

accountability and performance

Annual Report 2003/04

Auditor General, Accounts Commission, Audit Scotland

 AUDIT SCOTLAND

Public audit is based on three key principles:

- the independence of public sector auditors
- the audit of regularity and probity of expenditure, value for money, and governance, as well as financial accounts
- the ability of public auditors to make the results of their audits public.

what we do

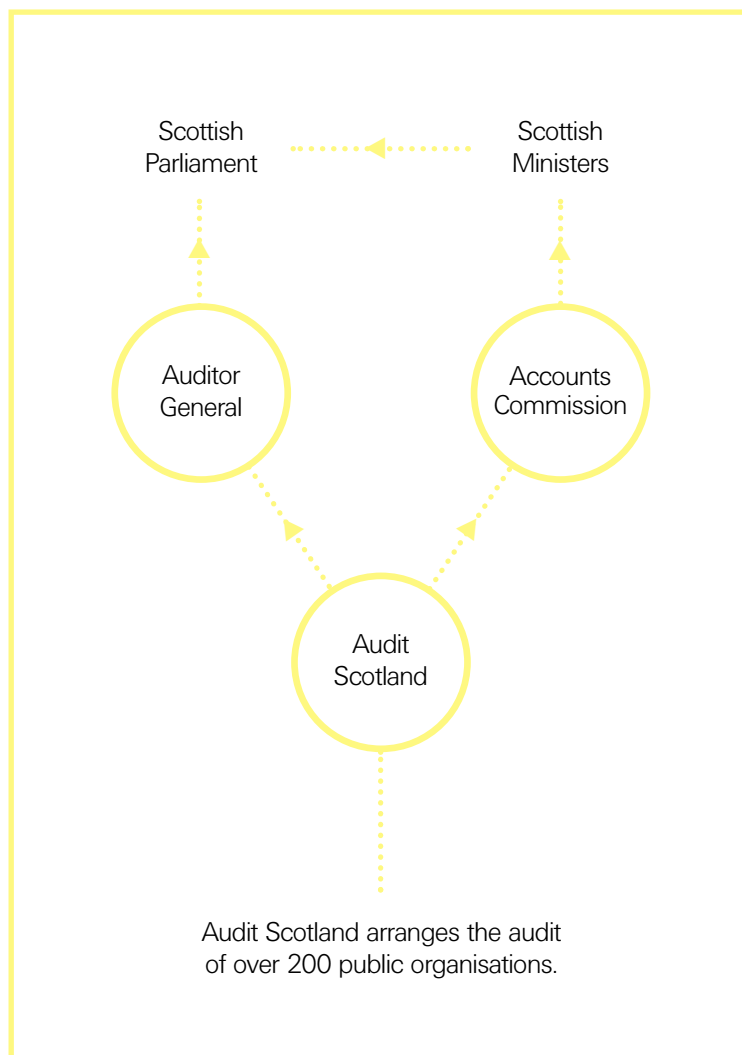
An introduction to Audit Scotland

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The Auditor General is the Parliament's watchdog for ensuring propriety and value for money in the spending of public funds. He is responsible for securing the audit of the Scottish Executive and most other public sector bodies, except local authorities and fire and police boards. The Auditor General is Robert W Black.

The Accounts Commission is a statutory, independent body, which through the audit process, assists local authorities in Scotland to achieve the highest standards of financial stewardship and the economic, efficient and effective use of their resources. The Commission secures the audit of 32 councils and 34 joint boards which together spend over £9 billion of public funds a year.

Audit Scotland is a statutory body, set up in April 2000 to provide services to the Auditor General and the Accounts Commission. Together we ensure that the Scottish Executive and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public money. Audit Scotland delivers a programme of financial and performance audits across the public sector.



Highlights of 2003/04

1. Launching the new audit of best value
2. Developing processes for a risk-based approach to the financial audit
3. Sharper focus on the different needs of our clients and stakeholders
4. Sound financial stewardship across three key sectors of the audit – the NHS, local government and central government
5. Reports highlighting the potential for over £170 million of public money to be better used

Welcome to the 2003/04 annual report of the Auditor General, the Accounts Commission and Audit Scotland. The year was a period of significant change for each of us – the legislative, policy and financial environment in which we operate is evolving rapidly, and will continue to do so. The best value audit regime in local government was launched in accordance with the legislation. Audit Scotland is changing the way it delivers its work and how it is organised to ensure a sharper focus on clients and stakeholders.

our year

By the Auditor General and
Chair of the Accounts Commission

Our work covers over 200 public bodies which together spend over £20 billion a year.

Together, we help to ensure that the Scottish Executive and public sector bodies in Scotland spend public money properly, efficiently and effectively.

The past year has been a significant one. Financial management across the public sector remains generally sound. The best value audit regime in local government was launched and we have developed tools to deliver a high quality, risk-based audit which will be a more effective approach.

In developing the approaches we have consulted widely and listened to the views of our clients and stakeholders about where we can add value to the audit process and how we can help to ensure audit makes a key contribution to the delivery of public services in our complex and challenging environment.

Best value and risk-based audits are both extremely important steps forward and they will strengthen our ability to work for and with our stakeholders and clients. Best value reporting will improve the value that audit adds to the democratic scrutiny of public bodies, while risk-based audit will make our work with our clients – the audited bodies – more focused and efficient, and will help them deliver improvements in their own performance.

To deliver the work more effectively, and to clarify roles and responsibilities in our work for clients and stakeholders, Audit Scotland restructured in 2003/04. This should help to ensure it has the skills, knowledge and support systems to deliver our shared goals and targets.

These developments are all in step with the Corporate Plan for Audit Scotland which we rolled forward and published in March.

All our achievements during the year – both our ongoing programme of reports and our work on new areas – are a tribute to the commitment and professionalism of Audit Scotland staff.

In November 2003, we said farewell to Ronnie Hinds, Deputy Auditor General; in 2004 we welcomed Hugh Hall as our new Managing Director of Audit Services. Our thanks go to John Baillie who has joined the Audit Scotland Board and to Caroline Gardner who has taken on the additional role of Controller of Audit.

Brian McGhee, Rosalyn Marshall, John Mullin, and Ian Stewart retired from the Accounts Commission in September

2003, and we are grateful to them for their enthusiastic service as Commission members. We welcome the new members who joined in October 2003: John Baillie, Owen Clarke, Ann Faulds, Alyson Leslie, Peter McKinlay and Iain Robertson and we congratulate Isabelle Low on her appointment as Deputy Chair.

Following the 2003 Scottish Parliament elections, membership of the Scottish Parliament's Audit Committee changed. The new members of the committee have taken a great interest in our work and in public audit generally, and we and the Committee have worked well together.



Robert W Black
Auditor General



Alastair MacNish
Chair, Accounts Commission



We believe that our collective work is a force for improvement in the public sector in Scotland both in identifying where resources can be better used and how improved quality can be achieved. The potential was identified for up to:

- £6 million to be saved through improvements in hospital catering
- £14 million to be saved through improved prescribing by GPs.

Also highlighted were:

- £28.5 million of outstanding rent owed by tenants in council houses
- £130 million of outstanding council tax owed to councils to be collected.

our progress

Progress in supporting democratic scrutiny and continuous improvement

Our reports contribute to the democratic scrutiny of how public money is spent. They can lead to significant improvements in the economy, efficiency and effectiveness of public bodies and the services they deliver. The topics chosen reflect current policy developments, and focus on areas where resources are concentrated and where major change is planned or underway. They also take account of the potential impact and likely benefits for service users.

Reports

The following reports were published during the year:

- 9 performance audit reports
- 6 performance information pamphlets, a data compendium of council performance information, and web-based profiles of each council and service
- 3 overview reports providing a high level review of performance in key sectors
- 3 other reports
- 45 reports on accounts to the Parliament

Auditor General reports are considered by the Audit Committee of the Scottish Parliament, and provide an opportunity for accountable officers to be questioned and held to account in public. Accounts Commission reports are issued to all local authorities and other stakeholders, to share examples of good practice and so that recommendations will be acted upon.

Best value audit

The development of the best value audit was a key priority for the year. The Accounts Commission's approach to developing the audit has been open and inclusive. Councils and other stakeholders were involved through extensive consultation and pilot work to test out the new procedures.

The new audit will assess whether each council is meeting its statutory duty to provide Best Value and will give the public a clear overview of how well their council is performing.

The Year One programme of audits was launched in January 2004. Seven councils, representing a mix of size and geography, will be audited in the first year. A best value audit of all councils will be conducted over the next three years, and work will begin to extend the approach to other bodies such as police authorities.

Community planning is an important development for Scottish public services. The Local Government Scotland Act 2003 requires local authorities to lead on community planning with their local partners, and the new best value audit will include

an examination of councils' progress on this. We have agreed to work with authorities and the Scottish Executive to develop key performance indicators, and we are consulting with community planning partnerships to develop a framework for this.

Links with other scrutiny bodies

In 2003/04 work continued with other public sector inspectorates and regulators to make scrutiny more effective, to avoid duplication of effort, and to minimise the audit and inspection burden on public services. Audit Scotland is represented at the joint Scrutiny Forum with all these bodies, and is also contributing to the development of multi-disciplinary inspection of services for children and for people with learning disabilities.

Audit Scotland has agreed with the new Scottish Public Services Ombudsman and with the Standards Commission for Scotland how they will work together while still carrying out separate statutory roles.

The Accounts Commission agreed a memorandum of understanding with the Audit Commission in England and Wales to bring the benefits of their National Fraud Initiative to Scotland later in 2004. This data-matching exercise will help auditors assess the effectiveness of arrangements made to prevent and detect fraud.

reports published in 2003/04

Central government performance

Further education overview

Overall financial stewardship in the Further Education sector is of a good standard and there are signs that the majority of colleges are on target to be financially secure by 2006.

Scottish Further Education Funding Council – Performance management of the Further Education sector in Scotland

There is scope to improve the Funding Council's and the sector's use of targets, benchmarking and external comparisons. There is also a need for greater transparency in how the Funding Council holds colleges to account. The Parliament's Audit Committee endorsed these conclusions.

Scottish Enterprise: Special audit examination

Press reports raised concerns about performance issues at Scottish Enterprise, but this examination showed that a number of the concerns were unfounded. However, this audit identified other issues needing further examination, such as Scottish Enterprise's performance monitoring, management of major programmes, and use of consultants.

Performance management in Historic Scotland

In general Historic Scotland is achieving its objectives and targets but improvements in performance management are needed. Scottish Ministers announced that a change management team would be set up to take forward these recommendations.

Holyrood building project

A major work in progress was the Auditor General's report on the Holyrood building project.

NHS performance

NHS overview

Overall financial management in the NHS continues to be of a good standard. However, the Auditor General expressed concern about the underlying financial position in four NHS bodies, and five NHS trusts failed to break even. This led to the Parliament's Audit Committee holding a wide-ranging examination of the finances of the NHS in Scotland.

Catering for patients

The NHS in Scotland provides a good-quality catering service to patients and patient satisfaction levels are high. However, more work is needed to improve the nutritional care of patients. The report identified a number of areas where improvements could be made and the potential to save £6 million for reinvesting.

Supporting prescribing in general practice – a progress report

GPs have made significant improvements in their prescribing. All NHS boards had used our first report, in many cases as a major part of their action plans and strategies for prescribing. This follow-up report identified a number of areas where further progress is possible and the potential to save £14 million. The Parliament's Audit Committee held evidence sessions based on the report, and has produced its own report to which the Executive has responded.

Outpatients count

Information was captured on the full range of outpatient activity carried out by consultants and other healthcare professionals, and it found that more outpatients are treated than the national statistics report. The findings have fed into a national review of data being carried out by NHSScotland.

Better equipped to care? Follow-up report on managing medical equipment

There is still room for improvement across Scotland at both a strategic and operational level in managing medical equipment such as CT scanners, x-ray units and defibrillators. In particular, 25% of equipment reviewed was beyond its standard life and there is limited evidence that investment plans are based on good management information. The Audit Committee of the Parliament held an evidence session on this report and has produced its own report.

Local authority performance

Local authority overview

There was continuing improvement in councils' financial controls – for the first time since local government reorganisation in 1996 none of the accounts was qualified. It also highlights the need for better reporting to councillors and that only one-third of councils have fully established audit committee arrangements. Auditors will monitor the steps taken by councils in response to the findings.

Bye now, pay later?

A follow-up review of the management of early retirement

Councils have become more rigorous in their management of early retirement, and were commended for some improvements made.

Scottish Fire Services: Verification of the progress of modernisation

Two phased audits of changes in the fire service, which are required as part of the new pay agreement, are being carried out. The first audit was reported on in March 2004, and indicated where the greatest improvements were required. Phase two of the audit is assessing further progress and will report in Autumn 2004.

Following the public pound

Councils financial relationships with arms-length organisations, such as companies and trusts, show a high degree of non-compliance with the 'Following the public pound' Code. On the basis of this initial review, the Accounts Commission requested further work. Auditors are also following up the initial results with individual councils.

Local authority performance information

Councils, fire brigades and police forces reported their service standards against 76 statutory performance indicators specified by the Accounts Commission. A compendium of data and profile for each council are also published on a dedicated website which allows for improved searches and analysis of information.

Six pamphlets covering specific service issues were published. This work is important in allowing citizens to hold councils and fire brigades and police forces to account for their performance. The pamphlets were distributed to councils, libraries and other stakeholders, and included on our website. Selected findings include:

- Councils collected more of the council tax that was due although £130 million was outstanding at the year end.
- Councils struggled to cut tenants' rent arrears. Unpaid rent amounted to £28.5 million.
- Councils processed benefit claims more quickly and paid more invoices on time than the previous year.
- The delivery of social work home care services improved with home help services being provided more flexibly in the evening, overnight and at weekends.
- Police forces recorded an improvement in the level of recorded crime cleared up, but also reported an increase in the level of serious violent crimes.

Cross-cutting reports

Dealing with offending by young people: a follow-up study

We found that around 500 children under council supervision were not getting the services they required. To remedy this, all 32 councils have set action plans to improve these services. The Scottish Executive has also introduced national standards and new inspection arrangements for children's services. The Audit Committee of the Scottish Parliament took further evidence from the Scottish Executive and reinforced calls for improvements and services.

Moving to mainstream: The inclusion of pupils with special educational needs in mainstream schools

We estimated that between two thousand and five thousand more pupils with special educational needs (SEN) could attend mainstream instead of special schools in the future. However, planning for this change is patchy in councils and minimal in NHS bodies. The Scottish Executive has set out how it intends to respond to the recommendations and has commissioned research to examine the impact of the presumption of mainstreaming. The study team gave

evidence to the Education committee when it considered evidence on the Additional Support for Learning (Scotland) Bill.

Overview reports showed improvements in financial stewardship:

- overall financial management in the NHS continues to be of a good standard
- there were continuing improvements in councils' financial controls
- financial stewardship in the Further Education sector is of a good standard and there are signs that the majority of colleges are on target to be financially secure by 2006.

In many cases, these improvements were triggered by recommendations made in previous audits.

delivering the audit

Progress in delivering the audit and maximising its value

The audit was arranged of over 200 public bodies which spend £22 billion of public money each year. The audit of financial probity is the foundation of the work and the starting point for delivering performance and best value audits. Audit Scotland manages the appointment of auditors and operates a quality appraisal scheme.

Developing a risk-based audit

Significant progress was made in 2003/04 on increasing the emphasis on risk-based auditing in the NHS. Two NHS pilots are underway, and the benefits of the approach are already apparent in terms of improved understanding of the bodies' business risks and earlier identification of critical issues. Audit Scotland believes that by modernising the audit process in this way, it will help to enhance public bodies' ability to manage their major risks and enhance their performance.

Reporting arrangements

In 2003/04, 216 audits were completed. Around two-thirds of the audits were carried by Audit Scotland, and the remainder by private accountancy firms.

Audited bodies

Central government	54
NHS boards and trusts	54
Further education	42
Councils	32
Joint boards	34
Total	216

Auditors report to the Auditor General and the Accounts Commission. In some cases this results in further reports for the Parliament on specific issues or the audits may be used as the basis of wider overviews of entire sectors. Auditors also report direct to local management, enabling them to identify problems and plan improvements themselves.

In 2003/04 auditors detected a range of issues which the Auditor General had to draw to the attention of Parliament. This resulted in 45 reports on accounts (49 in 2002/03), many of them relating to accounting issues.

There were no qualifications to the accounts of local authorities and no reports to the Accounts Commission as a result of illegality, loss or impropriety in the way a local authority conducted its financial affairs.

Note: Trusts were dissolved at April 2004 and we now audit the unified NHS boards which incorporate the previous trusts' activity.

Providing quality

We are collectively committed to ensuring that an efficient, effective and economic service is delivered to clients. To this end, a robust quality appraisal process is operated for all auditors. Auditors are appointed for a five year term and each is appraised every two years.

During 2003/04, eight auditors were graded 'A', five were graded 'B' and one received a 'C' assessment ('A' represents a good standard; 'B' a generally acceptable standard, but with areas for improvement; and 'C' an unacceptable standard). These grades relate to how the audit was conducted and do not impact on the audit opinion issued. In each case, an action plan of agreed recommendations was developed, and progress is being monitored.

Those auditors not appraised in 2003/04 will be assessed in 2004/05.

Providing an efficient and cost-effective service

To help ensure that a broad knowledge and skill base is available to our clients, the Auditor General and the Accounts Commission appoint private accountancy firms to conduct some audits. In 2003/04 30% of audits were conducted by private firms, a similar level to the previous year. This arrangement provides Scotland

with a mixed economy for the supply of public sector audit work and allows benchmarking across suppliers.

As a result of changes made last year, Audit Scotland's charging regime now aligns audit charges more closely with the work programme. Organisations with effective financial controls can benefit from this fee structure, while higher fees are payable where controls or governance arrangements are weak or where specific additional work is necessary.

All audits have defined timetables and deadlines so that reporting is timely and, in some cases, complies with statutory deadlines. During the year, 88% of audits were completed on time (89% the previous year). The completion of an audit can be delayed for a number of reasons, ranging from draft accounts being provided in an incorrect format, to the need to consider complex audit or accounting issues.

Promoting quality

Audit Scotland provides a range of guidance and bulletins for auditors to promote consistency of understanding about technical aspects of auditing. This also helps to emphasise the common features of audit and accounting across the different parts of the public sector.

Correspondence and complaints

In 2003/04 Audit Scotland received 144 letters (98 in 2002/03) raising issues about the finances of the bodies we audit. These are treated as complaints about the organisation concerned.

The nature and complexity of issues highlighted in these complaints varied widely. In examining them, Audit Scotland focused on whether audited bodies had incurred expenditure in accordance with their statutory powers, and whether they had appropriate procedures in place to deliver financial probity and make best use of resources.

During 2003/04 Audit Scotland met its target of acknowledging correspondence in 95% of cases; and in 67% of cases we met our target of providing a full response within one month of the date of acknowledgement. This slight downturn compared to 2002/03 (99% and 71% respectively), reflects the increased volume and complexity of correspondence received.

The key internal challenge in 2003/04 was to adapt the organisation of Audit Scotland to the evolving nature of the work. Restructuring will help to deliver our commitments, and provide a sharper focus on the needs of clients and stakeholders. Steps were taken to ensure that staff continue to acquire the appropriate high-quality financial and audit skills they require.

running the business

Improving performance

In March 2004 the Auditor General published a strategic statement for public audit in Scotland 2004-06, based upon the experience of the previous three years. This set the context for Audit Scotland's new Corporate Plan for 2004-07. Both documents are available on our website.

The Accounts Commission will publish its own strategy for 2005/08 later in 2004.

Improving performance

As part of its strategy for delivering the commitments and meeting the objectives set out in the corporate plan, Audit Scotland restructured in 2003/04.

The new structure provides greater clarity about how Audit Scotland supports the different needs of clients and stakeholders and different roles of holding to account and helping to improve. The Performance Audit Group produces stakeholder reports for the Auditor General, which are laid before Parliament, and for the Accounts Commission: the Audit Services Group focuses on risk-based audit reports addressed mainly to audited bodies, our clients.

As part of the preparation for the introduction of best value audits there was a significant recruitment exercise to put sufficient resources and skills in place.

Supporting learning

A key objective in 2003/04 was to ensure that Audit Scotland staff continue to have the skills, knowledge and support systems to deliver the goals of the Accounts Commission and Auditor General. Staff undertook a wide range of training and development in, for example, off balance sheet accounting, financial reporting, project management, plain English, report writing, and computer software skills.

Sound technical and financial skills will always be essential for the staff. We set up a comprehensive technical training programme for staff with the Institute of Chartered Accountants of Scotland (ICAS) and the Chartered Institute of Public Finance & Accountancy (CIPFA).

Audit Scotland has a professional training scheme for graduate entrants. During the year, five trainees were appointed and are receiving full support for their three-year CIPFA qualification. This graduate scheme is an important investment in future performance and in ensuring that there continues to be a pool of able and well-trained public sector auditors in Scotland.

Access to information about training and development, and all other human resources policies and issues, was made easier with the launch of a comprehensive HR section on the corporate Intranet.

Audit Scotland will continue to support all staff in their personal and professional growth in 2004/05 and beyond. Among the innovations is the launch of a leadership and management development programme that will build on existing training programmes, and focus on effective communication. Work also continues to improve internal communications.

IT developments

Audit Scotland continued investing in IT in 2003/04, improving connectivity between offices and work locations, and ensuring the right IT support and knowledge is in place to help staff do their jobs effectively.

New roles and responsibilities

The new Freedom of Information legislation in Scotland will have a significant impact and in preparation, an information review was carried out to inform the preparation of a publication scheme; there is a need to review information and records management.

Through the Public Interest Disclosure Act, we collectively now have a role in supporting protected disclosure for anyone who has concerns about mismanagement, corruption or fraud involving public money. Audit Scotland published new information leaflets for public sector employees on how to do this. In addition, when auditing public sector organisations, auditors check that proper whistle-blowing arrangements are in place.

Priorities

In his strategic statement the Auditor General outlines a framework for Audit Scotland to address his major strategic priorities for the next three years. These priorities are:

1. Developing a stakeholder focus – Audit Scotland will develop reports that meet the needs of its principal stakeholders.
2. Developing a client focus – Audit Scotland will develop its audit systems and outputs to challenge audited bodies and, while safeguarding our independence, support improvement in the management and delivery of public services.
3. Running the business well – Audit Scotland will achieve excellence in managing its people and its own performance.

The Accounts Commission has set performance targets for 2004/05. Progress against these targets will be monitored and reported. The targets are to:

- hold Audit Scotland to account through regular performance monitoring
- review the outcome of the Quality Assurance process
- publish the Performance Information Direction and performance information on Scottish local authorities
- agree a study programme with the Auditor General and publish six value for money study reports.
- publish findings on seven best value audits and develop community planning indicators
- publish a strategy for 2005/08 and agree a revised framework document

Audit Scotland board

Audit Scotland provides services to the Auditor General and the Accounts Commission to enable them to carry out their duties. Its work is overseen by a board which meets around six times a year to consider plans and strategic direction. The board is chaired by Alastair MacNish.

The board comprises:

Alastair MacNish¹

Chair, Accounts Commission

Phil Taylor³

Non-executive member

Caroline Gardner⁵

Deputy Auditor General

Robert W Black²

Accountable Officer and Auditor General

Ronnie Hinds⁴

Deputy Auditor General (resigned November 2003)

John Baillie⁶

member of Accounts Commission (appointed February 2004)

Members of the Audit Scotland Management Team are Robert Black, Caroline Gardner, Hugh Hall (Managing Director of Audit Services), Diane McGiffen (Director of Corporate Services) and Russell Frith (Director of Audit Strategy).



who we are

The Auditor General, the Accounts Commission and the Audit Scotland board

Auditor General

Robert W Black

The Auditor General is appointed by the Crown, is independent and reports the findings of his work to the Scottish Parliament, mainly through the Audit Committee.

Accounts Commission members

The Accounts Commission does its business through monthly meetings and through its Performance Committee and its Financial Audit and Assurance Committee. The Commission is accountable to Scottish Ministers for the performance of its statutory duties, and this is regulated by a framework agreement.

The Accounts Commission can have between six and 12 members, appointed by Scottish Executive Ministers. In 2003/04 the members were:

Chair: Alastair MacNish

Formerly Chief Executive of South Lanarkshire Council. Served as Chairman of the Leadership Advisory Panel.

Deputy Chair: Brian W C McGhee*

Director of a number of public and private companies. Formerly a partner of Arthur Anderson and Chairman of the Audit Practices Committee of ICAS.

Deputy Chair (from October 2003): Isabelle Low

Currently member of the State Hospitals Board for Scotland and member of the Scottish Consumer Council. Formerly Director of 21st Century Government, Scottish Executive.

Alan Alexander

Chairman of Scottish Water. Emeritus Professor of Local and Public Management, Strathclyde Business School.

John Baillie**

Visiting Professor of Accountancy at University of Glasgow. Member of the Reporting Panel of the Competition Commission. Formerly partner in KPMG.

Owen Clarke**

Former Head of Inland Revenue in Scotland/North of England and former Chairman of Scottish Ambulance Service.

Jean Couper

Partner in a Management Consultancy. Chairman of Scottish Legal Aid Board.

Ann Faulds**

Partner in Dundas and Wilson, Solicitors. Formerly solicitor in Central Regional Council.

Keith Geddes

Policy Director, Pagoda PR. Board Member Scottish Natural Heritage (SNH). Chair of SNH Audit and Risk Management Committee. Chair, Greenspace Scotland. Former Leader, City of Edinburgh Council and Lothian Regional Council. Former President, Convention of Scottish Local Authorities.

Alyson Leslie**

Research Consultant. Lay associate of the General Medical Council. Formerly Assistant Director of Standards Directorate, Fife Council.

Peter McKinlay**

Formerly Senior Civil Servant, Director of Scottish Prisons Service and Chief Executive of Scottish Homes.

Donald McNeill*

Secretary, Scottish Council of Institute of Health Services Management. Development Officer, Multiple Sclerosis Society (Ayrshire). Former Chief Executive, South Ayrshire Hospitals NHS Trust.

Rosalyn Marshall*

Vice Principal (Strategic Corporate Services), Queen Margaret University College, Edinburgh. Member of the UK Higher Education Value for Money Committee and Member of the Board of Edinburgh Academy.

John G Mullin*

Chairman of NHS Argyll and Clyde. Formerly member and Finance Chairman of Strathclyde Regional Council.

Mahendra Raj

Professor of Finance and Director of Research at Aberdeen Business School in the Robert Gordon University. Treasurer, Grampian Racial Equality Council. Lay Advisor, Grampian Police.

Iain A Robertson**

Independent member of the DTI Legal Services Group Management Board. Formerly Group Strategy Director of AWG plc and Chief Executive of Highlands and Islands Enterprise.

Ian Stewart*

Member of the Board of Dumfries and Galloway College. Former Director of Finance and Depute Chief Executive, Dumfries & Galloway Regional Council.

* retired in September 2003

** appointed 1 October 2003

Full details of members' interests are recorded in the Accounts Commission section of our website.

The task of auditing Scotland's public bodies has expanded greatly since 2000. In 2003/04, Audit Scotland spent £21 million on services for the Auditor General and the Accounts Commission: this is less than 0.1% of the £22 billion spent by the bodies that are audited. The majority of these costs are recovered through charges to these organisations with the balance received as direct funding from the Scottish Parliament.

financial summary

A summary of income and expenditure

Audit Scotland is required to produce accounts for each financial year detailing the resources acquired, held or disposed of during the year and the way in which they were used. The Auditor General has been appointed as Accountable Officer and is responsible for the preparation of these accounts.

Audit Scotland's accounts are independently audited on behalf of the Scottish Commission for Public Audit (SCPA), which appointed Mazars to carry out the audit.

The following section provides a summary of selected items from the accounts. To view the accounts in full visit the website

www.audit-scotland.gov.uk

A major change to the published accounts this year is that Audit Scotland has implemented Financial Reporting Standard 17 Retirement Benefits (FRS17) which provides information on the cost of pension provisions. The adoption of FRS17, which will apply across the public sector, will be reflected in the accounts of the organisations that are audited. The comparative figures for 2002/03, shown below, have been amended to include this new requirement.

Sources of income

Most income is from charges to audited bodies and can be broken down as shown in the table right.

Analysis of expenditure

In 2003/04, 75% of expenditure was spent on staff and fees to auditors. This compares with 77% in the previous year.

Income	2003/04		2002/03	
	£000	% total	£000	% total
Fees paid by local authorities	9,022	59	9,407	61
Fees paid by health bodies	4,079	27	3,991	26
Fees paid by water bodies	142	1	207	1
Fees paid by further education colleges	514	3	447	3
Fees paid by Scottish Executive & sponsored bodies	1,166	8	1,031	7
Bank interest	105	1	56	-
Miscellaneous	351	2	185	1
Other finance income (pensions)	(202)	-1	143	1
Total	15,177	100%	15,467	100%

Expenditure	2003/04		2002/03	
	£000	% total	£000	% total
Staff and members' costs	10,733	51	10,333	50%
Fees and expenses to appointed auditors	4,986	24	5,424	27%
Buildings, rent and depreciation	1,322	6	1,322	6%
Operating costs	3,931	19	3,520	17%
Total	20,972	100%	20,599	100%

Staff and members' costs

During the year, the average number of directly employed staff was 242 (227 in 2002/03). The number of staff, excluding the Auditor General, whose salaries were over £70,000, was 3 (5 in 2002/03).

The Accounts Commission Chair and members were remunerated as follows:

	Banding £000
Chair	20 - 25
Deputy chair	5 - 10
Commission members	0 - 5

Payments made during the year to the non-executive member of the Audit Scotland board, fell within the band £0 to £5,000.

Paying suppliers

In line with CBI Prompt Payment Code, we have a policy of paying all invoices not in dispute in 30 days, or the agreed contractual terms. During the year, 94% of invoices were paid on, or before the due date (77% in 2002/03).

appendix

Audit Scotland's performance indicators

Delivering the audit

Performance indicator	Outcome
Percentage of audits delivered against statutory or Accounts Commission timescales for each sector	88% of audits were completed on time (89% in 2002/03)

Supporting democratic scrutiny and continuous improvement

Performance indicator	Outcome
Number of performance audit reports published	9 performance audit reports were published (9 in 2002/03)
Impact of performance audit reports	The Scottish Executive and/or audited bodies have accepted the main recommendations in most of our reports
Response times for correspondence from members of the public concerning potential audit issues	In 2003/04 144 items of correspondence were received, 95% was acknowledged on time. In 2002/03 98 items were received and 99% was acknowledged on time. 67% of correspondence was responded to in full within one month of being acknowledged (71% in 2002/03)

Maximising the value of audit

Performance indicator	Outcome
Percentage of audit plans and fees agreed within specified timescales	88% of audit plans were agreed within specified timescales (81% in 2002/03) 67% of fees were agreed within specified timescales (55% in 2002/03)
Results of quality appraisal reviews	All except one of the auditors reviewed were assessed as at least a 'B' grade (no change from 2002/03)

Creating an integrated organisation with effective business processes

Performance indicator	Outcome
Percentage of invoices paid within 30 days	94% were paid within the target time (77% in 2002/03)
Sickness absence	Sickness levels were, on average, 4 days per employee (central government employees = 11 days, teachers = 7 days, chief officers, professional, technical and clerical staff in councils = 11 days). <small>source: CIPD and Audit Scotland</small>
Staff turnover	18 people (7%) left during the year (18 or 8.4% in 2002/03)

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