



# Annual Report and Accounts

Year ended 31 March 2009

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# Management Commentary

## AUDIT SCOTLAND ANNUAL REPORT 2008/09

### Welcome to Audit Scotland's annual report for 2008/09.

In what has been the most challenging external economic environment since Audit Scotland began, we are pleased to report some significant improvements in our performance for this year. We published more reports; we have presented at substantially more seminars and conferences than before; we are using our expertise to contribute to more external bodies and working groups; while at the same time, surveys of the views of our clients show that our work continues to have a very high standing.

Audit Scotland has concluded the first round of Best Value auditing in local government. The Accounts Commission considered 31 Best Value reports on Scotland's 32 local authorities. Audit Scotland has also taken on a leading role on behalf of the Accounts Commission in helping to reduce the overall scrutiny burden for public bodies in Scotland, including the development of a shared risk assessment approach with other scrutiny bodies.

During the year, we consulted widely with our stakeholders about the priorities we should set out in our new corporate plan, which was published in February. Last summer's consultation indicated clearly that stakeholders' main concerns were about the pressure on public spending and the drive to increase the efficiency of the public sector. The recession and the financial crisis have increased the need for all public bodies to focus on economy and efficiency. There has never been a greater need for independent assurance about financial performance, risk management and support for improvement in the public sector. Audit Scotland will continue to focus on these key issues.

In this report, we describe the value and impact of the full range of work we do. We also report on our own performance and efficiency.

Audit Scotland has demonstrated the value of independent and professional comment on a wide range of issues of public interest.

We thank all the staff at Audit Scotland, our colleagues in the private firms of accountants and our clients and stakeholders for their commitment to ensuring that the public sector in Scotland has sound systems of governance and high standards of audit. We also thank Phil Taylor, independent non-executive member of the Audit Scotland Board for his seven years, and welcome his replacement, Ronnie Cleland.

John Baillie (Chair of Audit Scotland Board)

Robert W Black (Accountable Officer and Auditor General for Scotland)

# Management Commentary

## Audit Scotland

Audit Scotland helps the Auditor General and the Accounts Commission ensure that public money in Scotland is used properly, efficiently and effectively. Our aim is to hold public bodies to account and help them improve. Audit Scotland audits the majority of devolved public services in Scotland. We audit 210 public bodies which spend more than £31 billion a year.

## Our Year

### Highlights of 2008/09

210 final annual audit reports produced

30 performance audit/Best Value reports published

99 per cent of all audits completed on time

900 separate reports produced for the 210 public bodies audited

95 per cent of NHS boards and 94 per cent of further education colleges think our auditors provide a high-quality audit service

£40 million in cumulative overpayments and savings now identified and addressed by the National Fraud Initiative

Key role in supporting the Accounts Commission's new responsibility for coordinating scrutiny work in local government

New responsibility for scrutinising the housing and council tax benefit (HB/CTB) service in Scotland, with risk assessments carried out at 19 councils

Completed training in the new International Financial Reporting Standards

Presented to 66 seminars, conferences and training events and to ten groups of overseas visitors to Audit Scotland

Served on 72 external bodies and working groups

Our website awarded the Shaw Trust 'Accessible Plus' accreditation in recognition of its high level of accessibility for people with disabilities

# Management Commentary

## Our performance

### Supporting effective democratic scrutiny

#### Supporting scrutiny

Audit Scotland produces a wide range of reports which are published on our website. They include the results of annual audits and investigations into particular areas of performance or sectors, and help ensure that the results of our work are brought to public attention. Some of these reports are considered by the Public Audit Committee of the Scottish Parliament. Others are considered by the Accounts Commission for Scotland. They are often covered by the media.

#### Public reporting programme

In 2008/09, we published 30 performance audit/Best Value reports, up from 18 last year. These were presented as follows:

- 2 Across-government reports
- 6 Central government reports
- 6 NHS reports
- 13 Local government reports
- 3 Other local government reports.

The impact of our reports can be seen in a number of ways. Reports published in 2008/09 were downloaded 173,422 times from the Audit Scotland website during the year. We supply reports and findings in various formats, including pod cast interviews.

Our report *Drug and alcohol services in Scotland* generated more than 70 separate items of media coverage in the two days following its publication. Three weeks later, the Scottish Government published a new joint framework for the delivery of drug and alcohol services which takes account of the findings and recommendations in our report.

Another report, *Day surgery in Scotland*, highlighted the big variation among boards in the amount of same-day care which is carried out. Only one board achieved the Scottish target of 75 per cent of surgical procedures carried out as same-day care. We calculated that if all boards achieved the performance of the best, over 34,000 extra same-day care procedures would be carried out, freeing up around £8m per year.

The Scottish Parliament's Public Audit Committee held evidence sessions on three of our reports, *The First ScotRail passenger rail franchise*, *Review of major capital projects in Scotland*, and a report on the 2007/08 audit of VisitScotland. The committee also held an evidence session on a report from the 2007/08 year, *A review of free personal and nursing care*.

The committee called the relevant Scottish Government accountable officers to give evidence and answer questions about issues raised in the reports. The committee also took evidence from the Minister for Transport, Infrastructure and Climate Change on *The First ScotRail passenger rail franchise*, and asked for written evidence from accountable officers for ten reports published during the year.

An Audit Scotland team also supported the chair of the Accounts Commission in providing a briefing to the Public Audit Committee on the *Overview of Local Authority Audits for 2008*. Earlier in the year, the Controller of Audit and the chair gave evidence to the Local Government and Communities Committee on the *Overview of Local Authority Audits for 2007*.

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Audit Scotland staff gave evidence to an inquiry by the Parliament's Education Committee into school buildings and briefed the Economy, Energy and Tourism Committee on our report *Improving energy efficiency* as part of that committee's energy inquiry. We also gave evidence to the Equal Opportunities Committee on equal pay in local government.

A list of all the reports we published in 2008/09 appears in the Appendix and all our reports are on our website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)

The number of performance audit/Best Value reports published over the past three years:

2006/07 – 25  
2007/08 – 18  
2008/09 – 30

### **Highlighting issues from accounts (Section 22s)**

Auditor General reports, made under Section 22 of the Public Finance and Accountability (Scotland) Act 2000, raise awareness in Parliament of issues arising from the annual audits of public bodies under his remit.

We presented seven Section 22 reports to Parliament on: NHS Western Isles, James Watt College, Kilmarnock College, Highlands and Islands Enterprise, VisitScotland and the Queen's and Lord Treasurer's Remembrancer (two reports).

Please note that these reports, while produced in the 2008/09 year, are on the audits of the 2007/08 year and three are on audits of the 2006/07 year. All the Section 22 reports we have published are on our website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)

In May 2008, the Parliament's Public Audit Committee published a report on the 2006/07 audit of NHS Western Isles. This followed an inquiry into Section 22 reports we produced about that health board in recent years.

The number of S22s over the past three years:

2006/07 – 9  
2007/08 – 4  
2008/09 – 7

### **Controller of Audit statutory reports**

The Controller of Audit reported to the Accounts Commission on two audit qualifications during the year. The auditors qualified the 2007/08 accounts of Shetland Islands and Aberdeen City councils. Shetland Islands Council's accounts were qualified because the council's group accounts did not include the Shetland Development Trust and the Shetland Charitable Trust, and their related subsidiaries. In the auditor's opinion this resulted in a material mis-statement of the group accounts. Aberdeen City Council's accounts were qualified because the council could not demonstrate to the auditors that all bank transactions had been properly recorded in the council's accounts.

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The Controller of Audit also conducted an investigation under Section 102(1) of the Local Government (Scotland) Act 1973, on property sales by Aberdeen City Council. This statutory report found that the council made a potential loss of more than £5m through the sale of several properties for below market value.

The number of Controller of Audit reports over the past three years:

2006/07 – 0  
2007/08 – 1  
2008/09 – 3

### Monitoring financial management and governance

All public bodies have an annual audit which is reported in public. This is the foundation of the public audit system in Scotland. The audit considers how money was spent and whether it was spent appropriately. Audit also has a key role in the prevention and detection of fraud. Through all this work, audit can provide taxpayers and citizens with independent assurance about the use of public money.

### Delivering the audit

We were responsible for 210 annual audits for the year 2007/08. These were carried out by Audit Scotland employees and appointed private firms of accountants.

We completed 99 per cent of all the audits of health, central government, further education and local authority bodies on time (compared with 100 per cent overall in the previous year).

Public sector auditors provide assurance on financial statements as well as professional views on matters such as regularity and legality, propriety, performance and use of resources.

All appointed auditors must remain up to date with wider professional developments. For example, our Audit Services Group has been revising its Audit Guide to ensure it will comply with updated International Standards on Auditing as they are introduced.

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.

During 2008/09, Audit Scotland met the first of a number of milestones set up to achieve a smooth transition to the new International Financial Reporting Standards (IFRS), which come into effect from 2009/10 for the NHS and central government, and 2010/11 for local government. Following training on IFRS, restated balance sheets under IFRS were produced for all NHS and central government bodies by December 2008 and the results of individual reviews reported by March 2009.

The percentage of audit plans submitted to Audit Scotland within specified timescales

2006/07	96%
2007/08	99%
2008/09	96.5%

The percentage of fees agreed within specified timescales

2006/07	56%
2007/08	90%
2008/09	92.5%

## Management Commentary

The breakdown of the 210 audits completed in 2008/09 on the 2007/08 financial audits was:

Central government	74
NHS	23
Further education	39
Councils	32
Joint boards	41
Scottish Water	1

### Appointing the auditors

The Auditor General and the Accounts Commission each appoint the auditors from Audit Scotland and private firms of accountants to undertake audits of Scottish public bodies. Of the 210 audits we carried out in 2008/09, 103, or two thirds by public sector expenditure, were delivered by Audit Scotland and 107, or a third by public sector expenditure, by private firms.

The appointment mix helps foster collaborative working between private firms and Audit Scotland to deliver greater value to clients and stakeholders. It also means we can rotate auditors between appointments to ensure independence.

A full list of appointed auditors is available on our website.

### Reporting the audit

In 2008/09, our auditors produced around 900 separate reports for the public bodies they audit, covering a wide range of areas, such as main financial systems, partnership working in community health partnerships, and information and communication technology. Auditors also attended some 280 audit committee meetings of public bodies across Scotland, up from 250 in the previous year.

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.

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

Overall, the standard of financial stewardship in Scotland remains sound.

### UK and international standards setting

Audit Scotland strives to be a world-class audit institution. We contribute to the development of accounting and auditing standards in the UK and internationally.

Our staff participated in many panels and working groups that produce guidance for public sector bodies, through the International Organisation of Supreme Audit Institutions (INTOSAI) Expert Reference Panel and by responding to drafts of relevant standards. We take an active part in a number of bodies, including the Financial Reporting Advisory Board, the Chartered Institute of Public Finance and Accountancy (CIPFA), Local Authority (Scotland) Accounts Advisory Committee (LASAAC), Local Government Statement of Recommended Practice (SORP)/Code Board and the Auditing Practices Board public sector subcommittee.



# Management Commentary

## **Ethical standards**

Audit Scotland expects the highest ethical standards to be applied by all our staff and partners. High standards are essential if we are to retain the trust and respect of our stakeholders and ensure our independence. We have adopted the principles of the ethical standards for auditors issued by the UK Auditing Practices Board across all our work and provide our staff with guidance about the application of the standards to 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.

## **National Fraud Initiative**

The National Fraud Initiative (NFI) brings together auditors and public bodies to help identify fraud and error in the public sector. They compare information from councils, health boards and other sector public bodies and from a range of financial systems (housing benefits, payrolls, public sector pensions, etc).

To help ensure that public bodies have robust frameworks for tackling fraud, Audit Scotland undertakes a data-matching exercise. This year, public bodies and their auditors continued the work of following up data matches made when the exercise was last undertaken.

The cumulative outcome from NFI exercises in Scotland is now around £40 million and there have been at least 75 successful prosecutions. Effective fraud arrangements can also act as a deterrent.

We are pleased that the Scottish Government has stated its intention to provide new powers for data-matching in Scotland in the Criminal Justice and Licensing Bill. Once passed, these powers will provide Audit Scotland with the opportunity to catch up with the wider range of data-matching activities that are undertaken elsewhere in the UK.

## **Housing and council tax benefit payment**

From April 2008, at the request of the Department for Work and Pensions, we took on the responsibility of scrutinising the housing and council tax benefit (HB/CTB) service in Scotland.

In 2008/09, risk assessments were carried out in 19 councils. All the councils have drawn up, and are implementing, action plans and progress will be reviewed during the next round of risk assessments. No focused audits were required this year.

## **Best Value in Scotland's public services**

The duty of Best Value (BV) applies to all public bodies in Scotland. It is a statutory duty in local government, and in the rest of the public sector it is a formal duty on Accountable Officers. Achieving Best Value is about ensuring sound governance, good management, public reporting on performance and a focus on improvement.

By March 2009, we had completed 31 out of 32 audits of Best Value and Community Planning in Scottish councils with the final report, on East Dunbartonshire, published in May. This completes the first round of BV reviews of all Scottish Councils.

During 2008/09, we produced first-time reports on ten councils and progress reports for another three councils. The Accounts Commission held a public hearing following the BV audit of Aberdeen City Council.

There is evidence that BV reports are helping to make a difference. All three BV progress reports (Inverclyde Council, The Moray Council, and Argyll and Bute Council) showed varying levels of improvement, with Inverclyde's progress report in particular demonstrating the part that BV audit can play in that improvement.

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Most of the councils that had a BV audit in 2008/09 have submitted improvement plans, with the rest due in the first few months of 2009/10. Local audit reports published in October 2008 demonstrate that councils are continuing to make progress in implementing improvement plans, although the pace and scale of change varies. What is evident is that those councils best placed to deliver high quality, user-focused services and to make a real difference to their communities, have a leadership culture which supports Best Value, including effective corporate systems and processes.

These principles, findings and the positive feedback received on the work so far, have provided sound foundations for developing the audit. We are now working under the direction of the Accounts Commission to develop Best Value 2 which will be introduced by January 2010.

### Best Value 2

Over the past year, we have been helping the Accounts Commission to develop the successor to the initial BV audit.

In the spring of 2009, the Accounts Commission carried out a consultation on Best Value 2 (BV2). This included a written consultation and a series of meetings with councils and discussions with stakeholders, such as the Convention of Scottish Local Authorities (COSLA), Society of Local Authority Chief Executives and Senior Managers (SOLACE) and the Scottish Government.

The Accounts Commission will test its approach to BV2 through pathfinder audits over the late summer to winter of 2009 followed by the roll-out of BV2 from January 2010.

BV2 has been designed as the single corporate assessment framework for local government which, through shared risk assessment and joint scrutiny planning with colleagues in HM Inspectorate of Education (HMIE), Social Work Inspection Agency (SWIA), Scottish Housing Regulator, the Care Commission and HM Inspectorate of Constabulary for Scotland (HMICS), will contribute to the streamlining of local government scrutiny.

It will be based on the following principles:

- A stronger focus on outcomes as well as corporate performance management processes.
- A greater emphasis on community leadership as well as the effectiveness of partnership working.
- A stronger focus on the experience of citizens and service users.
- Improved coverage of service performance and the use of resources, including economy, efficiency and effectiveness.
- A more proportionate and risk-based audit approach, founded on self-assessment.
- Improved audit reporting and greater transparency of audit process.
- Improved support for improvement and sharing of good practice.

Self evaluation and support for improvement will feature more strongly as part of BV2. This means that the size and type of audit applied in each council will depend on the risk associated with that council so not all audits will be the same. There will also be more emphasis on outcomes, the quality of local partnership working, sustainability and equality issues. The approach will also set out our ambition for making BV2 more relevant to local people and those who use and rely on council services.

The Accounts Commission has also initiated BV pilot work in Tayside Police and Northern Constabulary with HMICS. The audit and inspection approach will examine both the police authority and the force and will follow the same corporate assessment framework as BV2, ensuring consistent application of BV principles across sectors.

# Management Commentary

## **Best Value audit in the NHS and central government**

We have adopted a common framework for the audit of BV across the public sector. This enables us to take account of the different sizes, responsibilities and accountability arrangements of NHS and central government bodies.

The building blocks are already in place. These include annual audit reports based on key priorities and risks, national performance audit reports on specific services and thematic issues, and short Section 22 reports where the Auditor General wants to bring issues arising from the audit to the attention of Parliament.

Our stakeholders have made it clear that they wish Audit Scotland to do as much as possible to support improvements in efficiency and effectiveness and we intend to build this into the rolling-out of BV. We are developing audit toolkits to cover key BV principles, and these will be available for public bodies themselves to use as part of their approach to self-assessment. A number of these toolkits cover the use of resources theme, including, for example, financial management, efficiency and asset management.

Our approach takes account of developing work on the National Performance Framework and Scotland Performs. With this in mind, we are participating in a small reference group comprising representatives of the Scottish Government and central government bodies. The group will also ensure that work is taken forward in a way that recognises the diversity of central government bodies and the need for a proportionate approach.

Booklets outlining our approach to the audit of BV in the NHS and central government are available on our website.

## **Changes to the scrutiny landscape**

### **Improving scrutiny in government**

Following the publication of The Crerar Review of scrutiny in November 2007, the Scottish Government made a commitment to establish a simplified and coherent approach to the scrutiny of public bodies.

The government formed five teams to work on different areas, and Audit Scotland staff worked on four of these teams. Deputy Auditor General and Controller of Audit Caroline Gardner also sat on the Programme Board overseeing the work of the five teams, which have since made their recommendations to the government.

The government also gave the Accounts Commission a key role coordinating scrutiny in local government, and Audit Scotland has been heavily involved in supporting the Accounts Commission. The Controller of Audit provided the Cabinet Secretary for Finance with a progress report on this work in January 2009.

### **Shared risk assessment**

One of the main aspects of this has been the development of a shared risk assessment approach, in which scrutiny bodies jointly agree on the level of risk in a public body and the consequent scrutiny approach.

The Accounts Commission, along with representatives from HMIE, SWIA, the Care Commission, the Scottish Housing Regulator, HMICS and NHS Quality Improvement Scotland (NHS QIS), set out three priorities, to:

- develop a shared risk assessment
- develop a single corporate assessment
- improve the programming and scheduling of scrutiny work.

Since the start of 2009, considerable progress has been made on each of these priorities.

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Five BV2 pathfinder sites and two further development sites have been identified where the shared risk assessment model will be tested over the summer to winter of 2009.

Once fully developed, BV2 will be used as the single corporate assessment and a joint schedule is now in place for all planned strategic scrutiny visits in 2009.

### **Further supporting democratic scrutiny**

#### **Working with other countries**

Audit Scotland is increasingly recognised by other countries for its work and this is reflected in the requests we get for assistance and visits from overseas organisations. Being a small organisation we have to balance this with our core audit work in Scotland. In 2008/09, we helped 15 organisations but turned down 12 other requests.

Our work with other countries focuses on the European Union, accession countries, the Balkan and the Baltic states, and nations on the periphery of the EU. We carry out this work in partnership with other audit agencies, particularly the UK National Audit Office (NAO) and the Swedish NAO.

We hosted several visits from overseas audit and parliamentary delegations. Those visitors from countries developing new public audit arrangements were keen to hear about the model in Scotland since devolution. We also learn from these visits, which can assist us in developing our own work. In the past 12 months we have welcomed visitors from Holland, Vietnam, China, Ethiopia, Canada, Norway, South Africa, Jordan, Luxemburg and Sweden.

Audit Scotland staff have been involved in a number of capacity building projects overseas this year. We have provided experts to projects in Moldova, Jordan, Russia and Bosnia-Herzegovina. Some of these projects will continue into 2009/10.

We have produced a separate report on our work with other countries which is available on our website.

#### **Public correspondence**

Audit Scotland receives enquiries from a wide range of people, raising issues of concern to them about public bodies. These can be wide ranging and vary in financial value, significance and complexity. Where appropriate, we may conduct further audit work in response to such correspondence.

Following the introduction of a streamlined process for dealing with correspondence, we improved our performance on previous years. We met our target of acknowledging correspondence within ten working days in all cases. In 94.5 per cent of cases we met our target of providing a full response within one month of the date of acknowledgement.

This year, we received 235 items of correspondence, up from 216 in the previous year.

The number of items of correspondence received by sector were:

Local government	155
Central government	63
Health	16
Further education	1

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Response times for correspondence from members of the public concerning potential audit issues		08/09	07/08	06/07
	Number received	235	216	243*
	Acknowledgements	100%	89%	97%
	Full response	94.5%	74%	90%

\* We actually received 527 items of correspondence in that year on 243 topics, but this included 284 pro forma items relating to East Lothian Council and Glasgow Housing Association.

We also investigate any complaints made to us about how Audit Scotland staff have dealt with members of the public. In 2008/09, we received six such complaints, compared with two the previous year.

### Maximising the value of the audit

We strive to continuously improve the audits that we deliver. We do this by seeking feedback and comment from our stakeholders and by learning from the wide range of external organisations who have an interest in the work that we do. We also try to share our knowledge and expertise with others.

### Developing our corporate plan

In 2008, we consulted with public bodies, stakeholders and colleagues to inform the development of our new corporate plan. The consultation was carried out in recognition of the many changes to the public sector landscape and to ensure that our work evolves and adapts to those changes. The consultation sought feedback on three broad themes:

- The context in which audit will operate.
- Holding to account in the public sector and helping to improve performance.
- Ensuring Audit Scotland provides the maximum value from its work.

The consultation has been of immense value in shaping our new corporate priorities. A key message from our stakeholders has been that they would like us to continue to support both accountability and improvement. The detailed report on the consultation and our responses to it are on our website.

We published our *Corporate Plan 2009 - 12* in February 2009. This sets out our new corporate priorities for the time period covered, which are to:

- deliver more streamlined audit in partnership with other scrutiny bodies
- maximise our contribution to the improvement of public services
- increase the impact of our work
- become a centre of excellence for public audit
- improve the transparency of our costs and governance arrangements.

### Delivering quality

Our Audit Strategy Group regularly collects feedback from audited bodies to help us measure the quality of the audit and continue to drive up standards.

We asked all NHS bodies and Further Education (FE) colleges about the service our auditors provide. All NHS bodies said the audit had a positive impact and 95 per cent of respondents said their auditor provided a high quality audit service. In the FE survey the outcomes were 93 per cent and 94 per cent respectively.

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We have now surveyed audited bodies across all three sectors over the past two years. We have found that across all bodies, 95 per cent believe the audit had a positive impact and 93 per cent said the auditor provided a high-quality service.

We also assess the ability of auditors to meet auditing standards. This year we found that all auditors had appropriate arrangements in place to meet the requirements of International Standards on Quality Control.

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. Our audits follow rigorous project methodology and the process has several quality control stages. This is underpinned by a full quality monitoring programme and reviews. Lessons learned are reported back to all staff as part of annual update training sessions.

### Impact reporting

We now have a framework for assessing and reporting on the longer-term impact of our work, which will provide a wider picture of the value of audit.

We have identified four areas where we expect our work to have an impact and contribute to improvements:

- Assurance and accountability.
- Planning and management.
- Economy and efficiency.
- Effectiveness and quality.

During 2008/09, we consulted stakeholders on the framework and over 80 per cent agreed that these were the right areas to concentrate on.

We now routinely prepare impact reports, and summaries of these are published on our website. Impact reports have been prepared during the year on:

- The impact of the race equality duty on council services
- Dealing with offending by young people
- Sustainable waste management
- Improving the schools estate
- Overseas staff in the NHS
- Primary care out-of-hours services
- Managing long-term conditions
- A review of palliative care services in Scotland
- The First Scotrail passenger rail franchise
- A review of free personal and nursing care
- Improving energy efficiency
- A performance overview of sport in Scotland.

### Learning from and sharing knowledge with others

Presenting at external events and supporting groups and organisations helps us share our knowledge, increase the impact of our work and learn from those managing, delivering and using public services.

Audit Scotland staff presented at 66 seminars, conferences and training events, as well as to ten groups of overseas visitors to Audit Scotland. Last year we presented at 50 such events. We spoke, for example, at the



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Institute of Chartered Accountants of Scotland, NHS Counter Fraud Services and the CAPITA Governance in Scotland Conference 2008.

Our staff also served on 72 external bodies and working groups, an increase from 54 last year. Bodies included the Auditing Practices Board public sector subcommittee UK, the Financial Reporting Advisory Board and CIPFA's central government panel.

### **Improving the quality of the audit through technical guidance**

Audit Scotland supports ongoing improvement in accounting, financial reporting and auditing in the public sector through technical guidance and contributions to external seminars, conferences and working groups. Our expert guidance is extensively used and is widely valued by public bodies in Scotland.

During 2008/09, we published four technical bulletins summarising technical developments, seven notes giving in-depth guidance on specific matters, including four sector-specific notes on the audit of the 2008/09 annual accounts and three cross-sector notes and nine grant notes with guidance to local authority auditors on the audit of approved grant claims/returns.

During the year, we provided technical training on the new International Financial Reporting Standards to 130 staff, bringing the number of Audit Scotland staff now trained in the IFRS to 230.

### **Building an effective and efficient organisation**

#### **Developing our staff**

We continue to provide training and support for our staff, in areas ranging from obtaining professional qualifications to technical training and specific skills updates.

Our staff received 12.2 days each, on average, of training and personal development during 2008/09, up from around nine last year. This increase primarily reflects our investment in and preparation for the introduction of new auditing standards, but we also provided training in areas such as information technology, freedom of information, recruitment and selection, and presenting skills.

We gave first-line management training to 54 managers, and 31 auditors and trainees worked towards ACCA and CIPFA qualifications.

In 2008/09, we completed a review and revised our competencies framework, the system that underpins our Personal Development Scheme (PDS) and staff appraisal process.

#### **Diversity and equality at Audit Scotland**

We have established a steering group and internal framework to support diversity and equality both within the organisation and the work that we do.

We involved disabled people in the development of our corporate plan and forward work programme, through an event held in partnership with Capability Scotland. From this, we created an action plan which can be found on our website.

In November 2008, we published *The impact of the race equality duty on council services*, which received substantial media coverage and was downloaded more than 1000 times from our website. We also expanded our own equality duties documents to cover age, sexual orientation, and religion and belief. We aim to publish a single, overarching equality scheme in 2009.

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Our senior managers received training on applying and promoting principles of diversity and equality, while we also implemented the Scottish Government's equality impact assessment tool and developed training for our teams carrying out those assessments.

Our demographic profile (at 31 March 2009) was:

### Gender

Males:	148 (48.5%)
Females:	157 (51.5%)

### Ethnicity

White:	300 (98.4%)
Minority Ethnic:	5 (1.6%)

### Age

< 25	15 (4.9%)
25-34	85 (27.9%)
35- 44	91 (29.8%)
45-55	81 (26.6%)
> 55	33 (10.8%)

### Working patterns

Flexible working pattern	41 (36 female, 5 male)
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## Managing our resources

We ensure our business processes support efficient and effective working, and we continue to improve our financial management and reporting.

## Developing our business processes

We began implementing a new integrated HR and payroll system in 2008. The payroll element was completed early in 2009, with staff being paid through it for the first time in February.

We continued with our target for the payment of invoices within 30 days. We achieved 92 per cent within the target time, up from 88 per cent in 2007/08. We are reviewing the target for 2009/10.

Our Business Improvement Unit has been working on the procurement of an Electronic Audit Package. The main objective is to further improve audit quality but we also aim to achieve efficiency gains from this project. We have also been developing our management information across Audit Scotland, and on our audit approach and IT infrastructure. This work will continue during 2009/10.

An internal review of our use of resources found that our Audit Services Group's practices compared favourably to other audit agencies and firms in many areas. The review also made several recommendations for improvement, which we are now implementing.

We also reviewed our use of consultants. This project was completed alongside our public reporting team's report on central government's use of consultants, allowing us to compare ourselves with the bodies covered in that study. Our review found that mostly we follow good practice, but need to be more consistent in recording why we use consultants and why we choose particular approaches to procurement. We are working to improve our performance in both areas.



## Management Commentary

We began a review of our recruitment and selection of new employees. This included researching practices at other UK audit agencies, reviewing benchmark data from the Chartered Institute for Personnel & Development, getting feedback from our employees and doing an Equality Impact Assessment. We worked with Capability Scotland to get the views of disabled people on our recruitment processes and their experiences when applying for jobs.

We continue to manage and monitor sickness absence. This year sickness absence levels were, on average, 7.5 days per employee (compared with 8.11 days in 2007/08). This compares favourably with the public sector average of 9.8 days.

### **Efficiency, effectiveness and best value**

Audit Scotland is committed to exemplifying best practice in achieving efficiency, effectiveness and best value in everything we do.

Over the past two years, we have completed our audit work for less than the budgeted cost. This has allowed us to return £1 million to the bodies we audit through a fee rebate made in 2008/09. Fee increases (excluding the cost of additional work associated with the introduction of International Financial Reporting Standards) have averaged less than 2.1 per cent over the past three years.

Initiatives to improve our efficiency, effectiveness and best value in the past year have generated savings of £92,000. These savings have come from a new stationery and office supplies contract, replacement printers installed at the end of 2007/08 and a review of management in our Audit Services Group, which reduced our staffing by one whole-time equivalent senior manager.

Annual recurring savings identified over the past three years now total £751,000.

During 2008/09, we implemented revised arrangements for offsite document storage, which are estimated to generate a £20,000 saving from 2009/10. We have also started reviewing our recruitment policies and procedures, our property maintenance arrangements and cleaning services.

We have set a target efficiency saving of £585,000 in 2009/10; this is 2.2 per cent of our overall budget, which exceeds the Scottish Government's target of two per cent. A working group is in charge of identifying opportunities for efficiencies, monitoring and reporting on our performance, and working with our business groups to identify further future savings. We have established an Efficiency Strategy to support this work.

### **Internal audit of systems, processes and quality**

Audit Scotland's audit committee met four times during the year. The Audit Committee is chaired by Accounts Commission deputy chair Isabelle Low, and our internal auditors are RSM Bentley Jennison.

During the year the audit committee considered 11 internal audit reports from the internal auditors on:

- workforce and succession planning
- time recording system and business planning
- absence management
- corporate governance
- value for money strategy
- financial planning
- key financial systems
- project and quality management
- knowledge management
- strategic planning
- follow-up report on previous recommendations

## Management Commentary

The internal auditors report their findings against three standards. The highest standard is ‘substantial assurance’, followed by ‘adequate assurance’ and ‘limited assurance’. Seventy per cent of the audits achieved substantial assurance and the remainder adequate assurance. We are working to implement the auditors’ recommended improvements to our systems and processes.

The auditors concluded that our arrangements for risk management, control and governance processes are positive in all areas.

### Information regulations and legislation

In 2008/09, we logged seven freedom of information requests that required consideration by an internal panel at Audit Scotland. There was one data subject access request under the Data Protection Act but no environmental information requests.

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 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 Regulations and the Data Protection Act.

FOI requests which required a panel decision:

2006/07 – 13  
2007/08 – 11  
2008/09 – 7

### Sustainability

A review of our environmental strategy looked at Audit Scotland’s carbon footprint and the results of this will become central to how we measure our own contribution to environmental sustainability. We estimate our CO<sup>2</sup> emissions to be 413 tonnes per year, and we have set an interim target of a one per cent reduction each year.

As part of the review, we surveyed staff about their awareness of our environmental work. We found that the majority of staff were aware of our environmental group and of our efforts to recycle, to cut paper and electricity use and to reduce travel.

Audit Scotland’s carbon footprint (CO<sup>2</sup> tonnes)

Car business mileage:	178.83
Electricity:	156.89
Air travel:	52.55
Gas:	21.02
Rail travel:	2.52
Buses and taxis:	1.11

In the past two years, we have cut power use for printers by 60 per cent and our computer room by 47 per cent. New desktop hardware we have introduced will reduce desktop power by 62 per cent.

## Management Commentary

Video conferencing equipment is now installed at all our major offices. We will be able to report more fully on its use and consequent savings next year but we know that it has already resulted in a reduction in staff travel time and costs, with a positive knock-on effect on our environmental impact.

### **Developing technology**

We implemented new reporting systems to provide better quality information on business activities and installed new desktop hardware to improve network performance and security. All our desktops and laptops have encrypted hard disks. We also implemented a redeveloped disaster recovery site.

# Management Commentary

## Our Organisation

### Our People

#### Audit Scotland's senior management

##### Management Team

##### **Robert Black - Auditor General and Accountable Officer for Audit Scotland**

Robert Black is the first Auditor General for Scotland and was appointed in 2000. He was previously Controller of Audit with the Accounts Commission and, in his earlier career, was chief executive of Tayside Regional Council and Stirling District Council. He has degrees in economics, planning and public policy, and honorary degrees from the University of Aberdeen and Queen Margaret University.

##### **Caroline Gardner - Deputy Auditor General and Controller of Audit**

Caroline Gardner was appointed Deputy Auditor General when Audit Scotland was formed in 2000, and became Controller of Audit in 2004. She previously worked for the Accounts Commission for Scotland, and the Audit Commission in England and Wales. She trained as a chartered public finance accountant with Wolverhampton MBC, and has an MBA from the University of Warwick.

##### **Russell Frith - Director of Audit Strategy**

Russell Frith was appointed director of Audit Strategy shortly after Audit Scotland was formed in 2000. He was previously director of Financial Audit in the National Audit Office in Edinburgh. Prior to that, he worked in the private sector in audit and corporate finance roles as well as being a finance director in the financial services sector. He qualified as a chartered accountant with KPMG.

##### **Diane McGiffen - Director of Corporate Services**

Diane McGiffen was appointed director of Corporate Services in 2000. She previously worked with the Accounts Commission, and before that worked in urban regeneration and local government. She has an MSc in social and public policy from the University of Edinburgh.

#### 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.

## Management Commentary

### **Fiona Kordiak - Director of Audit Services (health and central government)**

Fiona Kordiak was appointed as director of Audit Services in 2007. She joined the Accounts Commission as a trainee in 1987, having previously worked as a finance trainee in the Scottish health service. She is a chartered public finance accountant and has an MA in history and sociology.

### **Lynn Bradley - Director of Audit Services (local government)**

Lynn Bradley joined Audit Scotland as director of Audit Services in 2005. She previously held senior posts in local government, consultancy and Scottish Homes. Lynn qualified as a chartered public finance accountant with the National Audit Office and as a chartered accountant with Ernst & Young.

### **Barbara Hurst - Director of Public Reporting (health and central government)**

Barbara Hurst was appointed director of Public Reporting in 2000 and has worked in audit for the past 16 years. Before that she has worked in the public, private and voluntary sectors in a variety of roles, including teaching English as a foreign language, managing college library services, rape counselling, freelance consultancy and providing information services to national voluntary organisations. Barbara has an MSc (Econ) in social research methods from the University of Cardiff.

### **David Pia - Director of Public Reporting (local government)**

David Pia was appointed director of Public Reporting in 2003 after joining Audit Scotland from the Social Work Inspectorate of the former Scottish Executive in 2001. He worked for 15 years in a range of posts in central government and before that for 15 years in three local authorities in Scotland and England. He is a qualified social worker with Masters degrees from the Universities of Edinburgh and York.

## **Staff information**

### **Staff statistics**

293 whole-time equivalent staff employed on average during 2008/09

Staff turnover was 4.77%

Audit Scotland employees took 7.5 days of sick leave each on average, compared with public sector average of 9.8 days.

## **Our Governance**

### **Board**

Our 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 met seven times during the year and the audit committee four times.

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 Scottish Parliamentary Corporate Body) and the main terms and conditions for all staff.

## Management Commentary

The board has agreed on a framework which sets out the principles and approach to ways of partnership working between the Auditor General for Scotland, the Accounts Commission and Audit Scotland. The framework is designed to ensure that the three parties work together in a way which enhances and maintains their integrity, individually and collectively, and will help deliver our vision for public audit. The framework recognises that each party depends on the others to deliver their statutory duties, but that their responsibilities and accountability arrangements are distinct.

### **John Baillie - Chair of the board and chair of Accounts Commission**

Former partner in a big four accountancy firm. Member of the Reporting Panel of the Competition Commission. Visiting Professor of Accountancy at the University of Glasgow.

### **Isabelle Low - Deputy chair of Accounts Commission**

Former senior civil servant. Former member of the State Hospitals Board for Scotland, the Scottish Consumer Council and the Statistics Commission. Chair of Audit Scotland's Audit Committee.

### **Ronnie Cleland - Independent non-executive member**

Chair of Scottish practice of Odgers, Ray & Berndston. Member of NHS Greater Glasgow and Clyde Board. Member of Scottish Police Complaints Commission's advisory panel. Non-executive advisor to Scottish Football Association. Member of the Court of the University of Strathclyde. Former partner at Thomson Partners Ltd

(Ronnie Cleland replaced Phil Taylor as the independent board member in October 2008.)

### **Catherine Coull - Secretary to the Audit Scotland Board**

Secretary to the board and responsible for legal and procedural advice.

### **Robert Black**

See biography on page 18

### **Caroline Gardner**

See biography on page 18

## 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, currently HW Chartered Accountants.

During the year, the SCPA considered a follow-up report from the external auditors on the economy, efficiency and effectiveness examination of Audit Scotland's fees and charges.

## Management Commentary

Audit Scotland was pleased to enter into discussion this year with the SCPA about our governance arrangements, including the Audit Scotland Board. The government has now responded to the SCPA's recommendations for strengthening our governance and we look forward to working with the SCPA to implement any changes resulting from the Public Services Reform Bill.

### SCPA membership:

Angela Constance (Convener)

Robert Brown

Derek Brownlee

George Foulkes

Hugh Henry

\*Correct as of 31 March 2009

# Management Commentary

## Our 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 from the accounts. The full accounts are published on pages 29 to 53 and are available on our website.

### A summary of income and expenditure

The task of auditing Scotland's public bodies has expanded greatly since 2000. In 2008/09, Audit Scotland spent £26.6 million on services for the Auditor General and the Accounts Commission; this is less than 0.1 per cent 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.

### 2008/09 Financial Results

In 2008/09, income earned from audited bodies and miscellaneous income was £19,585k. Expenditure in the same period was £26,593k with the resulting Net Operating Costs totalling £7,008k. These costs which were met from direct funding received from the Scottish Parliament were £2,192k less than the agreed budget of £9,200k.

Of the £2,192k above, £784k related to accounting benefits arising from compliance with Financial Reporting Standard 17 on Pensions and a further £745k was in respect of funding planned to be used in 2009/10 and beyond. Excluding these sums Net Operating Costs were £663k lower than budget. Increased income levels £666k (both fees charged to audited bodies and miscellaneous income), lower staff costs – including secondment income – £306k and reduced stationery and printing cost £79k were the main contributors to the favourable variance. Increased fees paid to approved auditors £354k partly offset the favourable positions on income, staff costs and stationery and printing.

Income in 2008/09 was £521k less than the previous year. Fee income was £127k lower than last year. In the year fee rebates totalling £1,000k were made to audited bodies. These rebates were partly offset by increased levels of work completed in the year and the effect of price increases. Bank interest earned in the year was £78k less than last year, as a result of lower interest rates paid in the second half of the year, and a further £290k reduction was attributable to other finance income.

Expenditure in 2008/09 was £1,569k higher than the previous year. The main contributors to this increase were staff costs, including pension movements, £463k (+3.3%) greater than last year. Fees and expenses paid to appointed auditors were £409k more, as a result of increased levels of work completed in year. Depreciation charges arising from investment in Information Technology assets and the full effect of a prior year major refurbishment of an Edinburgh office increased depreciation charges by £208k. A further £162k increase was attributable to property rental and maintenance costs with the balance, £327k, mainly due to external consultancy support costs.



# 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	2008/09		2007/08	
	£000	% total	£000	% total
Fees paid by local authorities	12,330	63	12,578	62
Fees paid by health bodies	4,080	21	4,142	20
Fees paid by Scottish Water	192	1	181	1
Fees paid by further education colleges	529	3	528	3
Fees paid by Scottish Government & sponsored bodies	1,750	9	1,579	8
Bank interest	118	1	196	1
Miscellaneous	320	1	346	2
Other finance income (pensions)*	266	1	556	3
<b>Total</b>	<b>19,585</b>	<b>100</b>	<b>20,106</b>	<b>100</b>

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

Other revenue funding	2008/09		2007/08	
	Required £000	Available £000	Required £000	Available £000
Direct Funding from Parliament	7,008	9,200	4,918	8,126

## Analysis of expenditure

In 2008/09, 77 per cent of expenditure was spent on staff and fees to auditors. This compares with 79 per cent in the previous year.

Expenditure	2008/09		2007/08	
	£000	% total	£000	% total
Staff and members' costs	14,390	54	13,927	56
Fees and expenses paid to appointed auditors	6,078	23	5,669	23
Buildings, rent and depreciation	2,241	8	1,871	7
Operating costs	3,884	15	3,557	14
<b>Total</b>	<b>26,593</b>	<b>100</b>	<b>25,024</b>	<b>100</b>

# Management Commentary

## Appendix

### Audit Scotland's public performance reports

#### Across-government reports

- Improving energy efficiency
- Drug and alcohol services in Scotland

#### Central government reports

- Financial overview of Scotland's colleges
- A performance overview of sport in Scotland
- Managing increasing prisoner numbers
- Review of major capital projects (How government works series)
- The First ScotRail passenger rail franchise
- Central government's use of consultants (How government works series)

#### NHS reports

- A review of the new General Medical Services contract
- A review of palliative care services in Scotland
- Day surgery in Scotland: progress report
- Review of NHS diagnostic services
- Financial overview of the NHS in Scotland 2007/08
- Asset management in the NHS in Scotland

#### Local government reports – Best Value audits

- Falkirk Council
- North Lanarkshire Council
- Aberdeen City Council
- Orkney Islands Council
- Midlothian Council
- Aberdeenshire Council
- Perth & Kinross Council
- Argyll & Bute Council: progress report
- Inverclyde Council: progress report
- The Moray Council: progress report
- South Lanarkshire Council
- Fife Council
- Dumfries & Galloway Council

# Management Commentary

## Other local government reports

- Scottish fire and rescue authorities 2007/08: progress report
- The impact of the race equality duty on council services
- Overview of local authority audits 2008

## Section 22 reports

- The 2006/07 audit of James Watt College
- The 2006/07 audit of Kilmarnock College
- The 2007/08 audit of Western Isles Health Board
- The 2006/07 audit of the Queen's and Lord Treasurer's Remembrancer
  
- The 2007/08 audit of Highlands and Islands Enterprise
- The 2007/08 audit of VisitScotland
- The 2007/08 audit of the Queen's and Lord Treasurer's Remembrancer

## Local government statutory reports

- Aberdeen City Council: Property sales investigation
- Shetland Islands Council: Annual Audit 2007/08
- Aberdeen City Council: Annual Audit 2007/08

## Other publications

- National Fraud Initiative in Scotland
- Accounts Commission annual report 2007/08
- Audit Scotland annual report 2007/08
- Health and Community Care bulletin
- Priorities and Risks Framework: A national planning tool for 2008/09 NHS Scotland audits
- Priorities and Risks Framework: 2008/09 national audit planning tool for local government
- Programme of performance audits 2009/10
- Audit Scotland Corporate Plan 2009 – 12

# 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 (until 30<sup>th</sup> September 2008)
- Chairman – R Cleland (from 1<sup>st</sup> October 2008)
- Member – J Baillie
- Member – I Low
- Member – R W 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 (2007/08 £5,000- £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 2009 were in the bands shown as follows:

		<b>R Black</b>	<b>C Gardner</b>	<b>R Frith</b>	<b>D McGiffen</b>
		<i>Auditor General</i>	<i>Depute Auditor General</i>	<i>Director of Audit Strategy</i>	<i>Director of Corporate Services</i>
<b>Salary</b>	2008~09 <b>£000</b>	140 - 145	125 - 130	90 - 95	85 - 90
	2007~08 <b>£000</b>	135 - 140	125 - 130	90 - 95	85 - 90
<b>Estimated value of benefits in kind</b> <i>Note (i)</i>	2008~09 <b>£</b>	-	-	-	3,700
	2007~08 <b>£</b>	-	-	-	3,600
<b>Real increase in value of accrued pension</b>	<b>£000</b>	See Note 3c	0 - 2.5	0 - 2.5	0 - 2.5
<b>Value of total accrued pension as at 31 March 2009</b>	<b>£000</b>	See Note 3c	35 - 40	15 - 20	15 - 20
<b>Lump Sum</b>	<b>£000</b>	See Note 3c	105 - 110	50 - 55	55 - 60
<b>Cash equivalent transfer value (CETV) as at 31 March 2008</b>	<b>£000</b>	See Note 3c	446	282	222
<b>Cash equivalent transfer value (CETV) as at 31 March 2009</b>	<b>£000</b>	See Note 3c	575	308	295
<b>Real increase in CETV</b> <i>Note (ii)</i>	<b>£000</b>	See Note 3c	12	5	9

### 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

Unless otherwise stated below the 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:

	<b>Remuneration Banding</b>	
	2008/09 £000	2007/08 £000
Chairman – J Baillie (from 1 <sup>st</sup> November 2007)	35-40	10-15
Chairman – A McNish (until 30 <sup>th</sup> September 2007)	Nil	10-15
Depute Chair	10-15	10-15
Commission Members	0-10	0-10

**R W Black**

Auditor General  
Accountable Officer

16 June 2009

# 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 2009. 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 of 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: 92% (88% 2008) 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. In December 2008 the SCPA agreed to extend the appointment of HW, Chartered Accountants as Auditors to Audit Scotland by one year.

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

16 June 2009



## 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](http://www.scotland.gov.uk/Resources/Doc/923/0011293.pdf)

# Statement on The System of Internal Control

As Accountable Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the organisation's policies, aims and objectives whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities set out in the "Accountable Officer's Memorandum".

## **Purpose of the System of Internal Control**

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve the organisation's policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of the organisation's policies, aims and objectives; to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically.

The processes within the organisation have regard to the guidance to public bodies in Scotland issued by Scottish Ministers and set out in the Scottish Public Finance Manual.

## **Risk and control framework**

Audit Scotland has a risk strategy and policy which sets out the approach to risk management. This was reviewed and revised during the year. The corporate risk register, which identifies the key risks facing the organisation, the likelihood and impact of the risk crystallising, the controls in place, the way in which the risk is monitored and any actions to further reduce the risk, is regularly reviewed by management and the Audit Committee. Information risk is covered by the normal risk management arrangements. In addition Audit Scotland is implementing the Scottish Government guidance including the identification of information asset managers.

## **Review of effectiveness**

As Accountable Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by:

- The work of the Board in considering the plans and strategic direction of the organisation
- The deliberations of the Audit Committee in considering the risk management arrangements and corporate risk register, and the reports of the internal auditors
- The work of the internal auditors, who submit regular reports on the adequacy and effectiveness of the organisation's systems of internal control together with recommendations for improvement
- Comments made by the external auditors in their management letters
- Regular reports from the managers within the organisation on progress towards meeting the organisations performance objectives

***R W Black***  
Accountable Officer

16 June 2009

## Summary of Resources Outturn Year ended 31 March 2009

	<i>2009 Estimate £000</i>	<b>2009 Actual £000</b>	<b>2008 Actual £000</b>
<b>Net Total Costs</b>	<b>(9,200)</b>	<b>(7,008)</b>	<b>(4,918)</b>
<b>Net Cash Requirement</b> ( <i>see below</i> )		<b>9,196</b>	<b>7,916</b>
<b>Reconciliation of resources to Net Cash Requirement</b>			
	<i>Note</i>	<b>2009 £000</b>	<b>2008 £000</b>
Net Operating Cost		7,008	4,918
Capital: Purchase of fixed assets	7	396	1,362
		<b>7,404</b>	<b>6,280</b>
<b>Adjustments</b>			
Non cash items:			
- Depreciation	4	(554)	(346)
- Notional interest on capital	4	(32)	(50)
- Pension scheme - net revenue charge		749	251
- Movement in net pension liabilities		6,536	(6,000)
Opening net debtors/creditors/pensions		(205)	5,660
Closing net debtors/creditors/pensions		(5,838)	205
Creditor due to Consolidated Fund	9	1,136	1,916
		<b>1,792</b>	<b>1,636</b>
<b>Net Cash Requirement</b>		<b>9,196</b>	<b>7,916</b>

## Operating Cost Statement Year ended 31 March 2009

	Note	2009 £000	2008 £000
<b>Administration Costs</b>			
People costs	2	(14,390)	(13,927)
Other administration costs	4	(12,203)	(11,097)
<b>Gross administration costs</b>		<b>(26,593)</b>	<b>(25,024)</b>
Operating income	5	19,319	19,550
Other finance income	6	266	556
<b>NET OPERATING COST</b>		<b>(7,008)</b>	<b>(4,918)</b>

## Statement of recognised gains and losses (SRGL)

	Note	2009 £000	2008 £000
<b>Actuarial gain/(loss) recognised</b>			
Actual return less expected return on pension scheme assets		(12,853)	(4,366)
Experience gains/(losses) arising on pension scheme liabilities		1,321	(2)
Changes in financial assumptions underlying the present value of the pension scheme liabilities		4,247	10,117
<b>Total (losses)/gains recognised since last annual report</b>	3	<b>(7,285)</b>	<b>5,749</b>

## Balance Sheet

### As at 31 March 2009

	Note	2009 £000	2008 £000
<b>Fixed Assets</b>			
Tangible assets	7	2,143	2,301
<b>Current Assets</b>			
Debtors	8	2,196	2,229
Cash at bank and in hand		1,136	1,916
		<b>3,332</b>	<b>4,145</b>
<b>Current Liabilities</b>			
Amounts falling due within one year	9	<b>3,249</b>	<b>3,739</b>
<b>Net Current Assets</b>		<b>83</b>	<b>406</b>
<b>Total assets less current liabilities</b>		<b>2,226</b>	<b>2,707</b>
Deferred liabilities	10	0	(4)
Provision for early retirement	11	(1,561)	(1,593)
Net funded pension (liability)/asset	3	(3,223)	3,313
<b>NET (LIABILITIES)/ASSETS</b>		<b>(2,558)</b>	<b>4,423</b>
<i>Represented by:</i>			
<b>TAXPAYERS' EQUITY</b>			
Net funded pension asset/(liability)	3	(3,223)	3,313
General Fund	12	665	1,110
	16	<b>(2,558)</b>	<b>4,423</b>

**R W Black**  
Auditor General  
Accountable Officer

16 June 2009

# Cash flow Statement

## Year ended 31 March 2009

### Cash Flow Statement

	Note	2009 £000	2008 £000
Net cash outflow from operating activities	(note a)	(8,710)	(6,655)
Capital expenditure and financial investment	(note b)	(486)	(1,261)
Financing from the Consolidated Fund (supply)	(note c)	8,416	8,166
<b>(Decrease)/Increase in cash in the period</b>		<b>(780)</b>	<b>250</b>

### Notes to the Cash Flow Statement

		2009 £000	2008 £000
<b>a) Reconciliation of operating cost to operating cash flows</b>			
Net operating cost		(7,008)	(4,918)
<i>Adjustment for non-cash items:</i>			
- Depreciation	7	554	346
- Notional interest on capital		32	50
- Pension scheme - net revenue (credit)		(749)	(251)
Decrease in debtors		33	913
(Decrease) in creditors		(436)	(879)
Adjustment for cash balance due to Consolidated Fund	9	(1,136)	(1,916)
<b>Net cash outflow from operating activities</b>		<b>(8,710)</b>	<b>(6,655)</b>
<b>b) Capital expenditure and financial investment</b>			
Purchase of fixed assets	7	(396)	(1,362)
(add) / less movement in accrued expenditure		(90)	101
		<b>(486)</b>	<b>(1,261)</b>
<b>c) Analysis of financing</b>			
Opening Cash balance payable to the Consolidated Fund		1,916	1,666
From Consolidated Fund (Supply)		6,500	6,500
<b>Financing from the Consolidated Fund (supply)</b>		<b>8,416</b>	<b>8,166</b>
Decrease/(Increase) in cash		780	(250)
<b>Net cash requirement</b>		<b>9,196</b>	<b>7,916</b>

## Resources by Departmental Aims and Objectives For the year ended 31 March 2009

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

<b>Net Operating Cost</b>	<b>Gross Expenditure £000</b>	<b>Income £000</b>	<b>Net Expenditure £000</b>
<b>2009 Actual</b>	<b>26,593</b>	<b>19,585</b>	<b>7,008</b>
<b>2008 Actual</b>	<b>25,024</b>	<b>20,106</b>	<b>4,918</b>

# Annual Report and Accounts 2008-09

## 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 2009/10 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>remaining period of lease</i>	<i>(from 5 to 7 years)</i>
<i>Furniture and fittings</i>	<i>5 years</i>	
<i>Computer equipment</i>	<i>2~5 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 2008-09

## 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 2009. 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 2008-09

## Notes to the Accounts (continued)

### 2: People Costs and Numbers

People costs comprise:	<b>2009</b>	<b>2008</b>
	<i>£000</i>	<i>£000</i>
<b><i>Administrative Staff</i></b>		
Salaries	11,965	11,046
National Insurance	945	927
Superannuation	1,773	1,667
Movement in early retirement costs	(51)	(216)
Adjustment for retirement benefit scheme costs ( <i>see below</i> )	(377)	399
	<b>14,255</b>	<b>13,823</b>
<b><i>Accounts Commission Members</i></b>		
Salaries	119	92
National Insurance	5	5
Travel and subsistence	11	7
	<b>135</b>	<b>104</b>
	<b>14,390</b>	<b>13,927</b>

The average number of directly employed whole time equivalent (w.t.e.) staff during the period was 293 (2008 – 278). The average number (w.t.e.) for agency and seconded staff used during the year was 20 (2008 – 14).

<b><i>Analysis of local government retirement benefit scheme costs:</i></b>	<b>2009</b>	<b>2008</b>
	<i>£000</i>	<i>£000</i>
Current service costs	1,621	2,264
Past service costs	-	-
Curtailed and settlements	-	-
	1,621	2,264
Less: Employees' contributions	(556)	(520)
<b>Charge to revenue</b>	<b>1,065</b>	<b>1,744</b>
Actual contributions	(1,442)	(1,345)
	<b>(377)</b>	<b>399</b>
Adjustment for retirement benefit scheme costs	<b>(377)</b>	<b>399</b>

### 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 the Scottish Executive. In addition, Audit Scotland operates a “by analogy” scheme outside the two main schemes.

# Annual Report and Accounts 2008-09

## 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 and actuarial assumptions used for the purposes of their FRS 17 calculations as at 31 March 2009 were as follows:

	<b>2009</b>	<b>2008</b>
Price increases	3.1%	3.6%
Salary increases	4.6%	5.1%
Pension increases	3.1%	3.6%
Expected rate of return on assets	6.6%	7.2%
Discount rate	6.9%	6.9%

The assumed average life expectancy for a retiree at age 65 are as follows

	<b>Males</b>	<b>Females</b>
	years	years
Current pensioners	19.8	22.8
Future pensioners	21.0	24.0

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

	<b>2009</b>	<b>2008</b>
	£000	£000
Assets (see below)	34,583	43,355
Liabilities	(37,806)	(40,042)
<b>Net Funded Assets/(Liabilities)</b>	<b>(3,223)</b>	<b>3,313</b>
Unfunded liabilities – early retirement provision	(1,561)	(1,593)
<b>Net Funded Assets/(Liabilities)</b>	<b>(4,784)</b>	<b>1,720</b>

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

	<b>Long Term Return</b>	<b>Assets at</b>	<b>Long Term Return</b>	<b>Assets at</b>
	<b>at 31 March 2009</b>	<b>31-Mar-09</b>	<b>at 31 March 2008</b>	<b>31-Mar-08</b>
	<i>% per annum</i>	<i>£000</i>	<i>% per annum</i>	<i>£000</i>
Equities	7.0%	27,321	7.7%	32,912
Property	5.4%	3,804	5.7%	3,850
Bonds	4.9%	3,458	5.7%	5,162
Cash	4.0%	-	4.8%	1,431
<b>Estimated employer assets</b>	<b>6.6%</b>	<b>34,583</b>	<b>7.2%</b>	<b>43,355</b>

# Annual Report and Accounts 2008-09

## 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 2009 by Hymans Robertson.

The movement in the funded part of the net pension liability for the year to 31 March 2009 is as follows:

<b>Movement in defined benefit obligation</b>	<b>2009</b>	<b>2008</b>
	<i>£000</i>	<i>£000</i>
<b>Opening balance at 1 April</b>	<b>40,042</b>	<b>46,046</b>
Current service cost	1,065	1,747
Interest cost	2,780	2,529
Contributions by members	583	541
Actuarial (gains) / losses	(5,568)	(10,115)
Estimated benefits paid	(1,096)	(706)
<b>Closing Defined Benefit Obligation</b>	<b>37,806</b>	<b>40,042</b>
<b>Movement in fair value of employer assets</b>	<b>2009</b>	<b>2008</b>
	<i>£000</i>	<i>£000</i>
<b>Opening balance at 1 April</b>	43,355	43,359
Expected return on assets	3,152	3,179
Contributions by members	583	541
Contributions by the employer	1,442	1,348
Actuarial (losses) / gains	(12,853)	(4,366)
Benefits paid	(1,096)	(706)
<b>Closing fair value of Employer Assets</b>	<b>34,583</b>	<b>43,355</b>
<b>Closing Net Pension (Liabilities)/Asset at 31 March</b>	<b>(3,223)</b>	<b>3,313</b>

#### History of Gains and Losses

	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Fair value of employer assets	34,583	43,355	43,359	39,140
Present value of defined benefit obligation	(37,806)	(40,042)	(46,046)	(36,960)
Surplus / (Deficit)	(3,223)	3,313	(2,687)	2,180
Experience gain / (losses) on assets	(12,853)	(4,366)	257	6,095
Experience gains/(losses) on funded liabilities	1,321	(2)	(1)	1,479
Actuarial (losses) /gains	(7,285)	5,749	(5,826)	10,372
Actuarial (losses)/gains recognised in SRGL	(7,285)	5,749	(5,826)	10,372

## Annual Report and Accounts 2008-09

### Notes to the Accounts (continued)

#### **3: Pension assets and liabilities (continued)**

During the year ended 31 March 2009, Audit Scotland's contribution to the pension fund represented 15.8% (2008 – 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 2008, Hymans Robertson recommended employers' contributions being increased annually over the next three years (2009/10 – 16.5%, 2010/11 – 17.3%, 2011/12 – 18.0%).

The significant movement from net assets to net liabilities in the local government scheme is primarily due to reductions the market value of pension assets

#### ***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](http://www.civilservice-pensions.gov.uk)).

During the year ended 31 March 2009, Audit Scotland paid an employer's contribution of £307k (2008 - £300k) into the PCSP scheme at rates between 19.5% and 25.5% of pensionable pay (2008 – 19.5% to 25.5%). Audit Scotland has been informed that contributions in 2009/10 will be at rates between 18.8% and 24.3%. 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***

The Auditor General for Scotland, 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 2009, Audit Scotland paid an Employer's contribution of £22.7k (2008 - £22.1k) 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 2008-09

## Notes to the Accounts (continued)

### 4: Administration Costs

	£000	2009 £000	2008 £000
<b><i>Fees and Expenses to appointed audit firms:</i></b>			
Local authorities	2,786		2,625
National Health Service bodies in Scotland	1,562		1,391
Scottish Water	208		188
Further education colleges	550		549
Scottish Government departments and sponsored bodies	972		916
		<b>6,078</b>	<b>5,669</b>
<b><i>Other Costs:</i></b>			
Rent and rates	973		819
Other accommodation costs	714		706
Travel and subsistence	872		809
Legal and other professional fees	1,242		815
Stationery and printing	327		324
Training	438		483
Staff recruitment	233		266
Communications (telephone, postage)	97		93
Insurance	115		131
Information technology	403		429
Internal Audit	23		33
External Audit - financial statements	23		19
External Audit - other work	7		-
Other	72		105
<i>Non-cash items:</i> Depreciation	554		346
Notional interest on capital	32		50
		<b>6,125</b>	<b>5,428</b>
		<b>12,203</b>	<b>11,097</b>

*Rent and rates includes £723k in respect of property leases (2008 £586k) - see note 13.*

# Annual Report and Accounts 2008-09

## Notes to the Accounts (continued)

### 5: Operating Income

	<b>2009</b>	<b>2008</b>
	<i>£000</i>	<i>£000</i>
<i>Fees and charges payable:</i>		
- by Local authorities	12,330	12,578
- by National Health Service bodies in Scotland	4,080	4,142
- by Scottish Water	192	181
- by Further education Colleges	529	528
- by Scottish Government department and sponsored bodies	1,750	1,579
	<b>18,881</b>	<b>19,008</b>
Bank interest	118	196
Miscellaneous income	320	346
	<b>19,319</b>	<b>19,550</b>

### 6: Other finance income

	<b>2009</b>	<b>2008</b>
	<i>£000</i>	<i>£000</i>
Expected return on local government pension scheme assets	3,152	3,179
Interest on pension scheme liabilities	(2,886)	(2,623)
	<b>266</b>	<b>556</b>

# Annual Report and Accounts 2008-09

## Notes to the Accounts (continued)

### 7: Fixed Assets

	<b>Leasehold premises</b>	<b>Furniture and fittings</b>	<b>Computer equipment</b>	<b>Total</b>
<i>Cost</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
At 1 April 2008	1,698	164	1,823	<b>3,685</b>
Additions	1	-	395	<b>396</b>
Transfers	-	-	-	<b>0</b>
Disposals	-	-	-	<b>0</b>
<b>At 31 March 2009</b>	<b>1,699</b>	<b>164</b>	<b>2,218</b>	<b>4,081</b>
<i>Depreciation</i>				
At 1 April 2008	288	53	1,043	<b>1,384</b>
Charge for the year	215	25	314	<b>554</b>
Depreciation on Disposals	-	-	-	<b>0</b>
<b>At 31 March 2009</b>	<b>503</b>	<b>78</b>	<b>1,357</b>	<b>1,938</b>
<i>Net Book Value</i>				
<b>At 31 March 2009</b>	<b>1,196</b>	<b>86</b>	<b>861</b>	<b>2,143</b>
<b>At 31 March 2008</b>	<b>1,410</b>	<b>111</b>	<b>780</b>	<b>2,301</b>

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

	<b>2009</b>	<b>2008</b>
	<i>£000</i>	<i>£000</i>
Trade debtors:		
Central Government bodies	85	79
Local Authorities	8	33
NHS bodies in Scotland	15	-
Bodies external to government	<u>1</u>	<u>292</u>
	109	404
Work in progress	1,445	1,057
VAT	120	224
Prepayments	522	544
	<u><b>2,196</b></u>	<u><b>2,229</b></u>



# Annual Report and Accounts 2008-09

## Notes to the Accounts (continued)

### 9: Current Liabilities

	2009	2008
	£000	£000
<i>Amounts falling due within one year:</i>		
Trade creditors:		
Central Government	6	-
Local Authorities	26	8
NHS bodies in Scotland	13	-
Bodies external to government	511	580
	<u>556</u>	<u>588</u>
Cash balance payable to Consolidated fund	1,136	1,916
Deferred income	391	467
Other taxes and social security costs	349	-
Superannuation	226	1
Accruals	587	737
Rent free period on premises – current liability ( <i>Note 10</i> )	4	30
	<u>3,249</u>	<u>3,739</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.

	2009	2008
	£000	£000
<b>Opening balance at 1 April:</b>		
Current	30	30
Deferred	4	34
	<u>34</u>	<u>64</u>
Additions	-	-
Released during year	(30)	(30)
	<u>4</u>	<u>34</u>
<b>Closing balance at 31 March</b>		
<i>Whereof:</i>		
Current	4	30
Deferred	-	4
	<u>4</u>	<u>34</u>

# Annual Report and Accounts 2008-09

## 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:

	<b>2009</b>	<b>2008</b>
	<i>£000</i>	<i>£000</i>
<b>Opening balance at 1 April</b>	<b>1,593</b>	<b>1,787</b>
Additions	47	-
Utilised in year	(98)	(90)
Revaluation	19	(104)
	<hr/>	<hr/>
<b>Closing balance at 31 March</b>	<b>1,561</b>	<b>1,593</b>

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 31<sup>st</sup> March 2007 Audit Scotland has recognised the pension liability for staff previously employed by the Scottish Local Government Ombudsman. The liability as at 31<sup>st</sup> March 2009 was £276k (31<sup>st</sup> March 2008 £289k).

### 12: General Fund

	<b>2009</b>	<b>2008</b>
	<i>£000</i>	<i>£000</i>
<b>Opening balance at 1 April</b>	<b>1,110</b>	<b>(21)</b>
Opening Cash balance payable to the Consolidated Fund	1,916	1,666
Funding received from Consolidated Fund	6,500	6,500
Closing Cash balance payable to the Consolidated Fund	(1,136)	(1,916)
	<hr/>	<hr/>
<b>Net funding from Scottish Parliament</b>	<b>7,280</b>	<b>6,250</b>
Net Operating Cost	(7,008)	(4,918)
Notional interest on capital	32	50
Transfer to net funded pension liabilities	(377)	399
Net return on pension assets	(372)	(650)
	<hr/>	<hr/>
<b>Closing balance at 31 March</b>	<b>665</b>	<b>1,110</b>

# Annual Report and Accounts 2008-09

## Notes to the Accounts (continued)

### 13: Leases

During the period to 31 March 2009 the amounts charged to revenue in respect of operating leases for premises and equipment were as follows:

	<b>2,009</b>	<b>2,008</b>
	<i>£000</i>	<i>£000</i>
Premises ( <i>Note 4</i> )	723	586
Equipment	459	415
	<b>1,182</b>	<b>1,001</b>

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

<b>Lease expiry</b>	<b>2009</b>		<b>2008</b>	
	<b>Premises</b>	<b>Equipment</b>	<b>Premises</b>	<b>Equipment</b>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Within one year	5	28	5	75
In two to five years	165	353	170	191
After five years	520	-	533	-
	<b>690</b>	<b>381</b>	<b>708</b>	<b>266</b>

Audit Scotland is unable to recover input VAT on lease payments. The amounts payable in the next financial year in respect of Premise leases noted above include VAT at the current rate of 15%. The payments exclude any amounts that might fall due in respect of the rent reviews that remain outstanding for 18 George Street, Edinburgh and Osborne House, Edinburgh and a rent review for 110 George Street that will be due during 2009/10.

### 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 2009 the contracted capital commitments were £48k, payable in 2009/10 upon completed implementation of the new human resources system. There were no contingent liabilities.

# Annual Report and Accounts 2008-09

## Notes to the Accounts (continued)

### 16: Movement in Taxpayers' Equity

	<b>2009</b>	<b>2008</b>
	<i>£000</i>	<i>£000</i>
<b>Opening balance at 1 April</b>	<b>4,423</b>	<b>(2,708)</b>
Local government pension scheme - current service cost	(1,621)	(2,264)
Employer and employee contributions	1,998	1,865
Past service costs	-	-
Impact of settlements and curtailments	-	-
Net return on pension assets	372	650
Actuarial (losses)/gains	(7,285)	5,749
Movement in general fund ( <i>Note 12</i> )	(445)	1,131
	<b>(6,981)</b>	<b>7,131</b>
<b>Closing balance at 31 March</b>	<b>(2,558)</b>	<b>4,423</b>

## 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 2009, 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 2009 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

16 June 2009