its operational requirements. During the year ended 31 March 2003 various leases were negotiated with rent-free periods.

	2008 <i>£000</i>	2007 <i>£000</i>
Opening balance at 1 April:		
Current	30	30
Deferred	<u>34</u>	<u>64</u>
	64	94
Additions	-	-
Released during year	(30)	(30)
	<u>34</u>	<u>64</u>
Closing balance at 31 March		
<i>Whereof:</i>		
Current	30	30
Deferred	<u>4</u>	<u>34</u>
	<u>34</u>	<u>64</u>

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Notes to the Accounts (continued)

11: Provision for early retirement

The provision represents the actuarially computed early retirement added years pensions, this being the estimated future liability of Audit Scotland. The movement during the year was as follows:

	2008	2007
	<i>£000</i>	<i>£000</i>
Opening balance at 1 April	1,787	1,320
Additions	-	319
Utilised in year	(90)	(69)
Revaluation	(104)	217
	<hr/>	<hr/>
Closing balance at 31 March	1,593	1,787

Prior to establishment of the Public Services Ombudsman's office Audit Scotland provided support services including payroll and finance for the 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 31st March 2007 Audit Scotland has recognised the pension liability for staff previously employed by the Scottish Local Government Ombudsman. The liability as at 31st March 2008 was £289k (31st March 2007 £319k).

12: General Fund

	2008	2007
	<i>£000</i>	<i>£000</i>
Opening balance at 1 April	(21)	525
Opening Cash balance payable to the Consolidated Fund	1,666	454
Funding received from Consolidated Fund	6,500	7,662
Closing Cash balance payable to the Consolidated Fund	(1,916)	(1,666)
	<hr/>	<hr/>
Net funding from Scottish Parliament	6,250	6,450
Net Operating Cost	(4,918)	(6,056)
Notional interest on capital	50	20
Transfer to net funded pension liabilities	399	(329)
Net return on assets	(650)	(631)
	<hr/>	<hr/>
Closing balance at 31 March	1,110	(21)

Annual Report and Accounts 2007-08

Notes to the Accounts (continued)

13: Leases

During the period to 31 March 2008 the amounts charged to revenue in respect of operating leases for premises and equipment were as follows:

	2008	2007
	<i>£000</i>	<i>£000</i>
Premises (<i>Note 4</i>)	586	783
Equipment	415	427
	1,001	1,210

The amounts payable in the next financial year in respect of such leases are as follows:

Lease expiry	2008		2007	
	Premises	Equipment	Premises	Equipment
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Within one year	5	75	5	55
In two to five years	170	191	169	296
After five years	533	-	523	-
	708	266	697	351

The amounts payable in the next financial year in respect of Premise leases noted above exclude any amounts that might fall due in respect of the rent review due in respect of Osborne House, Edinburgh.

14: 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 management staff has undertaken any material transactions with related parties.

15: Capital Commitments and Contingent Liabilities

At 31 March 2008 there were no capital commitments or contingent liabilities.

Annual Report and Accounts 2007-08

Notes to the Accounts (continued)

16: Movement in Taxpayers' Equity

	2008	2007
	<i>£000</i>	<i>£000</i>
Opening balance at 1 April	(2,708)	2,705
Local government pension scheme - current service cost	(2,264)	(1,776)
Employer and employee contributions	1,865	1,783
Past service costs	-	321
Impact of settlements and curtailments	-	-
Net return on assets	650	631
Actuarial gains/(losses)	5,749	(5,826)
Movement in general fund (<i>Note 12</i>)	1,131	(546)
	7,131	(5,413)
Closing balance at 31 March	4,423	(2,708)

Direction by the Scottish Ministers

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

1. 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 (FRM) which is in force for the year for which the statement of accounts are prepared.
2. 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.
3. 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

Independent Auditors' Report

To the Scottish Commission for Public Audit

(Under section 25(3) of The Public Finance Accountability (Scotland) Act 2000)

AUDIT SCOTLAND

We have audited the organisation's accounts for the year ended 31 March 2008, which comprise the Summary of Resource Outturn, Operating Cost Statement, Statement of Recognised Gains and Losses, Balance Sheet, Cash Flow Statement, Resources by Departmental Aims and Objectives and the related notes 1 to 16. We have also audited the relevant disclosures in the Remuneration Report as required under the direction of the Scottish Ministers. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

This report is made solely to the Scottish Commission for Public Audit, as a body, in accordance with Section 22(1) (a) and (b) 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.

Respective responsibilities of Audit Scotland and auditors

As described in the Statement of Accountable Officer's Responsibilities, Audit Scotland is responsible for the preparation of the accounts in conformity with the direction of the Scottish Ministers. 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.

Our responsibility is to audit the accounts in accordance with the terms of our appointment, relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you on the matters set out in section 22(1)(a) and (b) of the Public Finance and Accountability (Scotland) Act 2000 and our opinion as to whether the Resource Accounts give a true and fair view and are properly prepared in accordance with section 19(4) of that Act. We also report to you if, in our opinion, the Foreword and the Management Commentary are not consistent with the accounts, if the organisation has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit, or if information specified by the Scottish Ministers regarding the remuneration and other transactions is not disclosed.

We read the other information contained in the Statement on the System of Internal Control, and consider whether it is consistent with the audited accounts. As auditors we are not required to consider whether the Accountable Officer's statement on internal controls covers all risks and controls, nor are we required to form an opinion on the effectiveness of the risk and control procedures. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. Our responsibilities do not extend to any other information.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Board in the preparation of the financial statements, and of whether the accounting policies are appropriate to Audit Scotland's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Independent Auditors' Report
To the Scottish Commission for Public Audit
(Under section 25(3) of The Public Finance Accountability
(Scotland) Act 2000)

Opinion

In our opinion, the accounts give a true and fair view of the state of affairs of Audit Scotland as at 31 March 2008 and of its net resource outturn for the year then ended, have been properly prepared in accordance with section 19(4) of the Public Finance and Accountability (Scotland) Act 2000, and the expenditure has been incurred and receipts have been applied in accordance with section 22(1)(a) and (b) of the Public Finance and Accountability (Scotland) Act 2000: and the information given in the management commentary is consistent with the financial statements.

HW, Chartered Accountants
and Registered Auditors
231/233 St Vincent Street
Glasgow G2 5QY

24 June 2008