

Corporate plan: 2004-07

April 2004



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 Executive and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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Introduction by the Auditor General and Chairman of the Accounts Commission



Robert W Black

- an outline of our financial resources.

Audit Scotland has responsibilities that cover most sectors of devolved public expenditure. [Exhibit 1](#) illustrates the responsibilities for audit, and the roles of the Auditor General, the Accounts Commission and Audit Scotland.

Public audit is based on three principles:

- the independence of public sector auditors from the organisation being audited
- the wide scope of public audit, covering not only the audit of financial statements, but also regularity, probity, value for money and governance
- the ability of public auditors to make the results of their audits available to elected representatives and to the public.

We are committed to supporting these principles and ensuring that a

consistent and robust public audit regime is applied to devolved spending in Scotland. Audit Scotland aims to become a centre of excellence for public sector audit through the developments proposed in this plan.

Robert W Black
Auditor General

Alastair MacNish
Chairman, Accounts Commission



Alastair MacNish

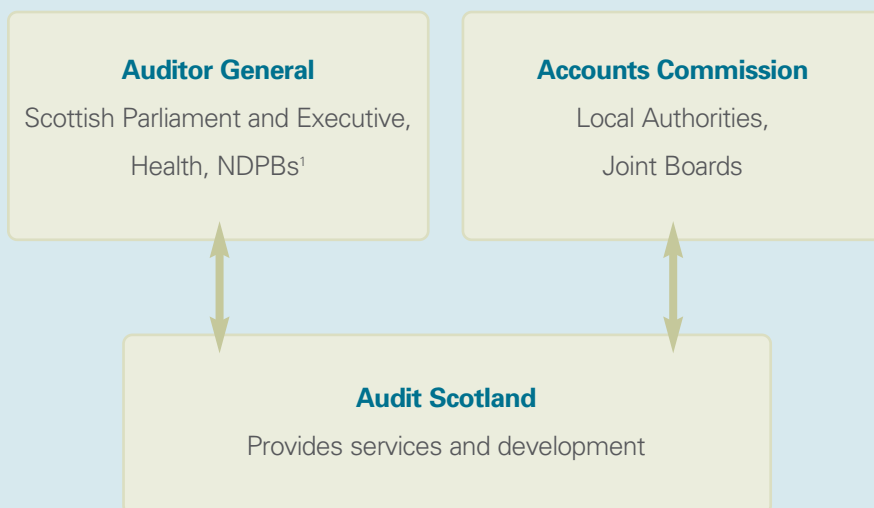
In October 2003, Audit Scotland published a corporate plan for 2003-05, outlining the organisation's priorities for the immediate future. This longer-term plan presents our proposals for developing public audit in Scotland over the next three years.

The plan includes:

- a description of Audit Scotland's purpose and organisation
- the strategic context for the development of our work over the next three years
- our forward work programme

Exhibit 1

The Auditor General, Accounts Commission and Audit Scotland



¹ Non-departmental public bodies. In 2002, Audit Scotland published *How government works in Scotland*, a major reference work prepared for the Auditor General. This report set out, for the first time, the organisation of all public bodies in Scotland and their responsibilities and accountabilities.

Audit Scotland – our organisation

Our purpose

Audit Scotland operates under the Public Finance and Accountability (Scotland) Act 2000. We provide services to the Auditor General and the Accounts Commission. Our role is to:

- deliver comprehensive public audit
- promote high standards of governance, stewardship and management
- support service improvements and Best Value
- report in the public interest.

Auditors appointed to undertake the audit of public bodies provide independent, objective assurance on the audited bodies' governance, financial stewardship and performance, and form a key element in the processes of democratic scrutiny and continuous improvement. The auditors' assessments of these arrangements are reported to the audited bodies and to the Auditor General or the Accounts Commission.

On behalf of the Auditor General and the Accounts Commission, Audit Scotland manages the appointment of auditors to audited bodies. These are a mixture of direct employees of Audit Scotland and firms of accountants selected after

competition. Audit Scotland also operates a quality appraisal regime across all audit appointments.

Audit Scotland also conducts studies and examinations on performance and value for money, on behalf of the Auditor General and the Accounts Commission.

Sound financial management and probity are the cornerstones of effective corporate governance. Our audit of financial probity is the foundation of Audit Scotland's work, and our starting point for delivering performance and Best Value audits.

Our organisation

Our **mission statement** sets out the way in which we will implement the

Our mission statement

“Audit Scotland will provide high-quality services to the Auditor General and the Accounts Commission. We will support effective democratic scrutiny by providing independent, objective assurance on governance, financial stewardship and performance. We will also support continuous improvement in public services and give priority to the interests of the people of Scotland.”

strategies of the Auditor General and the Accounts Commission.

Corporate governance arrangements

The Board of Audit Scotland is made up of five people:

- Robert Black, the Auditor General (who is also the accountable officer for Audit Scotland)
- Alastair MacNish, the Chairman of the Accounts Commission

and the following Board members, appointed by the Auditor General and Chairman:

- Caroline Gardner, the Deputy Auditor General

- John Baillie, a member of the Accounts Commission
- Phil Taylor, an independent non-executive.

The Board is chaired by Alastair MacNish.

The Audit Scotland Board meets about five times a year and has two committees; the audit committee chaired by John Baillie, and the remuneration committee, chaired by Phil Taylor. The Board has approved a set of governance documents based on good practice in corporate governance. The operation of the committees and the contents of the governance documents will be

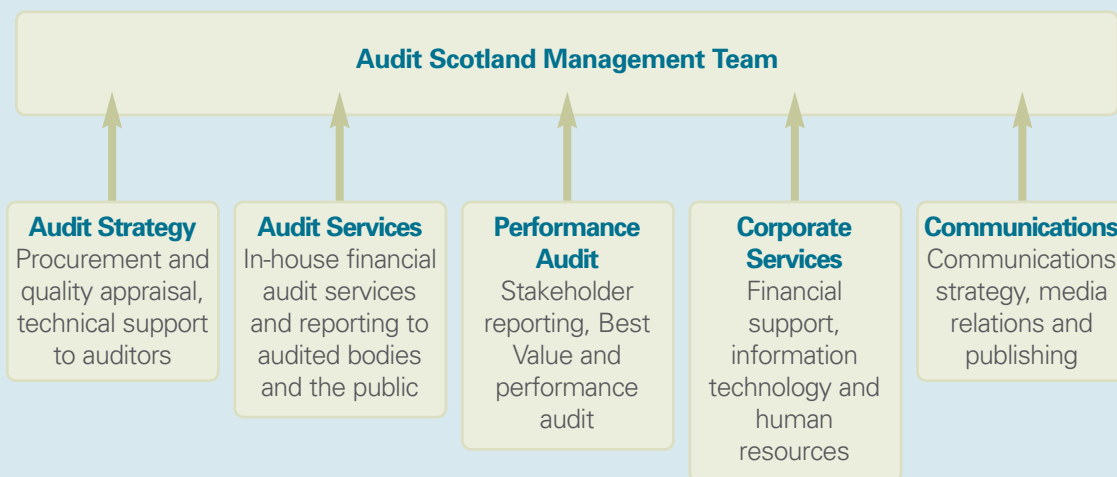
reviewed during the course of this plan, to ensure that the highest standards of corporate governance continue to apply within the organisation. The Board also approves a risk register for Audit Scotland which is reviewed and updated every six months.

Staffing

Audit Scotland employs around 260 people in six locations throughout Scotland. We have recently restructured to ensure that our organisation is in the best position to deliver the programme outlined in this plan. Staff are now grouped under senior management, as illustrated below.

Exhibit 2

The Audit Scotland Management Team



Strategic context



Audit Scotland aims to provide high-quality services to the Auditor General and the Accounts Commission, and our work is guided by their strategic objectives.

The **Auditor General** has recently published a strategic statement for public audit in Scotland, the full text of which is available on Audit Scotland's website. The statement identifies a number of recent developments which have a significant impact on public audit, including:

- the real increases in public expenditure over recent years, and the need to demonstrate that extra resources are being used economically and efficiently, and are having a direct and significant impact on services;
- the introduction of Best Value legislation in local government, the roll out of Best Value to the rest of the public sector and policy developments, such as NHS reorganisation;

- the emphasis on new ways of working, including e-government and related investment in ICT, and the promotion of joined-up delivery of services, through initiatives such as Joint Futures and community planning;
- the review of the auditing profession, following the collapse of ENRON.

In the context of this changing environment, audit can provide powerful support to effective, democratic scrutiny of how public money is spent and what it achieves, and to improvement in the performance of public services.

The Auditor General has proposed a reporting framework that distinguishes between reports that assist the Parliament in holding public bodies to account, and reports that will challenge and assist audited bodies to improve.

The **Accounts Commission** aims to hold local authorities to account by using the audit process to:

- provide assurance on probity, stewardship and financial management
- promote the economic, efficient and effective use of resources
- secure the fair presentation of finance and performance information
- effect continuous improvement.

The Accounts Commission Strategy Document 2001-2004 sets out its direction and objectives, and the corporate plan reflects them. The Commission will revise its Strategy Document during 2004 and future corporate plans of Audit Scotland will take into account the revised Strategy.

The Commission's objectives are:

- to achieve effective programmes for financial audit and assurance, Best Value audit and performance audit

- the effective publication of performance information
- sound corporate governance (through holding Audit Scotland and the private firms to account for delivery of local government audit).

Audit Scotland's role is to deliver a public audit regime which meets the strategic objectives of the Auditor General and Accounts Commission, summarised above. We recently completed a comprehensive review of the services we provide and how we are organised, to enable us to fulfil this role as efficiently and effectively as possible. Three themes underpinned our review:

- the needs of the Auditor General, the Accounts Commission and our other major stakeholders – the Scottish Parliament and MSPs – and through them, the needs of the citizens of Scotland;
- the needs of our clients – the public bodies we audit – to ensure the audit process maintains its independence and objectivity, and adds value by contributing to real improvements in the services provided by these organisations;
- the need to ensure our own organisation operates economically, efficiently and effectively, offers Best Value, and that we excel in meeting all our responsibilities for training and developing our staff, and in relation to diversity and equality.

Our forward work programme, designed to meet the requirements of the Auditor General and the Accounts Commission, is organised around five priority areas:

1. Supporting democratic scrutiny and continuous improvement.
2. Delivering the audit.
3. Maximising the value and benefit of audit.
4. Creating an integrated organisation with effective business processes.
5. Improving Audit Scotland by supporting learning and growth.

What we intend to deliver within these five priorities is described in the following section, with timescales indicated where appropriate.

Our forward work programme



What we intend to achieve over the next three years, within our five priority areas, is described in the following pages. This corporate plan is supported by annual business plans and a robust performance and financial reporting framework. We will demonstrate the efficiency and effectiveness of our work through performance indicators and outcome measures that track our progress. We will report publicly on progress against this plan in our annual reports. Our high-level performance indicators are listed in Appendix 1.

Priority: Supporting democratic scrutiny and continuous improvement

Introduction

This priority relates to the performance audit reports we make to our major stakeholders – the Auditor General, the Accounts Commission and the Scottish Parliament. Our financial reports also have a major role in achieving this priority by providing audit input to stakeholder reporting and through local reporting to audited bodies.

Our stakeholder reports concentrate on issues of national importance, either because of their significance in an individual body, or because they affect a number of similar bodies across Scotland. They are produced on behalf of the Accounts Commission and the Auditor General and are considered in public.

The main types of report we produce are:

- reports on matters relating to the audited accounts of audited bodies
- investigations into issues of public concern
- integrated reports across a range of public sectors, for example, local government or the NHS
- reports of performance studies into specific public services
- audits of Best Value in individual public bodies
- reports of comparative performance against statutory indicators in local government

Over the next three years, we will:

- consult on and deliver a programme of Performance Audit studies and overview reports, which meet the needs of our stakeholders – the studies planned for publication in 2004/05 are listed in Appendix 2;
- continue to respond to specific requests from the Scottish Parliament to investigate areas of concern relating to public expenditure, and to relevant matters of concern raised by members of the public and their representatives;
- continue to report to the Auditor General or the Accounts Commission on significant issues arising from the audited accounts of public bodies;
- deliver an effective, respected Best Value audit regime, initially in local government and then across the public sector. The new audit of Best Value in local government has been launched. This is a major new initiative. Plans for

auditing Best Value across the rest of the public sector will be developed during 2004 for implementation in 2005;

- contribute to improvement initiatives in the public sector, such as Community Planning and joint working, including developing and implementing proposals for Community Planning indicators by 2005;
- develop better integrated reporting on key sectors, by bringing together issues arising from local audits and central analysis. This will provide a rounded picture of performance and highlight issues of national significance. We will develop these reports to include issues such as assessments of current issues and risks, analyses of efficiency within the sector and anticipation of issues of public concern;
- produce reports which examine services across organisational boundaries from the perspective of citizens and service users. These can have a significant impact on important areas of public service delivery.

Measuring our progress

In addition to the performance indicators in Appendix 1, our outcome measures for this strategic priority include:

- change happening as a result of audits, either in improvements in the economy, efficiency, effectiveness and quality of public services, or improvements in the management of public bodies;
- Scottish Parliament and Accounts Commission satisfied with new regime and holistic reporting;

- raised understanding among MSPs and members of the public about which public bodies are performing well and which need to improve.

Priority: Delivering the audit

Introduction

This priority relates to the public bodies we audit – our client base. Through the audit process, we aim to improve the standards of financial stewardship and performance, probity and governance throughout the public sector.

Audit Scotland is responsible for the audit of over 200 bodies, including:

- the departments of the Scottish Executive, its NDPBs and agencies
- NHS boards and trusts
- further education colleges
- Scottish Water
- councils and joint boards.

The Auditor General and the Accounts Commission appoint auditors to most public bodies in Scotland, from either Audit Scotland's staff or firms of accountants. A common Code of Audit Practice is followed for all audited bodies, whether the audit is conducted by an in-house or an external audit provider. Once appointed, auditors act independently in carrying out their responsibilities and exercising their professional judgement.

Auditors generally report to local management in order that problems can be identified and improvements made without the involvement of the Auditor General, the Parliament's Audit Committee or the Accounts Commission.

The work programme outlined below relates to the audit work undertaken directly by our own staff. We are conducting a major review of our audit approach, to ensure it identifies and reports the right issues and adds value to audited bodies. The aim of this review is to:

- develop audits that focus on the key risks and priorities facing our clients;
- ensure that areas of significant risk are identified and drawn to our clients' attention at an early stage;
- provide our clients and stakeholders with rounded reports on the client's governance, financial stewardship and performance, which dovetail with and support the new approach to Best Value;
- ensure our audit reports make a significant contribution to improved delivery of public services and better management of public money.

Over the next three years, we will:

- continue to deliver, annually, the audits for the 130 public bodies for whom we are the appointed auditors. This portfolio of audits represents about two-thirds of all work commissioned by the Auditor General and the Accounts Commission. We will also ensure the delivery of audits by appointed firms, within the timescales and to the quality standards expected by the Auditor General and the Accounts Commission;
- implement a revised risk-based approach across all sectors. We are currently piloting the risk-based approach in the NHS. During the 2004-05 audit year, we

will apply the revised risk-based audit approach to all NHS bodies and pilot it in local and central government. During the 2005/06 audit year, we will apply the new approach across the public sector;

- develop a 'Priorities and Risk Framework' for each sector. These will identify key national initiatives within each sector, the main risks to their achievement, and the principal issues and pressures that impact on audited bodies.

Measuring our progress

We are developing our performance measures in this area to reflect the new direction of our audit work.

These will demonstrate more effective targeting of resources to report on key issues and our increased understanding of clients' business risks. We will continue to report our performance in completing audits within statutory and Accounts Commission deadlines. Our outcome measures for this priority include:

- change happening in audited bodies as a result of audits
- improved quality appraisal results
- increased staff and client satisfaction.

Priority: Maximising the value and benefit of audit

Introduction

This priority relates to improving the quality and effectiveness of our audit work, in particular, through developing a modern quality and procurement strategy.

A commitment to ensuring our audits add value to both our stakeholders and our clients underpins all our financial and performance audit activity.

Audit Scotland operates a robust quality appraisal system. It provides assurance that all auditors are carrying out audits to the required standards, as laid out in the Code of Audit Practice, and it promotes improvements in audit quality. The system includes visits to audit providers to review audit work, and asking audited bodies for their views about the quality and value added of the audit. Summaries of the main findings from quality appraisals and recommendations for improvements are reported to the Auditor General, the Accounts Commission and the audit providers.

Over the next three years, we will:

- ensure audits and reports add value to the audited body, through a rigorous quality appraisal process;
- develop and implement a procurement strategy. The objective of Audit Scotland's procurement strategy is to arrange audit appointments so that audits are completed within agreed timescales and to high-quality standards. The current audit appointments run until the completion of the audits of the 2005/06 accounts. Over the period of this plan, Audit Scotland will be reviewing its procurement strategy to ensure that the appointments to be made in 2006:
 - take account of increasing emphasis on risk-based audit and consequent need for in-depth understanding of the businesses of audited bodies and the risks facing them
 - reflect the development of Best Value audit
 - are compatible with the auditing profession's new ethical standards

- continue to promote high-quality partnerships with audit providers
- offer value for money in the application of the public audit model
- maintain a mixed economy;
- revise the Code of Audit Practice to take account of the legislative, auditing and other developments that have occurred since the first Code was published in 2001. The revised code will reflect the strategic priorities of the Auditor General and the Accounts Commission, the impact of the Local Government in Scotland Act 2003, and include an increased emphasis on risk-based auditing. The revised Code of Audit Practice will be published in 2005;
- develop the delivery of optional audit services as part of our business in order to allow auditors to tailor their work to maximise its added value. We will identify areas, such as those linked to the Priorities and Risk Frameworks, where additional services can be offered within the overall remit of audit work and without compromising the independence of auditors;
- develop closer links with other audit and inspection agencies in order to maximise the impact of all our work, while ensuring that it is risk-based and proportionate. This means developing a shared understanding of how our work can contribute to improvement, streamlining our working practices, playing to our strengths and benchmarking our processes and outcomes;
- review how we assess the impact of our audit work, to enable us to demonstrate to our clients and

stakeholders, how financial and performance audit work can lead to significant and real improvements in service delivery;

- continue to provide technical guidance and support to all audit providers through the provision of published bulletins, specific guidance notes and a responsive advisory service;
- continue to contribute to the work of national professional and technical groups, including those setting accounting standards for central government (including the NHS) and local government across the UK.

Measuring our progress

Our performance indicators for this area of work relate to our quality appraisal results. Outcome measures include:

- improvement in clients' performance/services
- positive feedback from clients where optional services have been delivered
- positive feedback from clients on the value of the audit process.

Priority: Creating an integrated organisation with effective business processes

Introduction

This priority relates to the management of our own business. It includes proposals for improving the efficiency of our audit delivery, and the support given to our core business groups (Performance Audit and Audit Services). That support includes human resources and organisational development, our ICT infrastructure as well as the flow of financial and performance information to enable our managers to make good business decisions.

Under this priority, we must ensure that our business processes change and develop to support the new ways of working that will be emerging over the next three years. We must both provide an ICT infrastructure that supports our management of knowledge, and continue to develop effective external and internal communications.

Over the next three years, we will:

- continue to provide efficient and effective support across Audit Scotland for audit work and business management;
- modernise and re-engineer our audit processes so that we deliver our work efficiently, effectively and economically;
- continue our investment in IT to ensure we provide high-quality ICT support to all our staff, including
 - improving communications between our offices and audit sites, to enable our staff to work flexibly and effectively across the whole of Scotland
 - improving efficiency and reducing paper flows by developing more web-enabled applications for core business processes;
- meet our requirements under legislation, for example, on diversity and equality issues, freedom of information and data protection, including developing and implementing a policy for meeting requests under Freedom of Information legislation in relation to public audit in Scotland;
- develop and implement a knowledge management strategy, to ensure that all our staff can benefit from the cumulative

knowledge within the organisation. This will include developing specialist knowledge in a range of technical areas;

- ensure our offices at 18 George Street meet the requirements of the Disability Discrimination Act and our developing business needs, by overseeing a major refurbishment of the interior of the building to be completed in 2005;
- implement a new internal communication strategy to improve the way in which our staff access information on, and influence, what happens in Audit Scotland. The strategy will also look at how improved IT services can support better internal communications;
- review our external communications strategy in consultation with the Auditor General and Accounts Commission to ensure it continues to support our strategic priorities;
- continue to manage our property portfolio effectively and develop our approach to health & safety.

Measuring our progress

We will be developing further indicators to measure the effectiveness of our efficiency improvements. Our outcome measures for this priority include:

- evidence that we deliver Best Value in relation to our own activity
- increased staff satisfaction.

Priority: Improving Audit Scotland by supporting learning and growth

Introduction

This priority relates to the recruitment and development of our staff to meet the changing needs of our business. We must support our business performance through a high-quality training and development programme, and by attracting high-quality applicants for our vacancies.

Over the next three years, we will:

- an exemplar employer in diversity and equal opportunities
- improved human resources statistics.
- continue to support the development and maintenance of high-quality financial skills among our staff, and maintain our commitment to our programme of professional training for financial and auditing skills;
- develop a structured agenda for personal and professional growth for all our staff. This will ensure that they are equipped to deliver our development goals, in particular, in relation to risk-based auditing. We will include training on communication skills, management development, IT, relationship and change management. We will also use development centres to create a dynamic learning environment within Audit Scotland;
- develop a leadership programme for our managers.

Measuring our progress

Our outcome measures for this area of work include:

- increased staff satisfaction
- evidence of success in professional training and development

Our financial resources

Audit Scotland meets its costs from charges to audited bodies, and from the Scottish Consolidated Fund for activities directly funded by the Parliament. We consult the Auditor General and the Accounts Commission on our budget and it is subject to scrutiny by the Scottish Commission for Public Audit.

Our charging regime aims to:

- link audit charges to outputs;
- reflect local circumstances;
- allow part of the charge to be agreed between the auditor and the audited body.

Charges are set for each audit year (broadly November to October), and therefore each financial year covers part of two audit years.

Audit Scotland's 2004/05 Budget

For 2004/05, Audit Scotland has an operating budget of £21.7 million ([Exhibit 3](#)). In addition, a capital budget of £1.3 million will allow for the refurbishment of our office in Edinburgh, and replacement of information technology equipment. £15.9 million will be raised through audit charges, with the remaining expenditure funded by the Scottish Parliament.

We charge for most annual financial audits and for performance audit work and Best Value audit in local government. Parliamentary funding pays for the audit of the Scottish Executive and related bodies, and for most performance audit work outside local government.

Exhibit 3

Summary of resource requirements, 2004/05

	2004/05	2003/04
	£000	£000
Accounts and governance	14,252	13,366
Performance audit	6,929	5,579
Other	186	525
Best Value development	0	500
VAT	336	325
Total net revenue expenditure	21,703	20,295
Income from charges to audited bodies	15,903	14,271
Revenue funding from Parliament	5,800	6,024
Capital funding	1,305	400
Total funding from Parliament	7,105	6,424

Exhibit 4

Audit Scotland's income budget for 2004/05

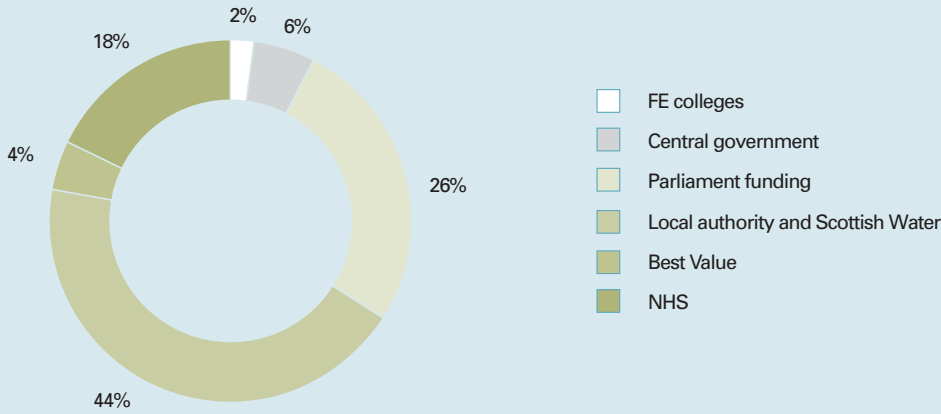
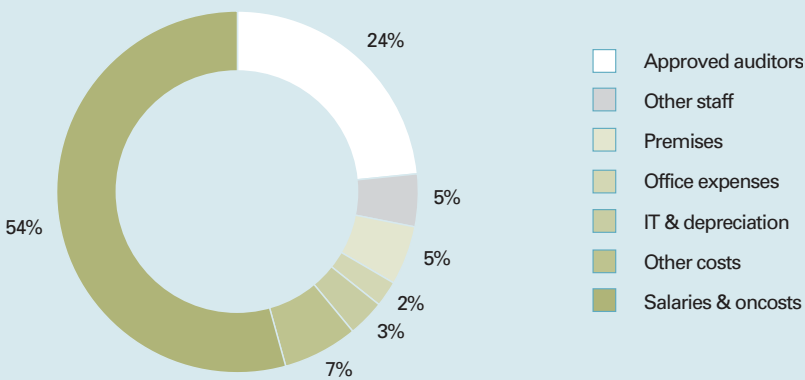


Exhibit 5

Audit Scotland's expenditure budget for 2004/05



Exhibits 4 and 5 present an analysis of our income and expenditure. Exhibit 4 illustrates the relative contributions to our income from the different sectors we audit for our 2004/05 budget. Charges from audited bodies are 73% of the total. Exhibit 5 illustrates how this income is spent.

Future financial requirements

Charges for audits over the life of this plan will be influenced principally by: the level of public sector pay settlements, payments to the firms, incremental movements in staff salaries, changes to pension contributions, the full roll out of the Best Value audit (for which local government has received additional

funding) and a requirement for Audit Scotland to pass on the full cost of input VAT (c. £1.5 million) within its charges.

For 2005/06 we anticipate a net revenue funding requirement from the Scottish Parliament of £6.2 million and for this to rise by general cost inflation to around £6.4 million in 2006/07.

Managing our financial resources

We are conscious of the need to keep audit charges down to the minimum compatible with the delivery of a consistently high-quality audit complying with the public audit model.

Since Audit Scotland was founded in April 2000, we have significantly increased our output and productivity, with only limited increases in our expenditure. Exhibit 6 shows total gross expenditure from 2000/01 (actual) to 2003/04 (forecast) and 2004/05 (budget). The increase between 2001/02 and 2002/03 reflects a significant expansion in Audit Scotland's workload during 2002/03, coupled with a change in accounting for VAT. Exhibit 7 (overleaf) shows the growth in Scottish Expenditure under audit since 2000.

Exhibit 6

Audit Scotland's annual expenditure since 2000/01

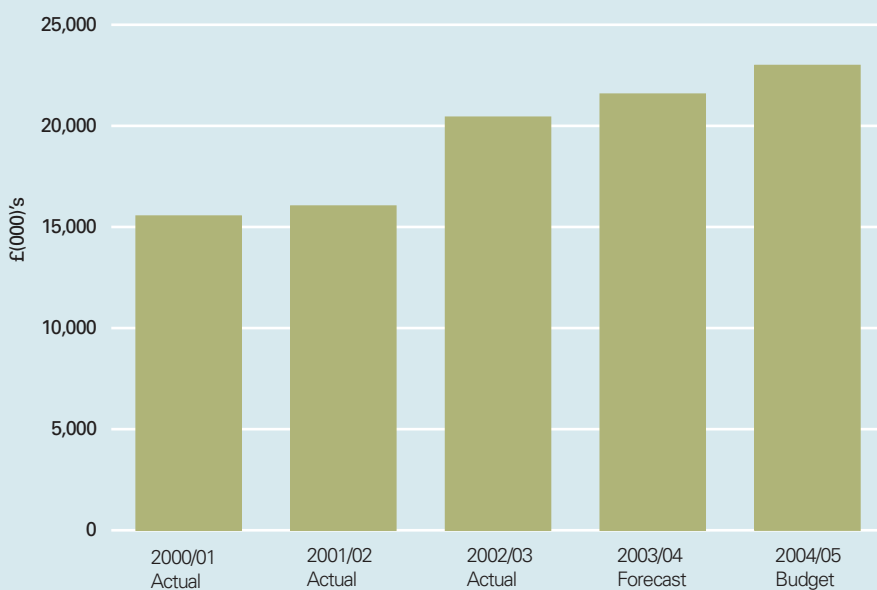


Exhibit 7

Total managed expenditure of the Scottish Executive

£m	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
Total expenditure	17,993	19,890	21,098	22,764	24,003	25,653
Annual percentage increase		10.5	6.1	7.9	5.4	6.9
Cumulative percentage increase		10.5	17.3	26.5	33.4	42.6

Source: The Scottish Executive budget documents

Appendix 1

Audit Scotland performance indicators

Supporting democratic scrutiny and continuous improvement

- Progress of health, central government and local government performance audit studies against agreed project plans.
- Number of performance reports published.
- Number of items of correspondence received, requiring a response and responded to in accordance with protocol.

Delivering the Audit

- Number of audits completed within statutory and Accounts Commission deadlines.
- Number (%) local audit plans and fees agreed within timescales set by Audit Strategy.
- Number (%) of performance audit outputs delivered within timescales specified by Performance Audit.

Maximising the value and benefit of Audit

- Number of Technical Bulletins, Notes for Guidance and Grant Notes issued against planned timescales.
- Results of quality appraisal reviews.
- Extent to which recommendations in Performance Audit national reports have been implemented. These are measured by Scottish Executive responses to recommendations in national reports concerned with central

government and health sectors, findings of follow-up studies, and relevant local government statutory performance indicators.

Efficient business processes

- Percentage of invoices paid within 30 days.
- Percentage of income collected against agreed fees, within agreed credit terms.
- Sickness absence – % of staff at range of Bradford levels.
- Staff turnover and wastage (ie, leavers with less than 12 months service) rates.

Appendix 2

Performance Audit reports planned for publication 2004/05

Auditor General:

- Holyrood Parliament building
- NHS Performance Overview
- Regulatory framework for Scottish Water
- Business support services
- Day surgery follow-up
- NHS supplies
- Review of colorectal cancer services
- Scottish Prison Service: Opportunities for prisoners
- Using medicines in hospitals
- Waste management in the NHS

Joint AGS/AC:

- Commissioning community care for older people
- Community equipment and adaptations
- Developing a whole systems approach to delayed discharge
- Local Economic Forums follow-up
- Maintenance of roads in Scotland

Accounts Commission:

- Local government overview
- Housing voids
- Internal audit follow-up
- Quality of customer services in councils

Corporate plan: 2004-07



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