

Annual Report and Accounts

Year ended 31 March 2003

Accounts for the year ended 31 March 2003

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Foreword

Basis of Accounts

These are the accounts of Audit Scotland for the year ended 31 March 2003. These accounts have been prepared in compliance with a direction given by the Scottish Ministers in accordance with section 19(4) of the Public Finance and Accountability (Scotland) Act 2000.

Statutory Background

Audit Scotland was formed on 1 February 2000 (and commenced operations on 1 April 2000), following the transfer of staff and property from the Accounts Commission and National Audit Office, under the Public Finance and Accountability (Scotland) Act 2000. Part 2 of the Public Finance and Accountability (Scotland) Act 2000 established Audit Scotland as a corporate body.

Aims and Objectives

To provide high quality support to the Auditor General and the Accounts Commission.

Principal Activities

Audit Scotland supports both the Accounts Commission and the Auditor General for Scotland in the exercise of their respective functions.

Audit Scotland reports the results of its activities to the Scottish Parliament through the Auditor General for audits of the Scottish Executive and agencies, Health Service bodies, NDPB's, Further Education Colleges and the Water Authority. Audit Scotland reports the results of its audits of Local Authorities, Police, Fire and other Joint Boards to the Accounts Commission.

Audit Scotland also carries out performance audits and value for money studies for both the Auditor General and the Accounts Commission.

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 are broadly equivalent to its expenditure. Any expenditure not met from charges is payable out of the Scottish Consolidated Fund.

Review of Results

The results for the year are reported in the attached accounts and show a net operating cost of £5.1M (2002 - £4.0M). Audit Scotland produces an Annual report, which sets out the activities and performance of the organisation. This report is available on Audit Scotland's website at www.audit-scotland.gov.uk.

Post Balance Sheet Events

There were no important events occurring after the year-end which fall under the definition of a post balance sheet event.

Pensions and Early Departure Costs

Details about the organisation's pension and early retirement costs are included in the notes to these accounts.

Foreword (continued)

Board and Management

The Audit Scotland Board comprises the Auditor General, the Chairman of the Accounts Commission, the two Deputy Auditors General and an independent member. Mr P Taylor was appointed as the independent member of the Board on 1 October 2001

Robert W Black was appointed as Auditor General for Scotland on 1 February 2000 and holds office on such terms and conditions as the Parliamentary corporation may determine in accordance with Part 2 of the Public Finance and Accountability (Scotland) Act 2000.

Two Deputy Auditors General (R Hinds and C Gardner), the Secretary to Audit Scotland and the Accounts Commission (W Magee), the Director of Corporate Services (D McGiffen,) and the Director of Audit Strategy (R Frith) are employees of Audit Scotland. These individuals, together with the Auditor General for Scotland, form the Senior Management Team.

Details of the remuneration and pension arrangements of the Board, the Auditor General and the Senior Management Team of Audit Scotland are provided in Note 2 to the accounts.

Mr A MacNish was appointed as Chairman of the Accounts Commission on 1 October 2001. The Accounts Commission was established under section 97 of the Local Government (Scotland) Act 1973. Details of the Accounts Commission members' remuneration are provided in Note 2 to the Accounts.

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 recognises the importance of good industrial relations and effective communication with all its staff. Regular meetings are held with staff representatives to discuss matters of mutual interest.

Payment to Suppliers

In line with CBI Prompt Payment Code Audit Scotland has a policy to pay all invoices not in dispute in 30 days or the agreed contractual terms if otherwise specified. Of a sample of invoices monitored during the year, 77% were paid on or before the due date.

Auditors

Accounts prepared by Audit Scotland must, under s(19) Public Finance and Accountability (Scotland) Act 2000, be sent to the Scottish Commission for Public Audit (SCPA) for auditing. The SCPA has appointed Mazars, as auditors to Audit Scotland for a three-year period commencing January 2002.



R W Black

Auditor General
Accountable Officer

Date: 11 September 2003

Statement of Accountable Officer's Responsibilities

Under section 19(4) of the Public Finance and Accountability (Scotland) Act 2000 Audit Scotland is required to prepare resource accounts for each financial year, in conformity with the direction of the Scottish Ministers, detailing the resources acquired, held, or disposed of during the year and the use of resources by Audit Scotland during the year.

The resource accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of Audit Scotland, the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the financial year.

The Scottish Commission for Public Audit has appointed the Auditor General for Scotland as Accountable Officer for Audit Scotland with responsibility for preparing the accounts of Audit Scotland and for submitting them for audit to the Scottish Commission for Public Audit.

In preparing the accounts the Accountable Officer is required to comply with the Resource Accounting Manual (RAM) 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 RAM 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 books and for safeguarding assets, are set out in the "Accountable Officer's Memorandum".

Statement on The System of Internal Control

This statement is given in respect of the resource account for Audit Scotland. As Accountable Officer I have responsibility for maintaining a sound system of internal control which supports the achievement of Audit Scotland's policies, aims and objectives whilst safeguarding public funds and Audit Scotland's assets for which I am personally responsible, in accordance with the responsibilities as set out in the "Accountable Officer's Memorandum".

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

The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of Audit Scotland's policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them effectively and economically. This process was in place by 31 March 2003, the whole of the preceding year and up to the date of approval of the annual report and accounts.

As Accountable Officer, I also have responsibility for reviewing the effectiveness of the system of internal control. Audit Scotland has established the following processes:

- a Board that meets regularly to consider the plans and strategic direction of Audit Scotland (the Board comprises senior members of the organisation, the Auditor General, the Chairman of the Accounts Commission and one external independent member);
- an audit committee and a remuneration committee;
- Chiene and Tait were appointed internal auditors in October 2001 and report independently on the adequacy and effectiveness of Audit Scotland's system of internal control together with recommendations for improvement;
- regular reports from managers on the steps they are taking to manage risks in their areas of responsibility including progress reports on key projects;
- facilitated workshops for risk awareness training and to identify the risks facing the organisation;
- establishment of key performance and risk indicators.

My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and of executive managers within Audit Scotland who have responsibility for the development and maintenance of the internal control framework, and by comments made by the external auditors in their management letter and other reports.



R W Black
Accountable Officer

Date: 11 September 2003

Schedule 1
Summary of Resource Outturn
for the year ended 31 March 2003

	<i>2003 Estimate £000</i>	2003 Actual £000	2002 Actual £000
Net Total Costs	(5,982)	(5,109)	(4,033)
Net Cash Requirement (<i>see below</i>)		5,973	4,383
Reconciliation of resources to Net Cash Requirement			
	Note	2003 £000	2002 £000
Net Operating Cost (<i>Schedule 2</i>)		5,109	4,033
Capital: Purchase of fixed assets	5	392	314
		5,501	4,347
Adjustments			
Non cash items	3	(331)	(326)
Opening net debtors/creditors		(238)	(193)
Closing net debtors/creditors		575	238
Creditor due to Consolidated Fund	7	466	317
		517	36
Net Cash Requirement (<i>Schedule 4</i>)		5,973	4,383

The notes on pages 10 to 19 form part of these accounts

Schedule 2
Operating Cost Statement
for the year ended 31 March 2003

	Note	2003 Actual £000	2002 Actual £000
Administration Costs			
Staff costs	2	10,167	8,870
Other Administration costs	3	10,266	7,168
Gross administration costs		20,433	16,038
Operating Income	4	15,324	12,005
NET OPERATING COST		5,109	4,033

There were no discontinued operations during the period, nor were there any recognised gains or losses other than the reported results for the period as detailed above.

The notes on pages 10 to 19 form part of these accounts.

Schedule 3
Balance Sheet
As at 31 March 2003

	Note	2003 £000	2002 £000
Fixed Assets			
Tangible assets	5	515	378
Current Assets			
Debtors	6	4,336	3,777
Cash at bank and in hand		466	317
		4,802	4,094
Creditors			
Amounts falling due within one year	7	2,577	2,588
Net Current Assets		2,225	1,506
Total assets less current liabilities		2,740	1,884
Deferred Liabilities	8	(154)	(96)
Provision for Early Retirement	9	(1,030)	(855)
NET ASSETS		1,556	933
<i>Represented by:</i>			
TAXPAYERS EQUITY - GENERAL FUND	10	1,556	933



R W Black
Auditor General
Accountable Officer

Date: 11 September 2003

The notes on pages 10 to 19 form part of these accounts.

Schedule 4
Cash Flow Statement
for the year ended 31 March 2003

Cash Flow Statement	Note	2003 £000	2002 £000
Net cash outflow from operating activities (<i>note a</i>)		(5,581)	(4,069)
Capital expenditure and financial investment (<i>note b</i>)		(392)	(314)
Financing from the Consolidated Fund (supply)		6,122	4,520
Increase in cash in the period		149	137
 <i>Notes to the Cash Flow Statement</i>			
a) Reconciliation of operating cost to operating cash flows			
Net operating cost (<i>Schedule 2</i>)		(5,109)	(4,033)
Adjustment for non-cash items	3	331	326
(Increase) in debtors		(559)	(1,011)
Increase in creditors		222	966
Adjustment for cash balance due to Consolidated Fund	7	(466)	(317)
Net cash outflow from operating activities		(5,581)	(4,069)
 b) Capital expenditure and financial investment			
Purchase of fixed assets	5	(392)	(314)
 c) Analysis of financing			
From Consolidated Fund (Supply)		6,122	4,520
(Increase) in cash		(149)	(137)
Net cash requirement (<i>Schedule 1</i>)		5,973	4,383

The notes on pages 10 to 19 form part of these accounts.

Schedule 5

**Resources by Departmental Aims and Objectives
for the year ended 31 March 2003**

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

Net Operating Cost	Gross Expenditure £000	Income £000	Net Expenditure £000
2003 Actual	20,433	15,324	5,109
2002 Actual	16,038	12,005	4,033

The notes on pages 10 to 19 form part of these accounts.

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Notes to the Resource 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 Resource Accounting Manual applicable for the year. The particular accounting policies adopted by Audit Scotland are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

Basis of Accounting

The accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets at their value to the business by reference to their current cost. In accordance with the principles of resource accounting, the gross funding received from the Scottish Executive is recorded directly within the General Fund (note 10) and therefore is not included in the operating income received in the year in Schedule 2.

Tangible fixed assets

All property occupied by Audit Scotland is leasehold. The minimum level of capitalisation of a tangible fixed asset is £5,000 for individual or group purchases.

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 lives are normally:

<i>Leasehold buildings</i>	<i>life of lease</i>
<i>Furniture and office equipment</i>	<i>5 years</i>
<i>Computer Equipment</i>	<i>5 years</i>

Amortisation of Rent-Free Periods

Rent-free periods on leases of premises are amortised over the period of the lease, or over the period until the first rent review, as appropriate.

Operating Income

Operating income is income that relates directly to the operating activities of Audit Scotland. It principally comprises fees and charges for services provided on a full cost basis to audited bodies. Payments received on account of work in progress in excess of the value of carrying out the relevant work are included in creditors.

Cost of Capital Charge

A charge reflecting the cost of capital utilised by Audit Scotland is included in the operating statement. The charge is calculated on the average value of fixed assets and working capital held during the year at the Government's standard rate of 6% per annum.

Pensions

Audit Scotland makes pension provision for present and former employees through three pension schemes. The Auditor General has benefits provided through a scheme by analogy to the Local Government Pension scheme. Employees joining Audit Scotland after 1 April 2000 and those transferring to Audit Scotland from the Accounts Commission have benefits provided through the Local Government scheme. Employees transferring to Audit Scotland at 1 April 2000 from the NAO are covered by the provisions of the Principal Civil Service Pension Scheme.

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Notes to the Resource Accounts (continued)

2: Staff Numbers and Costs

Staff costs comprise:	2003 £000	2002 £000
<i>Administrative Staff</i>		
Salaries	8,047	7,123
National Insurance	600	553
Superannuation	1,187	920
Provision for early retirement costs	254	198
	10,088	8,794
<i>Accounts Commission Members</i>		
Salaries	68	66
National Insurance	3	2
Travel and Subsistence	8	8
	79	76
Total	10,167	8,870

The average number of directly employed staff during the period was 227 (2002 – 203).

Accounts Commission for Scotland

The average number of Members of the Commission throughout the period was 12 and their remuneration was as follows:

	<i>Remuneration Banding</i> £000
Chairman - Mr A McNish	20-25
Depute Chair	5-10
Commission Members	0-5

Audit Scotland Board

Under the provisions of schedule 2 of the PFA (Scotland) 2000 Act the Auditor General and the Chairman of the Accounts Commission and any employee of Audit Scotland or member of the Accounts Commission are not entitled to any remuneration in respect of their membership of the Audit Scotland Board. The remuneration of the independent member of the Board fell within the band £0 to £5,000.

Senior Management

The salaries paid (including any overtime and bonus payable, but excluding employer's superannuation and national insurance contributions), pension entitlements (including the annual increase in real terms) and benefits in kind of the most senior managers of Audit Scotland during the year ended 31 March 2003 were in the bands shown as follows:

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Notes to the Resource Accounts (continued)

2: Staff Numbers and Costs (continued)

<i>Name and Title</i>	<i>Age at 31/3/2003</i>	<i>Salary £000</i>	<i>Estimated value of benefits in kind, to nearest £100</i>	<i>Increase in pension earned during the year in bandings £000</i>	<i>Total accrued pension at age sixty £000</i>
Robert Black <i>Auditor General</i>	56	(Note a) 120-125	(Note b) -	0-2.5	0-5
Bill Magee <i>Secretary</i>	53	90-95	2,000	0-2.5	0-5
Caroline Gardner <i>Deputy Auditor General (Performance Audit)</i>	39	90-95	-	0-2.5	0-5
Ronnie Hinds <i>Controller of Audit and Deputy Auditor General</i>	48	90-95	-	0-2.5	0-5
Diane McGiffen <i>Director of Corporate Services (From 6 December 2002)</i>	39	20-25	1,000	0-2.5	0-5
Russell Frith <i>Director of Audit Strategy (From 6 December 2002)</i>	43	25-30	-	0-2.5	0-5

- Salary, for those joining or leaving the Senior Management Team, relates to the amounts earned from the date of joining or to the date of leaving.
- The estimated value of benefits in kind relates to the provision of vehicles.

Pension assets and liabilities

In accordance with Financial Reporting Standard No 17 – Retirement benefits (FRS 17) Audit Scotland is required to disclose certain information concerning assets, liabilities, income and expenditure related to pension schemes for its employees. Audit Scotland operates two main pension schemes; the Local Government Scheme, administered by the Lothian Pension Fund, and the Principal Civil Service Pension Scheme, or PCSPS. Audit Scotland is not required to record information related to the PCSPS scheme as the liability for payment of pension rests with the Scottish Executive. In addition, Audit Scotland operates a “by analogy” scheme outside the two main schemes.

a) Local government scheme

Audit Scotland has an agreement with City of Edinburgh Council under which all staff are eligible to enter the Lothian Pension Fund (being the name of the Local Government Superannuation Scheme managed by the Council) in accordance with the rules thereof. 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 assumptions used for the purposes of their FRS 17 calculations as at 31 March 2003 are as follows:

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Notes to the Resource Accounts (continued)

2: Staff Numbers and Costs (continued)

	2003	2002
Price increases	2.5%	2.8%
Salary increases	4.0%	4.3%
Pension increases	2.5%	2.8%
Discount rate	5.4%	5.9%

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

	£000	£000
Assets	15,540	19,380
Liabilities	(25,110)	(20,480)
Unfunded liabilities	(1,030)	(900)
Net Pension Liabilities	(10,600)	(2,000)

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

	Long Term Return	Fund Value at 31 March 2003	Expected Annual Return
	% per annum	£000	£000
Equities	8.0%	1,029,900	82,390
Property	4.8%	125,000	6,000
Bonds	6.0%	153,100	9,190
Cash	4.0%	37,100	1,480
Total	7.4%	1,345,100	99,060

Liabilities are valued on an actuarial basis using the projected unit method, which assesses the future liabilities of the fund discounted at their present value. The valuations are based on a valuation as of 31 March 2002 by Hymans Robertson.

The movement in the net pension liability for the year to 31 March 2003 is as follows:

	£000
Net pensions liability at 1 April 2002	(2,000)
Current Service cost	(735)
Employer contributions	828
Past service costs	(259)
Net return on assets	90
Actuarial losses	(8,524)
Net Pension Liabilities	(10,600)

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Notes to the Resource Accounts (continued)

2: Staff Numbers and Costs (continued)

During the year ended 31 March 2003, Audit Scotland's contribution to the pension fund represented 16.5% (2002 – 15%) of contributing employees' pensionable pay. Under Superannuation Regulations contribution rates are set to meet 100% of the overall liabilities of the Fund. In their valuation as of 31 March 2002, Hymans Robertson recommended employers' contributions of 17.1% for 2003-04, 18.0% for 2004-05 and 18.9% for 2005-06.

b) PCSP Scheme

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

The PCSPS is an unfunded multi-employer defined benefit scheme, however Audit Scotland is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2000 and details may be found in the separate scheme statement of the PCSPS.

During the year ended 31 March 2003, Audit Scotland paid an employer's contribution of £225k (2002 – £210k) into the PCSP scheme at rates between 12% and 18.5% of pensionable pay (2002 – 12% to 18.5%). It has been agreed that contributions will remain at that level for the next two years. 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

Mr R W Black has benefits provided by analogy to the Local Government pension scheme. Contributions are paid to the Scottish Consolidated Fund. During the year ended 31 March 2003, Audit Scotland paid an employer's contribution of £20.1k (2002 – £17.8k) into this scheme.

Early Departure Costs

In addition, certain costs arising from the early retirement of staff are payable by Audit Scotland. These relate mainly to the granting of compensatory added years, which employers must make to the pension fund.

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Notes to the Resource Accounts (continued)

3: Administration Costs

	£000	2003 £000	2002 £000
<i>Fees and Expenses to Approved Auditors:</i>			
Local authorities	2,771		2,128
National Health Service	1,761		1,512
Water	188		32
Further education	346		12
Scottish Executive and sponsored bodies	358		164
		5,424	3,848
<i>Other Costs:</i>			
Rent and Rates	799		667
Other Accommodation Costs	268		327
Travel and subsistence	643		534
Legal and Other Fees	281		266
Stationery and Printing	248		282
Training	185		154
Staff Recruitment	74		254
Communications (telephone, postage)	60		64
Insurance	107		107
Information Technology	316		254
Audit Fees	17		16
Other	87		69
VAT on revenue expenditure (see Note 6)	1,426		-
<i>Non-cash items:</i>			
Depreciation	255		277
Notional interest on capital	76		49
		4,842	3,320
		10,266	7,168

Rent and rates includes £605k in respect of property leases (see note 11).

4: Operating Income

	2003 £000	2002 £000
Fees payable by Local Authorities	9,407	7,153
Fees payable by National Health Service bodies in Scotland	3,991	3,781
Fees payable by Water bodies	207	55
Fees payable by Further Education Colleges	447	27
Fees payable by Scottish Executive and sponsored bodies	1,031	856
Bank Interest	56	36
Miscellaneous Income	185	97
	15,324	12,005

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Notes to the Resource Accounts (continued)

5: Fixed Assets

	Leasehold buildings £000	Furniture and fittings £000	Computer equipment £000	Total £000
<i>Cost</i>				
At 1 April 2002	74	308	917	1,299
Additions	190	38	164	392
At 31 March 2003	264	346	1,081	1,691
<i>Depreciation</i>				
At 1 April 2002	15	245	661	921
Charge for the year	36	27	192	255
At 31 March 2003	51	272	853	1,176
<i>Net Book Value</i>				
At 31 March 2003	213	74	228	515
At 31 March 2002	59	63	256	378

Fixed assets are shown at historic cost. It is the opinion of Audit Scotland that inclusion of fixed assets at current costs would have no material affect upon the financial position of Audit Scotland.

6: Debtors

	2003 £000	2002 £000
Trade debtors	2,689	358
Work in progress	1,129	580
Value Added Tax	1,426	2,530
Provision for Irrecoverable VAT	(1,426)	
Prepayments	289	309
Ombudsman	229	-
	4,336	3,777

Value Added Tax

In light of the fact that Audit Scotland's VAT status is still to be clarified by HM Customs & Excise, it has been deemed prudent to treat input VAT on revenue expenditure for the year to 31 March 2003 as potentially irrecoverable. Therefore, £1,426k has been charged to operating costs in relation to the input VAT for the year.

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Notes to the Resource Accounts (continued)

7: Creditors

	2003	2002
	£000	£000
Trade creditors	1,028	919
Cash balance payable to Consolidated fund	466	317
Deferred income	280	687
Ombudsman	-	87
Other taxes and social security costs	216	146
Superannuation	135	126
Accruals	422	298
Rent free period on premises – current liability (<i>Note 8</i>)	30	8
	<u>2,577</u>	<u>2,588</u>

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

8: Deferred Liability - Premises Rent Free Period

Audit Scotland rents premises in various locations in accordance with its operational requirements. During 2002-03 various leases were negotiated with rent-free periods.

	2003	2002
	£000	£000
Opening balance at 1 April:		
Current (<i>Note 7</i>)	8	8
Deferred	96	104
	<u>104</u>	<u>112</u>
Additions	110	-
Released during year	(30)	(8)
	<u>184</u>	<u>104</u>
Closing balance at 31 March	184	104
<i>Whereof:</i>		
Current	30	8
Deferred	154	96
	<u>184</u>	<u>104</u>

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Notes to the Resource Accounts (continued)

9: Provision for early retirement

The provision represents the actuarially computed early retirement added years pensions, this being the estimated future liability of Audit Scotland. The movement during the year was as follows:

	2003 £000	2002 £000
Opening balance at 1 April	855	755
Additions	254	198
Revaluation	45	-
Utilised in year	(124)	(98)
Closing balance at 31 March	1,030	855

10: General Fund

	£000	2003 £000	2002 £000
Opening balance at 1 April		933	714
Gross funding from Scottish Executive	6,122		4,520
Cash balance payable to the Consolidated Fund	(466)		(317)
Net funding from Scottish Executive		5,656	4,203
Notional interest on capital		76	49
Net cost of operation		(5,109)	(4,033)
Closing balance at 31 March		1,556	933

11: Leases

During the period to 31 March 2003 the amounts charged to revenue in respect of operating leases for premises and equipment were as follows:

	2003 £000	2002 £000
Premises (note 3)	605	451
Equipment	363	313
	968	764

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Notes to the Resource Accounts (continued)

11: Leases, cont'd.

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

	2003		2002	
	Premises £000	Equipment £000	Premises £000	Equipment £000
Lease expiry				
Within one year	-	20	47	70
In two to five years	-	290	-	291
After five years	542	-	434	-
	<hr/>	<hr/>	<hr/>	<hr/>
	542	310	481	361
	<hr/>	<hr/>	<hr/>	<hr/>

12: 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 from audit fees to public sector bodies. During the period none of Audit Scotland's management staff has undertaken any material transactions with related parties.

13: Capital Commitments and Contingent Liabilities

At 31 March 2003 there were no capital commitments or contingent liabilities.

Direction by the Scottish Ministers

In accordance with section 19(4) of the Public Finance and Accountability (Scotland) Act 2000

1. The resource accounts for the financial year ended 31 March 2001 and subsequent financial years, shall comply with the accounting principles and disclosure requirements of the edition of the Resource Accounting Manual which is in force for the year for which the resource accounts are prepared.
2. The statement of accounts shall give a true and fair view of the net resource outturn and cash flows for the financial year, and the state of affairs as at the end of the financial year.
3. This direction shall be reproduced as an appendix to the resource accounts.

Signed by the authority of the Scottish Ministers

25 April 2001

Independent Auditors' Report

To the Scottish Commission for Public Audit

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

AUDIT SCOTLAND

We have audited the organisation's accounts for the year ended 31 March 2003, which comprise the Summary of Resource Outturn, Operating Cost Statement, Balance Sheet, Cash Flow Statement, Resources by Departmental Aims and Objectives and the related notes 1 to 13. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

This report is made solely to the Scottish Commission for Public Audit, as a body, in accordance with Section 22(1) (a) and (b) of the Public Finance and Accountability (Scotland) Act 2000. Our audit work has been undertaken so that we might state to the Scottish Commission for Public Audit those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scottish Commission for Public Audit as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Audit Scotland and auditors

As described in the Statement of Accountable Officer's Responsibilities, Audit Scotland is responsible for the preparation of the accounts in conformity with the direction of the Scottish Ministers. The Accountable Officer is responsible for the propriety and regularity of the public finances, for keeping proper books and for safeguarding assets, as set out in the Accountable Officer's Memorandum.

Our responsibility is to audit the accounts in accordance with the terms of our appointment, relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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 is not consistent with the accounts, if the organisation has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read the other information contained in the Statement on the System of Internal Financial Control, and consider whether it is consistent with the audited accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. Our responsibilities do not extend to any other information.

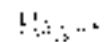
Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Board in the preparation of the financial statements, and of whether the accounting policies are appropriate to Audit Scotland's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

In our opinion, the accounts give a true and fair view of the state of affairs of Audit Scotland as at 31 March 2003 and of its net resource outturn for the year then ended, have been properly prepared in accordance with section 19(4) of the Public Finance and Accountability (Scotland) Act 2000, and the expenditure has been incurred and receipts have been applied in accordance with section 22(1)(a) and (b) of the Public Finance and Accountability (Scotland) Act 2000.



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