



# **Annual Report and Accounts**

**Year ended 31 March 2012**



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# Management Commentary

## AUDIT SCOTLAND ANNUAL REPORT 2011/12

### Chair's message

Welcome to our annual report for 2011/12.

Audit Scotland continues to take steps to improve its own performance and governance. We published our new corporate plan, setting out our vision and objectives for the next three years (see page 11). The Scottish Commission for Public Audit (SCPA) appointed our third non-executive board member, Katharine Bryan. And we hosted a visit from the SCPA to help its understanding of our work.

I was delighted to attend our staff conference in November and listen to external speakers and be able to talk with so many colleagues. The board and I are committed to responding to the issues and challenges staff have identified.

The conference gave Robert Black an opportunity to address Audit Scotland as a whole shortly after announcing his retirement. It is difficult to overstate Bob's impact as Scotland's first Auditor General. He brought calm authority and distinguished leadership to the post and established Audit Scotland as a respected and influential organisation. On behalf of all of us, I thank Bob for his significant contribution to public audit and wish him all the best for the future.

I also look forward to welcoming our new Auditor General, Caroline Gardner. Caroline has extensive experience in public audit and recently has gained experience of different perspectives of the external world.

Finally, I would like to thank our staff personally and on behalf of the board for their continued excellent work during what has been a challenging yet successful year.

**Ronnie Cleland**

**Chair of Audit Scotland Board**

# Management Commentary

## Accountable Officer's report

With public services in Scotland facing great financial challenges, the need for independent and effective audit has never been more important. Resources are constrained but demands continue to increase, with growing public expectations, an ageing population, and pressures resulting from the economic recession.

In the past year, we have emphasised to public bodies the need to focus on long-term sustainability and delivery of best value. As well as holding public bodies to account, we have used our auditing expertise and knowledge to help safeguard and improve the standards of financial management and reporting and the quality of services.

The Scottish Government and the public sector are committed to partnership working to align priorities and break down barriers. The Accounts Commission and I have commissioned Audit Scotland develop the approach to joint scrutiny of partnerships (see page 8).

Audit Scotland must also contribute to improved efficiency across the public sector. We set a target of cutting the cost of audit by at least 20 per cent between 2010/11 and 2014/15. This year we further reduced audit fees by 5.5 per cent. We did this while completing all our annual audits on time, and producing a wide range of reports on issues of current interest and concern.

We delivered £3.3 million of efficiency savings, against a target of £1.9 million. This was 12.5 per cent of our total budget. The majority of savings came from reductions in staff, consultancy, training and recruitment costs, and new audit appointments.

During the past year, the Scottish Parliament held its first debate about Audit Scotland. It was encouraging to hear many positive comments about our work. We value our strong links with the Parliament and I was very pleased to welcome the Scottish Parliament's Public Audit Committee to our offices to meet some of our staff and hear how we do our work.

During 2011/12, I announced my retirement. It has been a great privilege to serve as the first Auditor General for Scotland, and to have the opportunity to work with so many great colleagues to create and drive a vision for Audit Scotland's role in the good government of Scotland. I would like to thank my many talented, dedicated and professional colleagues without whom none of our achievements would have been possible. I would also like to thank Ronnie Cleland and the members of the board for their support and wise counsel. I am delighted that Caroline Gardner will be the next Auditor General and I am sure that under her leadership, and with the continuing support of the board, Audit Scotland will go from strength to strength.

**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, and is independent of the Scottish Government and Scottish Parliament.

The Accounts Commission checks how well Scotland's councils, and fire and police boards perform. It operates independently of local and central government.

### What we do

Our vision is to be a world-class audit organisation that improves the use of public money.

Our priority is 'Helping to improve by holding to account', and we aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations for improvement, and following these up.

### Our stakeholders

- The people in Scotland
- The Scottish Parliament
- The Scottish Government
- All Scottish public organisations

### Our resources

- 255 whole-time equivalent staff as at 31 March 2012.
- £18.7 million from audit fees and other income.
- £6.8 million direct funding from the Scottish Parliament.
- Nine private firms of accountants that carry out about half of the annual audits.

### Our history

Audit Scotland was created 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 2011/12

Reduced 2010/11 audit fees by 5.5%

100% of audits completed on time

211 final annual audit reports produced

£78 million cumulative impact of the National Fraud Initiative since 2000

27 performance and Best Value audits published

Delivered efficiency savings of £3.3m

718 separate reports produced for the 211 public bodies audited

# Management Commentary

## Our work

### The Financial Audit

#### The annual audit

The Auditor General and the Accounts Commission were responsible for 211 annual audits for the audit year 2010/11, carried out by appointed auditors from Audit Scotland and private firms of accountants. The audits were:

• Central government	72
• Joint boards	45
• Further education	38
• Councils	32
• NHS	23
• Water sector	1
• <b>Total</b>	<b>211</b>

Public sector auditors give assurance on financial statements, as well as professional views on matters such as meeting regularity and legal rules, performance and efficient use of resources. Annual audit reports cover the full range of audit work done in the year, and can be found on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

The accounts we audit are prepared under International Financial Reporting Standards, the same standards applied to listed companies. We use International Standards on Auditing, the standards used in the private sector. The Scottish public sector is therefore using the global gold standards for accounting and auditing. Auditors undertake their work in accordance with the Code of Audit Practice approved by the Auditor General and the Accounts Commission. A new Code was published in 2011.

The majority of opinions given by appointed auditors are unqualified. However, where an auditor disagrees that an organisation's financial statements offer a true and fair view of its financial position, or wishes to refer to any limit of scope of that opinion, the auditor will qualify their opinion. This year we issued two qualifications, on Shetland Islands Council, and Highlands and Island Enterprise.

Auditors completed on time all the audits of health, central government, further education and local authority bodies.

#### Highlighting issues from accounts

We bring significant issues arising from the annual audits to the attention of the Scottish Parliament and the 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 five such reports to the Scottish Parliament (see list on page 16). The Controller of Audit issues statutory reports on local authorities to the Accounts Commission and produced three reports in 2011/12.

# Management Commentary

## **Ethical standards**

The independence of public audit helps ensure its effectiveness. Audit Scotland has adopted the UK Auditing Practices Board's principles of the ethical standards for auditors. The Assistant Auditor General performs the role of ethics partner and provides advice on applying the standards.

## **Identifying fraud and errors**

Audit Scotland manages the National Fraud Initiative (NFI), which brings together auditors and public bodies to identify public sector fraud and error.

We compare information from public sector areas such as housing benefits, payrolls, pensions, disabled parking permits and council tax records. Since the NFI started in 2000, this has helped bodies identify overpayments made through fraud and error worth £78 million in total. Effective fraud arrangements can also act as a deterrent.

## **Auditing housing benefit services**

The Accounts Commission has responsibility for auditing housing benefit services in Scotland. Through our benefits performance audit, we use a risk-based approach to hold councils to account for failing services and help councils improve their benefits services. During 2011/12, we carried out 11 housing benefit risk assessments. Action plans were agreed with councils to address identified risks and we will monitor their progress. Focused audits are carried out where councils are unwilling or unable to reduce identified risks to an acceptable level. One focused audit on Aberdeenshire Council was carried out in 2011/12 which will be followed up in 2012/13.

## **Technical support and education**

Audit Scotland supports improvements in accounting, financial reporting and auditing in the public sector through technical guidance to auditors. We also make this available to finance professionals across the Scottish public sector. We published quarterly bulletins explaining technical developments and 17 in-depth guidance notes.

We added 225 documents to our online technical reference library, and responded to 813 technical enquiries from auditors and stakeholders. We also regularly contribute to external seminars, conferences and working groups.

In order to help common understanding of key issues and improved audit consistency, we brought together auditors working in the same sectors four times during 2011/12.

## **Providing a high-quality, cost-effective audit**

Our financial auditors work closely with public bodies and their impact is felt daily.

As well as holding public bodies to account for their use of public money, our auditors help organisations improve, and provide feedback and advice on their performance. We do this by bringing the objective, detached view of the outside observer and also a professional commitment and enthusiasm to improving public services and helping public bodies.

The results of this take many forms. For example during 2011/12, we guided bodies through the implementation of new financial reporting standards. We helped them to accurately account for complicated and significant matters such as housing and pension liabilities involving several hundreds of millions of pounds. Our work in some bodies identified the need for training amongst members, resulting in better financial management and governance. In others, we helped bodies bring about better monitoring of capital projects.

While continuing to provide a high-quality service, we are reducing the fees we charge public bodies and are on target to reduce the cost of audit by at least 20 per cent over the four years to 2014/15. In 2011/12, we cut the costs of our work for the second year in a row, and subsequently the fees we charge public bodies. We applied a 5.5 per cent real terms fees reduction, and also gave audited bodies a combined fees credit of £1.5 million.



## Management Commentary

We completed the appointment of auditors to public bodies for the five years from 2011/12, which will save at least £1.2 million a year. We have also successfully absorbed increased work pressures arising from the roll-out of the International Financial Reporting Standards, and the adoption of clarified International Standards on Auditing and separate pension audits in local government.

We regularly seek feedback from public bodies on the quality of our work, and this year we surveyed bodies from the central government and local government sectors. A summary of responses is shown below.

Quality survey responses	Positive responses	
	Local government (%)	Central government (%)
Overall quality of service	100	97
<b>Area of impact of the audit</b>		
Assurance and accountability	100	91
Planning and management	100	94
Economy and efficiency	94	88
Effectiveness and quality of services delivered by audited bodies	88	85

We also invited the Institute of Chartered Accountants of Scotland to undertake an independent review of the quality of our audit work, and compliance with ethical standards. The review found audit files were of a good standard, efficiency savings were being realised, and file storage and archiving have been significantly reduced.

### Performance and Best Value audits

We carry out performance audits across the entire public sector for the Auditor General and the Accounts Commission, and we report on these in public. We do this to hold public bodies and public services to account, to help them improve and to provide information and assurance to the public and decision-makers about the use of public money.

In 2011/12, we published 27 reports. These were:

- 8 - Across-government performance audits
- 8 – Best Value fire and rescue audits
- 3 – Local government performance audits
- 3 – NHS performance audits
- 2 – Best Value 2 audits
- 2 – Best Value police audits
- 1 – Central government performance audit

We publish our findings and report on them to the Scottish Parliament and the Accounts Commission. We report on the performance of public bodies and on how they can improve their services and do more with their money. Our reports carry recommendations for public bodies to help them improve, and we publish case studies and key questions for public bodies and those responsible for their governance to consider.

The role of partnerships in the public sector and some of the new ways of delivering public services is becoming a key theme of our work. For more detail, see page 8.

# Management Commentary

## Scottish Parliament

The Auditor General presents performance audits to the Scottish Parliament's Public Audit Committee. In 2011/12, the committee called relevant accountable officers from the Scottish Government and other public bodies to give evidence and answer questions about issues raised in our audits *Overview of Scotland's criminal justice system* and *The role of community planning partnerships in economic development*.

The committee also asked for written evidence from accountable officers for five other reports published during the year, as well as three Section 22 reports. The committee published one report during 2011/12 on issues highlighted in our audit of Scotland's criminal justice system.

## Accounts Commission and Best Value

In 2011/12, we helped the Accounts Commission to introduce the Best Value audit into fire and rescue services. The Commission published the first Best Value audits of fire and rescue boards in Scotland, producing eight reports in total. We also continued the roll-out of Best Value audits of police boards, working with Her Majesty's Inspector of Constabulary for Scotland (HMICS) to produce two reports.

During the year, the Scottish Government announced that Scotland's police and fire services would be restructured into single organisations. Our Best Value work has focused on the characteristics of efficient and effective service delivery and the principles of governance and accountability that will be important under the new structure.

We continued the 'How councils work' series of publications, aimed at helping councils manage the financial pressures they face, and published a report on delivering services through arm's-length external organisations (ALEOs) in June 2011.

The Accounts Commission produced findings on 12 of our audits and on one Controller of Audit statutory report.

## Assessing our impact

We have a framework for assessing and reporting on the impact of our work. We expect our work to have an impact on: assurance and accountability; planning and management; economy and efficiency; and effectiveness and quality. We prepared two impact reports in 2011/12: *Managing NHS waiting lists* and *Review of orthopaedic services*.

More detail on the impact of our work is provided on page 8.

## Quality

All of our performance audit reports are produced following a detailed quality assurance framework. We also ask for 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 give a selection of our audit reports to other UK audit agencies – the National Audit Office (NAO), the Wales Audit Office (WAO) and the Northern Ireland Audit Office (NIAO) – for peer review each year. We then use any improvements identified in future work.

## Management Commentary

### Making an impact on public services

Reductions in public spending, an ageing population and rising expectations are creating major pressures and demands on public services.

As a result, public bodies are increasingly working in partnerships to align their priorities and resources, and the Scottish Government is promoting partnerships in public services.

We have strengthened our focus on partnerships over the past year and are developing new ways of auditing this area for the future. In 2011/12, we completed and published audits on the performance of Community Health Partnerships (see below) and Community Planning Partnerships (CPPs). We also considered the roles partnership working and multi-agency collaboration play in some of the other areas we audit, as covered in reports such as *Commissioning social care*, *Transport for health and social care* and *An overview of Scotland's criminal justice system*.

In late 2011, the Cabinet Secretary for Finance, Employment and Sustainable Growth asked the Accounts Commission to design and pilot a new audit approach to CPPs, and Audit Scotland has begun work supporting that.

Through all aspects of our work, we try to identify areas for the public sector to be more efficient, either through saving money or doing more with current resources. *An overview of Scotland's criminal justice system* found that delays, repeated stages in the process, and late decisions not to proceed to court with cases were costing about £40 million a year, and that much of this inefficiency was avoidable.

Similarly, our *Cardiology services* audit found that the NHS could save at least £4 million a year. In March 2012, the Health Secretary told the Scottish Parliament that many of our recommendations were being taken forward through two new Scottish Government programmes.

The impact of our work can be seen in other ways. In March 2012, the Planning Minister quoted our report *Modernising the planning system* when he launched consultations on changing the system.

Our *Scotland's public finances* report prompted 83 items of media coverage in August 2011, the month it was published. We published our *Review of Community Health Partnerships* report in June 2011 and it was covered in 76 items of media coverage that month. By the end of 2011/12, it had been downloaded from our website 8,842 times.

This year our reports and podcasts were downloaded 174,318 times from the Audit Scotland website, [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) (this figure covers our 500 most downloaded items). We supply reports and findings in various formats.

### Review of Community Health Partnerships

Our report said the Scottish Government, NHS and councils needed to show stronger shared leadership and support for CHPs to improve health and move services into the community.

It said the 36 CHPs managed £3.2 billion in spending a year, but faced several barriers and few had authority over how resources were used. It called for a fundamental review of partnerships.

The report received widespread media coverage, and politicians, interest groups and representative organisations supported a review. The Health Secretary also said CHPs had to change. The government has since started work on integrating health and social care.

# Management Commentary

## Our organisation

### Our people

255: Staff (whole-time equivalent)

12.27%: staff turnover

4.77 days: average sickness absence per person (compared with public sector average of 9.1)

50.2% female staff

49.8% male staff

### Workforce planning and staff development

We are reducing the cost of our work and the fees we charge public bodies by 20% over four years to 2014/15.

Over the past year we have continued to adapt to the changing environment in which we operate. We reviewed our staff grade mix in order to achieve a more effective balance of skills. We reduced the number of whole-time staff from 275 to 255 through voluntary redundancies and a recruitment freeze. We also applied a pay freeze for the second successive year.

At the same time, we have continued our commitment to staff development and engagement. Our Performance Appraisal and Development (PAD) scheme helps all our staff maintain and develop their skills. During 2011/12, our staff received an average 8.26 days each of training and personal development.

Twenty-nine trainees and staff worked towards CIPFA and ICAS qualifications during 2011/12. Twelve trainees successfully completed their qualifications during the year, and three won prizes.

This year we kept our status as 'One to watch' in the Best Companies independent survey of workplaces. We also have a partnership forum for regular consultation with staff trade unions.

### Diversity and equality

Our Single Equality Scheme outlines our commitment to diversity and equality and sets out how we demonstrate this in the way we work. In 2011/12, we were awarded the Two Ticks disability symbol accreditation for the second year running and received Two Ticks accreditation from the Digital Accessibility Centre for our website's accessibility. We also held a seminar for staff on the new Equality Act, and published four Equality Impact Assessments. A full report on our diversity and equality work is on our website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

# Management Commentary

## Our business

### Managing our resources and sustainability

In 2011/12, we delivered £3.3 million of efficiency savings, against a target of £1.9 million. This was 12.5 per cent of our overall budget. The majority of savings came from reductions in staff, consultancy, training and recruitment costs, and the new audit appointments.

We aim to reduce our carbon footprint by 20 per cent, or 107 tonnes of CO<sub>2</sub>, by 2014. In 2011/12, we reduced CO<sub>2</sub> emissions by 33.8 tonnes through changes to our IT practices and by up to 62 tonnes a year by rationalising our Edinburgh offices. We plan to improve our data capturing during 2012/13. Our report on sustainability is available on our website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

We launched a programme to improve our storage and sharing of information, implementing Sharepoint software across the organisation. We also started our office rationalisation programme, moving out of one of our three offices in Edinburgh. As well as saving money, this helps promote a more integrated workforce.

In 2011/12 we paid 91 per cent of our trade invoices within ten days.

### Correspondence and information regulations

Audit Scotland received 230 enquiries, raising concerns about the bodies we audit and other issues. We carried out further audit work where required. Public sector employees can contact us to ‘whistle-blow’ about issues of conduct, value for money, fraud or corruption in public bodies.

Our complaints process records how Audit Scotland has dealt with complaints from members of the public about our staff. In 2011/12, we received four complaints.

We receive many routine requests for information. This year, two Freedom of Information (FOI) requests needed consideration by an internal panel about whether all the information requested could be released. There were no data subject access requests under the Data Protection Act, and no Environmental Information requests. In keeping with the Public Services Reform (Scotland) Act 2010 duties, we have published information on certain expenditure and exercise of functions for 2011/12 on our website.

### Internal audit and risk management

Audit Scotland’s audit committee supports our board in its responsibilities for risk, control and governance, and associate assurance. The committee met four times and considered eight internal audit and advisory reports. Most internal audits achieved ‘substantial assurance’, the highest standard available, from our internal auditors BDO LLP. A follow-up report found that we were making good progress in applying previous recommendations.

### International work

The work of Audit Scotland is valued by other countries and this is reflected in requests for assistance and visits from overseas organisations. In 2011/12, we worked with 15 organisations but turned down 12 other requests. A separate report on our work with other countries is available on our website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

## Management Commentary

### **Shaping our future – a strategy for everyone**

We took major steps over the past year in setting out our organisation's future and how we will maintain our quality while working with fewer resources.

We consulted throughout 2011 with our staff and external stakeholders on our forward work programme, Code of Audit Practice, and strategic direction.

As part of this we held a series of 'Connect Conferences'. All our staff from across Scotland met in small groups with senior management to discuss the challenges we face and agree how to address them. Topics covered ranged from our organisation's priorities, to our performance in dealing with recent events, to career development opportunities within Audit Scotland.

This process helped us create and develop our organisation's strategy map for 2012 to 2015 and ensured we have a strategy that everybody has contributed to and understands.

We published our new corporate plan for 2012 to 2015. The plan illustrates our commitment to maintaining and improving the quality of our work while reducing the cost of audit. It sets out the work we will do over the next three years to support and meet the priorities, aims and vision stated in our strategy map. It also explains how we will measure and report on our performance and progress in achieving these aims.

Our strategy map and new corporate plan for 2012 to 2015 is available on our website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)

All this work led to our staff conference in November 2011. The Cabinet Secretary for Finance, Employment and Sustainable Growth, John Swinney, was the keynote speaker. The event also included external speakers from the Accounts Commission and the further education sector, a presentation from our management team on the direction of Audit Scotland, and group sessions for staff to discuss with and challenge members of management about key issues we face.

# Management Commentary

## Our governance and management

### Our board

Our board oversees Audit Scotland's work and strives for 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 ten times during the year and the audit committee four times.

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

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

Our board members are:

Ronnie Cleland - Chair of the board

John Baillie - Chair of the Accounts Commission

Robert W Black - Auditor General and Accountable Officer for Audit Scotland

Katharine Bryan – Independent non-executive member.

John Maclean - Independent non-executive member

Our audit committee consists of John Maclean (chair), John Baillie and Katharine Bryan.

Our remuneration committee consists of Katharine Bryan (chair), John Baillie, Robert W Black and John Maclean.

### Scottish Commission for Public Audit

The Scottish Commission for Public Audit (SCPA) is central to holding Audit Scotland to account. 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 appointed our current external auditor, Alexander Sloan Chartered Accountants, in 2010/11.

### 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. The members of the senior management team are:

Robert W Black - Auditor General and Accountable Officer for Audit Scotland

Russell Frith - Assistant Auditor General

Diane McGiffen - Chief Operating Officer

Lynn Bradley - Director of Corporate Programmes

Barbara Hurst - Director of Performance Audit

Fiona Kordiak - Director of Audit Services

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



# 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 21 to 49 and are available on our website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)

### A summary of income and expenditure

The task of auditing Scotland's public bodies has expanded greatly since 2000. In 2011/12, Audit Scotland spent £25.5 million on services for the Auditor General and the Accounts Commission. The majority of these costs are recovered through charges to these organisations, with the balance received as direct funding from the Scottish Parliament.

### 2011/12 Financial Results

In 2011/12, income earned from audited bodies and miscellaneous income was £18,693k. Expenditure in the same period was £25,462k. The resulting Net Operating Cost of £6,769k was £996k less than the estimated net resource requirement (budget) of £7,765k provided by the Scottish Parliament. In the previous year 2010/11, Net Operating Costs were £5,853k exclusive of a significant non cash credit of £6,349k that arose 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).

The £996k under spend was mainly as a result of Audit Scotland continuing to make better than anticipated progress towards its cost reduction target for the four years to 2014/15. This was particularly the case with staff costs which net of secondment income were £655k lower than budget mainly as a result of an on-going external recruitment freeze introduced at the start of 2010/11 – staff numbers at March 2012 were 18 w.t.e. lower than at March 2011. Fee income was £475k higher than budget as a result of an increase in the amount of audit work completed in year and the value of agreed fees when compared with that budgeted. A further £288k of finance income in respect of IAS 19 pension adjustments also contributed to the under spend. Further savings were recorded in most overhead categories the most notable of which were consultancy and legal charges £84k, stationery and printing £76k and staff training £76k. A further provision of £334k made to meet the costs of 8 staff who have accepted voluntary early retirement and severance terms and an accrual of £352k in respect of VAT due for previous accounting periods partly offset the cost and income benefits.

Income in 2011/12 was £2,310k less than recorded the previous year. Fee income was £2,467k lower mainly due to fee rebates of £1,493k which were made to audited bodies in December 2011. The balance of the reduction £974k (4.7%) was driven by fee reductions applied in both the 2010/11 (-2.5%) and 2011/12 (-7.75%) audit years. Miscellaneous income in 2011/12 was £182k less than the previous year due to lower levels of staff secondment income although this was more than offset by an increase of £327k in other finance income (IAS19 pension returns) as a result of improved investment returns.

Expenditure in 2011/12 was £1,394k lower than in the previous year. Reduced staff numbers (13 fewer w.t.e. staff were employed on average during 2011/12 than in 2010/11) contributed cost reductions of £703k. A further £442k of the reduction was attributable to lower charges for severance and early retirement. Fees and expenses paid to appointed auditors were £320k less than recorded in the previous year mainly due to benefits from the tender exercise run to appoint external auditors for five audit years starting in 2011/12. Further cost reductions were recorded for building rent and depreciation £85k, consultancy and legal expenditure £62k and information technology systems £65k. These benefits were partly offset by increased training and internal recruitment costs £61k and increase accrual for outstanding VAT £218k.



# 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	2011/12		2010/11	
	£000	% total	£000	% total
Fees paid by local authorities	11,797	63	13,429	64
Fees paid by health bodies	3,818	20	4,523	21
Fees paid by Scottish Water	180	1	205	1
Fees paid by further education colleges	598	3	560	3
Fees paid by Scottish Government and sponsored bodies	1,671	9	1,814	9
Bank interest	17	-	5	-
Miscellaneous	324	2	506	2
Other finance income (pensions)*	288	2	(39)	-
<b>Total</b>	<b>18,693</b>	<b>100</b>	<b>21,003</b>	<b>100</b>

\* 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 2011/12, 79 per cent of expenditure was spent on staff and fees to auditors. This compares with 81 per cent in the previous year.

Expenditure	2011/12		2010/11	
	£000	% total	£000	% total
Staff and members' costs	14,356	56	15,501	58
Fees and expenses paid to appointed auditors	5,935	23	6,255	23
Buildings, rent and depreciation	2,138	9	2,223	8
Operating costs	3,033	12	2,877	11
<b>Total Expenditure</b>	<b>25,462</b>	<b>100</b>	<b>26,856</b>	<b>100</b>
Pension adjustments – past service	-		(6,349)	
<b>Total resource requirement</b>	<b>25,462</b>		<b>20,507</b>	

## Net Operating (Cost) / Surplus

Direct Funding from Parliament	2011/12		2010/11	
	Required £000	Available £000	Required £000	Available £000
<b>Net Operating (Cost) / Surplus</b>	(6,769)	(7,765)	496	(7,295)
Pension adjustment – past service	-	-	(6,349)	-
<b>Adjusted Operating (Cost)</b>	<b>(6,769)</b>	<b>(7,765)</b>	<b>(5,853)</b>	<b>(7,295)</b>

Our full accounts for 2011/12 are available on our website, [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)

# Management Commentary

## Appendix - Reports published in 2011/12

### Annual audits

- 211 annual audits (details are on our website)

### Across-government reports

- Commonwealth Games 2014: progress report 2: planning for the delivery of the XXth Games
- Commissioning social care
- The role of community planning partnerships in economic development
- Modernising the planning system
- An overview of Scotland's criminal justice system
- Scotland's public finances: addressing the challenges
- Transport for health and social care
- Review of Community Health Partnerships

### Central government reports

- Reducing greenhouse gas emissions

### NHS reports

- Cardiology services
- Overview of the NHS in Scotland's performance 2010/11
- A review of telehealth in Scotland

### Local government reports

- An overview of local government in Scotland: challenges and change in 2012
- How councils work: an improvement series for councillors and officers – Arm's-length external organisations: are you getting it right?
- National Scrutiny Plan for Local Government 2011/12

### Best Value reports

- Strathclyde Fire and Rescue
- Lothian and Borders Fire and Rescue
- Grampian Fire and Rescue
- Highlands and Islands Fire and Rescue
- Fife Fire and Rescue
- Dumfries and Galloway Fire and Rescue
- Tayside Fire and Rescue
- Central Scotland Fire and Rescue
- Lothian and Borders Police and Police Board
- Comhairle nan Eilean Siar
- Stirling Council
- Strathclyde Police and Strathclyde Police Authority

# Management Commentary

## Appendix - Reports published in 2011/12 (continued)

### Controller of Audit statutory reports

- Shetland Islands Council
- Strathclyde Partnership for Transport
- Aberdeenshire Council

### Section 22 reports

- The 2010/11 audit of the National Libraries of Scotland
- The 2010/11 audit of Registers of Scotland
- The 2010/11 audit of the Crown Office and Procurator Fiscal Service
- The 2010/11 audit of Disclosure Scotland
- The 2010/11 audit of the Scottish Government Consolidated Accounts

### Impact reports

- Review of orthopaedic services
- Managing NHS waiting lists

### Other publications

- Corporate plan 2012-15
- PRF: 2011/12 NHS Scotland audits
- Audit Scotland annual report 2010/11
- Accounts Commission annual report 2010/11
- 2010/11 report on working with other countries
- Audit Scotland Single Equality Scheme
- Accounts Commission Single Equality Scheme
- Code of audit practice

# 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 Assistant Auditor General, Chief Operating Officer and other 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:

- Chair – Katharine Bryan
- Member – John Baillie
- Member – John Maclean
- Member – Robert 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 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 18 to 20 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 has three independent members including the Chair of the Board. The annual remuneration for independent members of the Board which is set by the Scottish Commission for Public Audit (SCPA) fell within the band £5,000 to £10,000 (2010/11 £5,000 - £10,000). All independent Board member appointments are part-time and non-pensionable.

### Senior Management

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 2012. Further information on the pensions payable to Audit Scotland staff, including the senior management, can be found in Audit Scotland's Annual Accounts (see Note 3).

Remuneration	Note	2011~12			2010~11		
		Salary	Benefit in kind	Total	Salary	Benefit in kind	Total
		£000	note (i) £	Remuneration £000	£000	note (i) £	Remuneration £000
<b>Robert Black</b> Auditor General for Scotland		145 - 150	-	145 - 150	145 - 150	-	145 - 150
<b>Caroline Gardner</b> Deputy Auditor General	(iii)	110 - 115	-	110 - 115	130 - 135	-	130 - 135
<b>Russell Frith</b> Assistant Auditor General (from 19 Sept. 2010)	(iv)	110 - 115	-	110 - 115	105 - 110	-	105 - 110
<b>Diane McGiffen</b> Chief Operating Officer (from 19 Sept. 2010)	(v)	105 - 110	4,100	105 - 110	95 - 100	3,800	100 - 105
<b>Lynn Bradley</b> Director of Corporate Programmes (from 19 Sept 2010)	(vi)	90 - 95	2,700	90 - 95	90 - 95	2,100	90 - 95
<b>Barbara Hurst</b> Director of Performance Audit		90 - 95	-	90 - 95	90 - 95	-	90 - 95
<b>Fiona Kordiak</b> Director of Audit Services		90 - 95	4,400	90 - 95	85 - 90	5,400	90 - 95
<b>Fraser McKinlay</b> Director of Best Value & Scrutiny Improvement	(vii)	85 - 90	-	85 - 90	80 - 85	-	80 - 85

The highest paid member of senior management was the Auditor General for Scotland. His remuneration was 3.6 times the £40,407 median remuneration paid to Audit Scotland's staff in 2011/12 (2010/11 – 3.7 times £40,021).

## Remuneration Report

<b>Pensions</b>		Accrued pension at 31 March 2012 £000	Accrued lump sum at 31 March 2012 £000	Real increase in annual pension £000	Real increase in lump sum £000	CETV at 31 March 2012 <i>note (viii)</i> £000	CETV at 31 March 2011 <i>note (viii)</i> £000	Real Increase in CETV <i>note (viii)</i> £000
	<i>Note</i>							
<b>Robert Black</b>	<i>(ii)</i>	20 - 25	65 - 70	0 - 2.5	0 - 2.5	-	436	-
Auditor General for Scotland								
<b>Caroline Gardner</b>	<i>(iii)</i>	-	-	-	-	-	663	-
Deputy Auditor General								
<b>Russell Frith</b>	<i>(iv)</i>	20 - 25	65 - 70	0 - 2.5	0 - 2.5	417	375	10
Assistant Auditor General (from 19 Sept. 2010)								
<b>Diane McGiffen</b>	<i>(v)</i>	25 - 30	65 - 70	2.5 - 5.0	5.0 - 7.5	439	372	26
Chief Operating Officer (from 19 Sept. 2010)								
<b>Lynn Bradley</b>	<i>(vi)</i>	25 - 30	70 - 75	0 - 2.5	0 - 2.5	465	431	-13
Director of Corporate Programmes (from 19 Sept 2010)								
<b>Barbara Hurst</b>		20 - 25	60 - 65	0 - 2.5	0 - 2.5	492	443	0
Director of Performance Audit								
<b>Fiona Kordiak</b>		25 - 30	70 - 75	0 - 2.5	0 - 2.5	460	424	-9
Director of Audit Services								
<b>Fraser Mckinlay</b>	<i>(vii)</i>	5 - 10	10 - 15	0 - 2.5	0 - 2.5	90	72	4
Director of Best Value & Scrutiny Improvement								

### Notes

- (i) The estimated value of benefits in kind relates to the provision of vehicles. Values to the nearest £100.
- (ii) The Auditor General for Scotland has pension benefits provided by analogy to the Local Government pension scheme. It is not possible to provide a Cash Equivalent Transfer Value (CETV) at 31 March 2012 for Mr Black as the Local Government scheme does not allow fund transfers beyond age 64.
- (iii) Caroline Gardner was on secondment to the Department of International Development for a period of one year from 19 September 2010. During this time Audit Scotland fully recovered all of her salary and pension costs. She left Audit Scotland in December 2011.
- (iv) Director of Audit Strategy prior to 19 September 2010.
- (v) Director of Corporate Services prior to 19 September 2010.
- (vi) Director of Audit Services prior to 19 September 2010.
- (vii) Fraser McKinlay took on the role of Controller of Audit on 19 September 2010.

# Remuneration Report

*Notes (continued)*

(viii) A CETV is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the scheme including any benefit transferred from another scheme and not just their service in a senior capacity to which the disclosure applies.

The actuarial factors used to calculate CETVs were changed in 2011/12. For consistency the CETVs at 31 March 2011 and 31 March 2012 have both been calculated using the new factors. The CETV at 31 March 2011 therefore differs from the corresponding figures published in last year's report.

The real increase in CETV reflects the increase in CETV effectively funded by the employer. It does not include the increase in accrued pension benefits due to inflation, contributions paid by the employee and uses common market valuation factors for the start and end of the period.

## Service Contracts

Unless otherwise stated below the senior managers hold appointments which are open-ended until they retire. Early termination, other than through misconduct, would result in the individual receiving compensation.

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

## Accounts Commission

Members of the Accounts Commission are appointed by Scottish Ministers who also set their remuneration. Commission members are not employed by Audit Scotland and detail of their remuneration is 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 12 (2010/11 – 11) and their remuneration was as follows:

	<b>Remuneration Banding</b>	
	2011/12 £000	2010/11 £000
Chair – John Baillie	40 - 45	40 - 45
Depute Chair – Douglas Sinclair	10 - 15	15 - 20
Commission Members	5 - 10	0 - 10

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

***R W Black***

Auditor General

Accountable Officer

12 June 2012

## 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 body corporate.

### Basis of Accounts

These are the accounts of Audit Scotland for the year ended 31 March 2012. The accounts have been prepared in compliance with a direction given by 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 the 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: 99% (98% 2011) 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 2011/12 91% (73% 2011) 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

12 June 2012

## 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](http://www.scotland.gov.uk/Resource/Doc/1069/0084581.doc)

## Governance Statement

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. I am also responsible for safeguarding the public funds and assets assigned to Audit Scotland, 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 based on an on-going 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 2012 and up to the date of approval of the annual report and accounts.

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 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.

### Governance Framework

As Accountable Officer I also have responsibility for reviewing the effectiveness of the systems of internal control. The following processes have been established to inform my review.

The Board of Audit Scotland meets regularly to develop and monitor the plans and strategic direction of the organisation. The Board which has three independent non-executive members including the Chair also includes the Auditor General for Scotland and the Chair of the Accounts Commission for Scotland. The Board has agreed a framework which sets out the principles of partnership working between the Auditor General for Scotland, the Accounts Commission and Audit Scotland. The Board met ten times in 2011/12.

The Board has an Audit Committee which appoints our internal auditors and receives our annual accounts and internal audit reports. The Audit Committee considers the risk management arrangements, receives regular updates on the corporate risk register, and reviews the annual assurances provided by management. The Chair of the Audit Committee submits an annual Statement of Assurance to the board. In 2011/12 the Audit Committee completed a self-assessment of its performance when compared to best practice and as a result has identified revised ways of working. The Audit Committee which is chaired by a non-executive Board member met four times in 2011/12.

The Board also has a Remuneration Committee which sets and reviews the salaries and the main terms and conditions for all staff. The Remuneration Committee which is chaired by a non-executive Board member met 3 times in 2011/12.

Audit Scotland has a Management Team which normally meets on a weekly basis. The Management Team comprises the Auditor General for Scotland as Accountable Officer of Audit Scotland and 6 executive directors of the organisation. It considers regular reports from the managers within the organisation on progress towards meeting the organisations performance objectives.

In 2011/12 our Internal Auditors conducted a high level review to examine the governance framework and risk management systems within Audit Scotland and reported a level of substantial assurance in our processes.

Audit Scotland has a risk strategy and policy which sets out the approach to risk management which was reviewed and refreshed in 2011/12. 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 and monitored by the Information Governance Group. In addition Audit Scotland is committed to information management and security and improving our arrangement for data sharing.

## Governance Statement (continued)

The system of internal financial control is based on a framework of regular management information, administrative procedures and a system of delegation and accountability. In particular it includes;

- Detailed budgeting processes with an annual budget sign off by the Board.
- Regular reviews by the Board and the Management Team of financial reports covering progress towards financial targets.
- Annual reviews and updates to standing orders, scheme of delegation and standing financial instructions.
- Quarterly reviews of the corporate risk register.

### Review of effectiveness of internal control and risk management

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

- An assurance framework established in accordance with the Scottish Public Finance Manual that provides certificates of assurance from executive directors and senior managers who are responsible for developing, implementing and maintaining internal controls across their delegated areas.
- The work of the internal auditor which is directed through an audit plan agreed by the Audit Committee and focuses on identified control risk areas. The internal auditors submit regular reports on the adequacy and effectiveness of the organisation's systems of internal control together with recommendations for improvement.
- Quarterly reviews by the Audit Committee of the organisations corporate risk register and the work of internal audit in assessing the effectiveness or risk management arrangements.
- Comments made by the external auditors in their management letters and other reports.

During the financial year to 31 March 2012 and the date of this statement no significant control weaknesses or issues have arisen, and no significant failures have arisen in the expected standards for good governance, risk management and control.

There have been no significant lapses in data security.

### Significant issues

There are no significant issues to report.

**R W Black**  
Accountable Officer

12 June 2012

## Summary of Resources Outturn Year ended 31 March 2012

Note	<b>2012</b> <b>Actual</b> <i>£000</i>	<b>2011</b> <b>Actual</b> <i>£000</i>
<b>Net Operating (Cost) / Surplus</b>	<b>(6,769)</b>	<b>496</b>
<b>Estimate - year to 31 March 2012</b>	<b>(7,765)</b>	
<b>Net Cash Requirement</b> ( <i>see Cash flow statement</i> )	<b>9,419</b>	<b>7,431</b>

## Statement of Comprehensive Net Expenditure Year ended 31 March 2012

	Note	2012 £000	2011 £000
<b>Administration Costs</b>			
People costs	2	(14,356)	(9,152)
Other administration costs	4	(11,106)	(11,355)
<b>Gross administration costs</b>		<b>(25,462)</b>	<b>(20,507)</b>
Operating income	5	18,405	21,042
Other finance income	6	288	(39)
<b>NET OPERATING (COST) / SURPLUS and TOTAL COMPREHENSIVE NET EXPENDITURE</b>		<b>(6,769)</b>	<b>496</b>

## Balance Sheet

### As at 31 March 2012

	Note	2012 £000	2011 £000
<b>Non-current assets</b>			
Property, plant and equipment	7	770	1,057
Intangible assets	8	105	217
<b>Total non-current assets</b>		<b>875</b>	<b>1,274</b>
<b>Current assets</b>			
Trade and other receivables	9	2,569	2,605
Cash and cash equivalents	10	1,951	2,810
<b>Total current assets</b>		<b>4,520</b>	<b>5,415</b>
<b>Total assets</b>		<b>5,395</b>	<b>6,689</b>
<b>Current liabilities</b>			
Trade and other payables	12	4,071	4,536
Provision for early retirement	14	503	894
Other provisions	15	123	-
<b>Total current liabilities</b>		<b>4,697</b>	<b>5,430</b>
<b>Non-current assets plus/less net current assets/liabilities</b>		<b>698</b>	<b>1,259</b>
<b>Non-current liabilities</b>			
Deferred liabilities	13	(19)	(25)
Provision for early retirement	14	(1,816)	(1,756)
Other provisions	15	(452)	(542)
Net funded pension (liability)	3	(9,698)	(7,178)
<b>Total non-current liabilities</b>		<b>(11,985)</b>	<b>(9,501)</b>
<b>ASSETS LESS LIABILITIES</b>		<b>(11,287)</b>	<b>(8,242)</b>
<i>Represented by:</i>			
<b>TAXPAYERS' EQUITY</b>			
Net funded pension (liability)	3	(9,698)	(7,178)
General Fund		(1,589)	(1,064)
		<b>(11,287)</b>	<b>(8,242)</b>

**R W Black**  
Auditor General  
Accountable Officer

12 June 2012

## Cash flow Statement

### Year ended 31 March 2012

	Note	2012 £000	2011 £000
<b>Cash flows from operating activities</b>			
Net operating (cost) / surplus		(6,769)	496
<i>Adjustment for non-cash items:</i>			
- Depreciation	7, 8	512	639
- Pension scheme - net revenue (credit) / debit		(365)	(6,115)
Decrease / (Increase) in trade and other receivables		36	(238)
(Decrease) / Increase in trade / other payables / deferred liabilities		(470)	82
(Decrease) / Increase in provisions for early retirement		(331)	596
Increase in other provisions		33	66
Adjustment for cash balance due to Consolidated Fund	12	(1,951)	(2,810)
<b>Net cash outflow from operating activities</b>		<b>(9,305)</b>	<b>(7,284)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	7	(96)	(44)
Purchase of intangible assets	8	(18)	(83)
(Add) / Less movement in accrued expenditure		0	(20)
		<b>(114)</b>	<b>(147)</b>
<b>Cash flows from financing activities</b>			
Opening Cash balance payable to the Consolidated Fund		2,810	1,784
From Consolidated Fund (Supply)		5,750	6,673
		<b>8,560</b>	<b>8,457</b>
<b>Net (decrease) / increase in cash and cash equivalents in the period</b>		<b>(859)</b>	<b>1,026</b>
Cash and cash equivalents at the beginning of period		<b>2,810</b>	<b>1,784</b>
Cash and cash equivalents at the end of period		<b>1,951</b>	<b>2,810</b>
<b>Net cash requirement</b>			
Cash flows from financing activities		8,560	8,457
Decrease / (Increase) in cash		859	(1,026)
		<b>9,419</b>	<b>7,431</b>



## Statement of Changes in Taxpayers' Equity Year ended 31 March 2012

	Note	Net Funded Pension £000	General Fund £000	Total £000
<b>Changes in Taxpayers' equity for 2011/12</b>				
<b>Balance at 1 April 2011</b>		<b>(7,178)</b>	<b>(1,064)</b>	<b>(8,242)</b>
Transfers between reserves				
Transfer to net fund pension liabilities	2	(22)	22	0
Net return on pension assets		387	(387)	0
Actuarial (losses)	3	(2,885)	-	(2,885)
Net operating (cost)		-	(6,769)	(6,769)
Net funding from the Scottish Parliament	11	-	6,609	6,609
<b>Balance at 31 March 2012</b>		<b><u>(9,698)</u></b>	<b><u>(1,589)</u></b>	<b><u>(11,287)</u></b>

# Annual Report and Accounts 2011-12

## 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 (FRoM) applicable for the year. The accounting policies contained in the FRoM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FRoM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of Audit Scotland for the purpose of giving a true and fair view has been selected. The 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 of amounts for 2012/13 has already been given and there is no reason to believe that future approvals will not be forthcoming. We have accordingly considered it appropriate to adopt a going concern basis for the preparation of these financial statements.

#### *b) Non-current assets*

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

#### *c) Depreciation*

Depreciation has been provided at a rate calculated to write off cost in equal annual instalments over the estimated useful lives of assets. Asset cost is normally written off as follows:

<i>Leasehold premises</i>	<i>remaining period of lease</i>	<i>(from 1 to 5 years)</i>
<i>Furniture and fittings</i>	<i>5 years</i>	
<i>Computer equipment</i>	<i>2~5 years</i>	
<i>Software</i>	<i>2~5 years</i>	

#### *d) Amortisation of rent-free periods*

The benefit of rent-free periods on leases of premises is amortised over the period of the lease or over the period to a lease break point when this is the most probable end of lease, whichever is the shorter.

#### *e) Operating income*

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

# Annual Report and Accounts 2011-12

## Notes to the Accounts (continued)

### 1: Statement of Accounting Policies (continued)

#### *f) Work in Progress*

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

#### *g) 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.

#### *h) 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 registered for VAT during 2010/11 as result of increasing levels of non-statutory income which attracts output VAT. A charge of £352k has been made in this year's accounts to meet any output tax that may be due for previous accounting periods.

#### *i) Pension arrangements*

Audit Scotland complies with the requirements of IAS 19 for the year ended 31 March 2012. 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 2011-12

### Notes to the Accounts (continued)

#### 2: People costs and numbers

People costs comprise:	<b>2012</b>	<b>2011</b>
	<i>£000</i>	<i>£000</i>
<b><i>Administrative Staff</i></b>		
Salaries	10,878	11,531
National Insurance	973	977
Superannuation	1,948	1,952
Provision for early retirement and severance costs ( <i>see note 14</i> )	334	776
Movement in early retirement costs	67	(168)
Adjustment for retirement benefit scheme costs ( <i>see below</i> )	22	(6,051)
	<b>14,222</b>	<b>9,017</b>
<b><i>Accounts Commission Members</i></b>		
Salaries	117	120
National Insurance	8	9
Travel and subsistence	9	6
	<b>134</b>	<b>135</b>
	<b>14,356</b>	<b>9,152</b>

The average number of directly employed whole time equivalent (w.t.e.) staff during the period was 269 (2011 – 282). The average number (w.t.e.) for agency and seconded staff used during the year was 5 (2011 – 5).

<b><i>Analysis of local government retirement benefit scheme costs:</i></b>	<b>2012</b>	<b>2011</b>
	<i>£000</i>	<i>£000</i>
Current service costs	2,178	2,617
Past service costs	415	(6,227)
	2,593	(3,610)
Less: Employees' contributions	(734)	(775)
<b>Charge to revenue</b>	<b>1,859</b>	<b>(4,385)</b>
Employer contributions	(1,837)	(1,666)
Adjustment for retirement benefit scheme costs	<b>22</b>	<b>(6,051)</b>

#### 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 2011-12

## 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 2012 were as follows:

	<b>2012</b>	<b>2011</b>
Price increases	2.5%	2.8%
Salary increases	4.8%	5.1%
Pension increases	2.5%	2.8%
Expected rate of return on assets	5.8%	7.0%
Discount rate	4.8%	5.5%

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

	<b>Males</b>	<b>Females</b>
	years	years
Current pensioners	20.4	22.8
Future pensioners	22.6	25.4

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

	<b>2012</b>	<b>2011</b>
	£000	£000
Assets (see below)	52,396	51,586
Liabilities	(62,094)	(58,764)
<b>Net Funded (Liabilities)</b>	<b>(9,698)</b>	<b>(7,178)</b>

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

	<b>Long Term Return at 31 March 2012</b>	<b>Assets at 31-Mar-12</b>	<b>Long Term Return at 31 March 2011</b>	<b>Assets at 31-Mar-11</b>
	<i>% per annum</i>	<i>£000</i>	<i>% per annum</i>	<i>£000</i>
Equities	6.2	41,392	7.5	40,752
Bonds	4.0	4,192	4.9	4,127
Property	4.4	5,764	5.5	5,159
Cash	3.5	1,048	4.6	1,548
<b>Estimated employer assets</b>	<b>5.8</b>	<b>52,396</b>	<b>7.0</b>	<b>51,586</b>

# Annual Report and Accounts 2011-12

## 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 2012 by Hymans Robertson.

The movement in the funded part of the net pension liability for the year to 31 March 2012 is as follows:

<b>Movement in defined benefit obligation</b>	<b>2012</b>	<b>2011</b>
	<i>£000</i>	<i>£000</i>
<b>Opening balance at 1 April</b>	<b>58,764</b>	<b>66,873</b>
Current service cost	1,444	1,842
Interest cost	3,269	3,465
Contributions by members	729	765
Past service costs / (gains)	415	(6,227)
Actuarial (gains) / losses	(1,288)	(6,642)
Estimated benefits paid	(1,239)	(1,312)
<b>Closing Defined Benefit Obligation</b>	<b>62,094</b>	<b>58,764</b>
<b>Movement in fair value of employer assets</b>	<b>2012</b>	<b>2011</b>
	<i>£000</i>	<i>£000</i>
<b>Opening balance at 1 April</b>	<b>51,586</b>	<b>47,804</b>
Expected return on assets	3,656	3,529
Contributions by members	729	765
Contributions by the employer	1,837	1,666
Actuarial (losses) / gains	(4,173)	(866)
Benefits paid	(1,239)	(1,312)
<b>Closing fair value of Employer Assets</b>	<b>52,396</b>	<b>51,586</b>
<b>Closing Net Pension (Liabilities) at 31 March</b>	<b>(9,698)</b>	<b>(7,178)</b>

#### History of Gains and Losses

	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Fair value of employer assets	52,396	51,586	47,804	34,583
Present value of defined benefit obligation	(62,094)	(58,764)	(66,873)	(37,806)
Surplus / (Deficit)	(9,698)	(7,178)	(19,069)	(3,223)
Experience (losses) / gain on assets	(4,173)	(866)	9,822	(12,853)
Experience gains / (losses) on liabilities	3,055	-	-	1,321
Actuarial (losses) / gains on employer assets	(4,173)	(866)	9,822	(12,853)
Actuarial gains / (losses) on obligation	1,288	6,642	(25,975)	5,568
Actuarial (losses) / gains	(2,885)	5,776	(16,153)	(7,285)

# Annual Report and Accounts 2011-12

## Notes to the Accounts (continued)

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

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

<b>Sensitivity Analysis at March 2012</b>	<b>Approx.% increase to Employer Obligation</b>	<b>Approx. monetary amount £000</b>
0.5% decrease in real discount rate	11%	7,003
1 year increase in member life expectancy	3%	1,863
0.5% increase in salary increase rate	4%	2,403
0.5% increase in pension increase rate	7%	4,503

The increase in net pension liabilities was due to both a reduction in the real discount rate used to value the pension liabilities and lower than expected invested returns on assets.

During the year ended 31 March 2012, Audit Scotland's contribution to the pension fund represented 18.0% (2011 – 17.3%) 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 2011, Hymans Robertson recommended employers' contributions be set at 14.4% of pensionable pay plus an annual lump sum payment of £343k to meet past service cost deficits for 2012/13 and the two following years.

#### *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. The last 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 at (<http://www.civilservice.gov.uk/pensions/governance-and-rules>).

During the year ended 31 March 2012, Audit Scotland paid an employer's contribution of £234k (2011 - £273k) into the PCSPS at rates between 18.8% and 24.3% of pensionable pay (2011 – 18.8% to 24.3%). Audit Scotland has been informed that contributions in 2012/13 will remain at the rates paid in 2011/12. 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 2012, Audit Scotland paid an Employer's contribution of £23.1k (2011 - £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 2011-12

## 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>	<b>2012</b> <i>£000</i>	<b>2011</b> <i>£000</i>
<b><i>Fees and Expenses to appointed audit firms:</i></b>			
Local authorities	2,760		2,796
National Health Service bodies in Scotland	1,481		1,643
Scottish Water	179		208
Further education colleges	623		574
Scottish Government and sponsored bodies	892		1,034
		<b>5,935</b>	<b>6,255</b>
<b><i>Other Costs:</i></b>			
Rent and rates	984		965
Other accommodation costs	642		619
Travel and subsistence	868		871
Legal and other professional fees	552		614
Stationery and printing	202		205
Training	344		314
Staff recruitment	101		70
Communications (telephone, postage)	56		58
Insurance	93		107
Information technology	334		399
Internal Audit	17		30
External Audit - financial statements	28		27
Other	438		182
<i>Non-cash items:</i> Depreciation - tangible assets (see note 7)	382		482
Depreciation - intangible assets (see note 8)	130		157
		<b>5,171</b>	<b>5,100</b>
		<b>11,106</b>	<b>11,355</b>

*Rent and rates includes £752k in respect of property leases (2010/11 £721k) - see note 16.*



# Annual Report and Accounts 2011-12

## Notes to the Accounts (continued)

### 5: Operating Income

	<b>2012</b>	<b>2011</b>
	<i>£000</i>	<i>£000</i>
<i>Fees and charges payable:</i>		
- by Local authorities	11,797	13,429
- by National Health Service bodies in Scotland	3,818	4,523
- by Scottish Water	180	205
- by Further Education Colleges	598	560
- by Scottish Government and sponsored bodies	1,671	1,814
	<b>18,064</b>	<b>20,531</b>
Bank interest	17	5
Miscellaneous income	324	506
	<b>18,405</b>	<b>21,042</b>

### 6: Other finance income

	<b>2012</b>	<b>2011</b>
	<i>£000</i>	<i>£000</i>
Expected return on local government pension scheme assets	3,656	3,529
Interest on pension scheme liabilities	(3,368)	(3,568)
	<b>288</b>	<b>(39)</b>

# Annual Report and Accounts 2011-12

## Notes to the Accounts (continued)

### 7: Property, plant & equipment

	<b>Leasehold premises</b>	<b>Furniture and fittings</b>	<b>Computer equipment</b>	<b>Total</b>
<i>Cost</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
At 1 April 2011	1,698	164	1,101	<b>2,963</b>
Additions	40	8	48	<b>96</b>
Reclassifications	-	-	181	<b>181</b>
Disposals	(192)	(51)	-	<b>(243)</b>
<b>At 31 March 2012</b>	<b>1,546</b>	<b>121</b>	<b>1,330</b>	<b>2,997</b>
<i>Depreciation</i>				
At 1 April 2011	931	127	848	<b>1,906</b>
Charge for the year (note 4)	218	23	141	<b>382</b>
Reclassifications	-	-	181	<b>181</b>
Depreciation on Disposals	(192)	(50)	-	<b>(242)</b>
<b>At 31 March 2012</b>	<b>957</b>	<b>100</b>	<b>1,170</b>	<b>2,227</b>
<i>Net Book Value</i>				
<b>At 31 March 2012</b>	<b>589</b>	<b>21</b>	<b>160</b>	<b>770</b>
<b>Analysis of Asset financing</b>				
Owned	<b>589</b>	<b>21</b>	<b>160</b>	<b>770</b>

  

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

## Annual Report and Accounts 2011-12

### 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

	<b>Software</b>	
	<b>2012</b>	<b>2011</b>
	<i>£000</i>	<i>£000</i>
<b>Cost</b>		
At 1 April	678	554
Reclassified from computer equipment in year ( <i>note 7</i> )	-	41
Additions	18	83
<b>At 31 March</b>	<b>696</b>	<b>678</b>
<b>Depreciation</b>		
At 1 April	461	289
Reclassified from computer equipment in year ( <i>note 7</i> )	-	15
Charge for the year ( <i>note 4</i> )	130	157
<b>At 31 March</b>	<b>591</b>	<b>461</b>
<b>Net Book Value</b>		
<b>At 31 March</b>	<b>105</b>	<b>217</b>

#### 9: Trade and other receivables

	<b>2012</b>	<b>2011</b>
	<i>£000</i>	<i>£000</i>
<i>Amounts falling due within one year:</i>		
Trade receivables:		
Central Government bodies	380	93
Local Authorities	1	1
Bodies external to government	14	105
	395	199
Work in progress in advance of billing	1,655	1,888
VAT	-	24
Prepayments	519	494
	<b>2,569</b>	<b>2,605</b>

There are no Trade and other receivables due after one year

## Annual Report and Accounts 2011-12

### Notes to the Accounts (continued)

#### 10: Cash and cash equivalents

	<b>2012</b>	<b>2011</b>
	<i>£000</i>	<i>£000</i>
Balance at 1 April	2,810	1,784
Net change in cash and cash equivalents	(859)	1,026
<b>Balance at 31 March</b>	<b>1,951</b>	<b>2,810</b>
The following balances at 31 March were held at:		
Commercial Banks	<b>1,951</b>	<b>2,810</b>

#### 11: Net funding from the Scottish Parliament

	<b>2012</b>	<b>2011</b>
	<i>£000</i>	<i>£000</i>
Opening Cash Balance payable to the Consolidated fund	2,810	1,784
Funding received from the Consolidated fund	5,750	6,673
Closing Cash Balance payable to the Consolidated fund	(1,951)	(2,810)
<b>Net Funding from the Scottish Parliament</b>	<b>6,609</b>	<b>5,647</b>

#### 12: Trade payables and other current liabilities

	<i>£000</i>	<b>2012</b>	<b>2011</b>
		<i>£000</i>	<i>£000</i>
<i>Amounts falling due within one year:</i>			
Trade payables:			
Central Government	-	1	1
Local Authorities	-	4	4
Bodies external to government	629	317	317
		629	322
Cash balance payable to Consolidated fund		1,951	2,810
Deferred income		232	355
VAT		311	-
Accruals		347	383
Staff benefits - untaken holidays		592	651
Rent free period on premises – current liability ( <i>note 13</i> )		9	15
		<b>4,071</b>	<b>4,536</b>

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

# Annual Report and Accounts 2011-12

## Notes to the Accounts (continued)

### 13: Deferred liabilities

Audit Scotland rents premises in various locations in accordance with its operational requirements. During the years ended 31 March 2003 and 31 March 2012 various leases were negotiated with rent-free periods.

	<b>2012</b>	<b>2011</b>
	<i>£000</i>	<i>£000</i>
<b>Opening balance at 1 April</b>		
Current	15	15
Deferred	25	40
	<b>40</b>	<b>55</b>
Additions	5	-
Released during year	(17)	(15)
<b>Closing balance at 31 March</b>	<b>28</b>	<b>40</b>
<i>Whereof:</i>		
Current	9	15
Deferred	19	25
	<b>28</b>	<b>40</b>

### 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:

	<b>2012</b>	<b>2011</b>
	<i>£000</i>	<i>£000</i>
<b>Opening balance at 1 April</b>	<b>2,650</b>	<b>2,054</b>
Additions	334	776
Utilised in year	(849)	(118)
Revaluation	184	(62)
<b>Closing balance at 31 March</b>	<b>2,319</b>	<b>2,650</b>
Payable within 1 year	503	894
Payable after 1 year	1,816	1,756
	<b>2,319</b>	<b>2,650</b>
Discount rate used	4.8%	5.5%

## Annual Report and Accounts 2011-12

### Notes to the Accounts (continued)

#### 14: Provision for early retirement (continued)

##### *Early Retiral and Severance*

During January to March 2012, 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 2012, 8 staff had accepted terms to leave Audit Scotland in December 2012. A further provision of £334k has been made in the accounts for the year ended 31 March 2012 to meet the costs of the early departures.

In the year to March 2012, 16 staff left Audit Scotland under a voluntary early release arrangement. Under the arrangement staff were entitled to a termination payment and/or early access to pension. The total cost of the arrangements was £718k. This sum was £58k less than the provision made in the accounts for the year ended 31 March 2011 mainly as a result of one member of staff not accepting the terms offered.

Analysis of the costs of voluntary early release arrangements

	No of Arrangements	
	2012	2011
< £10,000	3	-
£10,000 - £25,000	3	-
£25,000 - £50,000	3	-
£50,000 - £100,000	6	-
£100,000 - £150,000	1	-
Total number of arrangements	<u>16</u>	<u>-</u>
<b>Total cost (£'000)</b>	<u>718</u>	<u>-</u>

##### *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 2012 was £451k (31 March 2011 £416k).

#### 15: Other provisions

Other provisions comprise 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.

## Annual Report and Accounts 2011-12

### Notes to the Accounts (continued)

#### 15: Other provisions (continued)

Property dilapidations - the movement during the year was as follows:

	<b>2012</b>	<b>2011</b>
	<i>£000</i>	<i>£000</i>
<b>Opening Balance at 1 April</b>	542	476
Provided in year	33	66
<b>Closing Balance at 31 March</b>	<b>575</b>	<b>542</b>
Payable within 1 year	123	-
Payable after 1 year	452	542
	<b>575</b>	<b>542</b>

#### 16: Commitments under leases

During the period to 31 March 2012 the amounts charged to revenue in respect of operating leases for premises and vehicles were as follows:

	<b>2012</b>	<b>2011</b>
	<i>£000</i>	<i>£000</i>
Premises ( <i>note 4</i> )	752	721
Vehicles	469	463
	<b>1,221</b>	<b>1,184</b>

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

	<b>2012</b>	<b>2011</b>
	<i>£000</i>	<i>£000</i>
<b>Premises - lease expiry</b>		
Not later than one year	532	706
Later than one year and not later than five years	1,096	1,909
Later than five years	-	81
	<b>1,628</b>	<b>2,696</b>
<b>Vehicles - lease expiry</b>		
Not later than one year	403	297
Later than one year and not later than five years	396	217
Later than five years	-	-
	<b>799</b>	<b>514</b>

Audit Scotland has no finance leases.

## Annual Report and Accounts 2011-12

### Notes to the Accounts (continued)

#### **17: Related party transactions**

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

#### **18: Contingent liabilities**

Audit Scotland is registered for VAT in relation to supplies, other than statutory audit work, such as secondments and work for other UK bodies. Due to the complexity of its overall VAT position Audit Scotland is in discussion with HMRC about the effective date of registration. Audit Scotland has accrued the amount it believes to be due but depending on the date finally agreed a further liability of up to £300k could arise.

#### **19: Capital commitments**

At 31 March 2012 there were no contracted capital commitments payable in 2012/13.

#### **20: 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 2012 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 20. 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 2011/12 Government Financial Reporting Manual (the 2011/12 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 23, 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 Governance Statement, and consider whether it is consistent with the audited accounts. As auditors we are not required to consider whether the Accountable Officer's Governance Statement 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 2012 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 2011/12 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

#### **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 Governance Statement 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

12 June 2012