



Annual Accounts

Year ended 31 March 2010

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Management Commentary

AUDIT SCOTLAND ANNUAL REPORT 2009/10

Auditor General and Chair's message

We are responding to the new, challenging environment for public finance in three ways. We are working to ensure that the annual audits of all public bodies address the major risks and performance issues; we are revisiting our programme of performance audits to ensure that these continue to be relevant in the current climate; and we are taking action to reduce our own costs and the costs to public bodies of our work.

One of our major reports in 2009/10 was as much about looking forward to the future risks facing the public finances as it was about looking back. Its publication was timely, however. *Scotland's public finances: preparing for the future* has promoted widespread debate and discussion about how to prepare for the financial challenges that lie ahead for the public sector in Scotland. As you will see from this annual report, much of our work throughout the year has been about helping Scotland's public bodies identify areas of improvement, to help them get through tough economic times.

At the same time, the streamlining of public sector scrutiny is beginning to deliver results. On behalf of the Accounts Commission, and together with HM Inspectorate of Constabulary for Scotland, we have carried out our first joint scrutiny reviews of police forces and boards. Our plans for more streamlined and targeted Best Value audits of local authorities have been piloted and are about to be implemented.

The quality and relevance of our work has led to our reports being used ever more frequently in the Scottish Parliament, including providing MSPs with the basis for parliamentary questions. This has led to invitations for Audit Scotland to give evidence to parliamentary committees across a wide range of issues.

This year we have received 250 requests from people wanting us to look at a number of high profile issues, often of a controversial nature. We examine all such requests. We are acutely aware, however, that we have to judge carefully our use of resources, and consider whether the issue itself is appropriate for Audit Scotland to examine further and, if so, whether the timing is right.

This annual report reflects our new corporate plan, 2009-12. While reporting our work in the usual way, we have used case studies to highlight particular areas of the work that we did to help us meet our corporate plan priorities during the past year.

We were pleased with the aspects of the Public Services Reform (Scotland) Act 2010 that have helped us refresh our governance arrangements and equip us to respond even more efficiently to the challenges ahead.

Robert W Black
Accountable Officer and Auditor General for Scotland

John Baillie
Chair of Audit Scotland Board

Management Commentary

Audit Scotland

Who we are

Audit Scotland is a statutory body that carries out audits and investigations for the Auditor General for Scotland and the Accounts Commission.

The Auditor General for Scotland secures the audit of the Scottish Government and other public bodies in Scotland, except local authorities. He investigates whether bodies achieve the best possible value for money and adhere to the highest standards of financial management. The Auditor General is independent of the Scottish Government and the Scottish Parliament.

The Accounts Commission secures the audit of local authorities and fire and police boards, and investigates whether they spend public money properly and effectively. It is independent of both central and local government. Commission members are appointed by Scottish ministers.

What we do

We help the Auditor General and the Accounts Commission to ensure public money in Scotland is used properly, efficiently and effectively. We do this by carrying out financial and performance audits of various aspects of how public bodies work. We audit public bodies, with a total spend of more than £36 billion a year, and audit the majority of devolved public services in Scotland.

Our vision

On behalf of the Auditor General and the Accounts Commission, we will provide assurance to the people of Scotland that their money is spent appropriately and we will help public sector organisations in Scotland to improve and perform better.

Our objectives

Holding to account

We will conduct excellent risk-based audits of the public sector and report on them in public.

Helping to improve

We will systematically identify and promote good practice to help public bodies to improve.

Our priorities

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.

Our stakeholders

The Scottish Parliament

The people in Scotland

The Scottish Government

All Scottish public organisations

Management Commentary

Our resources

293 whole-time equivalent staff as at 31 March 2010.

£20.4 million from: public bodies for audits of their financial reports; bank interest; and miscellaneous income.

£7.2 million direct funding from the Scottish Parliament.

Eight private firms of accountants appointed to carry out about half of the annual audits on behalf of the Auditor General for Scotland and the Accounts Commission.

Our history

Audit Scotland was established in 2000 under the Public Finance and Accountability (Scotland) Act 2000. This followed devolution from Westminster to Scotland and the establishment of the Scottish Parliament in 1999.

Highlights of 2009/10

215 final annual audit reports produced

23 performance audit and Best Value reports published

100% of audits completed on time

881 separate reports produced for the 215 public bodies audited

97.1% of local government and 90.1% of central government bodies think our auditors provide “a high-quality audit service”

Named 52nd in *The Sunday Times* ‘75 Best Places To Work In The Public Sector’ in the UK

Presented to 39 seminars, conferences and training events and 9 groups of overseas visitors to Audit Scotland

Served on 52 external bodies and working groups

Website re-awarded Shaw Trust ‘Accessible Plus’ accreditation

Management Commentary

Our work

The Scottish Parliament and the Accounts Commission

Public reporting programme

We conduct performance audits covering the entire public sector to help public bodies improve the quality of their services, do more with their money, and find lower cost ways of working to the same standards. These audits are carried out by us on behalf of the Auditor General or the Accounts Commission or both. We publish reports on the results and help provide assurance to the public and to decision-makers that public money is being spent properly.

In 2009/10, we published reports on 23 national and Best Value performance audits. These were as follows:

- 6 Across-government audits
- 2 Central government audits
- 4 NHS audits
- 8 Best Value in local government audits
- 3 local government audits

Impact

Our report for the Auditor General, *Scotland's public finances: preparing for the future* was significant. The Scottish Parliament's Public Audit Committee asked the Parliament's Deputy Presiding Officers to look at recommendations made in the report, and also highlighted the report to the Parliament's Finance Committee. Audit Scotland is now working with the Parliament to help them address the recommendations. The report has been cited in more than 100 separate items of media coverage. It was downloaded 3,032 times in the three weeks following its publication and it has been widely discussed at conferences and seminars.

Almost all of our reports carry recommendations for public bodies to help them improve, and we also publish good practice checklists and case studies. For instance, our *Review of orthopaedic services* found that if the health boards with the lowest orthopaedic activity levels met the national average, the NHS in Scotland could perform another 3,700 procedures a year. It also found scope for £9 million in efficiency savings through better case management, and £2 million in cash savings through better purchasing of hip and knee implants. Similarly, *Improving public sector purchasing* recommends that public bodies increase their joint buying of goods and services. It points out that while the NHS has set up 150 collaborative purchasing contracts and saved £54 million over two years, central and local government bodies have set up only 45 between them and have scope to make significant savings.

After *Managing the use of medicines in hospitals: follow-up review* was published, the Chief Pharmaceutical Officer for Scotland wrote to all NHS boards asking for progress reports against the report's self-assessment checklist. In the three months following the publication of *Asset management in local government* nine councils formally agreed action plans for meeting the report's recommendations.

The Public Audit Committee held evidence sessions on four of our reports, *Overview of mental health services*, *Review of Cairngorm funicular railway*, *Progress report on planning for the delivery of the XXth Commonwealth Games 2014*, and *Overview of the NHS in Scotland's performance 2008/09*. The committee called the relevant Scottish Government accountable officers and other witnesses to give evidence and answer questions about issues raised in the reports. The committee also asked for written evidence from accountable officers for four other reports published during the year, as well as two Section 22 reports and one report from the 2008/09 year.

Management Commentary

As well as supporting the work of the Public Audit Committee, Audit Scotland staff gave evidence to a number of different Parliamentary committee inquiries.

During 2009/10, the Accounts Commission also produced findings on nine of our reports, *An overview of local government in Scotland 2009*, and the following Best Value reports: *Dundee City Council BV2 pathfinder audit*; *West Dunbartonshire Council update on progress report*; *Tayside Police and Tayside Joint Police Board*; *Aberdeen City Council progress report*; *West Dunbartonshire Council progress report*; *East Dunbartonshire Council*; *South Ayrshire Council*; and *Glasgow City Council progress report*.

This year our reports and podcasts were downloaded 292,084 times from the Audit Scotland website. We supply reports and findings in various formats.

We have a framework for assessing and reporting on the longer-term impact of our work, which provides a wider picture of the value of audit. The four areas where we expect our work to have an impact are: assurance and accountability, planning and management, economy and efficiency, and effectiveness and quality.

We now routinely prepare impact reports, and summaries of these are published on our website. In 2009/10 we published 15 impact reports.

A list of all the reports we published in 2009/10 appears in the Appendix on page 24 and all our reports are on our website www.audit-scotland.gov.uk

Quality

All of our national reports follow our project management framework and are conducted in line with our performance audit standards. We also seek independent comment and scrutiny of our work. We set up project advisory groups for our performance audit reports, involving experts in the subject area to give feedback on the direction and accuracy of our reports.

In 2009/10, we also ran a pilot project in which the National Audit Office (NAO) peer-reviewed three reports we published in the 2008/09 year. The NAO review said our reports were well structured and written, and clear and easy to understand. The reports had sound information and analysis, and the recommendations flowed logically from the findings. The review suggested including more details about research methods and improving some aspects of the reports' design to make them easier to read. In response to these recommendations we have altered the format of our reports to make them easier to read and are considering including methodology appendices in our future reports or on our website.

We published 23 performance reports in 2009/10.

Highlighting issues from accounts

One of our roles in assuring the public about how well public bodies spend money is to highlight significant issues arising from the annual audits for the attention of the Scottish Parliament and Accounts Commission.

In the case of the Scottish Parliament, the Auditor General issues reports under Section 22 of the Public Finance and Accountability (Scotland) Act 2000. We presented five Section 22 reports to the Scottish Parliament on: Mental Health Tribunal for Scotland Administration (MHTSA), Transport Scotland, Registers of Scotland, the Royal Botanic Garden Edinburgh, and Stow College.

Management Commentary

The Scottish Parliament's Public Audit Committee held evidence sessions on our Section 22 reports on Registers of Scotland, MHTSA, and Transport Scotland. The committee held a joint evidence session on the latter two, summoning senior Scottish Government officials to discuss matters relating to severance payments and pension contributions for people who are leaving their organisations.

In the case of the Accounts Commission, the Controller of Audit issues statutory reports on local authorities to the Accounts Commission. The Controller of Audit issued one report in 2009/10, on Shetland Islands Council.

Please note that although these reports were published in the 2009/10 year, they are on the audits of previous years. All the Section 22 (S22) and Controller of Audit (CoA) statutory reports we have published are on our website www.audit-scotland.gov.uk.

In 2009/10, we published five S22s and one CoA statutory reports.

Website usage in 2009/10

Number of reports:	230,945	(average 19,245 per month)
Number of podcasts:	61,139	(average 5,094 per month)
Number of page views:	387,063	(average 32,255 per month)

These figures are for the top 500 downloaded items.

Case study one: maximise our contribution to the improvement of public services

The past year has seen us continue to expand the ways in which we help the public sector and decision-makers improve public services and get the most out of public money.

In 2009/10, we increased our work with committees and working groups in the Scottish Parliament in addition to our normal reporting relationship with the Public Audit Committee.

Audit Scotland staff gave evidence and briefings to several other Scottish Parliament committees and groups. Examples include:

- the Health and Sport Committee during their inquiry into primary care out-of-hours services in rural Scotland. The committee called Audit Scotland as a witness because of our 2007 report, *Primary care out-of-hours services*
- the Education, Lifelong Learning and Culture Committee on local authority funding of education and children's services as part of the committee's scoping of an inquiry into education funding
- the Local Government and Communities Committee on our report, *Overview of the local authority audits 2008*
- the Equal Opportunities Committee on its inquiry into the economic impact of migration and trafficking
- the Cross-Party Group for mental health about our report *Overview of mental health services*

Deputy Auditor General and Controller of Audit, Caroline Gardner and staff from our health public reporting team also helped the Health and Sport Committee in their scrutiny of the draft Scottish Budget for 2010/11 by briefing members at informal meetings, including the committee's work planning day.

We are extending our work with the Scottish Parliament following the publication of our report *Scotland's public finances* in November 2009. In this report we made a number of recommendations about the Scottish Parliament's role in scrutinising the government's spending plans. We are working with the Public Audit Committee on how we can support those recommendations, starting with more systematic scrutiny of the whole of Scottish Government accounts.

Management Commentary

Best Value in public services

This year we completed for the Accounts Commission the first round of Best Value (BV) reviews of Scotland's 32 councils and launched Best Value 2 (BV2), a new, more streamlined system for scrutinising councils, police boards and other local authorities.

In BV2, we are working with other public sector scrutiny bodies to coordinate our work more effectively. This will cut down the time and effort local authorities spend preparing for inspections and audits, and reduce duplication of work by the scrutiny bodies.

The end of BV and review

BV was launched in 2003/04, with the first report published in September 2004. In 2009/10 we published our final BV reports, with first-time reports on South Ayrshire and East Dunbartonshire Councils as well as three progress reports on other councils.

We also published *Making an impact: an overview of the audits of Best Value and Community Planning 2004-09*. This allowed us to review the first round of BV audits and to consult local authorities and other stakeholders on the impact of BV auditing in holding councils to account and helping them to improve.

The consultation found that the BV process has had a positive impact on local government in Scotland and has given the public, for the first time, an overall picture of how well their councils are performing. It also found that the best-performing councils are those with effective political and managerial leadership and that good performance management is essential to improving services.

These findings and other changes to public sector scrutiny have given us a good base for developing BV2.

BV2 and joint scrutiny code of practice

Audit Scotland has worked with representatives from several other scrutiny bodies, including HM Inspector of Education, the Social Work Inspection Agency, NHS Quality Improvement Scotland, the Care Commission and the Scottish Housing Regulator, and signed up to a joint scrutiny code of practice.

The code sets out the arrangements for cooperation between the bodies involved. Under it, scrutiny will change from standard inspections of all bodies undertaken on a cyclical basis, to a tailored approach for each body based on their individual circumstances and risks.

In December 2009, we published the first report under these new arrangements, working with HM Inspectorate of Constabulary for Scotland to report on Tayside Police and Tayside Joint Police Board.

In April 2009, we started work for the Accounts Commission on 'pathfinder' reports on five councils: Angus, Dundee, East Ayrshire, Highland and Scottish Borders Councils. The first pathfinder, on Dundee, was published in March 2010, and the others are to be published early in the 2010/11 year. Ipsos MORI will evaluate the pathfinders.

Case study two: increase the impact of our work

We published *Overview of mental health services* on 14 May 2009. The audit found the wider cost to Scotland of mental health problems was more than £8 billion a year and the NHS spent about £930 million, with spending on community services and by councils unclear. Mental health problems cause considerable poor health and Scotland's suicide rate is higher than in England and Wales.

Management Commentary

The report contains 17 recommendations for the Scottish Government, NHS boards, councils and partners, on accessibility, delivery and expenditure, and a self-assessment checklist. We also published supplements to the report on our website summarising examples of good practice and service user and carers' views.

The audit highlighted the long waiting times for psychological therapies and for children and adolescent mental health services (CAMHS). It also raised the issue of a lack of out-of-hours and crisis services, a lack of priority for investment in mental health care, and inequalities in spending and the range of services available across Scotland. These issues all appeared in the 40 items of media coverage immediately following publication, and the report was downloaded 8,910 times in its various forms during 2009/10.

In the month following publication, MSP's submitted almost 60 parliamentary questions about mental health, and there were 120 in total lodged by August 2009. The parliament's Health and Sport Committee published a report on its inquiry into CAMHS in June. The report highlighted findings from our report, and asked the government to accelerate work on a waiting times target for CAMHS and to investigate CAMHS staffing numbers.

We presented the report to the parliament's Public Audit Committee in May 2009. The committee decided to hold an inquiry, and took evidence at two separate sessions from the NHS Director-General, the government's director of primary and community care, as well as other Scottish Government staff and representatives from several NHS boards and councils. Written evidence was also submitted by a number of voluntary organisations.

The study team also gave a briefing to the parliament's Cross-Party Group on Mental Health, a presentation to a Holyrood conference on children and young people's mental health, and hosted a workshop at the Association of Community Health Partnership's annual conference.

We will continue to monitor the impact of the report through our local auditors, NHS board and council action plans against the report's checklist, and updates from the Scottish Government.

The report is the first in a planned series on mental health care. It aimed to highlight areas for improvement and identify priorities for future work. We looked at mental health services provided by the NHS, councils, prisons, the police and voluntary sector services across Scotland for people of all ages. We examined the accessibility and availability of services and how much is spent on them.

Delivering the audit

We were responsible for 215 annual audits for the audit year 2008/09, carried out by a mix of appointed auditors from Audit Scotland and private firms of accountants.

Auditors completed 100 per cent of all the audits of health, central government, further education and local authority bodies on time (compared with 99 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. In 2009/10, our auditors also attended 286 audit committee meetings of public bodies across Scotland, compared with 280 in the previous year.

Annual audit reports cover the full range of audit work done in the year, providing clients and stakeholders with a comprehensive and independent view of financial management, governance and performance in public bodies. Annual audit reports can be found on Audit Scotland's website. The 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 13 audit qualifications.

We brought together auditors working in the same sectors nine times during 2009/10 to share experiences, keep up to date with policy developments and discuss technical auditing matters.

Management Commentary

We have also focused on improving how effectively and efficiently we deliver the audit. By introducing a new electronic audit working papers package, MKInsight (MKI), we are working to streamline our activity by simplifying record-keeping, and making information more readily available between colleagues. We rolled out MKI to about 70 staff for use during their 2009/10 audits, and we will introduce it across the rest of the group in 2010/11.

<u>Sector</u>	<u>Number of audits</u>
Central government	76
NHS	23
Further education	39
Councils	32
Joint boards	44
Water sector	1
Total	215

Quality and impact

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

During the year we revised our corporate quality framework and business groups further developed and implemented arrangements for assuring the quality of their work. These arrangements vary according to the nature of the work and include controls to ensure that work is right first time as well as reviews after the completion of an audit. Reviews of a sample of audits were undertaken by Audit Scotland staff independent of the audit and this year there was also an external element in the reviews of financial audit work and performance audit reports.

We regularly collect feedback from audited bodies to help us measure the quality of the audit service and to continue to drive up standards. This year we asked local government and central government bodies to tell us what they thought of the service provided by our auditors during the 2008/09 audits. In addition, bodies were asked to comment on whether the audit had made, or will make, a difference to them in the four areas defined in our corporate impact framework. A summary of the responses received is shown in the table below:

Quality Survey Responses	positive responses	
	Local government	Central government
Overall quality of service	97%	90%
Area of impact of the audit		
Assurance and accountability	100%	92%
Planning and Management	89%	86%
Economy and efficiency	92%	82%
Effectiveness and quality of services delivered by audited bodies	86%	78%

These results compare favourably with previous surveys.

Management Commentary

Ethical standards

The independence of public audit helps ensure its effectiveness. Audit Scotland expects the highest ethical standards to be applied by all our staff and appointed auditors. 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.

Case study three: deliver more streamlined audit in partnership with other scrutiny bodies

We have taken significant steps towards the implementation of a new streamlined scrutiny system for local government in Scotland. Once under way, this will release resources within public bodies and reduce duplication of work by scrutiny agencies, making scrutiny more efficient and effective.

Following the Crerar Review of public scrutiny, the Accounts Commission was given a 'gatekeeper' role and we have been supporting them. During 2009/10, we worked with the other scrutiny agencies to develop, test and evaluate a new model that will be rolled out across the country over the coming year.

In the past, when we planned and undertook scrutiny of a local authority, we have done this alone, with the Audit Scotland team setting out the work we would be doing around that public body.

Similarly, across Scotland, other scrutiny agencies such as HM Inspector of Education, the Social Work Inspection Agency, NHS Quality Improvement Scotland, the Care Commission, the Scottish Housing Regulator and HM Inspectorate of Constabulary for Scotland could be undertaking the work on that same authority.

For the local authority itself, this meant visits and inspections during the year from different scrutiny agencies, many of whom were often seeking similar information to other agencies. This created a significant demand on staff time, authority resources and opportunity costs for the authority. And scrutiny was carried out on a cyclical basis and a standard format, regardless of the body's performance or its risks.

Under the model, when we plan the scrutiny of a public body all agencies get together and collate the information we already have between us on that organisation, as well as data from other sources. A key element is also information from the council's self-evaluation, and we use all this to come to an agreed view of the performance of the body and the risks associated with it.

This is known as a shared risk assessment (SRA), and we then use that to plan scrutiny activity that is proportionate and tailored to the individual public body. For us, it means we can prioritise and focus our resources and time and can avoid duplication of effort. For the local authority, it now has a clear picture of what will be happening during the year and it knows that the burden of scrutiny will be lighter and that the scrutiny agencies will be doing far more with the information it gives them. It also knows that the burden of scrutiny will directly reflect its own performance and risks.

During the summer of 2009, Audit Scotland tested this model at seven councils and reviewed the outcomes. We also set up local area networks to carry out SRAs for Scotland's 32 councils and subsequently plan the scrutiny activity for each council from April 2010 to March 2013. During the summer of 2010 we will start rolling out the first SRAs.

Management Commentary

Key dates:

September 2007:	The Crerar Review reports on scrutiny arrangements in Scotland
February 2008:	The Scottish Government asks the Accounts Commission to take a co-ordinator and 'gatekeeper' role for local government scrutiny
February 2009:	Audit Scotland begins work with other scrutiny bodies of developing shared risk assessment for local government bodies as part of Best Value 2 programme
March 2010:	First Best Value 2 'pathfinder' report, on Dundee City Council, published

National and international work

Identifying fraud and errors

Audit Scotland runs the National Fraud Initiative (NFI), a programme which 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 public sector bodies and from a range of financial systems (such as housing benefits, payrolls, public sector pensions). This helps bodies stop overpayments made through fraud and error from continuing and, in many cases, recover money incorrectly paid out. Effective fraud arrangements may also act as a deterrent.

To help ensure that public bodies tackle 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. We completed a third full round of the NFI in early 2010.

During 2009/10, the Scottish Government provided new powers for data-matching in Scotland in the Criminal Justice and Licensing Bill. These will allow Audit Scotland to catch up with the wider range of data-matching activities undertaken elsewhere in the UK.

We have also streamlined the scrutiny of the housing and council tax benefits services in Scotland, and this now forms part of the annual audit of local authorities. It assesses the risks to the continuous improvement of housing and council tax benefit services in Scotland and encourages councils to reduce the risks identified.

In 2009/10, risk assessments were carried out in 13 councils. All of the council benefits services have drawn up action plans to address the risks identified during the audit, and progress on the implementation of these plans will be reviewed in future audit programmes. In addition to carrying out the risk assessments, Audit Scotland hosted a benefits seminar in June 2009 to share the emerging findings and hear feedback from councils. We have built this feedback into our planning for 2010/11 audits.

Learning and knowledge sharing 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 39 seminars, conferences and training events, as well as to 9 groups of overseas visitors to Audit Scotland.

Our staff also served on 52 external bodies and working groups. Bodies included the Auditing Practices Board public sector subcommittee UK, the Financial Reporting Advisory Board and CIPFA's central government panel.

Management Commentary

Technical support and education

Audit Scotland supports ongoing improvements in accounting, financial reporting and auditing in the public sector. We do this through technical guidance we provide to auditors and audited bodies and at external seminars, conferences and working groups.

Our main objective is to ensure that auditors' technical knowledge is comprehensive, relevant, reliable and up to date. This year we received and responded to 856 technical enquiries from auditors and stakeholders.

The 2009/10 year was particularly challenging as there was a significant number of technical developments. The biggest of these has been the implementation of the new international financial reporting standards (IFRS) across the public sector. We have provided all of our staff with IFRS training, including preparing shadow sets of accounts to IFRS guidelines ahead of our work on actual accounts, and helping audited bodies with the transition.

We published four technical bulletins to auditors, summarising technical developments and providing guidance on major risk areas and implications. We added 323 documents to our online library, and published 14 notes for guidance to provide more in-depth and extensive guidance on specific matters.

Technical assistance – performance against target response times

	07/08	08/09	09/10
Total number of enquires	739	1006	856
Routine enquiries	98%	97%	99%
Complex enquiries	95%	100%	95%
Other enquires	100%	99%	99%

Number of requests for technical assistance in 2009/10

Technical requests by category	
Routine:	543
Complex:	22
Other:	291

International Work

Audit Scotland receives several requests for help and visits from overseas organisations, as well as participating in capacity building projects in other countries. The 2009/10 annual report on our international work is available on our website

Management Commentary

Case study four: become a centre of excellence for public audit

Audit Scotland continues to be recognised within the UK and overseas for its financial and performance audit work.

This is reflected in part by the requests we get for assistance and visits from overseas organisations. During the year we revised our strategy for our international development work, taking into account our experiences of working with other countries and the recent recession. As a small organisation we have to balance these requests with our core audit work in Scotland. In 2009/10, we helped 19 organisations but turned down 13 other requests.

The main focus of our work in other countries has been in and around the European Union and this will continue. However, we will also look at the regions the Scottish Government and Scottish Parliament have prioritised for assistance to consider what we can do there. We do this international development work alongside other audit agencies, particularly the UK National Audit Office (NAO) and the Swedish NAO.

Audit Scotland staff have been involved in a number of capacity building projects overseas this year. We have provided support to projects in Moldova, Russia and Bosnia and Herzegovina.

We hosted nine visits from overseas delegations including audit institutions, parliamentary committees and governments. Those visitors were keen to hear about the public audit arrangements in Scotland since devolution. We also learn from these visits, which can assist us in developing our own work.

We continue to contribute to the development of accounting and auditing standards in the UK and internationally.

Our staff participated in many boards, panels and working groups that produce standards and guidance for public sector bodies. Deputy Auditor General and Controller of Audit, Caroline Gardner was appointed to the International Ethics Standards Board for Accountants (IESBA) for a three-year term starting in January 2010. We are also represented on the UK Auditing Practices Board.

We play an active role in a number of other 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, which is chaired by Russell Frith, our director of Audit Strategy. We also respond to consultation documents and work with regulators and government bodies.

In the past 12 months Audit Scotland hosted nine visits from overseas delegations from:

Denmark	Ukraine
Netherlands	Australia
Sweden	China *
Russia	Korea

* There were two visits from different regions of China this year.

Audit Scotland staff worked on projects in Bosnia and Herzegovina, Moldova and Russia.

Management Commentary

Our organisation

Our people

Developing and engaging our staff

In March 2010, Audit Scotland was placed 52nd in *The Sunday Times* list of the '75 Best Places to Work in the Public Sector'.

The review of public sector workplaces said: "Staff can count on Audit Scotland to provide them with interesting work in a friendly, supportive environment... Doing a job that aims to improve services for everyone makes employees proud and they believe they can make a valuable contribution to the success of the organisation." We received positive scores in the review's staff engagement survey, leading to Audit Scotland getting rankings of 18th for 'Giving Something Back' and 'Fair Deal', and 21st for 'Wellbeing'.

This year we continued to invest in providing high-quality training and developmental support for our staff, in areas ranging from obtaining professional qualifications to technical and specific skill updates.

We introduced a new Performance Appraisal and Development (PAD) scheme, to help staff maintain and develop their skills and improve our overall performance management and workforce planning. Staff received in-house training and all have had one-to-one meetings with their line managers to set work and development objectives.

During 2009/10, our staff received 12.7 days each, on average, of training and personal development, compared with 12.2 in 2008/09. We had 35 trainees and staff working towards CIPFA and ACCA qualifications. Two trainees successfully completed their qualifications during the year, with one becoming the top scoring Scottish student employed in public audit in the CIPFA final examinations and top Scottish student overall across all sectors.

We keep staff informed about our organisation using a range of activities such as monthly team briefings, our in-house quarterly magazine *abacus*, face-to-face meetings and through our latest news section on our intranet site *Libro*. We also have a partnership forum for regular consultation with staff trade unions.

In 2009/10, our sickness absence was on average 8.82 days per employee (7.5 days in 2008/9), compared with a public sector average of 9.7 days.

Staff numbers at 31 March 2010	293 W.T.E.
Turnover	5.26%
Staff receiving training	225
Average sickness absence per person	8.82 days

Diversity and equality

We published our Single Equality Scheme on International Human Rights Day, 10 December 2009. It makes our position on diversity and equality clear and sets out what we intend to do on equality, both internally and in the way we carry out our work. The scheme demonstrates our commitment to making diversity and equality integral to our organisational culture.

We published a number of equality impact assessments on areas such as our project management framework for performance audits and our forward programme of performance audits.

Management Commentary

We have benefited from continuing to involve disabled people in the development of our work, through a series of events held in partnership with Capability Scotland. In particular, we received feedback on the development of BV2, our single equality scheme and our IT hardware replacement programme. We agreed action plans following these events, and these can be found on our website.

We carried out a best value review of our recruitment and selection processes, and implemented an action plan to improve these. This includes positive action on attracting candidates with disabilities or minority ethnic backgrounds. A full report on our diversity and equality work is available on our website.

Our demographic profile as of 31 March 2010 was:

Gender

Females	51%
Males	49%

Ethnicity

White	98.3%
Minority ethnic	1.7%

Age

16 - 24	3.6%
25 - 34	26.8%
35 - 49	43.4%
> 50	26.2%

Disability

Staff with no declared disability	86%
Staff with a declared disability	14%

Our business

Correspondence and information regulations

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

This year, we received 250 items of correspondence, compared with 235 last year. We met our target of acknowledging correspondence within ten working days in all cases, and in 97 per cent of cases we provided a full response within one month of acknowledgement.

We also investigate complaints about how Audit Scotland staff have dealt with members of the public. In 2009/10, we received four complaints.

Management Commentary

Our Information, Legislation and Regulations group guides our policies and processes on the Freedom of Information Act, Environmental Information Regulations, the Re-use of Public Sector Information Regulations, and the Data Protection Act. We value openness and transparency and we recognise the potential public interest in the information we hold. A wide range of information is available through our publication scheme, which is on our website.

In 2009/10, we logged five Freedom of Information (FOI) requests that required consideration by an internal panel at Audit Scotland about whether all the information requested could be released. There were four data subject access requests under the Data Protection Act, but no Environmental Information requests.

Items of correspondence by sector 2009/10

Correspondence received per sector

Local government:	162
Central government:	74
Health:	12
Further education:	2

Response times for correspondence

	07/08	08/09	09/10
Number received	216	235	250
Acknowledgements	89%	100%	100%
Full response	74%	94.5%	97%

FOI requests which required a panel decision

07/08	- 11
08/09	- 7
09/10	- 5

Managing our resources and sustainability

Efficiency, effectiveness and best value

In 2009/10, we exceeded our target of £585,000 of efficiency savings, delivering £618,000. This was 2.3 per cent of our overall budget, exceeding the Scottish Government target of 2 per cent.

We achieved significant efficiencies from changes in how our audit teams planned their work in 2009/10. These changes allowed staff to work on 2008/09 IFRS accounts in addition to their normal work without needing extra resources, resulting in £192,000 savings. We also reviewed our staff numbers and job roles, as well as deleting some vacant posts, saving £192,000. We achieved the remaining £234,000 worth of efficiencies by changing management practices, including more effective contracting of goods and services, doing previously contracted-out work internally, and savings in information technology.

Improving business systems

Benchmarking our performance against other comparable public sector bodies in estates management, HR, finance and IT helps us identify areas for improvement. Our property strategy aims to improve accessibility and costs.

Management Commentary

In 2009/10, we implemented a new online human resources system, e-HR, to improve the efficiency of our HR processes, free staff time and integrate with our payroll system

Audit Scotland performance compared with other public sector bodies (source: CIPFA benchmarking 2008/09 exercise).

Indicator	Audit Scotland	Comparable public bodies
HR cost as % of total running costs	1.38%	2.37%
HR cost per employee	£1,228	£2,159
Ratio of employees to HR staff	74:1	50:1
Cost of processing an invoice	£7.71	£19.98
Finance cost as % of total running costs	1.1%	1.9%
ICT cost as % of total running costs	3.1%	5.7%
ICT incidents fixed to agreed service levels	99.5%	91.2%
Staff who can remotely access network	100%	63.3%
Buildings suitable and assessable for disabled people	17%	81%
Total building operational costs per sq	£225	£168

We further developed our payroll system by producing and distributing pay slips electronically, making this more efficient and saving money.

In 2009/10, we paid invoices within 30 days in 93 per cent of cases. Part way through the year we began monitoring our performance against the Scottish Government's target of payment of trade invoices within ten days, and our performance was 63 per cent. We are installing an electronic purchasing system and aim to improve on this.

We implemented a new electronic working papers system. We also carried out a full disaster recovery test to see if we could recover all our Information Communication Technology (ICT) systems. Our internal auditors observed this test and concluded we can take substantial assurance that our recovery systems are effective.

Audit Scotland's website was re-awarded the Shaw Trust 'Accessible Plus' accreditation for its high level of accessibility for people with disabilities. To see Audit Scotland's full statement, go to www.audit-scotland.gov.uk and click on the accessibility link.

Sustainability and environmental impact

Audit Scotland's CO2 emissions fell slightly in 2009/10, from 393 tonnes in 2008/09 to 392 tonnes. The biggest change was a 35 per cent increase in gas use, which we believe was due to the severe winter. Vehicle emissions fell by 5.6 per cent, while air travel emissions remained constant.

Audit Scotland participates in the Carbon Trust's carbon management programme, giving us access to expertise and support to reduce our emissions. In 2009/10, we set a new target of reducing our carbon footprint by 20 per cent over five years. We are researching the ways to achieve this target, such as rationalising our Edinburgh offices and reducing the carbon footprint of our business travel. We are also improving the information we collect on business travel and reviewing our environmental policies.

Management Commentary

Internal audit and risk management

Audit Scotland's audit committee supports our board in its responsibilities for risk, control and governance and associate assurance. The committee met four times in 2009/10 and considered 14 internal audit and review reports as noted below.

- IT disaster recovery
- partnership working with other scrutiny bodies
- national fraud initiative
- corporate governance
- performance management
- IT strategy
- internal efficiency and best value review programme
- diversity and equality action plan
- electronic working paper system procurement
- key financial systems and VAT
- comptroller function of the Auditor General
- software licensing
- risk management maturity review
- follow-up report on previous recommendations.

All internal audits in 2009/10 achieved 'substantial assurance' the highest standard available, from our internal auditors RSM Tenon (formerly RSM Bentley Jennison). The follow-up report said we were making reasonable progress in implementing previous recommendations.

This year we reviewed our risk management policy and strategy. The audit committee receives regular reports on risks to Audit Scotland and updated risk registers. A key risk to our organisation and staff was from the 'Swine Flu' virus. While sickness absences did rise, disruption to the organisation was minimal.

Our governance and management

Accountability to the Scottish Parliament

Scottish Commission for Public Audit

Audit Scotland is held to account by Parliament 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 consists of five MSPs and meets in public. It scrutinises our budget, annual report and accounts and appoints our external auditor, currently HW Chartered Accountants.

SCPA membership*:

Angela Constance (Convenor)
Robert Brown
Derek Brownlee
George Foulkes
Hugh Henry

*Correct as of 31 March 2010

Management Commentary

Our board

Our board oversees Audit Scotland's work and seeks to ensure high standards of governance and management. 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.

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 the Accounts Commission

Former partner of KPMG Scotland and London. Member of the Competition Commission. Visiting Professor of Accountancy at the University of Glasgow.

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.

Ronnie Cleland - Independent non-executive member

Chair of Scottish practice of Odgers & Berndtson. Member of NHS Greater Glasgow and Clyde Board. Non-executive adviser to the Scottish Football Association. Member of Court of the University of Strathclyde. Former partner at Thomson Partners Ltd.

John Maclean - Independent non-executive member

Deputy chair of Court and member and former chair of audit committee at Glasgow Caledonian University. Former non-executive director at Bank of Scotland, HBOS plc, Bank of Western Australia, and SVM Global. John started his term at Audit Scotland in October 2009.

The following people left during 2009/10:

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. Isabelle's term of office at Audit Scotland ended in September 2009.

Management Commentary

Catherine Coull - Secretary to the Audit Scotland Board

Catherine Coull was Secretary to the board until May 2009. This role is now undertaken by Diane McGiffen, director of Corporate Services.

Our senior management

Robert Black

See biography on page 19

Caroline Gardner

See biography on page 19

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 audits across the health, central government and local government sectors and Best Value audits for local government.

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.

Management Commentary

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 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 Services 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. David retired at the end of the 2009/10 year.

Case study five: improve the transparency of our costs and governance arrangements

During 2009/10, we undertook a number of measures to improve the transparency of our governance and costs.

In October 2009, John Maclean was appointed to the board of Audit Scotland. Mr Maclean, who replaced Isabelle Low following her retirement from Audit Scotland during 2009/10, was the second new member to join the board in a year, following Ronnie Cleland's appointment in 2008. For the first time our board has two independent non-executives and both were recruited through open competition for the posts.

We gave evidence to the Scottish Commission for Public Audit (SCPA) about the Public Services Reform Act 2010. This legislation will result in further changes to our governance.

We have also worked to make it easier for both the public and politicians to find information about our costs and our spending plans.

We gave a full presentation to the SCPA on our costs and gave them our budget proposals for their approval. The Commission published a report in November 2009 in which it welcomed the 'significant progress' Audit Scotland made on aspects of budgeting, 'the more detailed and helpful presentation of information' about our autumn budget revisions, and the fact that we made our submission earlier to give the SCPA more time to consider them.

We revised the code of conduct for board members and published this on our website, along with registers of interests for all board members and senior management. We also published information about all expenses claimed by senior managers and board members and this is available on our website for the 2009/10 year.

We are considering options to expand the information we publish next year.

Minutes for all board and management team meetings are available on our website.

Our budget proposals for 2010/11 are available online at www.scottish.parliament.uk/s3/committees/scpa/index.htm

Our full accounts for 2009/10 are available on our website, www.audit-scotland.gov.uk

Management Commentary

Our finances

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 (SCPA), 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 55 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 2009/10, Audit Scotland spent £27.7 million on services for the Auditor General and the Accounts Commission; this is less than 0.1 per cent of the £36 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.

2009/10 Financial Results

The accounts have for the first time been prepared in accordance with International Financial Reporting Standards (IFRS). As a result comparator figures for 2008/09 have been restated. Information on the move to IFRS is provided in note 20 on page 52 of the statutory accounts.

In 2009/10, income earned from audited bodies and miscellaneous income was £20,427k. Expenditure in the same period was £27,230k with the resulting Net Operating Costs totalling £6,803k. Including a prior year accounting adjustment in respect of property dilapidations the net resource requirement for 2009/10 was £7,231k. This resource requirement which was met from direct funding received from the Scottish Parliament was £248k less than the agreed budget of £7,479k.

The £248k under spend for the year was net of additional costs of £225k in respect of charges arising from compliance with International Accounting Standard 19 (IAS 19) on pensions and £428k in respect of prior year accounting entries for property dilapidations. Additionally £182k of available budget was in respect of funding planned to be used in 2010/11. Excluding these sums Net Operating Costs were £719k lower than budget. The main contributors to the favourable variance were increased income levels of £259k (both fees charged to audited bodies and miscellaneous income), lower costs in respect of staffing – net of secondment income £80k, stationery and printing £93k, staff training £179k and external consultancy and legal support £296k. Increased fees and expenses paid to appointed audit firms £195k partly offset the favourable variances. The reduced rate of VAT applicable in the first nine months of the year which is estimated to have lowered costs by £160k contributed to the reduced cost in 2009/10.

Income in 2009/10 was £842k more than that recorded the previous year. Increased levels of fee income which were £1,663k more than last year were partly offset by lower levels of bank interest £114k, miscellaneous income £34k and other finance income £673k (IAS 19 pension adjustments). Fee income in 2008/09 was net of £1,000k of fee rebates which was the main reason for year-on-year increase. Excluding rebates, fee income in 2009/10 was £663k or 3.3% more than in the previous year. The increase was attributable to fee uplifts in all sectors plus allowances for the introduction of IFRS in the Health and Central Government sectors.

Expenditure in 2009/10 was £540k higher than the previous year. The main contributors to this increase were staff costs including pension movement £870k (+6%) and fees and expenses paid to appointed auditors £330k. Pension adjustments required by IAS 19 accounted for £336k (+2.3%) of the staff costs increase. These increases were partly offset by reduced expenditure on consultancy and legal charges £448k, printing and stationery £65k, staff training £42k and facilities £106k.

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	2009/10		2008/09	
	£000	% total	£000	% total
Fees paid by local authorities	13,183	65	12,330	63
Fees paid by health bodies	4,525	22	4,080	21
Fees paid by Scottish Water	222	1	192	1
Fees paid by further education colleges	578	3	529	3
Fees paid by Scottish Government & sponsored bodies	2,036	10	1,750	9
Bank interest	4	-	118	1
Miscellaneous	286	1	320	1
Other finance income (pensions)*	(407)	(2)	266	1
Total	20,427	100	19,585	100

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

Other revenue funding	2009/10		2008/09 **	
	Required £000	Available £000	Required £000	Available £000
Direct Funding from Parliament	7,231	7,479	7,057	9,200

Analysis of expenditure

In 2009/10, 78 per cent of expenditure was spent on staff and fees to auditors. This compares with 77 per cent in the previous year.

Expenditure	2009/10		2008/09 **	
	£000	% total	£000	% total
Staff and members' costs	15,295	55	14,425	54
Fees and expenses paid to appointed auditors	6,408	23	6,078	23
Buildings, rent and depreciation	2,278	8	2,303	9
Operating costs	3,249	12	3,884	14
Total	27,230	98	26,690	100
Prior Year adjust. – property dilapidations	428	2	(48)	-
Total resource requirement	27,658	100	26,642	100

** The 2008/09 comparator figures have been restated to reflect compliance with International Financial Accounting Standards.

Management Commentary

Appendix - Reports published in 2009/10

Across-government reports

- Improving public sector efficiency
- Protecting and improving Scotland's environment
- Progress report on planning for the delivery of the XXth Commonwealth Games 2014
- Improving civil contingencies planning
- Improving public sector purchasing
- Overview of mental health services

Central government reports

- Scotland's public finances: preparing for the future
- Review of Cairngorm funicular railway

NHS reports

- Review of orthopaedic services
- Managing NHS waiting lists
- Overview of the NHS in Scotland's performance 2008/09
- Managing the use of medicines in hospitals: follow-up review

Local government reports

- An overview of local government in Scotland 2009
- Making an impact: an overview of the Best Value audits 2004-09
- Asset management in local government

Best Value reports

- Dundee City Council: BV2 pathfinder audit
- West Dunbartonshire Council: update on progress report
- Tayside Police and Tayside Joint Police Board
- Aberdeen City Council: progress report
- West Dunbartonshire Council: progress report
- East Dunbartonshire Council
- South Ayrshire Council
- Glasgow City Council: progress report

Annual Audits

- 215 annual audits (details are available on our website)

Management Commentary

Appendix - Reports published in 2009/10 (continued)

Section 22 reports

- The 2008/09 audit of the Mental Health Tribunal for Scotland Administration
- The 2008/09 audit of Transport Scotland
- The 2008/09 audit of Registers of Scotland
- The 2008/09 audit of the Royal Botanic Garden Edinburgh
- The 2007/08 audit of Stow College

Local government statutory reports

- Shetland Islands Council: Annual Audit 2008/09

Other publications

- NHS Audit - Sector plan for 2009-2012
- Central Government Audit - Sector plan for 2009-12
- Auditing Best Value in the NHS
- Auditing Best Value in central government bodies
- Priorities and Risks Framework: A national planning tool for 2009/10 NHS Scotland audits
- Health and community care bulletin
- Audit Scotland annual report and accounts 2008/09
- Annual diversity monitoring report 2008/09
- Audit Scotland's annual report on working with other countries 2008/09
- Performance audit standards
- Audit Scotland single equality scheme

Impact Reports

- Asset management in local government
- Managing the use of medicines in hospitals
- Drug and alcohol services in Scotland
- Review of the new General Medical Services contract
- The impact of the race equality duty on council services
- Managing increasing prisoner numbers in Scotland
- Sustainable waste management
- Improving the schools estate
- Police call management
- Managing long-term conditions in Scotland
- Palliative care services in Scotland
- Primary care out-of-hours services
- Improving energy efficiency
- The First ScotRail passenger rail franchise
- A performance overview of sport in Scotland

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.

Although the salary and pension contributions of the Auditor General for Scotland are paid by Audit Scotland, they are set by the Scottish Parliamentary Corporate Body.

The members of the Remuneration Committee during the year were:

- Chairman – R Cleland
- Member – J Baillie
- Member – I Low (until 30th September 2009)
- Member – J Maclean (from 1st October 2009)
- 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 Audit Scotland Board now has two independent members following a second appointment made on 1 October 2009. The annual remuneration for independent members of the Board fell within the band £5,000 to £10,000 (2008/09 £5,000 - £10,000).

Senior Management

The salaries (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 2010 were in the bands shown as follows:

			R Black	C Gardner	R Frith	D McGiffen
			<i>Auditor General</i>	<i>Depute Auditor General</i>	<i>Director of Audit Strategy</i>	<i>Director of Corporate Services</i>
Salary	2009~10	£000	145 - 150	130 - 135	95 - 100	90 - 95
	2008~09	£000	140 - 145	125 - 130	90 - 95	85 - 90
Estimated value of benefits in kind <i>Note (i)</i>	2009~10	£	-	-	-	3,700
	2008~09	£	-	-	-	3,700
Real increase in value of accrued pension		£000	0 - 2.5	0 - 2.5	0 - 2.5	0 - 2.5
Value of total accrued pension as at 31 March 2010		£000	15 - 20	35 - 40	15 - 20	20 - 25
Lump Sum		£000	55 - 60	105 - 110	55 - 60	55 - 60
Cash equivalent transfer value (CETV) as at 31 March 2009		£000	399	575	308	295
Cash equivalent transfer value (CETV) as at 31 March 2010		£000	443	640	362	341
Real increase in CETV <i>Note (ii)</i>		£000	35	11	33	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 details of their remuneration are 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 11 (2008/09 – 12) and their remuneration was as follows:

	Remuneration Banding	
	2009/10 £000	2008/09 £000
Chairman – J Baillie	40 - 45	35 - 40
Depute Chair – I Low (until 30 th September 2009)	0 - 10	10 - 15
Depute Chair – D Sinclair (from 1 st October 2009)	10 - 15	0 - 10
Commission Members	0 - 10	0 - 10

All Commissioner appointments are part-time and non-pensionable.

R W Black

Auditor General
Accountable Officer

15 June 2010

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 2010. 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 of 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: 93% (92% 2009) of all invoices for the year were paid on or before the due date.

We also started to monitor our performance against the Scottish Government's target of payment of trade invoices within 10 days. We implemented this part way through 2009/10 and our performance at 63 per cent is not yet at the level to which we aspire.

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. The contract has been extended on an annual basis for the past two years.

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

15 June 2010

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/Resource/Doc/1069/0084581.doc

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 committed to mainstreaming information management and security and improving our arrangement for data sharing.

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

15 June 2010

Summary of Resources Outturn Year ended 31 March 2010

		2010	Restated
	Note	Actual	2009
		<i>£000</i>	Actual
			<i>£000</i>
Net Operating Cost		(6,803)	(7,105)
Prior year adjustment - year to 31 March 2009	4a, 16	(48)	48
- year to 31 March 2008 and earlier	4a, 16	(380)	-
Net Total Costs		(7,231)	(7,057)
Estimate - year to 31 March 2010		(7,479)	
Net Cash Requirement (<i>see Cash flow statement</i>)		7,565	9,196

Operating Cost Statement Year ended 31 March 2010

	Note	2010 <i>£000</i>	Restated 2009 <i>£000</i>
Administration Costs			
People costs	2	(15,295)	(14,425)
Other administration costs	4	(11,935)	(12,265)
		(27,230)	(26,690)
Operating income	5	20,834	19,319
Other finance income	6	(407)	266
NET OPERATING COST		(6,803)	(7,105)

Balance Sheet

As at 31 March 2010

	Note	2010 £000	Restated 2009 £000	Restated 2008 * £000
Non-current assets				
Property, plant and equipment	7	1,521	1,973	2,181
Intangible assets	8	265	170	120
Total non current assets		1,786	2,143	2,301
Current assets				
Trade and other receivables	9	2,367	2,196	2,229
Cash and cash equivalents	10	1,784	1,136	1,916
Total current assets		4,151	3,332	4,145
Total assets		5,937	5,475	6,446
Current liabilities				
Trade and other payables < 1 year	12	4,459	3,842	4,271
Provision for early retirement < 1 year	14	109	113	98
Total current liabilities		4,568	3,955	4,369
Non-current assets plus/less net current assets/liabilities		1,369	1,520	2,077
Non-current liabilities				
Deferred liabilities	13	(40)	(55)	(71)
Provision for early retirement	14	(1,945)	(1,448)	(1,495)
Other provisions	16	(476)	(428)	(380)
Net funded pension (liability)/asset	3	(19,069)	(3,223)	3,313
Total non-current liabilities		(21,530)	(5,154)	1,367
ASSETS LESS LIABILITIES		(20,161)	(3,634)	3,444
<i>Represented by:</i>				
TAXPAYERS' EQUITY				
Net funded pension (liability)/asset	3	(19,069)	(3,223)	3,313
General Fund		(1,092)	(411)	131
		(20,161)	(3,634)	3,444

* As at 1 April 2008

R W Black
Auditor General
Accountable Officer

15 June 2010

Cash flow Statement

Year ended 31 March 2010

	Note	2010 £000	Restated 2009 £000
Cashflows from operating activities			
Net operating cost		(6,803)	(7,105)
<i>Adjustment for non-cash items:</i>			
- Depreciation	7, 8	658	554
- Notional interest on capital		-	32
- Pension scheme - net revenue (credit)		(307)	(749)
(Increase)/Decrease in trade and other receivables		(171)	33
Increase/(Decrease) in trade/other payables/deferred liabilities		594	(355)
Increase/(Decrease) in provisions for early retirement		493	(32)
Increase in other provisions		48	48
Adjustment for cash balance due to Consolidated Fund	12	(1,784)	(1,136)
Net cash outflow from operating activities		(7,272)	(8,710)
Cashflows from investing activities			
Purchase of property, plant and equipment	7	(92)	(293)
Purchase of intangible assets	8	(210)	(103)
<i>less / (add) movement in accrued expenditure</i>		9	(90)
		(293)	(486)
Cashflows from financing activities			
Opening Cash balance payable to the Consolidated Fund		1,136	1,916
From Consolidated Fund (Supply)		7,077	6,500
		8,213	8,416
Net decrease in cash and cash equivalents in the period		648	(780)
Cash and cash equivalents at the beginning of period		1,136	1,916
Cash and cash equivalents at the end of period		1,784	1,136
Net cash requirement			
Cash flows from financing activities		8,213	8,416
(Increase) / Decrease in cash		(648)	780
		7,565	9,196

Statement of Changes in Taxpayers' Equity Year ended 31 March 2010

	Note	Net Funded Pension £000	General Fund £000	Total £000
Balance at 31 March 2008		3,313	1,110	4,423
Changes in accounting policy	4a	-	(380)	(380)
Restated Balance at 31 March 2008		3,313	730	4,043
First time adoption of IFRS				
Employee benefits	20	-	(546)	(546)
Property leases - rent free provisions	20	-	(53)	(53)
Balance at 1 April 2008		3,313	131	3,444
Changes in Taxpayers' equity for 2008/09				
Balance at 1 April 2008	20	3,313	131	3,444
Non cash charges - cost of capital	4	-	32	32
Transfers between reserves				
Transfer to net fund pension liabilities	2	377	(377)	0
Net return on pension assets		372	(372)	0
Actuarial (losses)	3	(7,285)	-	(7,285)
Net operating costs	20	-	(7,105)	(7,105)
Net Funding from the Scottish Parliament	11	-	7,280	7,280
Balance at 31 March 2009		(3,223)	(411)	(3,634)
Changes in Taxpayers' equity for 2009/10				
Balance at 1 April 2009		(3,223)	(411)	(3,634)
Non cash charges - cost of capital	4	-	0	0
Transfers between reserves				
Transfer to net fund pension liabilities	2	613	(613)	0
Net return on pension assets		(306)	306	0
Actuarial (losses)	3	(16,153)	-	(16,153)
Net operating costs		-	(6,803)	(6,803)
Net funding from the Scottish Parliament	11	-	6,429	6,429
Balance at 31 March 2010		(19,069)	(1,092)	(20,161)

Annual Report and Accounts 2009-10

Notes to the Accounts

1: Statement of accounting policies

The Accounts have been prepared in accordance with the accounts direction issued by Scottish Ministers under section 19(4) of the Public Finance and Accountability (Scotland) Act 2000 and also in accordance with the Financial Reporting Manual (FReM) applicable for the year. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular to the circumstances of Audit Scotland for the purpose of giving a true and fair view has been selected. 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 and therefore is not included in the operating income received in the year in the Operating Cost Statement.

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 2010/11 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) Non current assets

All property occupied by Audit Scotland is leasehold. The minimum level of capitalisation for a Non current asset is £5,000 for individual or group purchases. Non current assets are held at fair value. Depreciated historic costs has been used as a proxy for fair value due to the low value and short life of the assets held.

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>	
<i>Software</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 to a lease break point when this is the most probable end of lease, which ever 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.

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Notes to the Accounts (continued)

1: Statement of Accounting Policies (continued)

f) Work in Progress

Work in Progress is valued on the basis of a proportion of the agreed fee earned by the Statement of Financial Position 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.

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.

Estimates of likely costs in respect of obligations under our property leases for dilapidations, reinstatement and property decorations are charged to revenue in equal instalments over the life of the lease or the period to a planned early termination of the lease whichever is the shorter.

i) Value Added Tax

Input tax in respect of external 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 IAS 19 for the year ended 31 March 2010. 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.

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Notes to the Accounts (continued)

2: People costs and numbers

People costs comprise:	2010	2009
	<i>£000</i>	<i>£000</i>
<i>Administrative Staff</i>		
Salaries	12,299	12,000
National Insurance	1,015	945
Superannuation	1,939	1,773
Movement in early retirement costs	521	(51)
Adjustment for retirement benefit scheme costs (<i>see below</i>)	(613)	(377)
	15,161	14,290
<i>Accounts Commission Members</i>		
Salaries	116	119
National Insurance	9	5
Travel and subsistence	9	11
	134	135
	15,295	14,425

The average number of directly employed whole time equivalent (w.t.e.) staff during the period was 295 (2009 – 293). The average number (w.t.e.) for agency and seconded staff used during the year was 11 (2009 – 20).

<i>Analysis of local government retirement benefit scheme costs:</i>	2010	2009
	<i>£000</i>	<i>£000</i>
Current service costs	1,525	1,621
Past service costs	274	-
	1,799	1,621
Less: Employees' contributions	(788)	(556)
Charge to revenue	1,011	1,065
Employer contributions	(1,624)	(1,442)
Adjustment for retirement benefit scheme costs	(613)	(377)

3: Pension assets and liabilities

In accordance with International Accounting Standard No 19 (IAS 19) Audit Scotland is required to disclose certain information concerning assets, liabilities, income and expenditure related to pension schemes for its employees. Audit Scotland operates two main pension schemes; the Local Government 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 for the Auditor General for Scotland.

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Notes to the Accounts (continued)

3: Pension assets and liabilities (continued)

a) Local government scheme

Audit Scotland has an agreement with City of Edinburgh Council under which all staff are eligible to enter the Lothian Pension Fund (the name of the Local Government Superannuation Scheme managed by the Council) in accordance with its rules. It is a defined benefit scheme providing pension benefits and life assurance for all permanent staff.

The following valuations have been provided by Hymans Robertson, the independent actuaries to Lothian Pension Fund. The financial and actuarial assumptions used for the purposes of their IAS 19 calculations as at 31 March 2010 were as follows:

	2010	2009
Price increases	3.8%	3.1%
Salary increases	5.3%	4.6%
Pension increases	3.8%	3.1%
Expected rate of return on assets	7.3%	6.6%
Discount rate	5.5%	6.9%

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

	Males	Females
	years	years
Current pensioners	20.8	24.1
Future pensioners	22.3	25.7

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

	2010	2009
	£000	£000
Assets (see below)	47,804	34,583
Liabilities	(66,873)	(37,806)
Net Funded (Liabilities)	(19,069)	(3,223)
Unfunded liabilities – early retirement provision	(2,054)	(1,561)
Net (Liabilities)	(21,123)	(4,784)

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

	Long Term Return	Assets at	Long Term Return	Assets at
	at 31 March 2010	31-Mar-10	at 31 March 2009	31-Mar-09
	<i>% per annum</i>	<i>£000</i>	<i>% per annum</i>	<i>£000</i>
Equities	7.8	37,766	7.0	27,321
Bonds	5.0	3,824	5.4	3,804
Property	5.8	4,302	4.9	3,458
Cash	4.8	1,912	4.0	-
Estimated employer assets	7.3	47,804	6.6	34,583

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Notes to the Accounts (continued)

3: Pension assets and liabilities (continued)

Liabilities are valued on an actuarial basis using the projected unit method, which assesses the future liabilities of the fund discounted to their present value. The valuations are based on a valuation as of 31 March 2010 by Hymans Robertson.

The movement in the funded part of the net pension liability for the year to 31 March 2010 is as follows:

Movement in defined benefit obligation	2010	2009
	<i>£000</i>	<i>£000</i>
Opening balance at 1 April	37,806	40,042
Current service cost	737	1,065
Interest cost	2,624	2,780
Contributions by members	774	583
Past service costs / (gains)	274	-
Actuarial (gains) / losses	25,975	(5,568)
Estimated benefits paid	(1,317)	(1,096)
Closing Defined Benefit Obligation	66,873	37,806
Movement in fair value of employer assets	2010	2009
	<i>£000</i>	<i>£000</i>
Opening balance at 1 April	34,583	43,355
Expected return on assets	2,318	3,152
Contributions by members	774	583
Contributions by the employer	1,624	1,442
Actuarial (losses) / gains	9,822	(12,853)
Benefits paid	(1,317)	(1,096)
Closing fair value of Employer Assets	47,804	34,583
Closing Net Pension (Liabilities) at 31 March	(19,069)	(3,223)

History of Gains and Losses

	2010	2009	2008	2007
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Fair value of employer assets	47,804	34,583	43,355	43,359
Present value of defined benefit obligation	(66,873)	(37,806)	(40,042)	(46,046)
Surplus / (Deficit)	(19,069)	(3,223)	3,313	(2,687)
Experience gain / (losses) on assets	9,822	(12,853)	(4,366)	257
Experience gains / (losses) on liabilities	-	1,321	(2)	(1)
Actuarial (losses) / gains on employer assets	9,822	(12,853)	(4,366)	257
Actuarial (losses) / gains on obligation	(25,975)	5,568	10,115	(6,083)
Actuarial (losses) / gains	(16,153)	(7,285)	5,749	(5,826)

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Notes to the Accounts (continued)

3: Pension assets and liabilities (continued)

During the year ended 31 March 2010, Audit Scotland's contribution to the pension fund represented 16.5% (2009 – 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 be increased for three years from 2008/09 (2009/10 – 16.5%, 2010/11 – 17.3%, 2011/12 – 18.0%).

The significant increase in net liabilities was due to a fall in the real discount rate used to value the pension liabilities. An increase in post retirement life expectancy has also contributed to increased liabilities. Improved investment returns and increased asset values have partly offset the movement in liabilities.

b) PCSP Scheme

Employees of the NAO transferring to Audit Scotland on 1 April 2000 have pension benefits provided through the Principal Civil Service Pension Scheme (PCSPS). Audit Scotland makes payments of superannuation contributions to PCSPS at rates set by the Government Actuary.

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

During the year ended 31 March 2010, Audit Scotland paid an employer's contribution of £286k (2009 - £307k) into the PCSPS at rates between 18.8% and 24.3% of pensionable pay (2009 – 19.5% to 25.5%). Audit Scotland has been informed that contributions in 2010/11 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 2010, Audit Scotland paid an Employer's contribution of £23.1k (2009 - £22.7k) into this scheme. Accrued pension values have been calculated in accordance with the provisions of Local Government Pension in Scotland and are reported in the Remuneration Report.

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.

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Notes to the Accounts (continued)

4: Administration costs

	2010	Restated
	2010	2009
	£000	£000
<i>Fees and Expenses to appointed audit firms:</i>		
Local authorities	2,703	2,786
National Health Service bodies in Scotland	1,661	1,562
Scottish Water	219	208
Further education colleges	579	550
Scottish Government departments and sponsored bodies	1,246	972
	6,408	6,078
<i>Other Costs:</i>		
Rent and rates	964	987
Other accommodation costs	656	762
Travel and subsistence	893	872
Legal and other professional fees	794	1,242
Stationery and printing	262	327
Training	396	438
Staff recruitment	195	233
Communications (telephone, postage)	85	97
Insurance	106	115
Information technology	389	403
Internal Audit	32	23
External Audit - financial statements	25	23
External Audit - other work	0	7
Other	72	72
<i>Non-cash items:</i> Depreciation - tangible assets (see note 7)	543	501
Depreciation - intangible assets (see note 8)	115	53
Notional interest on capital	-	32
	5,527	6,187
	11,935	12,265

Rent and rates includes £703k in respect of property leases (2008/09 £737k) - see note 15.

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Notes to the Accounts (continued)

4a: Prior Year Adjustment – Property dilapidations

Audit Scotland leases six properties across Scotland. Each lease contains provisions in respect of obligations for property dilapidations, reinstatement and decoration. With effect from 1 April 2009 Audit Scotland revised its accounting policies to provide for the estimated costs of property dilapidations, reinstatement and decoration. The revised accounting policy is presented in note 1h to these accounts. As at 31 March 2010 the provision was £476k. The amount charged to revenue in the year to March 2010 was £48k. The prior year adjustment was £428k (2008/09 £48k, 2007/08 and earlier £380k). In the accounts the comparator figures for 2008/09 for other accommodation costs disclosed in note 4 have been increased by £48k. Note 16 provides further details of the provision.

5: Operating Income

	2010	2009
	<i>£000</i>	<i>£000</i>
<i>Fees and charges payable:</i>		
- by Local authorities	13,183	12,330
- by National Health Service bodies in Scotland	4,525	4,080
- by Scottish Water	222	192
- by Further Education Colleges	578	529
- by Scottish Government department and sponsored bodies	2,036	1,750
	20,544	18,881
Bank interest	4	118
Miscellaneous income	286	320
	20,834	19,319

6: Other finance income

	2010	2009
	<i>£000</i>	<i>£000</i>
Expected return on local government pension scheme assets	2,318	3,152
Interest on pension scheme liabilities	(2,725)	(2,886)
	(407)	266

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Notes to the Accounts (continued)

7: Property, plant & equipment

	Leasehold premises	Furniture and fittings	Computer equipment	Total
<i>Cost</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
At 1 April 2009	1,699	164	1,874	3,737
Additions	-	-	92	92
Disposals	(1)	-	(868)	(869)
At 31 March 2010	1,698	164	1,098	2,960
<i>Depreciation</i>				
At 1 April 2009	503	78	1,183	1,764
Charge for the year (<i>note 4</i>)	214	25	304	543
Depreciation on Disposals	-	-	(868)	(868)
At 31 March 2010	717	103	619	1,439
<i>Net Book Value</i>				
At 31 March 2010	981	61	479	1,521
Analysis of Asset financing				
Owned	981	61	479	1,521

	Leasehold premises	Furniture and fittings	Computer equipment	Total
<i>Cost</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
At 1 April 2008	1,698	164	1,582	3,444
Additions	1	-	292	293
Disposals	-	-	-	0
At 31 March 2009	1,699	164	1,874	3,737
<i>Depreciation</i>				
At 1 April 2008	288	53	922	1,263
Charge for the year (<i>note 4</i>)	215	25	261	501
Depreciation on Disposals	-	-	-	0
At 31 March 2009	503	78	1,183	1,764
<i>Net Book Value</i>				
At 31 March 2009	1,196	86	691	1,973
Analysis of Asset financing				
Owned	1,196	86	691	1,973

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Notes to the Accounts (continued)

7: Property, plant & equipment (continued)

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.

8: Intangible assets

Intangible assets comprise

	Software	
	2010	2009
	<i>£000</i>	<i>£000</i>
<i>Cost</i>		
At 1 April	344	241
Additions	210	103
At 31 March	554	344
<i>Depreciation</i>		
At 1 April	174	121
Charge for the year (<i>note 4</i>)	115	53
At 31 March	289	174
<i>Net Book Value</i>		
At 31 March	265	170

9: Trade and other receivables

	<i>£000</i>	2010	2009
		<i>£000</i>	<i>£000</i>
<i>Amounts following due within one year:</i>			
Trade receivables:			
Central Government bodies	80		85
Local Authorities	8		8
NHS bodies in Scotland	-		15
Bodies external to government	8		1
		96	109
Work in progress		1,640	1,445
VAT		118	120
Prepayments		513	522
		2,367	2,196

There are no Trade and other receivables due after one year

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Notes to the Accounts (continued)

10: Cash and cash equivalents

	2010	2009
	<i>£000</i>	<i>£000</i>
Balance at 1 April	1,136	1,916
Net change in cash and cash equivalents	648	(780)
Balance at 31 March	<u>1,784</u>	<u>1,136</u>
The following balances at 31 March were held at:		
Commercial Banks	<u>1,784</u>	<u>1,136</u>

11: Net funding from the Scottish Parliament

	2010	2009
	<i>£000</i>	<i>£000</i>
Opening Cash Balance payable to the Consolidated fund	1,136	1,916
Funding received from the Consolidated fund	7,077	6,500
Closing Cash Balance payable to the Consolidated fund	(1,784)	(1,136)
Net Funding from the Scottish Parliament	<u>6,429</u>	<u>7,280</u>

12: Trade payables and other current liabilities

	2010	2009
	<i>£000</i>	<i>£000</i>
<i>Amounts falling due within one year:</i>		
Trade payables:		
Central Government	42	6
Local Authorities	-	26
NHS bodies in Scotland	3	13
Bodies external to government	<u>94</u>	<u>511</u>
	139	556
Cash balance payable to Consolidated fund	1,784	1,136
Deferred income	621	391
Other taxes and social security costs	331	349
Superannuation	241	226
Accruals	671	587
Staff benefits - untaken holidays	657	581
Rent free period on premises – current liability (<i>Note 13</i>)	15	16
	<u>4,459</u>	<u>3,842</u>

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

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Notes to the Accounts (continued)

13: 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.

	2010	2009
	<i>£000</i>	<i>£000</i>
Opening balance at 1 April:		
Current	16	16
Deferred	55	71
	<u>71</u>	<u>87</u>
Additions	-	-
Released during year	(16)	(16)
	<u>55</u>	<u>71</u>
Closing balance at 31 March		
<i>Whereof:</i>		
Current	15	16
Deferred	40	55
	<u>55</u>	<u>71</u>

14: 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:

	2010	2009
	<i>£000</i>	<i>£000</i>
Opening balance at 1 April	1,561	1,593
Additions	-	47
Utilised in year	(108)	(98)
Revaluation	601	19
	<u>2,054</u>	<u>1,561</u>
Payable within 1 year	109	113
Payable after 1 year	1,945	1,448
	<u>2,054</u>	<u>1,561</u>
Discount rate used	5.5%	6.9%

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Notes to the Accounts (continued)

14: Provision for early retirement (continued)

Prior to establishment of the Public Services Ombudsman's office Audit Scotland provided support services including payroll and finance for the Local Government Ombudsman. The related liabilities were assumed to transfer to the new Ombudsman following the enactment of the Scottish Public Services Ombudsman Act 2002. However following a review of the implementation of the Act it was determined that the liability for pensions of former Local Government Ombudsmen and their staff did not transfer to the new Ombudsman's office. Since 31st March 2007 Audit Scotland has recognised the pension liability for staff previously employed by the Scottish Local Government Ombudsman. The liability as at 31st March 2010 was £351k (31st March 2009 £276k).

15: Commitments under leases

During the period to 31 March 2010 the amounts charged to revenue in respect of operating leases for premises and vehicles were as follows:

	2010	2009
	<i>£000</i>	<i>£000</i>
Premises (<i>Note 4</i>)	703	737
Vehicles	458	459
	1,161	1,196

Obligations under operating leases - total minimum amounts payable for each of the following periods

	2010	2009
	<i>£000</i>	<i>£000</i>
Premises - lease expiry		
Not later than one year	697	678
Later than one year and not later than five years	2,280	2,411
Later than five years	330	809
	3,307	3,898
Vehicles - lease expiry		
Not later than one year	400	381
Later than one year and not later than five years	230	393
Later than five years	-	-
	630	774

Audit Scotland has no finance leases

The amounts payable in the next financial year in respect of premise leases noted above exclude any amounts that might fall due in respect of the rent reviews that remain outstanding for 110 George Street, Edinburgh and Osborne House, Edinburgh.

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Notes to the Accounts (continued)

16: Other provisions

Other provisions comprise property dilapidations. Amounts due after one year are:

	2010	2009
	<i>£000</i>	<i>£000</i>
Opening balance at 1 April	428	380
Provided in year	48	48
Closing balance at 31 March	<u>476</u>	<u>428</u>

17: Related party transactions

Audit Scotland is a statutory body funded by the Scottish Parliament. The latter is regarded as a related party. Audit Scotland's income arises principally from audit fees and charges levied on public sector bodies. During the period none of Audit Scotland's management staff has undertaken any material transactions with related parties.

18: Capital commitments and contingent liabilities

At 31 March 2010 the contracted capital commitments were £48k, payable in 2010/11 for the continuing implementation of a new electronic working paper system. There were no contingent liabilities.

19: Segmental reporting

Audit Scotland is considered to have just one operating segment and therefore no segmental information is produced.

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Notes to the Accounts (continued)

20: First time adoption of International Financial Reporting Standards (IFRS)

	Net Funded Pensions £000	General Fund £000	Total £000
Taxpayers' equity			
Balance at 31 March 2008 under UK GAAP	3,313	1,110	4,423
Changes in accounting policy (<i>note 4a</i>)	-	(380)	(380)
Restated Balance at 31 March 2008	3,313	730	4,043
Adjustments for :			
Employee benefits	-	(546)	(546)
Property leases - rent free periods	-	(53)	(53)
Taxpayers' equity at 1 April 2008 under IFRS	3,313	131	3,444
 Net Operating Costs			
Net Operating Costs for 2008/09 under UK GAAP			(7,008)
Changes in accounting policy (<i>note 4a</i>)			(48)
Restated Net Operating Costs for 2008/09 under UK GAAP			(7,056)
Adjustments for :			
Employee benefits - movement in the year			(35)
Property leases - rent free periods - movement in the year			(14)
Net Operating Costs for 2008/09 under IFRS			(7,105)

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 2010, which comprise the Summary of Resource Outturn, Operating Cost Statement, Balance Sheet, Cash Flow Statement, Statement of changes in Taxpayers' equity and the related notes 1 to 20. 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 2010 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.

Richard Gibson BAcc CA CF
(Senior Statutory Auditor)
For and on behalf of
HW, Chartered Accountants
and Registered Auditors
231/233 St Vincent Street
Glasgow G2 5QY

15 June 2010