



Annual Report and Accounts

Year ended 31 March 2011

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Management Commentary

AUDIT SCOTLAND ANNUAL REPORT 2010/11

Chair's message

Welcome to Audit Scotland's annual report for 2010/11.

With Scotland's public sector heading into the toughest financial conditions in living memory, the sound management of public money has never been more important.

We are working hard to support the Auditor General and the Accounts Commission and, through them, public bodies, to push improvements in performance and efficiency. We have also reviewed our own business to make sure we are continuing to operate effectively, efficiently and transparently.

We have been heartened to receive support for the work we do and the role we play from the Scottish Commission for Public Audit (SCPA). In a recent report on our budget, the SCPA said it was "keen to stress the ever increasing importance of rigorous independent audit of public funds at a time of budgetary restraint".

Our work with public bodies ranges from the day-to-day support, advice and scrutiny we provide to our thematic national reports. You will see throughout the report, and in the case studies, examples of how we help bodies improve their performance and save money

We have continued working with the Accounts Commission and other partners to streamline public sector scrutiny in Scotland. This includes the launch of a new system for scrutinising local government during 2010/11. By working with other agencies, we have reduced duplication and ensured scrutiny is proportionate and focused on where it is most needed.

A key theme in our work and in our own business over the past year has been the role that leadership and governance has in this economic climate. We produced specific reports on this subject covering central and local government and the NHS, as well as addressing it in many of our audits.

We have taken major steps to improve our own governance and the transparency of our costs.

In December 2010, I was appointed by the Scottish Parliament as chair of the Audit Scotland Board. I succeeded John Baillie, who stepped down after three years as chair. On behalf of Audit Scotland's staff and board, I would like to thank John for the enthusiasm, time and energy he has given to the role.

Ronnie Cleland

Chair of Audit Scotland Board

Management Commentary

Accountable Officer's report

These are difficult economic times for the public sector in Scotland and likely to remain so for many years to come. All public bodies are under pressure to reduce costs while maintaining the quality of what they do. Audit Scotland is at the centre of efforts and initiatives to assist organisations to improve their effectiveness and the same pressures and constraints apply to Audit Scotland itself.

In 2010/11, we reduced the costs of our work and subsequently the fees we charge public bodies. We implemented a 5.5 per cent real terms reduction in fees compared with 2009/10. Overall, we aim to cut the cost of audit by at least 20 per cent by 2014/15. We will be reducing our staff numbers by 42, or 14.4 per cent, by 2014/15. By careful workforce planning, we are already about half-way towards our target.

We are pleased to say that, as we would expect of other public bodies, we have maintained and improved our performance despite these tough times. Survey results show increased satisfaction with the quality of our financial audit work. Our performance and Best Value work continues to support improvements in public services and the efficient use of public money. One example is our audit of the services provided to children in residential care which resulted in several far-reaching initiatives and developments. Our recommendations aim to achieve a measurable impact; for instance, our finding that the NHS in Scotland could save £6 million a year on locum doctors.

Our latest National Fraud Initiative (NFI) has enabled public bodies to identify £26 million worth of fraud, overpayments and errors, which they are working to recover. The cumulative impact of the NFI in Scotland is now £63 million.

This year our total expenditure was almost £26.9 million, with most of this on staff and appointed auditor costs. Our income was £21 million, meaning we needed just under £5.9 million in direct funding from the Scottish Parliament. Our results were also affected by a £6.3 million non-cash credit against our pension liabilities, following the UK Government's decision to change the basis of inflation increases for pensions from the Retail Prices Index to the Consumer Prices Index.

During the year we also received greater than expected income from staff secondments and a small increase in the amount of audit work completed, as well as spending less than planned on external support for audit work. We made efficiency savings of £1.6 million, against a target of £540,000, and we also completed the appointment of auditors to public bodies for the five years from 2011/12, which will bring future savings.

We continually review our work programme to ensure it is addressing the issues that really matter in the public sector. We intend to keep improving what we do at a time when the Scottish Parliament and the public bodies expect us to continue providing a high-quality independent public audit regime.

Robert W Black

Accountable Officer and Auditor General for Scotland

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 £45 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

Maximise our contribution to the improvement of public services.

Deliver more streamlined audit in partnership with other scrutiny bodies.

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

275 whole-time equivalent staff as at 31 March 2011.

£21 million from: public bodies for audits of their financial reports; bank interest; and miscellaneous income.

£5.9 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 2010/11

Implemented four-year plan to reduce audit fees by 20%

Reduced 2010/11 audit fees by 5.5 %

212 final annual audit reports produced

26 performance and Best Value audits published

99.5% of audits completed on time

610 separate reports produced for the 212 public bodies audited

94% of health and 100% of further education bodies think our auditors provide ‘a high-quality audit service’

Presented to 68 seminars, conferences and training events

Served on 53 external bodies and working groups

£63 million cumulative impact of the National Fraud Initiative

A new board chair appointed by the Scottish Parliament

Management Commentary

Our work

The Auditor General and the Accounts Commission

We carry out performance audits across 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 or better standards. We do these on behalf of the Auditor General or the Accounts Commission or both. We publish reports on the audits to provide assurance to the public and to decision-makers that public money is being spent properly.

In 2010/11, we published reports on 26 national and Best Value performance audits. These were:

- 5 Across-government audits
- 5 Central government audits
- 3 NHS audits
- 9 Best Value in local government audits
- 4 Local government audits.

Our reports carry recommendations for public bodies to help them improve, and we publish good practice checklists and case studies. They also identify potential savings. For example, *Using locum doctors in hospitals* found the NHS could save £6 million a year, about 15 per cent of the £47 million it spends annually on locums, through better planning and procurement. *Maintaining Scotland's roads* called for a national summit on how to deal with the £2.25 billion maintenance backlog. The Scottish Government announced a national review, including such a summit, as well as providing an extra £2 million to repair potholes.

Public bodies face major financial challenges over the next few years, and a key theme of our work has been the need for strong and clear leadership during this time. The boards of public bodies are central in making difficult decisions about spending priorities. To help in this area, we published *The role of boards* in September 2010. It made recommendations to clarify the role of boards and help them improve performance. Since publication the report has been downloaded over 4,000 times from our website. We have received invitations to speak at a number of events on this topic, including a CIPFA conference, Scotland's Colleges' annual conference and two follow-up seminars, a Scottish Government event for non-executive board members, and a number of individual audit committees.

Parliament and Accounts Commission

The Scottish Parliament's Public Audit Committee held evidence sessions on eight of our audits: *Edinburgh trams*; *National concessionary travel*; *The role of boards*; *Getting it right for children in residential care*; *Emergency departments*; *The Gathering*; *Review of orthopaedic services*; and *Overview of the NHS in Scotland's performance 2008/09*. The committee called relevant Scottish Government accountable officers to give evidence and answer questions about issues raised. It also asked for written evidence from accountable officers for two other reports published during the year, as well as two Section 22 reports and four audits from the 2009/10 year. The committee published 10 reports during 2010/11 on issues highlighted in our work over 2010/11 and 2009/10.

The Accounts Commission produced findings on nine of our audits: *North Ayrshire Council*; *Grampian Police and Grampian Joint Police Board*; *South Ayrshire Council progress report*; *Scottish Borders Council*; *The Highland Council*; *Angus Council*; *Northern Constabulary and Northern Joint Police Board*; *East Ayrshire Council*; and *An overview of local government in Scotland 2010*.

Assessing our impact

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 routinely prepare impact reports, and published 12 in 2010/11.

Management Commentary

This year our reports and podcasts were downloaded 244,471 times from the Audit Scotland website, www.audit-scotland.gov.uk. We supply reports and findings in various formats.

Highlighting issues from accounts

We bring significant issues arising from the annual audits to the attention of the Scottish Parliament and Accounts Commission. This helps ensure effective scrutiny of the use of public funds.

The Auditor General issues reports to the Scottish Parliament under Section 22 of the Public Finance and Accountability (Scotland) Act 2000. We presented two Section 22 reports to the Scottish Parliament: on the Scottish Government Consolidated Accounts and the National Library of Scotland.

The Controller of Audit issues statutory reports on local authorities to the Accounts Commission and produced four reports in 2010/11: two on The Highland Council and one each on Shetland Islands Council and Strathclyde Partnership for Transport.

In June 2010 the Accounts Commission held a two-day hearing in Lerwick into the Shetland Islands Council. This came after statutory reports from the Controller of Audit about a number of issues at the council, including qualification of the council's annual accounts for the fourth year in a row, and the appointment and subsequent departure of the chief executive. More than 40 people gave evidence at the hearing, including the Controller of Audit and other Audit Scotland staff, councillors, senior officers, the former chief executive of the council, trade union representatives, COSLA, an MSP, an MP and members of the public. The Commission produced findings and Audit Scotland continues to monitor progress at the council.

Quality

All of our national performance audit reports are subject to a detailed quality assurance framework. We also seek independent comment and external scrutiny of our work. Each performance audit has a project advisory group involving experts in the subject area. In addition, we work with other UK audit agencies – the National Audit Office (NAO), the Wales Audit Office (WAO) and the Northern Ireland Audit Office (NIAO) – and a selection of our audit reports are submitted for peer review with them each year. Improvements identified by these reviews are applied to future work. During 2010/11, we set up a new benchmarking project with the other UK audit agencies. This will make sure that we continue to drive improvements to our efficiency and effectiveness.

Number of performance audit reports published in 2010/11 - 26

Number of S22s in 2010/11 - 2

Number of Controller of Audit reports in 2010/11 - 4

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

Scotland has about 1,600 children and young people in residential care. They are among the most vulnerable members of our society and many have complex and challenging needs. We published *Getting it right for children in residential care* on 2 September 2010. The audit found more than £250 million is spent a year on these services but councils cannot demonstrate that they are achieving value for money. Although professional practice and work is often good, not all children get the best-quality care and support. Many go on to have major problems later in life.

The report contains 21 recommendations for the Scottish Government, councils, COSLA and NHS boards, on planning and management, and a self-assessment checklist. Around £150,000 is spent per child a year. The audit recommends that councils have to be sure they achieve an appropriate quality of service for the costs. It also highlights the need for stronger leadership and direction from the government. These issues and the poor outcomes for many children in care were highlighted in the 53 items of media coverage immediately following publication. The report was downloaded 5,713 times in its various forms during 2010/11.

Management Commentary

We presented the report to the Scottish Parliament's Public Audit Committee in September. The committee held an inquiry and took evidence at two separate sessions, from the Children's Commissioner, two councils and the government's Education Director-General. The Scottish Institute for Residential Child Care submitted written evidence.

In February 2011, the committee published a report on its inquiry, calling for better data on the outcomes of children and young people in care. It also asked the Scottish Government for more information on: how it was supporting councils, NHS boards and service providers to work together; how it aimed to support public services to prevent children going into care, while also meeting the costs of those already in care; and its evaluation of a Loughborough University model of understanding on the full costs of residential care.

The Scottish Government welcomed our report, saying it was an opportunity to raise the profile of this area, particularly in improving outcomes for children and young people in care. There are a number of improvement initiatives underway.

The Scottish Government and COSLA set up a group to produce a new approach to commissioning, focusing on outcomes. This group has produced a draft national contract and specifications for secure residential care. A new national commissioning officer for children's services and a new regional child care commissioning officer in Renfrewshire and the Clyde Valley are developing, testing and supporting commissioning and contracting.

Other developments include the Scottish Government:

- setting up a strategic implementation group on looked-after children, looking at five areas: culture change in care planning; improving health outcomes; improving learning outcomes; workforce issues; and commissioning
- considering using a costing model to identify the full costs of residential child care services to help councils make decisions
- announcing in February 2011 the creation of a new centre of excellence on improving the lives of looked-after children, providing specialist training, consulting children and young people, and supporting universities and colleges.

Best Value

We have supported the Accounts Commission in introducing a new regime for auditing how well local authorities deliver Best Value in their public services.

For the first time, these Best Value audit reports contained two specific judgements to summarise the assessment of councils. These reports are put before the Accounts Commission, who can also make findings that include key points of progress and areas for improvement.

Under this programme, we work with other scrutiny bodies to assess risks, coordinate our work more effectively and reduce the amount of time and data requested from councils.

In 2010/11, the Commission published reports based on this new system, on four councils; Angus, East Ayrshire, Highland and Scottish Borders. We also published the final report from the first round of Best Value, a progress report on South Ayrshire Council.

As part of the new system, the Commission also produces joint reports with other scrutiny bodies. In 2010/11, they published two joint audit and inspection reports in partnership with Her Majesty's Inspector of Constabulary for Scotland (HMICS). In April 2010, they published a pilot report on Northern Constabulary and Northern Joint Police Board, and in February 2011, a report on Grampian Police Force and Grampian Joint Police Board.

Drawing on what we have learned since the first Best Value report was published in 2004, the Accounts Commission also launched a new series of publications to help councils manage the financial pressures they face. Our aim for the new series, *How councils work*, is to stimulate change and improve performance in Scotland's councils.

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The first of this series, *Roles and working relationships: are you getting it right?*, was published in August 2010. The report looked at the relationships between elected councillors and council officers, and provided checklists and good practice examples.

The next report in the series, due in Summer 2011, will focus on key issues for councils when delivering services through Arm's-Length External Organisations (ALEOs).

Now that the new approaches to Best Value in councils and the police are being introduced, the Accounts Commission is ready to take forward its long-standing commitment to introduce the Best Value audit into fire and rescue services.

In February 2011, the Scottish Government launched a consultation on the future structure of police and fire services. Our Best Value audit work on police and fire will focus on the key characteristics of efficient and effective service delivery, and the principles of governance and accountability that need to be considered whatever the future structure of the service.

We are also working with the Equality and Human Rights Commission Scotland and the Accounts Commission to develop how we examine equality and diversity in Best Value audits.

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

By coordinating our work and focusing on the key issues at each council, we have been able to cut the time we spend in councils on strategic scrutiny work by 36 per cent compared with 2008. Visits and inspections are generally quicker, more focused, and involve fewer inspectors. The scrutiny activity within each council is more proportionate and risk-based than in the past.

In 2010/11, we helped the Accounts Commission introduce this new streamlined scrutiny system for local government in Scotland.

In July 2010, we published the *National Scrutiny Plan for Local Government 2010/11*, in which Scotland's scrutiny agencies jointly set out the strategic work we would do in councils during the year.

The publication of the national plan was the result of work carried out since the Accounts Commission was asked in 2008 to take on a coordinating and gate-keeping role for local government scrutiny. Audit Scotland has supported the Commission and worked with Her Majesty's Inspectorate of Education, Social Work Inspection Agency, Scottish Housing Regulator, the Care Commission, Her Majesty's Inspectorate of Constabulary for Scotland, and NHS Quality Improvement Scotland.

In the past, when we planned and undertook scrutiny of a local authority, we did 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 could be undertaking the work on that same authority.

Under the new system, the scrutiny bodies share information and come to an agreed view on the areas where scrutiny is needed to provide public assurance or facilitate improvement in each individual council. We refer to this as identifying the scrutiny risk, and the process is known as Shared Risk Assessment (SRA). From that, we set out individually tailored plans for scrutiny at each body, known as Assurance and Improvement Plans (AIP). In 2010/11, we published AIPs for all 32 councils, setting out in detail the planned activity at each council and the reasons behind it.

For us, it means we can prioritise and focus our resources and time and can avoid duplication of effort. For the local authority, scrutiny work is better coordinated; its own evidence of performance and improvement influences the assessments made; it has a clear picture of what will be happening during the year; and understands why that work is prioritised.

Management Commentary

Delivering the audit

The Auditor General and the Accounts Commission were responsible for 212 annual audits for the audit year 2009/10, carried out by a mix of appointed auditors from Audit Scotland and private firms of accountants.

<u>Sector</u>	<u>Number of annual audits</u>
Central Government	73
NHS	23
Further Education	39
Councils	32
Joint Boards	44
Water sector	1

Auditors completed 99.5 per cent of all the audits of health, central government, further education and local authority bodies on time (compared with 100 per cent overall in the previous year).

With the public sector facing financial pressures unprecedented since devolution, we are working to reduce the fees we charge public bodies for our audit work. We began this in 2010/11, with a 5.5 per cent real terms reduction in fees compared with 2009/10. Overall, we are aiming to reduce the cost of audit by at least 20 per cent over the four years to 2014/15. We are satisfied that this can be achieved while maintaining the quality of our work.

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. We also provide advice and assistance to public bodies and identify areas for improvement (see case study on page 10).

In 2010/11, our auditors attended 265 audit committee meetings of public bodies across Scotland.

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. These reports can be found on our website. The majority of opinions given by appointed auditors are unqualified. However, there are situations where auditors 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 auditors will qualify their opinion. This year we published two audit qualifications: on Shetland Islands Council and the National Library of Scotland.

We brought together auditors working in the same sectors six times during 2010/11 to share experiences, keep up to date with policy developments and discuss technical auditing matters.

We continue to focus on improving how effectively and efficiently we deliver the audit. Following a pilot of electronic working papers in 2009/10, we have rolled out the package to all our auditors for 2010/11 audits, along with training and ongoing support. We have already started to see a considerable reduction in paper records at audited body sites. This should significantly reduce future document storage requirements. We will carry out a post-implementation review during 2011/12.

Quality and impact

Audit Scotland remains committed to delivering a public audit service that is valued and supports sound governance. 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 further developed and introduced arrangements for assuring the quality of our work. We fully revised our audit guide, and we carried out reviews of a sample of audits.

Management Commentary

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 health and further education bodies to tell us what they thought of the service provided by our auditors during the 2009/10 audits. Bodies were also 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. These results compare favourably with previous surveys.

Quality survey responses	Positive responses	
	Health	Further education
Overall quality of service	94%	100%
Area of impact of the audit		
Assurance and accountability	94%	100%
Planning and management	87%	100%
Economy and efficiency	71%	90%
Effectiveness and quality of services delivered by audited bodies	64%	89%

Ethical standards

We have adopted the principles of the ethical standards for auditors issued by the UK Auditing Practices Board across all our work. We also provide our staff with guidance about the application of the standards to public sector audit in Scotland. 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.

The Assistant Auditor General undertakes the role of ethics partner and provides advice on the application of the standards.

Case study three: increase the impact of our work

Audit Scotland is uniquely placed to share intelligence about developments across health, local and central government and further education areas as we cover the whole of Scotland's public sector. It also allows us to address issues that affect all public bodies.

Our annual audit reports and our national publications are public documents and are the most obvious examples of the work we do to help drive improvement.

However, they do not tell the full story of what we do behind the scenes, on a daily basis, with public bodies which impact in big and smaller ways on their effectiveness and efficiency. Below are just two examples.

Shared Services

Sometimes our impact is local and specific. For example, our auditor appointed to NHS 24 is familiar with the body's contact centres, which provide a well-established call handling, clinical triage and advisory service for the whole of Scotland, primarily during the out-of-hours period. The national technology and telephony infrastructure which supports NHS 24's services is a significant public sector asset.

The same auditor has also observed that several local authorities have been investing in call centres, some of which were operating below capacity. The auditor felt that more consideration could be made of whether councils could use NHS 24's existing technology and telephony infrastructure, and has subsequently shared this observation with NHS 24 and formally reported on it.

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An NHS 24 representative has since joined a committee considering the shape of shared services across eight councils in the Clyde Valley area. This committee was formed following the publication of a report by Lord Arbuthnott into shared services in the west of Scotland.

Supporting Change

Some of the work we do is to address issues across a wide range of bodies and sectors. For example, over the past two years central government and NHS bodies have prepared their accounts under International Financial Reporting Standards (IFRS) for the first time. This was the most significant change in the basis of preparing public sector accounts for many years.

IFRS is the globally recognised ‘gold standard’ set of accounting standards in both the public and private sectors, and enables consistency and comparability on a scale not previously achieved. The UK decided to adopt these standards for public sector accounts in order to be seen to stay at the forefront of transparency and quality of financial reporting.

Some of the new standards were complex and a significant amount of preparatory work was required. A two-year transition process was devised, including the preparation of shadow accounts for 2008/09 and their review by external auditors.

We worked to support public bodies through this transition process. We set up an IFRS working party which provided training to our auditors and produced audit programmes, checklists and template reports. Our auditors carried out timely reviews of opening balance sheets and shadow accounts, and gave feedback to audited bodies on the progress they were making to deliver accounts that complied with the new standards.

When the first full sets of IFRS-based accounts were produced, the benefits of the disciplined transition arrangements, the considerable effort put in by audited bodies and the audit reviews of progress became clear. There were no qualifications of audit opinions relating to the implementation of IFRS in Scotland.

National and international

Identifying fraud and errors

Audit Scotland oversees the National Fraud Initiative (NFI) in Scotland, a programme which brings together auditors and public bodies to help identify public sector fraud and error. We compare information from councils, health boards and other public sector bodies and from a range of areas, such as housing benefits, payrolls, public sector pensions, disabled parking permits and council tax records. This helps bodies recover money and stop overpayments made through fraud and error continuing. Effective fraud arrangements act as a deterrent.

During 2010/11, the participating audited bodies continued to follow up data matches from the 2008/09 exercise, and in May 2010 we published the results. At that point, public bodies had identified fraud, overpayments and errors valued at £21 million. This has since increased to £26 million, and the cumulative total since the NFI started in 2000 is now £63 million.

We also launched the 2010/11 NFI exercise, under which we will use new powers for data matching that came into law in October. We have been able to expand the number of bodies taking part, and to cross-border data-match with other UK audit agencies. We published a *Code of data matching practice* in November 2010, following consultation with the UK Information Commissioner and other stakeholders.

We continue to streamline the scrutiny of the devolved housing and council tax benefit services as part of the annual audit of councils. In 2010/11, we performed risk assessments at 10 councils. They have since put action plans in place and we will monitor progress through our audit work. We introduced a new system of risk assessment, enabling our scrutiny to be proportionate to the risks, an approach councils have strongly supported.

Management Commentary

Learning and knowledge sharing

Audit Scotland staff presented at 68 seminars, conferences and training events, as well as to four groups of overseas visitors to Audit Scotland.

We also served on 53 external bodies and working groups. Bodies included the Auditing Practices Board, the Financial Reporting Advisory Board, Scottish Government’s technical accounting group, UK audit agency efficiency forum, CIPFA exam panel and CIPFA pensions panel.

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.

Technical support and education

Audit Scotland supports improvements in accounting, financial reporting and auditing in the public sector. We do this through our technical guidance. We provide this guidance not only to auditors but also to financial professionals across the Scottish public sector. We frequently contribute to external seminars, conferences and working groups.

Our objective is to make sure that the technical knowledge of auditors and public sector finance professionals is comprehensive, relevant, reliable and up to date. 2010/11 was particularly challenging as there was a significant number of technical developments. The biggest of these has been the continued implementation of the International Financial Reporting Standards (IFRS) across the public sector. For more on our work on IFRS, see the case study on page 10.

We published four technical bulletins during the year which explain relevant developments, and provide guidance on major risk areas and their implications. We also published 15 notes for guidance to provide more in-depth and extensive guidance on specific matters. We added 342 documents to our online technical reference library, and responded to 857 technical enquiries from auditors and stakeholders.

Technical assistance – performance against target response times

	2010/11	2009/10	2008/09
Total number of enquiries	857	856	1,006
Routine enquiries	99%	99%	97%
Complex enquiries	100%	95%	100%
Other enquiries	99%	99%	99%

International work

The work of Audit Scotland is of interest to other countries and this is reflected in requests for assistance and visits from overseas organisations. We always give priority to our core audit work in Scotland and strictly limit the work on international assignments, for which we generally recover the full costs from various funding sources. In 2010/11, we worked with seven organisations but turned down eight other requests.

Our work with other countries has traditionally focused on the European Union (EU) accession countries, the Balkan states, and nations on the periphery of the EU. We carry out this work in partnership with other audit agencies including the UK National Audit Office (NAO) and Support for Improvement in Governance and Management (SIGMA) who reimburse us for this work. During 2010/11, we have undertaken assignments in Ukraine and Kosovo.

A new area of activity has been our work on the United Nations audit - see the case study on page 13.

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We hosted four visits from overseas audit and local authority delegations from Japan, Finland, Moldova and China. Visitors were interested in our role in public scrutiny and devolution, among other topics. These visits are also an opportunity for us to learn from others and to identify where we can improve our own work to achieve our aim of being a world-class audit institution.

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

During 2010/11, we were also approached to take on formal positions working in other countries. In September, the UK Department for International Development appointed Deputy Auditor General Caroline Gardner to a 12-month secondment as Chief Financial Officer of the Turks and Caicos Islands.

In early 2011, the Welsh Assembly asked us to carry out the external audit of the Wales Audit Office accounts for 2010/11, following the resignation of the existing auditors.

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

In 2010/11, Audit Scotland staff joined a number of UK auditors appointed to the United Nations Board of Auditors for a period of six years.

The placements are coordinated by the National Audit Office (NAO), the audit agency that audits the UK government and its departments. The NAO approached Audit Scotland when putting the UK team together, reflecting the expertise and reputation of our staff.

A major part of the contract is to audit the UN headquarters, which has a budget of US \$8 billion. The approach to auditing the UN HQ is to divide the organisation into smaller, manageable units. UN regulations mean that biennial accounts are prepared and this means that the audit is stretched over a two-year period instead of the usual annual accounts and audit reporting process.

Audit Scotland audit manager Carol Hislop is responsible for the political affairs, conference management and disarmament departments, based at the UN headquarters in New York City, USA. She visited in October 2010 and March 2011, and will make another two trips to New York over the next year to test systems and conclude the financial statements audit process.

Carol has also been assigned to the audit of the Capital Master Plan, which is the project for the refurbishment of the UN building in New York. This has involved meetings with the project director, various engineers and the UN budget director.

Audit Scotland portfolio manager Mark MacPherson is leading the audit of management issues in five UN organisations: the environment programme (UNEP); the human settlements programme (UN Habitat); the office on drugs and crime (UNODC); and the Nairobi and Vienna offices (UNON and UNOV).

The majority of the work is based in Nairobi (Kenya) and Vienna (Austria), although UNEP, UN Habitat and UNODC have a large number of field offices located throughout the world. Mark will augment his visits to Nairobi and Vienna with a small number of trips to field offices.

The work is challenging, often being performed to tight timescales. This is encouraging the teams to develop efficient and effective working practices. The work also allows us to learn and share with colleagues in other audit agencies, and bring that learning back to invest into Audit Scotland.

The work is fully funded by the United Nations.

Management Commentary

Our organisation

Our people

We strive to make Audit Scotland an excellent place to work where people are valued, as shown by our ‘Two Ticks’ accreditation and our retention of Best Companies ‘One to Watch’ status.

Workforce planning

We work hard to ensure we retain and recruit high-quality people and invest in continuing development of all our people. Staff turnover is inevitable and this was slightly higher than normal in the past year. We are proud that many of those people were leaving to take up key roles in the public sector both in Scotland and abroad. Like other public bodies, we face financial pressures. We implemented a pay freeze this year, and are reducing our staff numbers by 42, or 14.4 per cent, by 2014/15. Through careful workforce planning, including a recruitment freeze, we are already about half-way to our target.

Developing and engaging our staff

Our Performance Appraisal and Development (PAD) scheme is central to helping our staff maintain and develop their skills in order to improve our overall performance and efficiency. PAD meetings between staff and their line managers set work, performance and development objectives. 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.

During 2010/11, our staff received an average nine days each of training and personal development. We had 26 trainees and staff working towards CIPFA and ACCA qualifications. Delivery of these qualifications changed from traditional block release to IT-enabled modules and assistance through a ‘virtual’ classroom. This change will ensure access to the qualification no matter where the trainee is based, reduce our overall cost per trainee by more than 11 per cent and allow training time to be better planned to fit with business needs. Five trainees successfully completed their qualifications during the year, and one won the prize for achieving the highest marks by a person working in public audit.

This year we retained our status as ‘One to Watch’ in the Best Companies review of public sector workplaces.

We engage with our staff through a range of methods, such as monthly team briefings, our in-house quarterly magazine *abacus*, face-to-face meetings and through our intranet site Libro. We also have a partnership forum for regular consultation with staff trade unions. We are carrying out a number of projects to further improve our staff engagement and are replacing our intranet. This will allow better information and knowledge sharing.

More focused management and professional medical support was devoted to staff well being and attendance this year, resulting in a reduction in our staff sickness absence. In 2010/11, our sickness absence was on average 4.89 days per employee, down from 8.82 days in 2009/10 and compared with a public sector average of 9.6 days.

Diversity and equality

Our Single Equality Scheme outlines our commitment to diversity and equality. It sets out how we intend to demonstrate this commitment, both through how we work as an organisation and in the way we carry out our audit work.

Following an Equality Impact Assessment of our project management framework, we revised our booklet *Building diversity into our work* to support our staff in making sure that equality and diversity are considered during our national performance audits.

In January 2011, we received ‘Two Ticks’ accreditation from Job Centre Plus. This is given to employers that make a commitment to supporting people with disabilities.

We are also using our new eHR system to collect information about our staff to help us monitor our progress in advancing equality and we have updated our online training for staff to reflect the duties of the Equality Act 2010.

Management Commentary

Audit Scotland's website was re-awarded the Shaw Trust 'Accessible Plus' accreditation for its high level of accessibility for people with disabilities.

A full report on our diversity and equality work is available on our website and highlights progress against our Single Equality Scheme.

Our demographic profile as at 31 March 2011

	Audit Scotland	Scotland (working population)
Gender	Males 49%	Males 48.9%
	Females 51%	Females 51.1%
Ethnicity	White 97.5%	White 96.3%
	Minority ethnic 2.5%	Minority ethnic 3.7%
Disability	Staff with no declared disability 95%	People with no declared disability 89.6%
	Staff with a declared disability 5%	People with a declared disability 10.4%
Age	16-24 2.8%	16-24 18%
	25-34 25.5%	25-34 19%
	35-49 44.5%	35-49 33%
	>50 27.2%	>50 30%

Staff	2010/11	2009/10
Staff numbers	275 WTE*	293 WTE
Turnover	8.2%	5.26%
Average sickness absence per person	4.89 days	8.82 days

Source: Audit Scotland / Annual Population Survey October 2009 – September 2010, ONS

*Correct as of 31 March 2011.

Our business

Managing our resources

This year we have continued to work hard to be more effective and efficient, and to reduce the cost of public audit.

In September, we submitted budget proposals for 2011/12 that will reduce our costs by seven per cent in real terms, or £1.9 million, compared with 2010/11. This will in turn reduce the money we are requesting from the Scottish Parliament towards our running costs. We will continue to seek ways of driving down the cost of audit. In 2010/11, we began the tendering process for the new audit appointments for the next five years. This will result in further savings in future years.

Management Commentary

In 2010/11, we delivered £1,570,000 of efficiency savings, against a target of £540,000. This was 5.7 per cent of our overall budget, exceeding the Scottish Government target of 2 per cent.

We compare our performance in a wide range of business areas against public sector benchmarks to help us improve and become more efficient.

Correspondence and information regulations

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

In 2010/11, we received 230 items of correspondence, compared with 250 last year. We met our target of acknowledging correspondence within ten working days in all but one case, and in 98 per cent of cases we provided a full response within one month of acknowledgement.

In 2010/11, we received nine complaints about how Audit Scotland's staff have dealt with members of the public. In all cases we provided a full response within our 20 working day target.

We value openness and transparency and we recognise the public interest in the information we hold. This year we strengthened our information governance arrangements by establishing an Information Governance Group. This group has responsibility for a number of our information governance areas such as our policies and procedures on the Freedom of Information Act, Environmental Information Regulations, the Re-use of Public Sector Information Regulations, and the Data Protection Act. A wide range of information is available through our publication scheme, which is on our website.

We receive many routine requests for information on a daily basis. This year, 12 Freedom of Information (FOI) requests required consideration by an internal panel to determine whether all the information requested could be released. There were five data subject access requests under the Data Protection Act, but no Environmental Information requests.

The Public Services Reform (Scotland) Act 2010, which came into force on 1 October 2010, places duties on public bodies to provide and publish information on certain expenditure and exercise of functions. We welcomed the legislation; see the case study on page 20 for more details.

Items of correspondence by sector 2010/11

Correspondence received per sector

Local government:	137
Central government:	84
Health:	9
Further education:	0

Response times for correspondence

	2010/11	2009/10	2008/09
Number received	230	250	235
Acknowledgements	99.5%	100%	100%
Full response	98.0%	97.0%	94.5%

Management Commentary

Improving business systems

We continue to innovate and invest in new technology to simplify and improve the way we work, strengthen security, and reduce costs. This included implementing an automated system for managing and engaging staff about our policies, improving our network connection with fixed audit sites, and upgrading our IT firewalls to improve security and increase network speed.

In February 2011, our new electronic purchasing system went live. This system aims to strengthen our purchasing process and improve our performance and management of our suppliers' invoices.

We rolled out our new electronic working papers system to all Audit Services staff, and we started a programme to implement SharePoint technology across the organisation to improve how we share, manage and store information.

Sustainability and environmental impact

Over the past five years we have implemented a wide range of measures to reduce our impact on the environment, including promoting the use of public transport and increased recycling. The focus of our work is now shifting to areas where greater effort is required to achieve significant reductions in emissions. With the support of the Carbon Trust we have set an ambitious target of reducing our carbon footprint by 20 per cent by 2014.

Internal audit and risk management

Most internal audits in 2010/11 achieved 'substantial assurance', the highest standard available, from our internal auditors RSM Tenon. The follow-up report said we were making good progress in implementing previous recommendations.

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 2010/11 and considered 11 internal audit and advisory reports (see below for report subjects).

Internal audits and advisory work concluded in 2010/11

- Human resources
- IT security Controls
- Communications advisory report
- Business continuity plan
- Carbon management
- Assurance map
- Electronic working paper system benefits realisation plan
- Key financial systems
- Medium to long-term financial planning
- Publications process
- Follow-up report on previous internal audit recommendations

Our governance and management

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 eight times during the year and the audit committee four times.

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

Management Commentary

The board has agreed on a framework which sets out the principles of partnership working between the Auditor General for Scotland, the Accounts Commission and Audit Scotland. The framework is designed to make sure that the three parties work together to deliver their vision for public audit.

Ronnie Cleland - Chair of the board

Chair of Scottish practice of Odgers & Berndtson. Member of NHS Greater Glasgow and Clyde Board (until March 2011). Non-executive adviser to Scottish Football Association. Member of Court of the University of Strathclyde. Former partner at Thomson Partners Ltd.

John Baillie - Chair of the Accounts Commission

Former partner of KPMG Scotland and London. Recently retired member of the Competition Commission. Visiting Professor of Accountancy, and former Johnstone Smith 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 Controller of Audit with the Accounts Commission from 1996 to 2000, and previously 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 (until October 2010)

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. In September 2010, Caroline began a 12-month secondment as Chief Financial Officer of the Turks and Caicos Islands Government.

John Maclean - Independent non-executive member

Former deputy chair of Court and former chair of Glasgow Caledonian University audit committee. 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.

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 appoints our non-executive members, scrutinises our budget, annual report and accounts, and produces reports on these. It also appoints our external auditor, and in 2010/11 it appointed new auditors, Alexander Sloan Chartered Accountants.

SCPA membership in 2010/11:

Angela Constance (Convenor of the SCPA until December 2010)

Robert Brown

Derek Brownlee

George Foulkes

Hugh Henry

Stewart Stevenson (from January 2011)

www.scottish.parliament.uk/s3/committees/scpa/index.htm

Management Commentary

Our senior management

Our senior management team oversees the day-to-day operations of Audit Scotland's work, with each member taking responsibility for a specific area. In 2010/11, following the secondment of Deputy Auditor General Caroline Gardner to the Turks and Caicos Islands, we undertook an interim restructure of our management team.

Robert Black

See biography on page 18

Caroline Gardner

See biography on page 18

Diane McGiffen - Chief Operating Officer

Diane McGiffen was appointed director of Corporate Services in 2000, and became Chief Operating Officer following a management restructure in 2010. 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.

Russell Frith – Assistant Auditor General

Russell Frith was appointed director of Audit Strategy shortly after Audit Scotland was formed in 2000 and became Assistant Auditor General in 2010. 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.

Fiona Kordiak - Director of Audit Services

Fiona Kordiak was appointed as a director of Audit Services in 2007 and for Audit Services as a whole following a management restructure in 2010. 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 Corporate Programmes

Lynn Bradley joined Audit Scotland as a director of Audit Services in 2005 and became director of Corporate Programmes in 2010 following a management restructure. She previously held senior posts in local government, consultancy and Scottish Homes. Lynn qualified as a chartered public finance accountant with the National Audit Office and as a chartered accountant with Ernst & Young.

Barbara Hurst - Director of Performance Audit

Barbara Hurst was appointed director of Performance Audit 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.

Fraser McKinlay - Director of Best Value and Scrutiny Improvement and Controller of Audit

Fraser McKinlay was appointed director of Best Value and Scrutiny Improvement in April 2010. Before joining Audit Scotland, he worked for 10 years as a management consultant in Edinburgh and London at firms including KPMG and Eglinton. Fraser joined Audit Scotland in 2005 as an assistant director and later led the Best Value audit team. He was appointed as Controller of Audit in September 2010 for the term of Caroline Gardner's secondment.

Management Commentary

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

Over the past year, we have continued to improve our governance and the transparency of our costs.

The Public Services Reform (Scotland) Act 2010 (the Act) introduced changes to strengthen the independence and transparency of our governance. The Act gave the Scottish Commission for Public Audit (SCPA) the role of appointing our board chair and non-executive members.

In December, the SCPA appointed Ronnie Cleland, an existing non-executive, as chair. Ronnie had joined the board in 2008 and was followed in 2009 by John Maclean, both recruited through open competition.

In March the commission appointed Katharine Bryan as our third non-executive member, with her role taking effect on 1 April 2011. All three are joined on the board by Auditor General Robert Black and Accounts Commission chair John Baillie.

Transparent and strong governance in the public sector is important at all times, but even more now given the challenges ahead. The progress we have made at Audit Scotland has been important in both making sure we have the appropriate balance and scrutiny in our own affairs, and in helping us promote good practice across the public sector.

In September, we submitted our four-year cost-reduction plan to the SCPA. This outlines the reductions in our staffing levels and operating costs to the end of 2014/15 and the subsequent reductions in the audit fees that we will charge public bodies. This, and our budget proposals, are available on the Scottish Parliament's website.

Audit Scotland publishes information on directors' and board members' expenses as well as hospitality and gifts received. The Act also places a duty on public bodies to provide and publish information on certain expenditure:

- spending relating to public relations, overseas travel, hospitality given and external consultancy
- payments which exceed £25,000
- staff earning more than £150,000
- details of our work in achieving sustainable economic growth
- improvements in efficiency, effectiveness and economy.

We publish this information on our website as soon as possible after the financial year end. On a half-yearly basis we will also publish details of spending where individual items are below £25,000 but combined spending with one organisation exceeds £25,000. We have always published details of the remuneration of our senior management in our annual accounts

Our budget proposals for 2011/12 are available online at www.scottish.parliament.uk/s3/committees/scpa/index.htm

Management Commentary

Our finances

Financial summary

Audit Scotland is required to produce annual accounts detailing the resources acquired, held or disposed of during the financial 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 Alexander Sloan 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 56 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 2010/11, Audit Scotland spent £26.9 million on services for the Auditor General and the Accounts Commission; this is less than 0.1 per cent of the £45 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.

2010/11 Financial Results

The financial statement for the year ended 31 March 2011 shows a net surplus of £496k compared with an estimated net resource requirement (budget) of £7,295k provided by the Scottish Parliament. The difference was largely due to a significant non cash credit of £6,349k arising as a result of the UK Government's decision to change the basis of inflation increases for pensions from being based on the Retail Prices Index (RPI) to the Consumer Prices Index (CPI). This change reduces the amount of Audit Scotland's overall pension liabilities and the resulting net gain is accounted for in the Statement of Comprehensive Net Expenditure for the year.

In 2010/11, income earned from audited bodies and miscellaneous income was £21,003k. Expenditure (excluding pension adjustment) was £26,856k with the resulting Operating Costs totalling £5,853k. These costs which are met from funding received from the Scottish Parliament were £1,442k less than the agreed budget of £7,295k.

This level of under spend was mainly as a result of Audit Scotland making better than anticipated progress towards its four year cost reduction target. This was particularly the case with staff costs which net of secondment income were £784k lower than budget mainly as result of the recruitment freeze introduced at the start of the year – staff numbers at March 2011 were 18 w.t.e. lower than at March 2010. Fee income was £508k higher than budget as a result of an increase in the amount of audit work completed in year. Further savings were recorded in all overhead categories the most notable of which were consultancy and legal charges £436k, stationery and printing £116k, staff training £152k and staff recruitment £80k. A provision of £776k made to meet the costs of 17 staff who have accepted voluntary early retirement and severance terms partly offset the cost and income benefits.

Income in 2010/11 was £576k more than recorded the previous year. While there was little movement in total fee income, miscellaneous income was £220k higher due to increased levels of staff secondment income. The balance of the increase was due to a movement in other finance income (IAS19 pension returns).

Expenditure in 2010/11 was £374k lower than in the previous year. Reduced staff numbers (13 fewer w.t.e. were employed on average during 2010/11 than in 2009/10) contributed cost reductions of £571k. These reductions were more than offset by the £776k provision for severance and early retirement. Fees and expenses paid to appointed auditors were £153k less than in the previous year with the balance of the reduction attributable to lower consultancy and legal expenditure £180k, recruitment costs £125k - recruitment freeze in operation, staff training £81k and printing and stationery expenditure £57k - new printing contract awarded during 2010/11.

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	2010/11		2009/10	
	£000	% total	£000	% total
Fees paid by local authorities	13,429	64	13,183	65
Fees paid by health bodies	4,523	21	4,525	22
Fees paid by Scottish Water	205	1	222	1
Fees paid by further education colleges	560	3	578	3
Fees paid by Scottish Government & sponsored bodies	1,814	9	2,036	10
Bank interest	5	-	4	-
Miscellaneous	506	2	286	1
Other finance income (pensions)*	(39)	-	(407)	(2)
Total	21,003	100	20,427	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.

Analysis of expenditure

In 2010/11, 81 per cent of expenditure was spent on staff and fees to auditors. This compares with 80 per cent in the previous year.

Expenditure	2010/11		2009/10	
	£000	% total	£000	% total
Staff and members' costs	15,501	58	15,295	56
Fees and expenses paid to appointed auditors	6,255	23	6,408	24
Buildings, rent and depreciation	2,223	8	2,278	8
Operating costs	2,877	11	3,249	12
Total Expenditure	26,856	100	27,230	100
Prior Year adjust. – property dilapidations	-		428	
Pension adjustments – past service	(6,349)		-	
Total resource requirement	20,507		27,658	

Net Operating Surplus / (Cost)

Direct Funding from Parliament	2010/11		2009/10	
	Required £000	Available £000	Required £000	Available £000
Net Operating Surplus / (Cost)	496	(7,295)	(7,231)	(7,479)
Pension adjustment – past service	(6,349)	-	-	-
Adjusted Operating (Cost)	(5,853)	(7,295)	(7,231)	(7,479)

Our full accounts for 2010/11 are available on our website, www.audit-scotland.gov.uk

Management Commentary

Appendix - Reports published in 2010/11

Across-government reports

- Maintaining Scotland's roads : a follow-up report
- The cost of public sector pensions in Scotland
- Edinburgh trams: interim report
- Improving energy efficiency: a follow-up report
- Getting it right for children in residential care

Central government reports

- Management of the Scottish Government's capital investment programme
- The Scottish Police Services Authority
- National concessionary travel
- The role of boards
- The Gathering

NHS reports

- Financial overview of the NHS in Scotland 2009/10
- Emergency departments
- Using locum doctors in hospitals

Local government reports

- An overview of local government in Scotland 2010
- Physical recreation services in local government
- How councils work: an improvement series for councillors and officers - Roles and working relationships: are you getting it right?
- National Scrutiny Plan for Local Government 2010/11

Best Value reports

- North Ayrshire Council: Best Value 2 audit
- Grampian Police and Grampian Joint Police Board
- Best Value in Police evaluation: Tayside and Northern
- South Ayrshire Council: progress report
- Scottish Borders Council: Best Value 2 pathfinder audit
- The Highland Council: Best Value 2 pathfinder audit
- Angus Council: Best Value 2 pathfinder audit
- Northern Constabulary and Northern Joint Police Board
- East Ayrshire Council: Best Value 2 pathfinder audit

Annual audits

- 212 annual audits (details are on our website)

Section 22 reports

- The 2009/10 audit of the National Library of Scotland
- The 2009/10 audit of the Scottish Government Consolidated Accounts

Management Commentary

Local government statutory reports

- The Highland Council : Caithness Heat and Power (CHaP)
- Strathclyde Partnership for Transport
- Shetland Islands Council: Commission findings and CoA report
- The Highland Council: Caithness Heat and Power (CHaP) follow-up

Other publications

- Code of data matching practice
- Priorities and Risks Framework: A national planning tool for 2010/11 NHS Scotland audits
- Quick Guide to Audit Scotland, the Auditor General and the Accounts Commission
- Consultation on revised code of audit practice and audit appointments strategy
- Audit Scotland Annual Report and Accounts 2009/10
- Audit Scotland's annual report on working with other countries 2009/10
- Accounts Commission Annual Report 2009/10
- Health and community care bulletin
- Audit Scotland Equality Annual Review
- Accounts Commission Equality Annual Review
- The National Fraud Initiative in Scotland 2008/09

Impact reports

- 12 impact reports (details are on our website)

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 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 – J Maclean
- 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
- the performance of individual managers
- 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.

The information on pages 26 to 28 is covered by the audit opinion

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.

Remuneration Report

The Audit Scotland Board now has three independent members following a third appointment made on 1 April 2011. The annual remuneration for independent members of the Board fell within the band £5,000 to £10,000 (2009/10 £5,000 - £10,000). All independent Board member appointments are part-time and non-pensionable.

On 15 December 2010 Mr R Cleland was appointed as Chair of the Audit Scotland Board replacing Mr J Baillie. Mr Baillie remains a member of the Audit Scotland Board in his capacity as Chair of the Accounts Commission for Scotland.

Senior Management

The Management Team was revised during the year following the secondment of the Deputy Auditor General to the Department of International Development. The secondment commenced on 19 September 2010 and the Management Team now includes all directors of Audit Scotland. The salaries (including any overtime, but excluding employer's superannuation and national insurance contributions), benefits in kind and pension entitlements of the Management Team are shown in the following tables. Information is presented for the whole year to 31 March 2011. Further information on the pension payable to Audit Scotland staff, including the senior management, can be found in Audit Scotland's Annual Accounts (see Note 3).

Remuneration	Note	2010~11			2009~10		
		Salary	Benefit in kind	Total Remuneration	Salary	Benefit in kind	Total Remuneration
		£000	note (i) £	£000	£000	note (i) £	£000
Robert Black Auditor General for Scotland		145 - 150	-	145 - 150	145 - 150	-	145 - 150
Caroline Gardner Deputy Auditor General	(ii)	130 - 135	-	130 - 135	130 - 135	-	130 - 135
Russell Frith Assistant Auditor General (from 19 Sept. 2010)	(iii)	105 - 110	-	105 - 110	95 - 100	-	95 - 100
Diane McGiffen Chief Operating Officer (from 19 Sept. 2010)	(iv)	95 - 100	3,800	100 - 105	90 - 95	3,700	95 - 100
Lynn Bradley Director of Corporate Programmes (from 19 Sept 2010)	(v)	90 - 95	2,100	90 - 95	90 - 95	-	90 - 95
Barbara Hurst Director of Performance Audit		90 - 95	-	90 - 95	90 - 95	-	90 - 95
Fiona Kordiak Director of Audit Services		85 - 90	5,400	90 - 95	85 - 90	4,600	90 - 95
Fraser McKinlay Director of Best Value & Scrutiny Improvement	(vi)	80 - 85	-	80 - 85	note (vi)	note (vi)	note (vi)

Remuneration Report

Pensions		Accrued pension at 31 March 2011 £000	Accrued lump sum at 31 March 2011 £000	Real increase in annual pension £000	Real increase in lump sum £000	CETV at 31 March 2011 <i>note (vii)</i> £000	CETV at 31 March 2010 <i>note (vii)</i> £000	Real Increase in CETV <i>note (viii)</i> £000
	<i>Note</i>							
Robert Black Auditor General for Scotland		20 - 25	60 - 65	0 - 2.5	2.5 - 5.0	445	443	31
Caroline Gardner Deputy Auditor General	(ii)	35 - 40	105 - 110	0 - 2.5	0 - 2.5	590	640	7
Russell Frith Assistant Auditor General (from 19 Sept. 2010)	(iii)	20 - 25	60 - 65	0 - 2.5	0 - 2.5	361	362	9
Diane McGiffen Chief Operating Officer (from 19 Sept. 2010)	(iv)	20 - 25	55 - 60	0 - 2.5	0 - 2.5	324	341	6
Lynn Bradley Director of Corporate Programmes (from 19 Sept 2010)	(v)	25 - 30	70 - 75	0 - 2.5	0 - 2.5	392	438	6
Barbara Hurst Director of Performance Audit		20 - 25	55 - 60	0 - 2.5	0 - 2.5	440	443	16
Fiona Kordiak Director of Audit Services		25 - 30	70 - 75	0 - 2.5	0 - 2.5	385	408	10
Fraser Mckinlay Director of Best Value & Scrutiny Improvement	(vi)	5 - 10	10 - 15	note (vi)	note (vi)	60	note (vi)	note (vi)

Notes

- (i) The estimated value of benefits in kind relates to the provision of vehicles. Values to the nearest £100.
- (ii) Audit Scotland has fully recovered all salary and pension costs of Caroline Gardner from 19 September when her period of secondment began.
- (iii) Director of Audit Strategy prior to 19 September 2010.
- (iv) Director of Corporate Services prior to 19 September 2010.
- (v) Director of Audit Services prior to 19 September 2010.
- (vi) Fraser McKinlay was appointed Director of Best Value and Scrutiny Improvement on 1 April 2010. From 19 September 2010 he also has taken on the role of Controller of Audit.
- (vii) The actuarial factors used to calculate CETVs were changed in 2010/11 due to changes in demographic assumptions and the move from RPI to CPI as the measure to uprate public sector pensions. The amounts reported for March 2010 are based on the factors applying to 2009/10 and are as reported in last year's accounts.
- (viii) This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee and uses common market valuation factors for the start and end of the period.

Remuneration Report

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 who are appointed by Scottish Ministers 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 details are included for information and to assist the reader of the report.

The average number of Members of the Commission throughout the period was 11 (2009/10 – 11) and their remuneration was as follows:

	Remuneration Banding	
	2010/11	2009/10
	£000	£000
Chairman – J Baillie	40 - 45	40 - 45
Depute Chair – I Low (until 30 th September 2009)	Nil	0 - 10
Depute Chair – D Sinclair (from 1 st October 2009)	15 - 20	10 - 15
Commission Members	0 - 10	0 - 10

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

R W Black
Auditor General
Accountable Officer

15 June 2011

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 2011. 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 single equality scheme.

Audit Scotland recognises the importance of good industrial relations and effective communication with its entire 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: 98% (93% 2010) of all invoices for the year were paid on or before the due date.

We also monitor our performance against the Scottish Government's target of payment of trade invoices within 10 days. In 2010/11 73% (63% 2010) of trade invoices were paid within 10 days.

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 Alexander Sloan, Chartered Accountants, as auditors to Audit Scotland for a three-year period commencing March 2011.

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 2011

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, comprehensive net expenditure, cash flows, and movement in taxpayers' equity 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 (FRoM) 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 FRoM, 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 Audit Scotland'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 Audit Scotland'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. This process has been in place for the year ended 31 March 2011 and up to the date of approval of the annual report and accounts.

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. 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 Board which is chaired by a non-executive Board member met eight times in 2010/11.
- The deliberations of the Audit Committee in considering the risk management arrangements and corporate risk register, and the reports of the internal auditors. The Audit Committee which is chaired by a non-executive Board member met four times in 2010/11.
- 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.
- The work of the Management Team which considers regular reports from the managers within the organisation on progress towards meeting the organisations performance objectives. The Management Team normally meets on a weekly basis.

R W Black
Accountable Officer

15 June 2011

Summary of Resources Outturn Year ended 31 March 2011

	Note	2011 Actual £000	2010 Actual £000
Net Operating Surplus / (Cost)		496	(6,803)
Prior year adjustment - year to 31 March 2009	15	-	(48)
- year to 31 March 2008 and earlier	15	-	(380)
Net Total Surplus / (Costs)		496	(7,231)
Estimate - year to 31 March 2011		(7,295)	
Net Cash Requirement (<i>see Cash flow statement</i>)		7,431	7,565

Statement of Comprehensive Net Expenditure Year ended 31 March 2011

	Note	2011 £000	2010 £000
Administration Costs			
People costs	2	(9,152)	(15,295)
Other administration costs	4	(11,355)	(11,935)
Gross administration costs		(20,507)	(27,230)
Operating income	5	21,042	20,834
Other finance income	6	(39)	(407)
NET OPERATING SURPLUS / (COST) and TOTAL COMPREHENSIVE NET EXPENDITURE		496	(6,803)

Balance Sheet

As at 31 March 2011

	Note	2011 £000	2010 £000
Non-current assets			
Property, plant and equipment	7	1,057	1,521
Intangible assets	8	217	265
Total non current assets		1,274	1,786
Current assets			
Trade and other receivables	9	2,605	2,367
Cash and cash equivalents	10	2,810	1,784
Total current assets		5,415	4,151
Total assets		6,689	5,937
Current liabilities			
Trade and other payables	12	4,536	4,459
Provision for early retirement	14	894	109
Total current liabilities		5,430	4,568
Non-current assets plus/less net current assets/liabilities		1,259	1,369
Non-current liabilities			
Deferred liabilities	13	(25)	(40)
Provision for early retirement	14	(1,756)	(1,945)
Other provisions	15	(542)	(476)
Net funded pension (liability)/asset	3	(7,178)	(19,069)
Total non-current liabilities		(9,501)	(21,530)
ASSETS LESS LIABILITIES		(8,242)	(20,161)
<i>Represented by:</i>			
TAXPAYERS' EQUITY			
Net funded pension (liability)/asset	3	(7,178)	(19,069)
General Fund		(1,064)	(1,092)
		(8,242)	(20,161)

R W Black
Auditor General
Accountable Officer

15 June 2011

Cash flow Statement

Year ended 31 March 2011

	Note	2011 £000	2010 £000
Cash flows from operating activities			
Net operating surplus / (cost)		496	(6,803)
<i>Adjustment for non-cash items:</i>			
- Depreciation	7, 8	639	658
- Pension scheme - net revenue debit /(credit)		(6,115)	(307)
(Increase) in trade and other receivables		(238)	(171)
Increase in trade / other payables / deferred liabilities		82	594
Increase in provisions for early retirement		596	493
Increase in other provisions		66	48
Adjustment for cash balance due to Consolidated Fund	12	(2,810)	(1,784)
Net cash outflow from operating activities		(7,284)	(7,272)
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(44)	(92)
Purchase of intangible assets	8	(83)	(210)
(Add) / Less movement in accrued expenditure		(20)	9
		(147)	(293)
Cash flows from financing activities			
Opening Cash balance payable to the Consolidated Fund		1,784	1,136
From Consolidated Fund (Supply)		6,673	7,077
		8,457	8,213
Net increase in cash and cash equivalents in the period		1,026	648
Cash and cash equivalents at the beginning of period		1,784	1,136
Cash and cash equivalents at the end of period		2,810	1,784
Net cash requirement			
Cash flows from financing activities		8,457	8,213
(Increase) / Decrease in cash		(1,026)	(648)
		7,431	7,565

Statement of Changes in Taxpayers' Equity Year ended 31 March 2011

	Note	Net Funded Pension £000	General Fund £000	Total £000
Changes in Taxpayers' equity for 2010/11				
Balance at 1 April 2010		(19,069)	(1,092)	(20,161)
Transfers between reserves				
Transfer to net fund pension liabilities	2	6,051	(6,051)	0
Net return on pension assets		64	(64)	0
Actuarial gain	3	5,776	-	5,776
Net operating surplus		-	496	496
Net funding from the Scottish Parliament	11	-	5,647	5,647
Balance at 31 March 2011		<u>(7,178)</u>	<u>(1,064)</u>	<u>(8,242)</u>

Annual Report and Accounts 2010-11

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 2011/12 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) Cost of capital charge

From financial year 2010/11 HM Treasury withdrew the requirement to include a cost of capital charge in Operating Cost Statements. This change in accounting policy has had no effect on the accounts as no cost of capital charge was included in the accounts for the previous year as a result of the net liability position of the Balance Sheet as at 31 March 2010. Therefore no amounts in these accounts have been restated.

c) 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 cost has been used as a proxy for fair value due to the low value and short life of the assets held.

d) 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 4 to 6 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>	

Annual Report and Accounts 2010-11

Notes to the Accounts (continued)

1: Statement of Accounting Policies (continued)

e) 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.

f) 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.

g) Work in Progress

Work in Progress is valued on the basis of a proportion of the agreed fee earned by the Balance Sheet date less an allowance for any foreseen losses. This calculation is based on an assessment of the amount of audit work completed by the Balance Sheet date as a proportion of the total expected amount of audit work. 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.

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 (VAT)

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. Audit Scotland is now provisionally registered for VAT as a result of increasing levels of non-statutory income which will attract output VAT. A charge of £143k has been made in this year's accounts to meet any output tax that may be due for the current and previous periods.

j) Pension arrangements

Audit Scotland has complied fully with the requirements of IAS 19 for the year ended 31 March 2011. Audit Scotland makes pension provision for present and former employees through three pension schemes. The Auditor General has benefits provided through a scheme by analogy to the Local Government Pension scheme. Employees joining Audit Scotland after 1 April 2000 and those transferring to Audit Scotland from the Accounts Commission have benefits provided through the Local Government scheme.

Employees transferring to Audit Scotland at 1 April 2000 from the NAO are covered by the provisions of the Principal Civil Service Pension Scheme.

Annual Report and Accounts 2010-11

Notes to the Accounts (continued)

2: People costs and numbers

People costs comprise:	2011	2010
	<i>£000</i>	<i>£000</i>
<i>Administrative Staff</i>		
Salaries	11,531	12,299
National Insurance	977	1,015
Superannuation	1,952	1,939
Provision for early retirement and severance costs (<i>see note 16</i>)	776	-
Movement in early retirement costs	(168)	521
Adjustment for retirement benefit scheme costs (<i>see below</i>)	(6,051)	(613)
	9,017	15,161
<i>Accounts Commission Members</i>		
Salaries	120	116
National Insurance	9	9
Travel and subsistence	6	9
	135	134
	9,152	15,295

The average number of directly employed whole time equivalent (w.t.e.) staff during the period was 282 (2010 – 295). The average number (w.t.e.) for agency and seconded staff used during the year was 5 (2010 – 11).

<i>Analysis of local government retirement benefit scheme costs:</i>	2011	2010
	<i>£000</i>	<i>£000</i>
Current service costs	2,617	1,525
Past service costs	(6,227)	274
	(3,610)	1,799
Less: Employees' contributions	(775)	(788)
Charge to revenue	(4,385)	1,011
Employer contributions	(1,666)	(1,624)
Adjustment for retirement benefit scheme costs	(6,051)	(613)

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 Government. In addition, Audit Scotland operates a “by analogy” scheme outside the two main schemes for the Auditor General for Scotland.

Annual Report and Accounts 2010-11

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 2011 were as follows:

	2011	2010
Price increases	2.8%	3.8%
Salary increases	5.1%	5.3%
Pension increases	2.8%	3.8%
Expected rate of return on assets	7.0%	7.3%
Discount rate	5.5%	5.5%

The assumed average life expectancy for a retiral 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:

	2011	2010
	£000	£000
Assets (see below)	51,586	47,804
Liabilities	(58,764)	(66,873)
Net Funded (Liabilities)	(7,178)	(19,069)

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 2011	31-Mar-11	at 31 March 2010	31-Mar-10
	<i>% per annum</i>	<i>£000</i>	<i>% per annum</i>	<i>£000</i>
Equities	7.5	40,752	7.8	37,766
Bonds	4.9	4,127	5.0	3,824
Property	5.5	5,159	5.8	4,302
Cash	4.6	1,548	4.8	1,912
Estimated employer assets	7.0	51,586	7.3	47,804

Annual Report and Accounts 2010-11

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 2011 by Hymans Robertson.

The movement in the funded part of the net pension liability for the year to 31 March 2011 is as follows:

Movement in defined benefit obligation	2011	2010
	<i>£000</i>	<i>£000</i>
Opening balance at 1 April	66,873	37,806
Current service cost	1,842	737
Interest cost	3,465	2,624
Contributions by members	765	774
Past service costs / (gains)	(6,227)	274
Actuarial (gains) / losses	(6,642)	25,975
Estimated benefits paid	(1,312)	(1,317)
Closing Defined Benefit Obligation	58,764	66,873
Movement in fair value of employer assets	2011	2010
	<i>£000</i>	<i>£000</i>
Opening balance at 1 April	47,804	34,583
Expected return on assets	3,529	2,318
Contributions by members	765	774
Contributions by the employer	1,666	1,624
Actuarial (losses) / gains	(866)	9,822
Benefits paid	(1,312)	(1,317)
Closing fair value of Employer Assets	51,586	47,804
Closing Net Pension (Liabilities) at 31 March	(7,178)	(19,069)

History of Gains and Losses

	2011	2010	2009	2008
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Fair value of employer assets	51,586	47,804	34,583	43,355
Present value of defined benefit obligation	(58,764)	(66,873)	(37,806)	(40,042)
Surplus / (Deficit)	(7,178)	(19,069)	(3,223)	3,313
Experience (losses) / gain on assets	(866)	9,822	(12,853)	(4,366)
Experience gains / (losses) on liabilities	-	-	1,321	(2)
Actuarial (losses) / gains on employer assets	(866)	9,822	(12,853)	(4,366)
Actuarial gains / (losses) on obligation	6,642	(25,975)	5,568	10,115
Actuarial gains / (losses)	5,776	(16,153)	(7,285)	5,749

Annual Report and Accounts 2010-11

Notes to the Accounts (continued)

3: Pension assets and liabilities (continued)

The sensitivities regarding the principal assumption used to measure the funded scheme liabilities set out below.

Sensitivity Analysis at March 2011	Approx.% increase to Employer Obligation	Approx. monetary amount £000
0.5% decrease in real discount rate	12%	6,847
1 year increase in member life expectancy	3%	1,763
0.5% increase in salary increase rate	4%	2,546
0.5% increase in pension increase rate	6%	3,789

During the year ended 31 March 2011, Audit Scotland's contribution to the pension fund represented 17.3% (2010 – 16.5%) 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 2009/10 (2009/10 – 16.5%, 2010/11 – 17.3%, 2011/12 – 18.0%).

The significant reduction in net liabilities was mainly due to the move from RPI to CPI as the measure to uprate public sector pensions. There was also an increase in the real discount rate used to value the pension liabilities. Improved investment returns and increased asset values have also contributed to the lower net 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 2011, Audit Scotland paid an employer's contribution of £273k (2010 - £286k) into the PCSPS at rates between 18.8% and 24.3% of pensionable pay (2010 – 18.8% to 24.3%). Audit Scotland has been informed that contributions in 2011/12 will remain at the rates paid in 2010/11. 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 2011, Audit Scotland paid an Employer's contribution of £23.1k (2010 - £23.1k) 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.

Annual Report and Accounts 2010-11

Notes to the Accounts (continued)

3: Pension assets and liabilities (continued)

Early Departure Costs

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

4: Administration costs

	<i>£000</i>	2011 <i>£000</i>	2010 <i>£000</i>
<i>Fees and Expenses to appointed audit firms:</i>			
Local authorities	2,796		2,703
National Health Service bodies in Scotland	1,643		1,661
Scottish Water	208		219
Further education colleges	574		579
Scottish Government and sponsored bodies	1,034		1,246
		6,255	6,408
<i>Other Costs:</i>			
Rent and rates	965		964
Other accommodation costs	619		656
Travel and subsistence	871		893
Legal and other professional fees	614		794
Stationery and printing	205		262
Training	314		396
Staff recruitment	70		195
Communications (telephone, postage)	58		85
Insurance	107		106
Information technology	399		389
Internal Audit	30		32
External Audit - financial statements	27		25
Other	182		72
<i>Non-cash items:</i> Depreciation - tangible assets (see note 7)	482		543
Depreciation - intangible assets (see note 8)	157		115
		5,100	5,527
		11,355	11,935

Rent and rates includes £721k in respect of property leases (2009/10 £703k) - see note 16.

Annual Report and Accounts 2010-11

Notes to the Accounts (continued)

5: Operating Income

	2011	2010
	<i>£000</i>	<i>£000</i>
<i>Fees and charges payable:</i>		
- by Local authorities	13,429	13,183
- by National Health Service bodies in Scotland	4,523	4,525
- by Scottish Water	205	222
- by Further Education Colleges	560	578
- by Scottish Government and sponsored bodies	1,814	2,036
	20,531	20,544
Bank interest	5	4
Miscellaneous income	506	286
	21,042	20,834

6: Other finance income

	2011	2010
	<i>£000</i>	<i>£000</i>
Expected return on local government pension scheme assets	3,529	2,318
Interest on pension scheme liabilities	(3,568)	(2,725)
	(39)	(407)

Annual Report and Accounts 2010-11

Notes to the Accounts (continued)

7: Property, plant & equipment

	Leasehold premises	Furniture and fittings	Computer equipment	Total
<i>Cost</i>	£000	£000	£000	£000
At 1 April 2010	1,698	164	1,098	2,960
Additions	-	-	44	44
Reclassified as software in year (note 8)	-	-	(41)	(41)
Disposals	-	-	-	0
At 31 March 2011	1,698	164	1,101	2,963
<i>Depreciation</i>				
At 1 April 2010	717	103	619	1,439
Charge for the year (note 4)	214	24	244	482
Reclassified as software in year (note 8)	-	-	(15)	(15)
Depreciation on Disposals	-	-	-	0
At 31 March 2011	931	127	848	1,906
<i>Net Book Value</i>				
At 31 March 2011	767	37	253	1,057
Analysis of Asset financing				
Owned	767	37	253	1,057

	Leasehold premises	Furniture and fittings	Computer equipment	Total
<i>Cost</i>	£000	£000	£000	£000
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 (note 4)	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

Annual Report and Accounts 2010-11

Notes to the Accounts (continued)

7: Property, plant & equipment (continued)

Non current assets are held at fair value. Depreciated historic cost has been used as a proxy for fair value due to the low value and short life if the assets held.

8: Intangible assets

	Software	
	2011	2010
	<i>£000</i>	<i>£000</i>
<i>Cost</i>		
At 1 April	554	344
Reclassified from computer equipment in year (<i>note 7</i>)	41	-
Additions	83	210
At 31 March	678	554
<i>Depreciation</i>		
At 1 April	289	174
Reclassified from computer equipment in year (<i>note 7</i>)	15	-
Charge for the year (<i>note 4</i>)	157	115
At 31 March	461	289
<i>Net Book Value</i>		
At 31 March	217	265

9: Trade and other receivables

	2011	2010
	<i>£000</i>	<i>£000</i>
<i>Amounts following due within one year:</i>		
Trade receivables:		
Central Government bodies	93	80
Local Authorities	1	8
NHS bodies in Scotland	-	-
Bodies external to government	105	8
	199	96
Work in progress	1,888	1,640
VAT	24	118
Prepayments	494	513
	2,605	2,367

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

	2011	2010
	<i>£000</i>	<i>£000</i>
Balance at 1 April	1,784	1,136
Net change in cash and cash equivalents	1,026	648
Balance at 31 March	2,810	1,784
The following balances at 31 March were held at:		
Commercial Banks	2,810	1,784

11: Net funding from the Scottish Parliament

	2011	2010
	<i>£000</i>	<i>£000</i>
Opening Cash Balance payable to the Consolidated fund	1,784	1,136
Funding received from the Consolidated fund	6,673	7,077
Closing Cash Balance payable to the Consolidated fund	(2,810)	(1,784)
Net Funding from the Scottish Parliament	5,647	6,429

12: Trade payables and other current liabilities

	<i>£000</i>	2011	2010
		<i>£000</i>	<i>£000</i>
<i>Amounts falling due within one year:</i>			
Trade payables:			
Central Government	1		42
Local Authorities	4		-
NHS bodies in Scotland	-		3
Bodies external to government	317		94
		322	139
Cash balance payable to Consolidated fund		2,810	1,784
Deferred income		355	621
Other taxes and social security costs		-	331
Superannuation		-	241
Accruals		383	671
Staff benefits - untaken holidays		651	657
Rent free period on premises – current liability (<i>note 13</i>)		15	15
		4,536	4,459

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

Annual Report and Accounts 2010-11

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.

	2011	2010
	<i>£000</i>	<i>£000</i>
Opening balance at 1 April		
Current	15	16
Deferred	40	55
	<u>55</u>	<u>71</u>
Additions	-	-
Released during year	(15)	(16)
	<u>40</u>	<u>55</u>
Closing balance at 31 March		
<i>Whereof:</i>		
Current	15	15
Deferred	25	40
	<u>40</u>	<u>55</u>

14: Provision for early retirement and severance

The provision represents the actuarially computed liabilities for early retirement added years, pension strain and severance liabilities. The movement during the year was as follows:

	2011	2010
	<i>£000</i>	<i>£000</i>
Opening balance at 1 April	2,054	1,561
Additions	776	-
Utilised in year	(118)	(108)
Revaluation	(62)	601
	<u>2,650</u>	<u>2,054</u>
Closing balance at 31 March		
Payable within 1 year	894	109
Payable after 1 year	1,756	1,945
	<u>2,650</u>	<u>2,054</u>
Discount rate used	5.5%	5.5%

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Notes to the Accounts (continued)

14: Provision for early retirement (continued)

Early Retiral and Severance

During January to March 2011 Audit Scotland offered staff access to voluntary early release arrangements as part of a four year business restructuring programme. The terms of the arrangement offered staff a termination payment and/or early access to pensions. As at 31 March 2011, 17 staff had accepted terms to leave Audit Scotland in the period April to December 2011. A provision of £776k has been made to meet the costs of the early departures.

Former Local Government Ombudsmen

Prior to establishment of the Public Services Ombudsman's office Audit Scotland provided support services including payroll and finance for the Local Government Ombudsman. The related liabilities were assumed to transfer to the new Ombudsman following the enactment of the Scottish Public Services Ombudsman Act 2002. However following a review of the implementation of the Act it was determined that the liability for pensions of former Local Government Ombudsmen and their staff did not transfer to the new Ombudsman's office. Since 31 March 2007 Audit Scotland has recognised the pension liability for staff previously employed by the Scottish Local Government Ombudsman. The liability as at 31 March 2011 was £416k (31 March 2010 £351k).

15: Other provisions

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

	2011	2010
	<i>£000</i>	<i>£000</i>
Opening Balance at 1 April	476	428
Provided in year	66	48
Closing Balance at 31 March	542	476

Property Dilapidations

Audit Scotland leases six properties across Scotland. Each lease contains provisions in respect of obligations for property dilapidations, reinstatement and decoration. 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.

This accounting policy was adopted with effect from 1 April 2009 and in the year to March 2010 prior year adjustments were made. The prior year adjustment was £428k (2008/09 £48k, 2007/08 and earlier £380k).

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Notes to the Accounts (continued)

16: Commitments under leases

During the period to 31 March 2011 the amounts charged to revenue in respect of operating leases for premises and vehicles were as follows:

	2011	2010
	<i>£000</i>	<i>£000</i>
Premises (<i>note 4</i>)	721	703
Vehicles	463	458
	1,184	1,161

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

	2011	2010
	<i>£000</i>	<i>£000</i>
Premises - lease expiry		
Not later than one year	706	697
Later than one year and not later than five years	1,909	2,280
Later than five years	81	330
	2,696	3,307
Vehicles - lease expiry		
Not later than one year	297	400
Later than one year and not later than five years	217	230
Later than five years	-	-
	514	630

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 review that remains outstanding for Osborne House, Edinburgh.

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.

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Notes to the Accounts (continued)

18: Capital commitments and contingent liabilities

At 31 March 2011 there were no contracted capital commitments payable in 2011/12. 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.

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 financial statements of Audit Scotland for the year ended 31 March 2011 which comprise the Summary of Resource Outturn, Statement of Comprehensive Net Expenditure, Balance Sheet, Cash Flow Statement, Statement of Changes in Taxpayers' Equity and the related notes 1 to 19. We have also audited the relevant disclosures in the Remuneration Report as required under the direction of the Scottish Ministers. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the 2010/11 Government Financial Reporting Manual (the 2010/11 FReM) and directions made by Scottish Ministers.

The report is made solely to the Scottish Commission for Public Audit, as a body, in accordance with Section 25 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 directors and auditor

As explained more fully in the Statement of Accountable Officer's Responsibilities, set out on page 31, the Accountable Officer is responsible for the preparation of the financial statements in conformity with the Directions of Scottish Ministers and for being satisfied that they give a true and fair view. 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 and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

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 property 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 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 cover 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.

Independent Auditors' Report (continued)

To the Scottish Commission for Public Audit

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to Audit Scotland's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by Audit Scotland; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of Audit Scotland as at 31 March 2011 and of its net resource outturn for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2010/11 FReM; and
- have been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and Directions by Scottish Ministers issued thereunder; and

Other matter

The financial statements of Audit Scotland for the year ended 31 March 2010 were audited by another auditor who expressed an unqualified opinion on those statements on 15 June 2010.

Opinion on Regularity

In our opinion in all material respects:

- the expenditure has been incurred and the receipts have been applied in accordance with section 22(1)(a) and (b) of the Public Finance and Accountability (Scotland) Act 2000;
- the sums paid out of the Scottish Consolidated Fund for the purpose of meeting the expenditure shown in the financial statements were applied in accordance with section 65 of the Scotland Act 1998.

Opinion on other matters

In our opinion:

- the information specified by Scottish Ministers on Remuneration and other transactions has adequately been disclosed.
- the information given in foreword and the management commentary is consistent with the financial statements.

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

Matters on which we are required to report by exception

We are required to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- The Accountable Officer's Statement on Internal Control contains any apparent misstatements or material inconsistencies with the accounts.

We have nothing to report in respect of these matters.

Alexander Sloan
Chartered Accountants
Statutory Auditors
38 Cadogan Street
Glasgow G2 7HF

15 June 2011