

Annual Report and Accounts

Year ended 31 March 2013

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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Welcome

Chair's welcome

Welcome to Audit Scotland's annual report for 2012/13.

Looking over the last year, I am struck by the changes that have taken place both within our organisation and the external environment in which we work.

In June 2012, Bob Black retired from the post of Auditor General. We thank him for his significant contribution to public audit and to establishing Audit Scotland as a respected and influential organisation.

He was succeeded by Caroline Gardner as the new Auditor General for Scotland. It has been a pleasure to welcome Caroline to her post and to work with her as she develops her priorities for the organisation.

Looking forward, the challenges facing Scotland's public sector are tough. Public bodies are dealing with continuing reductions in resources and a rising demand and expectation for services. Scotland is also heading into an era of increased financial and fiscal autonomy.

It is clear to us that in such an environment, the need for independent and effective audit is more important than ever. For Audit Scotland this has meant, and will continue to mean, both opportunities and risks. We must work more closely with our partners in all areas of the public sector to help them improve their service provision with independent and well-grounded advice and guidance.

In line with this objective, in the past year we have continued to sharpen the focus of our work. We are mindful that what we do needs to align with the pressures and priorities of the public sector and the services it provides to Scotland's people. We have continued to refine and develop our audit approach. This year has seen the launch of a number of projects to ensure we keep pace with the ways people access and use information and their expectations of us, and to strengthen our ability to respond to the changing environment.

We have done much over recent years to reduce our costs and become a more efficient, streamlined organisation. I am pleased that throughout this we have maintained a high standard of work and audit service. The board's focus has been on making sure we use the resources we have to maximise the quality and impact of our work, while identifying and preparing for the challenges of the future.

Finally, I thank Audit Scotland's staff personally and on behalf of the board for their continued high level of commitment in delivering excellent work during what has been another successful year.

Ronnie Cleland, Chair of Audit Scotland Board

Accountable Officer's report

Welcome to my first annual report as the Auditor General for Scotland and Accountable Officer for Audit Scotland.

The financial climate for Scotland's public services continues to be challenging. The total reduction in the Scottish Government's revenue budget – the money it has for day-to-day spending and running costs – is set to drop by 11 per cent, or £3.3 billion, between 2010/11 and 2014/15. Demand is rising, due to demographic changes, the recession and rising public expectations. And the Scottish Parliament will soon have new tax and borrowing powers through the Scotland Act 2012, whatever the outcome of the debate over the country's constitutional future.

Against that backdrop, making the best use of public money is more important than ever. Public audit plays a central role, by ensuring that the information available to the Scottish Parliament and the people of Scotland about the way public money is used is reliable, comprehensive and transparent. We focus on governance and financial management, transparency, value for money and financial sustainability, for individual public bodies and right across Scotland. For example, our reports on NHS finances and FE colleges built on the audit work we carry out at every public body, to provide a complete picture of the current position of each sector and the challenges that lie ahead.

I am very conscious of the need to demonstrate that Audit Scotland delivers value for money and makes a real contribution to public services. We have continued to deliver on our promise to reduce the cost of audit by at least 20 per cent in real terms over the four years to 2014/15. We reduced audit fees to public bodies by ten per cent, in the last completed audit year (2011/12), and will continue with reductions in the 2012/13 audit year. In 2012/13, we delivered £2.8 million of efficiency savings, against a target of £1.9 million. This was 11.5 per cent of our budget. Our voluntary early release scheme has contributed to reducing our costs and reshaping our workforce, and we ended 2012/13 ahead of schedule in our workforce plan. We are now focused on strengthening our structure, skills and technology to ensure we have the capacity needed to deliver our responsibilities.

Through all of this we remain committed to world-class audit work that improves the use of public money. In the past year, examples include completing our programme of Best Value audits of Scotland's police and fire services in time to inform the creation of the new national services, and publishing reports on GP prescribing and reducing reoffending that make clear recommendations on improving services and saving money.

My first nine months in post have confirmed for me what a privilege it is to lead Audit Scotland in supporting the Scottish Parliament and public bodies to meet the challenges they face. On a personal note, I would like to thank my colleagues at Audit Scotland and my fellow board members for their warm welcome, strong support and hard work.

Caroline Gardner, Accountable Officer

Who we are

About us

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

We provide independent assurance to the people of Scotland that public money is spent properly and provides value for money. 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.

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 for Scotland checks how well Scotland's local authorities, and fire and police boards perform. It operates independently of local and central government.

Our stakeholders are the people in Scotland, the Scottish Parliament, the Scottish Government, and all Scottish public organisations.

We are governed by Audit Scotland's board and held to account by the Scottish Commission for Public Audit. See page 18 for details.

Our resources

- 260 whole-time equivalent staff as at 31 March 2013.
- £17.3 million from audit fees from public bodies, bank interest, and miscellaneous income.
- £6.4 million direct funding from the Scottish Parliament.
- Seven private firms of accountants appointed to carry out about half of the annual audits.

Our performance

Corporate plan annual targets	2012/13	2011/12	2010/11
Annual audit of 200+ public bodies*	214	211	212
10 – 12 performance audits	14	15	17
5 – 8 Best Value audits	8	12	9
Community Planning Partnership audits	4	n/a	n/a
32 risk assessments in local government	32	32	32
Coordinating scrutiny across local government	✓	✓	✓
National Fraud Initiative (biennial)	✓	n/a	✓
Housing benefit audits	✓	✓	✓
Carbon reduction	-73 tonnes	-58 tonnes	n/a

Note: *reflects the number of public bodies that are part of the public audit framework.

Reducing the cost of audit (in real terms)	2012/13	2011/12	2010/11
Audit fee reduction by audit year *	-6.85%	-10.25%	-5.50%

Note: * an audit year runs from November to October and bridges two financial years. The 2011/12 audit year was started in financial year 2011/12 and completed in financial year 2012/13.

Our work

Our work ranges from the financial audit of individual organisations to performance audits, covering subject areas or particular sectors, to reviews of fraud prevention across Scotland.

All of our work is driven by the principles of holding public bodies to account for their use of public money, and providing assurance to the public and the Scottish Parliament. We also aim to help organisations improve, through making recommendations for better management and oversight of services, showing where they can be more efficient, or highlighting when they could strengthen their processes and procedures.

We bring an objective, professional view and a commitment and enthusiasm to improving public services. Our impact is felt in finding savings, helping bodies improve services and management, and assuring the public of the probity of public finances.

As we prepare for the future, we have been developing the audits we perform and the way we report. In 2012/13 this included implementing new models of working and team skill-mixes, sector-wide financial position reports, and a variety of published products. We are continuing this development work, as detailed on page 15.

While continuing to provide a high-quality service, we are reducing the fees we charge. We are on track to reduce the cost of audit by at least 20 per cent in real terms over the four years to 2014/15. In 2012/13, we cut the costs of our work for the third year in a row and cut the fees we charge public bodies by ten per cent for the last completed audit year.

The financial audit

Sector	2012/13	2011/12	2010/12
Central government	77	73	74
NHS	23	23	23
Further education	37	38	39
Local government	77	77	76
Total	214	211	212

All public bodies have an annual financial audit which is reported in public. This is the foundation of the public audit system in Scotland. The Auditor General and the Accounts Commission were responsible for 214 annual audits during 2012/13, carried out by appointed auditors from Audit Scotland and private firms of accountants.

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

Annual audit reports cover the full range of audit work done in the year. Annual audit reports can be found on Audit Scotland's website.

Our financial auditors work closely with public bodies. As well as holding them to account for their use of public money, our auditors help organisations improve, guide them through the difficulties they face, and provide feedback and advice on their performance.

In response to the financial crisis much of the public sector is restructuring. During 2012/13, we encouraged bodies to improve their workforce planning, be clearer about the costs of restructuring, and ensure services are sustainable. We helped others improve the transparency of their financial reporting and monitoring of their own performance. We encouraged bodies to strengthen their financial planning, through actions such as highlighting weaknesses in their income forecasts, discovering software errors affecting financial statements, or helping them better plan major work programmes.

Our work can highlight mismatches in funding and spending. Many organisations are trying to change the services they deliver, and we work with them to ensure they identify and manage the risks.

Most accounts we audit are prepared under International Financial Reporting Standards, the same standards applied to listed companies. When conducting audits, 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.

Auditors completed all the audits of health, central government, further education and local authority bodies within the statutory deadlines.

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, they will qualify their opinion. This year we issued no qualifications of public accounts, thus assuring the public of probity and accountability in public finances in Scotland.

Highlighting issues from accounts

When it is necessary, we bring significant issues coming from the annual audits to the attention of the Scottish Parliament and the Accounts Commission. This helps to ensure effective scrutiny of the use of public funds.

The Auditor General can issue reports to the Scottish Parliament under Section 22 of the Public Finance and Accountability (Scotland) Act 2000. In 2012/13 it was not necessary to issue any Section 22 reports. On local authorities the Controller of Audit issues statutory reports to the Accounts Commission, and produced four reports in 2012/13. Details of these are provided in the appendix on pages 23 and 24.

Identifying fraud and errors

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

We compare information from public sector in areas such as housing benefits, payrolls, pensions, disabled parking permits and council tax records. Since the NFI started in 1996, this has helped bodies identify overpayments made through fraud and error worth £85 million in Scotland and £1 billion across the UK. Effective fraud arrangements can also act as a deterrent.

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 and help them to improve their benefits services. During 2012/13, we carried out ten housing benefit risk assessments. We agreed action plans with councils to address identified risks from these and from assessment in previous years. After reviewing those, we requested updates from 11 councils to review the progress being made at those organisations.

During 2012/13, we also carried out a review of housing benefit overpayments. We highlighted areas of concern and good practice to help councils identify potential actions which might lead to improvements in overpayment recovery performance. The total value of overpayments outstanding in Scottish councils has risen significantly from £72.1 million in 2009/10 to £94.7 million in 2011/12, or 31 per cent. It is particularly important that councils rigorously pursue benefits overpayments as the introduction of Universal Credit in October 2013 will have a significant impact on the ability of councils to recover these debts once the responsibility for helping customers with housing costs is transferred to the Department of Work and Pensions.

Performance and Best Value reports

Audit sector	2012/13	2011/12	2010/11
Cross-sector (including CPPs)	6	8	5
NHS	3	3	3
Central government	3	1	5
Local government	6	3	4
Best Value in local government	8	12	9
Total	26	27	26

We carry out performance audits across the entire public sector for the Auditor General for Scotland and the Accounts Commission, and we report on these in public.

Our work highlights areas where services could improve within existing budgets or where money can be saved without reducing or affecting the quality of public services. For instance, in 2012/13, we made recommendations to further improve GP prescribing that could potentially save up to £26 million a year. Similarly, we made recommendations to help the public sector better target the £128 million it spends annually on reducing reoffending, which costs Scotland £3 billion a year.

We also identify examples of best practice and how public bodies can learn from events. For example, we reviewed a number of Information Communication Technology (ICT) contracts and found common trends, such as a lack of ICT expertise within the public sector and weaknesses in management. Following our audit of several recent mergers, we published a good practice guide to help with future mergers. We also produce baseline reports to inform sectors of their current position and future challenges as they continue to navigate the current difficult financial circumstances. This year we reviewed the state of finances in colleges and the NHS.

Our work often prompts political debate and media coverage. The Scottish Parliament formally debated our audit of waiting list management in the NHS, and the Parliament's Public Audit Committee (PAC) called key Scottish Government and NHS board executives to answer questions on our findings. The audit appeared in more than 200 items of media coverage in the fortnight following its publication.

This year we also published our first audits of community planning partnerships (CPPs). We reported on three individual CPPs, as well as producing an overview of the current direction and key issues for CPPs nationally. This was a new stream of work for us in an area of major public importance. Due to the wide subject area, we formed specialist teams from across Audit Scotland to design and carry out a tailored approach to the CPPs audits and worked with other inspection agencies.

We publish our findings and report on them to the Scottish Parliament for central government and NHS audits, and the Accounts Commission for local government work. The PAC held five inquiries into the issues we raised, and the Accounts Commission published findings on ten of our audits.

Scottish Parliament

The Auditor General for Scotland presents many of our national audits to the PAC. In 2012/13, the committee held evidence sessions on five of our audits published in 2012/13, and two on audits published 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.

The committee also asked for written evidence from accountable officers for two other reports published during the year.

Accounts Commission and Best Value

Scotland's police and fire services have faced major changes in the past year as they prepared to merge into single organisations in April 2013. During 2012/13, on behalf of the Accounts Commission we completed the Best Value audit programmes of fire and police forces including overviews of both services in Scotland.

Our work 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 for the Accounts Commission, aimed at helping councils manage the financial pressures they face. We published two reports: on using cost information and on managing performance.

Our Best Value programme in local government continues to have an impact. A follow-up audit of Shetland Island Council found the council making significant progress in tackling issues we have raised in previous years.

The Accounts Commission produced findings on ten audits and on four Controller of Audit statutory reports.

Quality

Audit Scotland places great emphasis on achieving high-quality in all our audit work. The board leads this through approving a Corporate Quality Framework based on international guidance on the elements of high-quality work.

Our business groups operate rigorous quality control processes to all their work and reports which are backed up by independent reviews. For example, we give a selection of our performance audit reports to other UK audit agencies – the National Audit Office, the Wales Audit Office and the Northern Ireland Audit Office – for peer review each year. We then use any improvements identified in future work.

We also regularly seek feedback from public bodies on the quality of our financial audit work. This year we surveyed health boards and colleges, with positive responses about the overall quality of our service from 100 per cent and 88 per cent of each sector respectively.

A summary of the responses received is shown in the following tables:

Table 1: Health Bodies

	% positive responses
Overall quality of service	100
Impact of audit on:	
Assurance & accountability	93
Planning & management	73
Economy & efficiency	60
Effectiveness & quality of services	67
Overall audit impact	87 (Finance Directors) 93 (Audit Committee Chairs)
Impact of national performance report (s)	65

Table 2: FE Colleges

	% positive responses
Overall quality of service	88
Impact of audit on:	
Financial sustainability	50
Transparency of reporting (financial & performance)	88
Value for money	19
Governance & financial management	75
Overall audit impact	75 (Finance Directors) 94 (Audit Committee Chairs)
Impact of national performance report (s)	75

Each year we produce a Transparency and Quality Report which describes our arrangements for achieving high-quality audit work in more detail. This is available on our website. In early 2013, we launched a new quality framework project and will continue this during 2013/14.

Ethical standards

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

Technical guidance and assistance

Audit Scotland contributes to improvements in accounting, financial reporting and auditing in the public sector through the technical guidance and assistance we provide to appointed auditors. We also make this available to financial professionals across the Scottish public sector from our website. We published 14 in-depth guidance notes and four bulletins explaining technical developments.

We added 195 documents to our online technical reference library, and responded to 664 technical enquiries from auditors and stakeholders. We also contributed to the preparation of externally produced codes and manuals.

The Auditor General for Scotland serves on the International Ethics Standards Board for Accountants. The Assistant Auditor General serves on the UK Treasury's Financial Reporting Advisory Board.

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 2012/13, we continued to participate in the audit of the United Nations in partnership with the UK National Audit Office and provided mentoring and technical advice to the Office of the Auditor General of Kosovo. We contributed to two events held by the European Organisation of Regional External Public Finance Audit Institutions and hosted three international delegations in our Edinburgh offices. A separate report on our work with other countries is available on our website.

Reports published in 2012/13

Details of the reports published in 2012/13 is provided in the appendix on pages 23 and 24.

Our organisation

Our business

In 2012/13, we continued to balance the aim of reducing the cost of audit with the need to ensure we are prepared for the future.

The first aim – reducing the cost of audit – reflects both the responsibility we have to be as efficient as possible with our own use of resources, and our response to the difficult circumstances faced by the public bodies we audit. We reduced audit fees to public bodies by ten per cent, in the last completed audit year (2011/12), and will continue with reductions in the 2012/13 audit year. The cumulative fee reduction since 2009/10 is now 22.6 per cent in real terms. We have met our target to reduce fees by at least 20 per cent and are on target to cut the costs of audit by 25 per cent by April 2014.

We are also preparing for the future, both in our workforce planning and in the priorities we have set for changing the way we work. We updated our corporate plan to set priorities for 2013. Through this we identified three key projects for the coming year: review of the expectations of audit; streamlining audit; and audit intelligence. These projects help to ensure: we are targeting the right areas with our work; we are doing it as effectively and efficiently as we can; and the outputs we produce reflect the audiences for our work and developments in information technology and the way people access, digest and use information.

Alongside these, we are carrying out a number of other projects, including reviewing our website, updating our development programmes, and improving how we use and share knowledge.

Workforce planning and staff development

	2012/13	2011/12	2010/11
Staff (whole-time equivalent)*	260	255	275
Staff turnover	8.6%	12.27%	8.2%
Sickness absence/person**	5.95 days	4.77 days	4.89 days
Male/female staff percentage	50/50	49.8/50.2	49/51

Notes: *at 31 March

**public sector average is nine days/person.

Over the past three years, through our voluntary early release scheme and natural turnover, we have reduced our whole-time equivalent staff numbers from 293 to 260, which is ahead of schedule in our workforce plan. At the same time, we have changed our grade mix to achieve a more effective balance of skills. In the coming year, we will be targeting recruitment to

ensure we have the skill mix and the capacity to maintain our current work and carry out developments and improvements.

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 2012/13, our staff received an average 7.81 days each of training and personal development (compared with 8.26 days in 2011/12). We also run one of the largest public sector accountancy training schemes in Scotland.

We had 27 trainees and staff working towards CIPFA and ICAS qualifications. Six trainees successfully completed their qualifications during the year. Two trainees won prizes for their studies this year: Neil Cartlidge won the CIPFA prize for Governance, Public Policy and Ethics (GPPE); and Gillian McCreadie is this year's top student employed in public audit in Scotland.

We held a series of 'Re:Connect' sessions involving all colleagues to discuss the progress we had made on issues highlighted during our 'Connect' staff consultation process during 2011/12. Through these meetings we also agreed our five core values:

- Independence and integrity
- Valuing people
- Quality
- Cooperation
- Great communication.

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

During 2012/13, we fully implemented Sharepoint software across the organisation, the completion of a programme to improve our storage and sharing of information. We also continued our office rationalisation programme. We moved out of one of the three offices we had in Edinburgh, and are moving our West of Scotland office to Glasgow. We continued to follow public sector pay guidance and applied a one per cent increase to salary scales.

Diversity and equality

During the year we worked with staff to develop three equality outcomes.

- Recognising the diversity of the Scottish population and raising the profile of equalities by embedding this in all aspects of our audit work.
- Having policies and practices that are fair, transparent, meet people's needs and support a culture of diversity.
- Understanding and promoting diversity in our workforce.

Our equality outcomes and approach to mainstreaming equalities are on our website.

In 2012/13, Audit Scotland was awarded the Two Ticks disability symbol accreditation for the third year running and retained Two Ticks accreditation from the Digital Accessibility Centre (DAC) for our website's accessibility.

Responding to public concerns

Audit Scotland receives enquiries from a wide range of people about the bodies we audit. Where appropriate, we may carry out further audit work in response. In 2012/13, we received 177 items of correspondence raising concerns (compared with 230 in 2011/12).

We receive many routine requests for information on a daily basis. Of these this year, three Freedom of Information (FOI) requests needed consideration by an internal panel about whether all the information requested could be released (two in 2011/12). There were no data subject access requests under the Data Protection Act, and no Environmental Information Regulations (EIR) requests.

In late 2012, the Scottish Information Commissioner assessed our practices for FOI and EIR and their related codes of practice. The assessment found 'many areas of good practice, some of which are unique in the Commissioner's experience'. It made three recommendations for improvement, which we are addressing. The Commissioner's report is available at www.itspublicknowledge.info/.

Our complaints process records how Audit Scotland has dealt with complaints from members of the public about our staff. In 2012/13, we received two complaints (four in 2011/12).

The Public Services Reform (Scotland) Act 2010, which came into force on 1 October 2010, places duties on public bodies to provide and publish information on certain expenditure and exercise of functions. The information for 2012/13 is available on our website.

Managing our resources and sustainability

In 2012/13, we delivered £2.8 million of efficiency savings, against a target of £1.9 million. This was 11.5 per cent of our overall budget.

We aim to reduce our carbon footprint by 20 per cent, or 107 tonnes of CO₂, by 2014. In 2012/13, we reduced CO₂ emissions by 73 tonnes, which represents a 15 per cent decrease during the year. Over the last two years alone, we have reduced our CO₂ emissions by 131 tonnes. We have reduced our energy use through rationalising our offices and the impact of our car travel through lower mileage and a greener fleet. During 2012/13, Audit Scotland also introduced an emissions cap for new leased cars as part of its commitment to improving environmental performance. We will work with relevant stakeholders to develop a new and ambitious carbon management plan for 2014 onwards. Our report on sustainability is available 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 in 2012/13 and considered 11 internal audit and advisory reports.

Most internal audits in 2012/13 achieved 'substantial assurance', the highest standard available, from our internal auditors BDO LLP. A follow-up report confirmed that we were making very good progress in applying previous recommendations.

Our governance and management

Our board

Our board oversees Audit Scotland's work and strives for high standards of governance and management.

During 2012/13, the board has focused on the transition in the organisation's leadership, with the new Auditor General appointed in June 2012. It has also been reviewing the balance between the organisation's approach to risk and the ability to achieve corporate objectives. The board has also kept a close oversight of our new audits of Community Planning Partnerships, and corporate projects such as our property strategy and our knowledge management.

The board has an audit committee which appoints our internal auditors and receives our annual accounts and internal audit reports. The committee's other major focus during 2012/13 was overseeing our corporate approaches to quality and risks.

The board met nine times, which included a strategy meeting during the year, and the audit committee four times.

The board also has a remuneration and human resources committee which sets and reviews the salaries of senior staff (excluding the Auditor General for Scotland, whose salary is agreed by the Scottish Parliamentary Corporate Body) and the main terms and conditions for all staff. The remuneration and human resource committee met five times this year.

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

Our board members are:

- Ronnie Cleland - Chair of the board
- John Baillie - Chair of the Accounts Commission
- Caroline Gardner - 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 and human resources committee consists of Katharine Bryan (chair), John Baillie, Caroline Gardner and John Maclean.

Scottish Commission for Public Audit

Audit Scotland is held to account by Parliament through statutory arrangements put in place by the Scotland Act 1998 and through the Public Finance and Accountability (Scotland) Act 2000. The Scottish Commission for Public Audit (SCPA) is central to these arrangements. The SCPA consists of five MSPs and meets in public. It appoints our non-executive members, scrutinises our budget, annual report and accounts, and produces reports on these. It also appointed our current external auditor, Alexander Sloan Chartered Accountants, in 2010/11.

Our senior management

Our senior management team oversees the day-to-day operations of Audit Scotland's work, with each member taking responsibility for a specific area.

The members of the Management Team are:

- Caroline Gardner - Auditor General and Accountable Officer for Audit Scotland
- Lynn Bradley - Director of Corporate Programmes and Performance
- Russell Frith - Assistant Auditor General
- Barbara Hurst - Director of Performance Audit
- Fiona Kordiak - Director of Audit Services
- Diane McGiffen - Chief Operating Officer
- Fraser McKinlay - Director of Best Value and Scrutiny Improvement and Controller of Audit.

Robert Black was a member of our board and Management Team until June 30 as the Auditor General and Accountable Officer for Audit Scotland.

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 for Scotland 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 30 to 61 and are available on our website, www.audit-scotland.gov.uk

A summary of income and expenditure

The task of auditing Scotland's public bodies has expanded greatly since 2000. In 2012/13, Audit Scotland spent £24.0 million on services for the Auditor General for Scotland and the Accounts Commission. The majority of these costs are recovered through charges to audited bodies, with the balance received as direct funding from the Scottish Parliament.

2012/13 financial results

In 2012/13, income earned from audited bodies and miscellaneous income was £17,312k. Expenditure in the same period was £23,965k. The resulting Net Operating Cost of £6,653k was £395k less than the estimated net resource requirement (budget) of £7,048k provided by the Scottish Parliament.

The £395k underspend was 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, inclusive of agency costs and net of secondment income, were £435k lower than budget, principally as a result of a continuing reduction in staff numbers. Fee income net of sums paid to appointed firms was £136k greater than budget mainly as a result of an increase in agreed fees compared with budget. Further savings were recorded in most overhead categories, the most notable of which were property costs £76k, stationery and printing £69k, staff training £46k, information technology running costs £44k and depreciation charges £79k. A provision of £313k made to meet the costs of eight staff who have accepted voluntary early retirement and severance and a further accrual of £204k in respect of VAT due for previous accounting periods partly offset the costs and income benefits. Annual savings of £367k will accrue from April 2014 as a result of the eight early departures.

Income in 2012/13 was £1,381k less than recorded the previous year. Fee income was £821k lower than in the previous year due to the impact of fee reductions made in the last two years which reduced income by £1,277k (-6.6%), partly offset a by a reduced level of fee rebates made in the year (£1,036k in 2012/13, £1,492k in 2011/12). The balance of the reduction in income was due to lower miscellaneous income driven by reduced numbers of staff on secondment to other organisations, and a reduction in the levels of other finance income (IAS19 pension returns) as a result of reduced investment returns.

Expenditure in 2012/13 was £1,497k lower than in the previous year. Reduced staff numbers (nine fewer w.t.e. staff were employed on average during 2012/13 than in 2011/12) contributed cost reductions of £225k. Fees and expenses paid to appointed audit firms were £899k lower than the previous year as a result of the full year effect of the contract tender exercise completed in spring 2011. Further cost reductions of £440k were recorded for buildings, rent and depreciation, mainly as a result of a property rationalisation programme. These benefits were partly offset by increased operating costs which were £67k higher than recorded in the previous year. The increase in operating costs was mainly due to increased expenditure on legal professional and consultancy support £208k and recruitment activity £64k, though these increased costs were partly offset by reduced expenditure on information technology running costs £41k and a lower accrual for outstanding VAT £148k.

Sources of income

Income	2012/13		2011/12	
	£000	% total	£000	% total
Fees paid by local authorities	11,419	66	11,797	63
Fees paid by health bodies	3,506	20	3,818	20
Fees paid by further education colleges	538	3	598	3
Fees paid by Scottish Government and sponsored bodies	1,780	10	1,851	10
Bank interest	52	1	17	-
Miscellaneous	43	-	324	2
Other finance income (pensions)*	(26)	-	288	2
Total	17,312	100	18,693	100

Note: * 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

Expenditure	2012/13		2011/12	
	£000	% total	£000	% total
Staff and members' costs	14,131	59	14,356	56
Fees and expenses paid to appointed auditors	5,036	21	5,935	23
Buildings, rent and depreciation	1,698	7	2,138	9
Operating costs	3,100	13	3,033	12
Total resource requirement	23,965	100	25,462	100

Net Operating (Cost)

Direct funding from Parliament	2012/13		2011/12	
	Required £000	Available £000	Required £000	Available £000
Net Operating (Cost)	(6,653)	(7,048)	(6,769)	(7,765)

Our full accounts for 2012/13 are available on our website, www.audit-scotland.gov.uk

Appendix

Reports published in 2012/13

Annual audits

- 214 annual audits (details are on our website)

Performance reports

- Health inequalities in Scotland
- Reducing reoffending in Scotland
- Scotland's colleges: current finances, future challenges
- Managing ICT contracts: An audit of three public sector programmes
- Learning the lessons of public body mergers
- Management of patients on NHS waiting lists
- Prescribing in general practice in Scotland
- NHS financial performance 2011/12
- Responding to challenges and change: an overview of local government in Scotland 2013
- Major capital investment in councils
- Protecting consumers
- How councils work: an improvement series for councillors and officers – Managing performance: are you getting it right?
- National Scrutiny Plan for local government
- How councils work: an improvement series for councillors and officers – Using cost information to improve performance: are you getting it right?

CPP audits

- Improving community planning in Scotland
- Community planning in Aberdeen
- Community planning in North Ayrshire
- Community planning in Scottish Borders

Best Value local government audits

- Comhairle nan Eilean Siar: The audit of Best Value and Community Planning follow -up
- Best Value in police authorities and police forces in Scotland: Overview report
- Strathclyde Police Authority: follow-up report
- Fife Constabulary and Fife Police Authority
- Best value in Fire and Rescue Services in Scotland: Overview report
- Central Scotland Police and Joint Police Board
- Dumfries and Galloway Constabulary and Police Authority
- Midlothian Council: The audit of Best Value and Community Planning

Local government statutory reports

- Shetland statutory report follow-up
- City of Edinburgh Council statutory report
- Strathclyde Fire Service: progress report
- Aberdeenshire Council: progress report

Impact reports

- An overview of Scotland's criminal justice system: Impact report

Other publications

- Corporate plan: Priorities for 2013
- Audit Scotland annual report and accounts 2011/12
- Working with overseas countries annual report 2011/12
- Audit Scotland single equality scheme annual report 2011/12
- Carbon Scrutiny annual report 2011/12
- Quality annual report 2011/12
- The National Fraud Initiative in Scotland 2012

Remuneration report

Remuneration and human resources committee

The membership and remit of the committee are set out in Standing Orders as follows:

‘The remuneration and human resources 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 and human resources committee, and may pay them such remuneration and expenses as the board decided.’

In relation to members of Audit Scotland’s Management Team the responsibilities of the committee are to:

- review and approve all terms and conditions of employment, including job descriptions, all pay and benefit reward elements associated with each post
- ensure remuneration policy and strategy is aligned to the relevant public sector policies being implemented by the UK and Scottish Governments
- set and review the overall reward structure, including the value of pay ranges and general annual pay award strategy
- assure itself that effective arrangements are followed for performance assessments in respect of Audit Scotland’s Management Team, including any changes to pay and benefits arising from the assessment of performance during the review period
- review talent management and succession planning arrangements
- approve remuneration packages for newly appointed members of the Management Team
- recommend appointments and changes affecting Management Team to the board
- decide on applications for early retirement and determine compensation payments for loss of office
- agree, oversee and review the operation of expenses policy and review the expense claims of the Accountable Officer on an annual basis.

In relation to other staff employed by Audit Scotland, responsibilities are to:

- determine the remuneration policy governing all terms and conditions of employment, including pay, benefits, retirement policy and other policies relating to compensation for loss of office
- ensure remuneration policy and strategy is aligned to the relevant public sector policies being implemented by the UK and Scottish Governments
- approve the parameters for the annual pay award cycle
- review, not less than annually, the application of remuneration policy
- assure itself about any issues relating to the overall performance of employees.

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 and human resources committee during the year were:

- Chair– Katharine Bryan
- Member – John Baillie
- Member – John Maclean
- Member – Robert Black (to 30 June 2012)
- Member – Caroline Gardner (from 1 July 2012).

In setting salary levels the remuneration and human resources committee has regard to:

- 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 recruitment and retention
- government policies for improving public services including the requirement to meet the output targets for the delivery of services and other relevant Government policies and targets
- the funds available subject to any expenditure limits.

The information on pages 27 to 29 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 Chair of the Accounts Commission and any employee of Audit Scotland or member of the Accounts Commission are not entitled to any remuneration in respect of their membership of the Audit Scotland Board.

The Audit Scotland Board has three independent members including the chair of the board. The annual remuneration for independent members of the board is set by the Scottish Commission for Public Audit (SCPA). All independent board member appointments are part-time and non-pensionable. Independent board member remuneration was as follows:

	Remuneration Banding	
	2012/13 £000	2011/12 £000
Chair – Ronnie Cleland	10 - 15	5 - 10
Independent board members	5 - 10	5 - 10

Senior Management

The salaries (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 2013. 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	2012/13			2011/12		
		Salary £000	Benefit in kind note (i) £	Total Remuneration £000	Salary £000	Benefit in kind note (i) £	Total Remuneration £000
Robert Black Auditor General for Scotland to 30 June 2012	(ii)	35 - 40	-	35 - 40	145 - 150	-	145 - 150
Caroline Gardner Auditor General for Scotland from 1 July 2012	(iii)	100 - 105	-	100 - 105	110 - 115	-	110 - 115
Russell Frith Assistant Auditor General		110 - 115	-	110 - 115	110 - 115	-	110 - 115
Diane McGiffen Chief Operating Officer		105 - 110	1,200	105 - 110	105 - 110	4,100	105 - 110
Lynn Bradley Director of Corporate Programmes & Performance		90 - 95	2,800	90 - 95	90 - 95	2,700	90 - 95
Barbara Hurst Director of Performance Audit		90 - 95	-	90 - 95	90 - 95	-	90 - 95
Fiona Kordiak Director of Audit Services		90 - 95	4,700	90 - 95	90 - 95	4,400	90 - 95
Fraser McKinlay Director of Best Value & Scrutiny Improvement		90 - 95	-	90 - 95	85 - 90	-	85 - 90

The highest paid member of senior management was the Auditor General for Scotland. Her annualised remuneration was 3.4 times the £41,050 median remuneration paid to Audit Scotland's staff in 2012/13 (2011/12 – 3.6 times £40,407).

Pensions

		Accrued	Accrued	Real	Real	CETV at	CETV at	Real
		pension at	lump sum	increase	increase	31 March	31 March	Increase
		31 March	at 31	in annual	in lump	2013	2012	in CETV
		2013	March	pension	sum	<i>note (iv)</i>	<i>note (iv)</i>	<i>note (iv)</i>
		£000	£000	£000	£000	£000	£000	£000
	<i>Note</i>							
Caroline Gardner	<i>(iii)</i>	0 - 2.5	0	n/a	0 - 2.5	28	n/a	21
Auditor General for Scotland - from 1 July 2012								
Russell Frith		25 - 30	75 - 80	2.5 - 5	7.5 - 10	499	417	56
Assistant Auditor General								
Diane McGiffen		25 - 30	65 - 70	0 - 2.5	0 - 2.5	472	439	0
Chief Operating Officer								
Lynn Bradley		30 - 35	70 - 75	0 - 2.5	0 - 2.5	492	465	0
Director of Corporate Programmes & Performance								
Barbara Hurst		25 - 30	60 - 65	0 - 2.5	0 - 2.5	540	492	13
Director of Performance Audit								
Fiona Kordiak		30 - 35	70 - 75	0 - 2.5	0 - 2.5	488	460	0
Director of Audit Services								
Fraser Mckinlay		10 - 15	10 - 15	0 - 2.5	0 - 2.5	109	90	5
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) Robert Black retired as Auditor General for Scotland on 30 June 2012. His pension benefits which are provided by analogy to the Local Government pension scheme commenced on 1 July 2012.

(iii) Caroline Gardner was appointed Auditor General for Scotland from 1 July 2012. The salary information presented for 2011/12 relates to her employment as Deputy Auditor General, a post which she occupied until she left Audit Scotland in December 2011. As Auditor General for Scotland her pension benefits are provided through access to the Principal Civil Service Pension Scheme. No lump sum is payable. The CETV at 31 March 2013 relates solely to her role as Auditor General.

(iv) 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 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. Her appointment is for a fixed term of eight years from 1 July 2012. Salary is determined by the Scottish Parliamentary Corporate Body.

Accounts Commission for Scotland

Members of the Accounts Commission for Scotland 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 (2011/12 – 12) and their remuneration was as follows:

	Remuneration Banding	
	2012/13 £000	2011/12 £000
Chair – John Baillie	40 - 45	40 - 45
Depute Chair – Douglas Sinclair	10 - 15	10 - 15
Commission members	5 - 10	5 - 10

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

C Gardner
Auditor General and Accountable Officer
 12 June 2013

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 2013. 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% (99% - 2012) 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 ten days. In 2012/13, 92% (91% - 2012) of trade invoices were paid within ten days.

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.

C Gardner
Auditor General and Accountable Officer
12 June 2013

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 (FReM) and in particular to:

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

The responsibilities of the Accountable Officer, including responsibility for the propriety and regularity of the public finances for which an Accountable Officer is answerable, for keeping proper records and for safeguarding assets, are set out in the *Accountable Officer's Memorandum* which is available at www.scotland.gov.uk/Resource/Doc/1069/0084581.doc

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 2013 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 nine times in 2012/13.

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 audit committee undertakes an annual review of our principal governance policies (Standing Orders, Financial Regulations and Scheme of Delegation). In 2012/13, a biennial review of the Corporate Risk Management Policy and Strategy was undertaken. The audit committee which is chaired by a non-executive board member, met four times in 2012/13. The chair of the audit committee submits an annual Statement of Assurance to the board.

The board also has a remuneration and human resources committee which sets and reviews the salaries and the main terms and conditions for all staff. The committee which is chaired by a non-executive board member met five times in 2012/13.

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 six executive directors of the organisation. It considers regular reports from the managers within the organisation on progress towards meeting the organisations' performance objectives.

Audit Scotland has a risk strategy and policy which sets out the approach to risk management in the organisation. 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 the Management Team and by the audit committee. Information risk is covered by the normal risk management arrangements and monitored by the Knowledge, Information and Technology Governance Group. In addition, Audit Scotland is committed to information management and security and improving our arrangement for data sharing.

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 approved 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 auditors 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 2013 and to 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.

Information security

Audit Scotland has privileged and wide-ranging access to data and information to support the discharge of the audit function and ensure that reports to Parliament are factual, accurate and complete. Audit Scotland has a duty to respect this privileged access and to ensure that the personal information entrusted to it is safeguarded properly.

In order to reinforce the importance of this, training on data security is included in the induction process for all staff and during 2012/13 staff were required to complete refresher training 'Protecting Information'.

There have been no incidents of personal data loss which required to be notified to the Information Commissioner.

Significant issues

I am able to report that there were no significant weaknesses in Audit Scotland's system of internal controls in 2012/13 which affected the achievement of Audit Scotland's key policies, aims and objectives.

C Gardner
Auditor General and Accountable Officer
12 June 2013

Summary of Resources Outturn

Year ended 31 March 2013

	Note	2013 £000	2012 £000
Net Operating (Cost) - actual		<u>(6,653)</u>	<u>(6,769)</u>
Estimate - year to 31 March 2013		<u>(7,048)</u>	
Net Cash Requirement (<i>see Cash flow statement</i>)		<u>8,453</u>	<u>9,419</u>

Statement of Comprehensive Net Expenditure

Year ended 31 March 2013

	Note	2013 £000	2012 £000
Administration Costs			
People costs	2	(14,131)	(14,356)
Other administration costs	4	(9,834)	(11,106)
Gross administration costs		(23,965)	(25,462)
Operating income	5	17,338	18,405
Other finance income	6	(26)	288
NET OPERATING (COST) / and TOTAL COMPREHENSIVE NET EXPENDITURE		(6,653)	(6,769)

Balance sheet

As at 31 March 2013

	Note	2013 £000	2012 £000
Non-current assets			
Property, plant and equipment	7	836	770
Intangible assets	8	51	105
Total non-current assets		887	875
Current assets			
Trade and other receivables	9	2,196	2,569
Cash and cash equivalents	10	1,199	1,951
Total current assets		3,395	4,520
Total assets		4,282	5,395
Current liabilities			
Trade and other payables	12	3,065	4,071
Provision for early retirement	14	557	503
Other provisions	16	79	123
Total current liabilities		3,701	4,697
Non-current assets plus/less net current assets/liabilities		581	698
Non-current liabilities			
Deferred liabilities	13	(22)	(19)
Provision for early retirement	14	(1,912)	(1,816)
Other provisions	16	(489)	(452)
Net funded pension (liability)	3	(13,607)	(9,698)
Total non-current liabilities		(16,030)	(11,985)
ASSETS LESS LIABILITIES		(15,449)	(11,287)
<i>Represented by:</i>			
TAXPAYERS' EQUITY			
Net funded pension (liability)	3	(13,607)	(9,698)
General Fund		(1,842)	(1,589)
		(15,449)	(11,287)

C Gardner

Auditor General and Accountable Officer

12 June 2013

Cash flow statement

Year ended 31 March 2013

	Note	2013 £000	2012 £000
Cash flows from operating activities			
Net operating (cost)		(6,653)	(6,769)
<i>Adjustment for non-cash items:</i>			
- Depreciation	7, 8	423	512
- Pension scheme - net revenue (credit)		(102)	(365)
Decrease in trade and other receivables		373	36
(Decrease) in trade / other payables / deferred liabilities		(1,016)	(470)
Increase / (Decrease) in provisions for early retirement		150	(331)
(Decrease) / increase in other provisions		(7)	33
Adjustment for cash balance due to the Consolidated Fund	12	(1,199)	(1,951)
Net cash outflow from operating activities		(8,031)	(9,305)
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(418)	(96)
Purchase of intangible assets	8	(17)	(18)
Less movement in accrued expenditure		13	0
		(422)	(114)
Cash flows from financing activities			
Opening cash balance payable to the Consolidated Fund		1,951	2,810
From Consolidated Fund (Supply)		5,750	5,750
		7,701	8,560
Net (decrease) in cash and cash equivalents in the period		(752)	(859)
Cash and cash equivalents at the beginning of period		1,951	2,810
Cash and cash equivalents at the end of period		1,199	1,951
Net cash requirement			
Cash flows from financing activities		7,701	8,560
Decrease in cash		752	859
		8,453	9,419

Statement of Changes in Taxpayers' Equity

Year ended 31 March 2013

	Note	Net Funded Pension £000	General Fund £000	Total £000
Changes in Taxpayers' equity for 2012/13				
Balance at 1 April 2012		(9,698)	(1,589)	(11,287)
Transfers between reserves				
Transfer to net fund pension liabilities	2	38	(38)	0
Net return on pension assets		64	(64)	0
Actuarial (losses)	3	(4,011)	-	(4,011)
Net operating (cost)		-	(6,653)	(6,653)
Net funding from the Scottish Parliament	11	-	6,502	6,502
Balance at 31 March 2013		<u>(13,607)</u>	<u>(1,842)</u>	<u>(15,449)</u>

Notes to the accounts

1. Statement of accounting policies

The accounts have been prepared in accordance with the accounts direction issued by Scottish ministers under section 19(4) of the Public Finance and Accountability (Scotland) Act 2000 and also in accordance with the Financial Reporting Manual (FReM) applicable for the year. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular 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 is not included in the operating income received in the year in the Statement of Comprehensive Net Expenditure.

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 2013/14 has already been given and there is no reason to believe that future approvals will not be forthcoming.

Accordingly it is considered appropriate to adopt a going concern basis for the preparation of these financial accounts.

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 written off as follows:

Leasehold premises	remaining period of lease	(from 2 to 10 years)
Furniture and fittings	5 years	
Computer equipment	2~5 years	
Software	2~5 years	

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.

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 Statement of Comprehensive Net Expenditure. Audit Scotland registered for VAT during 2010/11 as result of increasing levels of non-statutory income which attracts output VAT. A charge of £204k (2012 - £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 2013. Audit Scotland makes pension provision for present and former employees through two pension schemes. 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. The Auditor General for Scotland has benefits provided through Principal Civil Service Pension Scheme.

j) Accounting standards issued but not yet effective

Revisions to IAS 19 (Employee benefits) came into effect from 1 January 2013 for accounting periods starting after that date. The revised standard will be applied in Audit Scotland's Annual report and Accounts for the year ended 31 March 2014. The estimated impact of the revision had it been applied to the Annual Report and Accounts for the year to 31 March 2013 would have been to increase pension charges by £528k.

2. People costs and numbers

People costs comprise:

	2013	2012
	£000	£000
Administrative Staff		
Salaries	10,681	10,878
National Insurance	953	973
Superannuation	1,879	1,948
Pensions in payment (see note 3c)	83	-
Provision for early retirement and severance costs (see note 14)	313	334
Movement in early retirement costs	113	67
Adjustment for retirement benefit scheme costs (see below)	(38)	22
	13,984	14,222
Accounts Commission Members		
Salaries	117	117
National Insurance	14	8
Travel and subsistence	16	9
	147	134
	14,131	14,356

The average number of directly employed whole time equivalent (w.t.e.) staff during the period was 260 (2012 – 269). The average number (w.t.e.) for agency and seconded staff used during the year was eight (2012 – 5).

Analysis of local government retirement benefit scheme costs:

	2013	2012
	£000	£000
Current service costs	2,303	2,178
Past service costs	73	415
	2,376	2,593
Less: Employees' contributions	(709)	(734)
Charge to revenue	1,667	1,859
Employer contributions	(1,705)	(1,837)
Adjustment for retirement benefit scheme costs	(38)	22

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, until June 2012 Audit Scotland operated a 'by analogy' scheme for the previous Auditor General for Scotland.

a) Local government scheme

Audit Scotland has an agreement with The 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 2013 were as follows:

	2013	2012
Price increases	2.80%	2.5%
Salary increases	5.10%	4.8%
Pension increases	2.80%	2.5%
Expected rate of return on assets	4.50%	5.8%
Discount rate	4.50%	4.8%

The assumed average life expectancy for a retiral at age 65 are as follows	Males	Females
	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:

	2013	2012
	£000	£000
Assets (see below)	61,499	52,396
Liabilities	(75,106)	(62,094)
Net Funded (Liabilities)	(13,607)	(9,698)

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 2013 by Hymans Robertson.

The movement in the funded part of the net pension liability for the year to 31 March 2013 is as follows:

	2013	2012
	£000	£000
Movement in defined benefit obligation		
Opening balance at 1 April	62,094	58,764
Current service cost	1,594	1,444
Interest cost	3,000	3,269
Contributions by members	708	729
Past service costs	73	415
Actuarial losses / (gains)	9,178	(1,288)
Estimated benefits paid	(1,541)	(1,239)
Closing Defined Benefit Obligation	75,106	62,094
Movement in fair value of employer assets		
Opening balance at 1 April	52,396	51,586
Expected return on assets	3,064	3,656
Contributions by members	708	729
Contributions by the employer	1,705	1,837
Actuarial gains / (losses)	5,167	(4,173)
Benefits paid	(1,541)	(1,239)
Closing fair value of Employer Assets	61,499	52,396
Closing Net Pension (Liabilities) at 31 March	(13,607)	(9,698)

The increase in net pension liabilities was mainly due to a reduction in the real discount rate used to value pension liabilities. The impact of increased liabilities was partly offset by increased asset values as a result of higher than expected investment returns.

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

	Long Term Return at 31 March 2013	Assets at 31-Mar-13	Long Term Return at 31 March 2012	Assets at 31-Mar-12
	% per annum	£000	% per annum	£000
Equities	4.5	48,584	6.2	41,392
Bonds	4.5	4,920	4.0	4,192
Property	4.5	5,535	4.4	5,764
Cash	4.5	2,460	3.5	1,048
Estimated employer assets	4.5	61,499	5.8	52,396

The expected long term rates of return at March 2013 have been set equal to the discount rate in accordance with the revised IAS 19 which is effective for accounting periods starting after 1 January 2013.

History of Gains and Losses

	2013	2012	2011	2010
	£000	£000	£000	£000
Fair value of employer assets	61,499	52,396	51,586	47,804
Present value of defined benefit obligation	(75,106)	(62,094)	(58,764)	(66,873)
Surplus / (Deficit)	(13,607)	(9,698)	(7,178)	(19,069)
Experience gains / (losses) on assets	5,167	(4,173)	(866)	9,822
Experience gains / (losses) on liabilities	82	3,055	-	-
Actuarial (losses) / gains on employer assets	5,167	(4,173)	(866)	9,822
Actuarial gains / (losses) on obligation	(9,178)	1,288	6,642	(25,975)
Actuarial (losses) / gains	(4,011)	(2,885)	5,776	(16,153)

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

Sensitivity Analysis at March 2013	Approx.% increase to Employer Obligation	Approx. monetary amount £000
0.5% decrease in real discount rate	12%	8,720
1 year increase in member life expectancy	3%	2,253
0.5% increase in salary increase rate	4%	3,104
0.5% increase in pension increase rate	7%	5,434

During the year ended 31 March 2013, Audit Scotland's contribution to the pension fund represented 14.4% (2012 – 14.5%) of contributing employees' pensionable pay. In addition a

lump sum payment of £343k (2012 – £357k) was paid to meet past service cost deficits. 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 to 2014/15.

b) PCSP Scheme

Employees of the NAO transferring to Audit Scotland on 1 April 2000 and the Auditor General for Scotland from 1 July 2012, 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 2013, Audit Scotland paid an employer's contribution of £212k (2012 – £234k) into the PCSPS at rates between 18.8% and 24.3% of pensionable pay (2012 – 18.8% to 24.3%). Audit Scotland has been informed that contributions in 2013/14 will remain at the rates paid in 2012/13. 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

R W Black retired as Auditor General for Scotland, on 30 June 2012. Until that time his pension benefits were provided by analogy to the Local Government pension scheme. No contributions were paid to the Scottish Consolidated Fund during the year ended 31 March 2013 (2012 – £23.1k). In 2012/13, pension payments of £83k including a lump sum were made.

d) 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. Other administration costs

	£000	2013 £000	2012 £000
Fees and Expenses to appointed audit firms:			
Local authorities	2,530		2,760
National Health Service bodies in Scotland	1,131		1,481
Further education colleges	503		623
Scottish Government and sponsored bodies	872		1,071
	<hr/>	5,036	<hr/> 5,935 <hr/>
Other Costs:			
Rent and rates	678		984
Other accommodation costs	597		642
Travel and subsistence	894		868
Legal and other professional fees	760		552
Stationery and printing	181		202
Training	373		344
Staff recruitment	165		101
Communications (telephone, postage)	51		56
Insurance	79		93
Information technology	293		334
Internal Audit	26		17
External Audit - financial accounts	29		28
Other	249		438
Non-cash items: Depreciation - tangible assets (see note 7)	352		382
Depreciation - intangible assets (see note 8)	71		130
	<hr/>	4,798	<hr/> 5,171 <hr/>
		<hr/> 9,834	<hr/> 11,106 <hr/>

Rent and rates includes £482k in respect of property leases (2011/12 – £752k) - see note 15.

Other includes a charge of £204k (2011/12 – £352k) made to meet outstanding output VAT that may be due for previous accounting periods.

5. Operating income

	2013	2012
	£000	£000
Fees and charges payable:		
- by Local authorities	11,419	11,797
- by National Health Service bodies in Scotland	3,506	3,818
- by Further education colleges	538	598
- by Scottish Government and sponsored bodies	1,780	1,851
	17,243	18,064
Bank interest	52	17
Miscellaneous income	43	324
	17,338	18,405

6. Other Finance income

	2013	2012
	£000	£000
Expected return on local government pension scheme assets	3,064	3,656
Interest on pension scheme liabilities	(3,090)	(3,368)
	(26)	288

7. Property plant & equipment

	Leasehold premises	Furniture & fittings	Computer equipment	Total
Cost	£000	£000	£000	£000
At 1 April 2012	1,546	121	1,330	2,997
Additions	269	26	123	418
Disposals	-	-	(147)	(147)
At 31 March 2013	1,815	147	1,306	3,268
Depreciation				
At 1 April 2012	957	100	1,170	2,227
Charge for the year (note 4)	228	16	108	352
Depreciation on disposals	-	-	(147)	(147)
At 31 March 2013	1,185	116	1,131	2,432
Net Book Value				
At 31 March 2013	630	31	175	836
Analysis of Asset financing				
Owned	630	31	175	836
Prior Year				
Cost	£000	£000	£000	£000
At 1 April 2011	1,698	164	1,101	2,963
Additions	40	8	48	96
Reclassifications	-	-	181	181
Disposals	(192)	(51)	-	(243)
At 31 March 2012	1,546	121	1,330	2,997
Depreciation				
At 1 April 2011	931	127	848	1,906
Charge for the year (note 4)	218	23	141	382
Reclassifications	-	-	181	181
Depreciation on disposals	(192)	(50)	-	(242)
At 31 March 2012	957	100	1,170	2,227
Net Book Value				
At 31 March 2012	589	21	160	770
Analysis of Asset financing				
Owned	589	21	160	770

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.

8. Intangible assets

	Software	
	2013	2012
	£000	£000
Cost		
At 1 April	696	678
Additions	17	18
Disposals	(33)	-
At 31 March	680	696
Depreciation		
At 1 April	591	461
Charge for the year (note 4)	71	130
Disposals	(33)	-
At 31 March	629	591
Net Book Value		
At 31 March	51	105

9. Trade and other receivables

	2013	2012
	£000	£000
Amounts falling due within one year:		
Trade receivables:		
Central Government bodies	-	380
Local authorities	33	1
Bodies external to government	6	14
	39	395
Work in progress in advance of billing	1,615	1,655
Prepayments	542	519
	2,196	2,569

There are no Trade and other receivables due after one year.

10. Cash and cash equivalents

	2013 £000	2012 £000
Balance at 1 April	1,951	2,810
Net change in cash and cash equivalents	(752)	(859)
Balance at 31 March	1,199	1,951
The following balances at 31 March were held at:		
Commercial banks	1,199	1,951

11. Net funding from the Scottish Government

	2013 £000	2012 £000
Opening cash balance payable to the Consolidated Fund	1,951	2,810
Funding received from the Consolidated Fund	5,750	5,750
Closing cash balance payable to the Consolidated fund	(1,199)	(1,951)
Net Funding from the Scottish Parliament	6,502	6,609

12. Trade payables and other current liabilities

	£000	£000	£000
Amounts falling due within one year:			
Trade payables:			
Central Government	5		-
Local authorities	59		-
NHS bodies in Scotland	4		-
Bodies external to government	205		629
		273	629
Cash balance payable to Consolidated Fund		1,199	1,951
Deferred income		420	232
VAT		111	311
Accruals		423	347
Staff benefits - untaken holidays		603	592
Rent free period on premises – current liability (note 13)		36	9
		3,065	4,071

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

13. Deferred liabilities

Audit Scotland rents premises in various locations in accordance with its operational requirements. During the years ended 31 March 2003, 31 March 2012 and 31 March 2013 various leases were negotiated with rent-free periods.

	2013	2012
	£000	£000
Opening balance at 1 April		
Current	9	15
Deferred	19	25
	28	40
Additions	50	5
Released during year	(20)	(17)
	58	28
Closing balance at 31 March		
Whereof:		
Current	36	9
Deferred	22	19
	58	28

14. Provision for early retirement and severance

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

	2013	2012
	£000	£000
Opening balance at 1 April	2,319	2,650
Additions	313	334
Utilised in year	(364)	(849)
Revaluation	201	184
	2,469	2,319
Closing balance at 31 March		
Payable within 1 year	557	503
Payable after 1 year	1,912	1,816
	2,469	2,319
Discount rate used	4.5%	4.8%

Early retiral and severance

During January to March 2013, 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 2013, eight staff had indicated a willingness to accept terms to leave Audit Scotland in the period April to December 2013. A further provision of £313k has been made in the accounts for the year ended 31 March 2013 to meet the costs of early departures

In the year to March 2013, seven 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 £386k.

	No of Arrangements	
	2013	2012
< £10,000	2	3
£10,000 - £25,000	-	3
£25,000 - £50,000	2	3
£50,000 - £100,000	1	6
£100,000 - £150,000	2	1
Total number of arrangements	7	16
Total cost (£000)	386	718

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 Scottish 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 2013 was £441k (31 March 2012 – £451k).

15. Commitments under leases

During the period to 31 March 2013, the amounts charged to revenue in respect of operating leases for premises and vehicles were as follows:

	2013 £000	2012 £000
Premises (note 4)	482	752
Vehicles	467	469
	949	1,221

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

	2013 £000	2012 £000
Premises - lease expiry		
Within one year	535	532
Later than one year and not later than five years	852	1,096
Later than five years	254	-
	1,641	1,628
Vehicles - lease expiry		
Within one year	416	403
Later than one year and not later than five years	306	396
	722	799

Audit Scotland has no finance leases.

16. Other provisions

Other provisions comprise property dilapidations.

Audit Scotland leases five 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.

The movement in the property dilapidations provision during the year was as follows:

	2013	2012
	£000	£000
Opening Balance at 1 April	575	542
Provided in year	43	33
Utilised in year	(50)	-
Closing Balance at 31 March	568	575
Payable within 1 year	79	123
Payable after 1 year	489	452
	568	575

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 £160k could arise.

19. Capital commitments

At 31 March 2013, there were no contracted capital commitments payable in 2013/14.

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 (FReM) 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 accounts of Audit Scotland for the year ended 31 March 2013 which comprise the Summary of Resources 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 2012/13 Government Financial Reporting Manual (the 2012/13 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 32, the Accountable Officer is responsible for the preparation of the accounts 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 accounts 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 covers all risks and controls, nor are we required to form an opinion on the effectiveness of the risk and control procedures. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. Our responsibilities do not extend to any other information.

Scope of the audit of the accounts

An audit involves obtaining evidence about the amounts and disclosures in the accounts sufficient to give reasonable assurance that the accounts 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 accounts.

Opinion on the accounts

In our opinion the accounts:

- give a true and fair view of the state of Audit Scotland as at 31 March 2013 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 2012/13 FReM
- have been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and Directions by Scottish ministers issued thereunder.

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 accounts 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 accounts.

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 accounts 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 2013

Annual Report and Accounts

Year ended 31 March 2013



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