



Annual Report 2005/06

accountability and performance

Audit Scotland exists to:

- provide services to the Auditor General and Accounts Commission
- promote high standards of governance, stewardship and management
- deliver high quality public audit
- support service improvement and best value
- report in the public interest.

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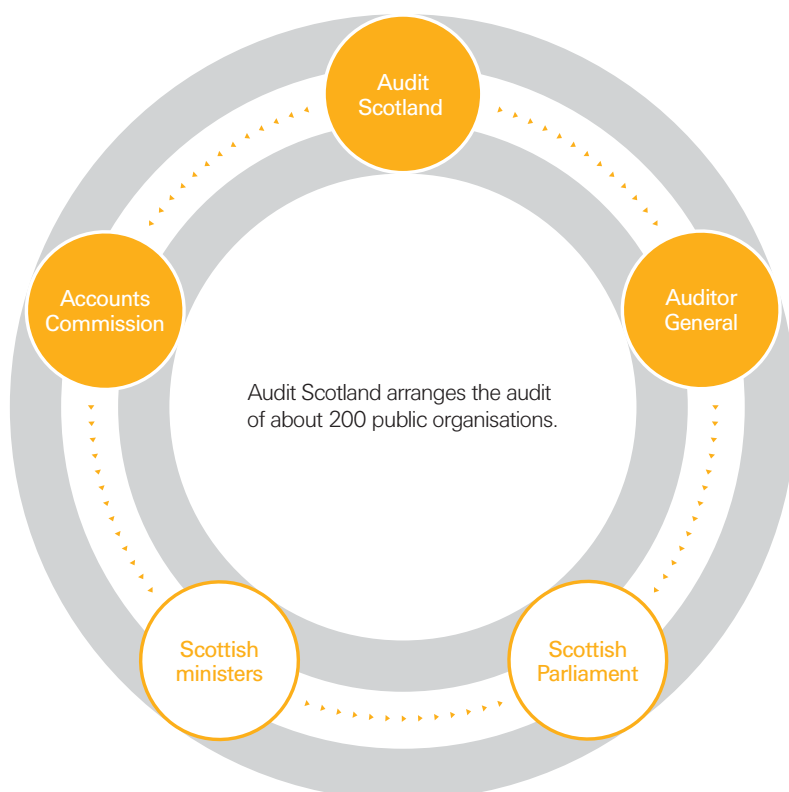
An introduction to Audit Scotland

what we do

Audit Scotland delivers the independent audit of governance, financial stewardship and performance on behalf of the Auditor General and Accounts Commission. Audit Scotland operates under the Public Finance and Accountability (Scotland) Act 2000.

As the public audit agency for Scotland, Audit Scotland is at the heart of the governance and performance of public services. Our aim is

twofold; to hold public bodies to account and help them improve. We do this by delivering an independent public audit regime, covering about 200 public bodies in Scotland which spend more than £27 billion a year. We audit around 110 of these organisations and almost 90 audits are delivered by private firms on behalf of the Auditor General and the Accounts Commission.



Highlights for 2005/06

1. Eight local government Best Value audit reports published
2. Thirty-eight performance audit reports and 196 annual audit reports produced
3. The National Fraud Initiative carried out across all local authorities, finding £15 million in overpayments and savings
4. Modernised audit successfully rolled out in the NHS and piloted in local and central government
5. Integrated overview reports published for the NHS and local government
6. Assisted the Auditor General and Accounts Commission in the procurement process for the next five-year audit appointments.

Welcome to the 2005/06 annual report of Audit Scotland. We doubled our output of Best Value audits, saw the first full year of the modernised audit and worked to our three corporate priorities.

We produced 234 reports in total, including 38 reports on the performance of services and organisations and 196 annual audit reports to audited bodies.

In our 2005-08 Corporate Plan, we published our three corporate priorities:

- Supporting effective democratic scrutiny
- Maximising the value of the audit
- Building an efficient and effective organisation

This annual report therefore reports our progress against these priorities.

By the Accountable Officer and Board Chair

our year

Together with the Auditor General and the Accounts Commission, we help to ensure that the Scottish Executive and other public sector bodies in Scotland spend public money properly, efficiently and effectively.

The Auditor General is appointed by the Crown and is independent. He reports to the Scottish Parliament and oversees the audits of departments of the Scottish Executive, NHS boards and special health boards, further education colleges, Scottish Water and government agencies.

The Accounts Commission is appointed by Scottish ministers, is independent of local councils and government and can make reports and recommendations to Scottish ministers. Scotland's 32 councils and 35 joint boards are audited by auditors appointed by the Accounts Commission.

We are delighted to publish the annual report for 2005/06, which sets out our progress under each of our three corporate priorities (listed above). We recognise that there is always room for improvement in the way public audit is delivered, and we believe we have made significant progress in delivering an audit regime that is valued by audited bodies, stakeholders and service users.

Our twin aims of holding to account and helping to improve continue to drive everything we do. The past year has seen us make real progress in achieving these goals. For example, 2005/06 saw the roll out of our modernised approach to audit, with the completion of the first full year in health and pilots in both local and central government. We will continue to look for improvements to this new approach but we have been struck by the positive response from audited bodies (whom we see as important clients for this work) and stakeholders. More on progress in maximising the value of the audit can be found on pages 13 and 14.

We are particularly encouraged that in this report we are able to provide some examples of the good work we have found in public services in Scotland. Our role gives us the opportunity to work with many talented and committed public

servants and we are grateful to them for their assistance and support during the year. At times it is our role to be challenging as well as supportive, and generally public bodies respond constructively to this. More information on our work to support effective democratic scrutiny can be found on pages 5 to 12.

We continue to strive to keep the cost of audit down, and our annual expenditure remains less than 0.1 per cent of total public sector expenditure in Scotland. We must keep challenging ourselves to deliver public audit more efficiently and effectively, responding to the challenge of best value and minimising the burden of scrutiny. More on our efforts to become a more efficient and effective organisation can be found on pages 15 and 16.

Looking ahead, we have published our corporate plan for 2006-09 which confirms our three corporate priorities (the plan is available at www.audit-scotland.gov.uk/audit/corpdocs.htm). Our focus is on rolling out the modernised audit and delivering high quality performance audits for the Auditor General and Accounts Commission. We will also aim to provide more support to public bodies in the form of events such as seminars and specialised one-off publications, and focus our work more on the needs of the people who use public services.



Robert W Black
Accountable Officer



Alastair MacNish
Board Chair



Our work helps identify where resources can be better used and whether quality is improving. In 2005/06, among other things, we reported:

- transferring the ownership of council houses to social landlords will facilitate £3.2 billion of investment into homes, while keeping rent increases to one per cent or less
- nearly half of patients on waiting lists would travel more than 50 miles to get earlier treatment but only five per cent are offered this
- Scottish Water has cut its operating costs by a third, or almost £100 million, in the past three years
- the number of further education colleges operating in deficit halved, from 18 to nine, between 2002 and 2004.

Supporting effective democratic scrutiny

our work

We have a role in ensuring good governance in Scotland's public sector by helping elected and appointed representatives scrutinise public services. We report in public and give those representatives independent evidence to enable them to hold public bodies to account and to help them improve. During 2005/06 we produced 234 reports (246 in 2004/05).

We consult widely on our work programme to ensure we target the issues that matter. We aim to understand and report on the experiences of service users and to ensure our reports are clear and timely. As well as highlighting strengths and areas for improvement in the public sector, we focus on the key priorities and risks at the bodies we audit. We enable the Auditor General and the Accounts Commission to bring matters of governance, accountability and improvement to the attention of the Scottish Parliament and ministers.

Reports

The following reports were published during the year:

2 cross cutting reports

(reports for both the Auditor General and the Accounts Commission)

6 central government reports

5 NHS reports

8 Best Value reports

(introduced in 2004/05, Best Value audits are designed to give a rounded picture of a council's performance. All 32 councils will be covered in a rolling three-year programme)

5 other local government reports

(including one Performance Indicators compendium and one PI profiles report)

12 reports on accounts to the Scottish Parliament

(Section 22 reports – Auditor General reports on issues arising from annual audits of public bodies under his responsibility)

196 annual audit reports to audited bodies

(these are annual summary reports on each public body. They provide an opinion on financial management and highlight the main issues arising from the audit in each body)

5 other publications

(including Corporate Plan 2005-08, two progress reports on race relations and race equality legislation, a guide to Audit Scotland and a Memorandum of Understanding with NHS Quality Improvement Scotland)

Details of most of the above reports can be found in the reports published section on the following pages 9-12.

All our reports are issued to the relevant audited bodies and most are sent to other stakeholders and published on our website. This allows organisations to share examples of good practice and act on any recommendations. Auditor General reports are considered by the Audit Committee of the Scottish Parliament, and local government and Best Value reports are considered by the Accounts Commission. Our work is widely reported by the media.

The good work we find

During the course of our fieldwork, Audit Scotland finds many examples of good practice and achievement at the bodies we examine. One of the reasons for reporting in public is to share such practice with the rest of the public sector. Among the many examples we reported in 2005/06, were the following:

- By using physiotherapists and GPs with specialist knowledge, NHS Grampian is working towards cutting the number of orthopaedic hospital referrals by 40 per cent, or 4,000 cases a year. This aims to free consultants to spend more time performing operations, in turn further reducing waiting times (*Tackling waiting times in the NHS in Scotland*, 16 February 2006).

- At Dalry Primary School in North Ayrshire the strong leadership of its head teacher has directly affected the achievements and experiences of the children and staff. HMIE has praised her impact on the previously struggling school's progress, performance and morale (*Leadership development: How government works series*, 17 November 2005).
- West Lothian Council and the former West Lothian Healthcare NHS Trust set up a joint health and community care team, with a rapid response service to reduce the need for hospital admission or enable earlier discharges than previously possible. The team reduced the number of people waiting for discharges by 60 per cent and saved 3,200 bed nights during 2003 to 2005 (*West Lothian Council: The audit of Best Value and Community Planning*, 30 June 2005).
- The Scottish Executive and Communities Scotland produced new guidance on the housing transfers due to complete in 2006 and 2007. The guidance benefits from the experience gained in earlier transfers. Improvements to the process mean that current transfers are expected to take just over two years on average to complete (*Council housing transfers*, 24 March 2006).

National Fraud Initiative

Audit Scotland, working with the Audit Commission in England and Wales, external auditors and a range of public bodies in Scotland, facilitated a major anti-fraud initiative as part of the audits of the 2004/05 financial year. The exercise, the National Fraud Initiative, covered all councils, police and fire boards, the Scottish Public Pensions Agency and the Student Awards Agency for Scotland. The exercise used computerised data-matching to compare information about housing benefit applicants, public sector employees and pensioners, students and the deceased, to identify a range of circumstances that might indicate fraud or error. These matches were passed to the audited bodies to investigate and to report back their findings. Fraud, overpayments and savings of £15.1 million have been found. Taking previous pilot exercises into account, the cumulative fraud and error detected by the NFI in Scotland amounts to around £23 million. Audit Scotland will carry out the NFI again in 2006/07, and is working with the Audit Commission to extend the scope of the exercise to other areas that have already proved effective in England and Wales.

UK and international standards setting

Audit Scotland contributes to the development of accounting and auditing standards in the UK through membership of a number of bodies including the Financial Reporting Advisory Board, the CIPFA/LASAAC Joint Committee and the Auditing Practices Board Public Sector Sub-Committee. Audit Scotland staff participate in many other panels and working groups that produce detailed guidance for public sector bodies. Reflecting the increasing importance of global standards to the UK public sector, we also contribute to the international auditing standard setting process through the work of the INTOSAI Expert Reference Panel and by responding to drafts of relevant standards.

Links with other scrutiny bodies

Audit Scotland and other bodies put a significant amount of effort into working together to streamline our scrutiny of public services. This is achieved primarily through the Joint Scrutiny Forum and the Inspectorates Forum, and through bilateral agreements. In 2005/06, we signed a Memorandum of Understanding with NHS Quality Improvement Scotland, similar to an existing memorandum we have with the Scottish Public Services Ombudsman. These set out each body's

powers and responsibilities, and arrangements for joining up audit and review in public bodies. We also have a track record of joint work with inspectorates and other bodies, such as our joint inspections of education authorities with HM Inspectorate of Education, and joint studies with HMIE, HM Inspectorate of Constabulary, and NHS QIS.

Links with other audit agencies

Audit Scotland is in regular contact with the other public audit agencies in the UK. Audit Scotland takes a full part in the Public Audit Forum (PAF), a body formed by the agencies in the four UK nations to provide a focus for developing public audit, making public audit more efficient and effective, advising on common technical problems and spreading good practice. During 2005/06, Audit Scotland continued to develop links with other audit agencies in the UK with, for example, staff secondments on particular projects. We also undertake the audit of the Scottish-based operations of UK-wide organisations, such as the Forestry Commission.

International development work

Audit Scotland has been involved in a number of projects to help countries across Europe modernise their public governance systems. In 2005/06, two staff members have worked with the Sigma project in Lithuania, Bulgaria, Estonia and Malta. Sigma (Support for Improvement in Governance and Management) is a joint initiative of the European Union and the Organisation for Economic Co-operation and Development. The programme gives support to help modernise public governance systems in new EU countries and EU candidate nations and build public institutions and systems in the Balkan states. During the year we have hosted representatives of the audit offices of Estonia, China, Russia, Western Australia and Denmark. The Auditor General also spoke at a conference in Seville and joined the Audit Committee of the Scottish Parliament on a fact-finding visit to Denmark.

Tendering process for audit work

The Auditor General and the Accounts Commission appoint private firms to carry out about 90 of the almost 200 annual audits we provide for public bodies. At the end of September 2005 we started facilitating the process of making appointments for the period 2006/07 to 2010/11. The tender's aims

included reorganising the portfolios of work to cluster council audits and to appoint the same auditor to councils, health boards and other community planning partners in the same geographical area where practicable. The tender also stressed the importance of auditors working in partnership to produce more efficient and effective overall audit arrangements.

Efficient Government Initiative

In the past year Audit Scotland has worked in a number of ways to support the Scottish Executive's Efficient Government Initiative, which aims to make public services more efficient and generate annual savings of £745 million by 2007/08. In February 2005, the Executive formally invited Audit Scotland to audit the Scottish public sector's performance in achieving the plan's targets. We set up an Efficient Government Coordinating Group to oversee our work, which has included:

- reviewing the Executive's Efficiency Technical Notes, which form the basis of the plan's targets. We commented on the work needed to support and monitor the plan
- helping the Scottish Executive's Efficient Government Delivery Group (EGDG) develop guidance on recording and reporting efficiency statements and in specifying audit requirements. During 2006 we will review the public sector's progress on the plan and assess the EGDG's management of it, and report in public
- liaising with our UK public audit counterparts on Efficient Government. This includes sharing information and best practice, and co-sponsoring a joint proposal on developing benchmarks for public bodies' administrative facilities

- developing and implementing a diagnostic tool to assess how well public bodies can identify, monitor, deliver and report efficiency savings. The tool is designed to establish a clear and systematic approach to the audit of Efficient Government and ensure Audit Scotland has 'real-time' information on progress on the initiative. It also aims to establish clear baseline information to highlight key risks and to enable high level comparisons between bodies and sectors.

We will report the outcomes from our Efficient Government audit work through reports to audited bodies, Best Value reports on councils, references in our national studies programme reports, and sector overview reports. We are also planning to undertake more detailed work of some of the plan's key themes once the initiative is well underway.

More information and the diagnostic tool can be found at: www.audit-scotland.gov.uk/audit/efficient.htm

Statutory performance indicators

In 2005/06, the Accounts Commission changed the way it reported the performance of Scotland's councils against its statutory performance indicators (SPIs). This new approach allowed us to make the SPI Data Compendium (the Compendium) and Council Profiles available on our website in December, two months earlier than in previous years. This change reflected the needs of our stakeholders, who use the data for assessing performance and benchmarking progress.

The Compendium provides all the SPI data for Scotland's councils, fire brigades and police forces. The Council Profiles give individual profile reports on Scotland's councils, with details of their performance against a range of indicators, and reports comparing councils on a range of key services.

As part of the changed system of reporting, we did not publish the accompanying annual series of pamphlets about separate services. Instead, we integrated commentary on a number of key findings from the Compendium into the Local authority overview report published in March 2006. Findings from the SPIs are also used in our Best Value audits and national studies.

As a result of these changes, we saved about £20,000 in publication costs for 2005/06. In future the new approach will also save about £12,500 a year in staff and other costs.

The SPI Data Compendium and Council Profiles can be found at www.audit-scotland.gov.uk/performance/index.htm

reports published in 2005/06

Cross cutting

(Reports for both the Auditor General and the Accounts Commission)

Moving on?: An overview of delayed discharges in Scotland

together with

Moving on?: A handbook on modelling the whole system for delayed discharges in Tayside

(both 23 June 2005)

The report highlighted the need for action across all parts of the health and community care system to solve the problem of patients who cannot be discharged from hospital even though they are medically fit to leave. It also found that although the number of patients delayed in hospital was steadily falling, a growing older population meant that further action was needed to sustain this progress.

The handbook focuses on an innovative project in which Audit Scotland worked with the NHS board and three councils that make up the Tayside Partnership to share an understanding of how its local care system worked; identify key factors that lead to delays in Tayside; and develop a computerised model to help Tayside test strategies to reduce delayed discharges.

Council housing transfers

(24 March 2006)

The transfer of council housing ownership is bringing benefits for tenants. The report said management of transfers was improving but better, clearer measures were needed to assess impact and value for money. The handover of more than 100,000 council homes to new landlords since 1998 has brought more investment in properties – doubling it in Glasgow – and promoted tenant control. It is facilitating increased repairs and maintenance and the building of new homes, and is keeping rent increases down. The Scottish Executive should now reinforce its approach with clearer goals and measures for quality of service and tenant involvement. This would help increase the overall impact and the value for money of transfers.

Central government

(Reports for the Auditor General)

Overview of the water industry in Scotland

(13 October 2005)

Scottish Water has made a good start in raising the water industry's performance but can make further improvements. The report found that since Scottish Water's creation in 2002, the body had improved the efficiency and performance of the water industry and cut operating costs significantly. However, the report said Scottish Water could further improve, and that it faced a challenging timetable for its £1.8 billion capital investment programme.

Scottish Executive: Supporting new initiatives (How Government Works series) (10 November 2005)

Last year the Scottish Executive launched new initiatives amounting to £1.4 billion. The management of these projects is generally sound, but making changes could help to improve control of the funding and allow better assessment of whether the money is helping to achieve policy aims.

Leadership development (How Government Works series)

(17 November 2005)

Scotland's public sector has good examples of investment in leadership but many individual

organisations do not have clear policies and most are unable to link the spending to improvements in their performance. Strategic planning and coordination is needed to make sure that the £5 million they invested each year in leadership development results in better managed organisations and better services.

Scottish Executive: The NorthLink ferry services contract (22 December 2005)

The Auditor General asked Audit Scotland to investigate the Scottish Executive's handling of a five-year contract, which began in October 2002, to run the lifeline ferry service to the Northern Isles. This followed reports that the total subsidy paid to service operator NorthLink had risen substantially. The main finding was that the Scottish Executive Transport Group (SETG) carried out a proper tendering exercise and NorthLink was awarded the contract because it submitted the lowest bid for subsidy in accordance with the relevant EC regulations. However, there were some limitations in the information originally given to bidders, and SETG has worked with NorthLink to improve this for a new tender.

Central government

(continued)

Scottish Further Education Funding Council: A progress report

(26 January 2006)

The Scottish Further and Higher Education Funding Council, or the Funding Council, is making progress on a number of fronts. Concerns over performance management are being tackled and a more detailed picture of the sector's achievements is emerging. However, the report highlighted areas where further improvements were required, including accumulated deficits at seven colleges, the need for clarity over the strategic direction of further education, and improvements in performance information.

Performance management in Scottish Enterprise

(16 March 2006)

Scottish Enterprise needs to improve how it evaluates its activities to provide a clearer assessment of its contribution to growing Scotland's economy. However, this can be difficult to measure and Scottish Enterprise's approach appears to be well advanced compared with international counterparts. The report recommended Scottish Enterprise work with the Scottish Executive to clarify on its contribution to the Smart Successful Scotland policy. Scottish Enterprise has met all of its progress measures and introduced new processes and guidance that should help to improve its performance.

NHS

(Reports for the Auditor General)

Waste management in Scottish hospitals: A follow-up report (12 May 2005)

The report found that while progress has been made since Audit Scotland's earlier study in 2001, NHS boards and hospitals were still not managing hospital waste as well as they could. In particular, they needed to increase their recycling and ensure they sorted and stored all waste properly. The report found that NHS hospitals could save £1.3 million a year by properly sorting domestic waste from clinical waste.

A Scottish prescription: Managing the use of medicines in hospitals

(28 July 2005)

Recent years have seen an increase in the number and complexity of medicines available to treat patients and in the types of staff who can prescribe them. The average spend on medicines per patient in an acute hospital has risen by 65 per cent since 2001/02. The NHS in Scotland could improve the management of medicines in hospitals to make sure patients are getting the most benefit from the money spent in this area.

Overview of the performance of the NHS in Scotland

(8 December 2005)

Scotland's health service is achieving better clinical outcomes and cutting most waiting times. The service has improved the availability of treatment and is successfully tackling prioritised conditions such as cancer, stroke and heart disease. However, in other areas performance was mixed and the NHS needs to improve its financial and workforce management to face future challenges.

Tackling waiting times in the NHS in Scotland

(16 February 2006)

The NHS in Scotland has made significant progress towards meeting waiting time targets over recent years but future targets are likely to be challenging. Since 2001, the health service has made good progress in reducing the longest waits for inpatient, day case and outpatient care for people with waiting time guarantees. However, the NHS needs to work more on developing approaches across the whole health and community care system to tackle waiting times.

Implementing the NHS consultant contract in Scotland

(9 March 2006)

A new contract for consultants has cost the NHS in Scotland an extra £235 million in its first three years but clear evidence of its benefits has yet to emerge. The new contract offers an opportunity to improve patient care by planning consultants' work better, but it is not yet being used to its full potential. The Scottish Executive, health boards and consultants need to work together so that the contract achieves benefits for patients. The Executive can also learn lessons from the implementation of this contract for the management of other large scale projects.

reports published in 2005/06 (continued)

Best Value

(Reports for the Accounts Commission)

Best Value audits were developed in 2003/04 to assess how well councils are meeting their statutory duty to provide Best Value and to give the public an overview of how well their council is performing. The Best Value audits are designed to give a rounded picture of each council, looking at past performance and future plans and taking into account the particular constraints and opportunities facing each council. The first four Best Value audits were carried out in the 2004/05 year, and in 2005/06 Audit Scotland continued to roll out the programme, publishing another eight reports.

**Inverclyde Council:
The Audit of Best Value and
Community Planning (2 June 2005)**

The report said Inverclyde Council must take urgent, remedial action to address weaknesses in leadership and direction. Extensive and fundamental weaknesses in the leadership and direction provided by elected members and senior management were significant factors in preventing Inverclyde Council from improving. The report said the council should get appropriate external assistance to address its core problems.

**West Lothian Council:
The Audit of Best Value and
Community Planning (30 June 2005)**

The report praised West Lothian Council for its ability to transform its ambitious vision for the local area into improving services for the people who live there. The report said the council performed well and was fully committed to continuous improvement.

**Dundee City Council:
The Audit of Best Value and
Community Planning (5 October 2005)**

Dundee City Council's services generally perform well for its community. The council is committed to regeneration, has ambitious plans for the city and has made significant achievements in community planning and joint working. But there are a number of improvements required, including the way in which service performance is scrutinised and in the openness of decision making.

**East Renfrewshire Council:
The Audit of Best Value and
Community Planning (11 October 2005)**

The report found that East Renfrewshire Council was ambitious and successful and

service performance was generally strong and improving. While the report identified some areas for further improvement it stated that East Renfrewshire demonstrated many of the attributes of a council achieving Best Value.

**Inverclyde Council:
The Audit of Best Value and
Community Planning – progress report
(30 November 2005)**

The report considered the steps taken by Inverclyde Council to address the concerns raised in the Commission's initial Best Value audit report in June. The report said that while the council had made progress on its recovery, there was still a long way to go.

**Glasgow City Council:
The Audit of Best Value and
Community Planning (19 January 2006)**

The Accounts Commission commended Scotland's largest council for its progress on its improvement agenda and its commitment to change. However, the report acknowledged the significant challenges still facing the council and also highlighted the areas it needed to focus on, including its performance in some key service areas.

**The Moray Council:
The Audit of Best Value and
Community Planning (8 February 2006)**

The report stated that the council was not yet in a position to deliver Best Value to the people it serves. The council was described as inward looking, and as having considerable variation in service performance. A number of its practices, including the way in which it managed performance and monitored the competitiveness of its services, were weak.

**Argyll and Bute Council:
The Audit of Best Value and
Community Planning (14 February 2006)**

Argyll and Bute Council faces particular challenges because of its geographical make-up and the fact that its population is spread over a wide area. However, even taking this into account, the council needs to do more to improve services for local people. The council remains traditional in its approach to managing its business and needs clearer leadership and drive to follow through on its initiatives and to embed a culture of continuous improvement in the organisation.

Other local government

(Reports for the Accounts Commission)

**Improving customer service
through better customer contact
(19 May 2005)**

The report looked at how councils dealt with requests for services and information from their customers, including taxpayers and business contacts. While councils have made improvements, the report said they needed to review organisation and leadership to ensure their customer service was as efficient and effective as possible.

**Following the Public Pound:
A follow-up report (15 December 2005)**

Councils need better information about their funding of external organisations and what is obtained for the money provided. Scottish councils provided £220 million to 14,000 organisations to deliver a wide range of council-related services. The report found that no council fully complied with guidance which sets out best practice principles when councils fund external organisations. There was a high level of performance in nine councils, moderate performance in 18 councils and a low level of performance in five.

**Overview of the local
authority audits 2005
(30 March 2006)**

Scotland's councils are facing major challenges and the report called on them to further increase their pace of change and improvement. Local authorities are working in an environment of major change as central government seeks to reform and modernise public services. They need to pay particular attention to developing their longer-term financial planning and improving the information they have about how their services are performing. However, financial stewardship at councils is generally sound and statutory performance indicators show overall improvement in a range of areas.

Section 22s

Auditor General reports, made under Section 22 of the Public Finance and Accountability (Scotland) Act 2000, raise issues arising from annual audits of public bodies under his responsibility. Twelve Section 22 reports were presented to Parliament. These reports were on:

The 2003/04 audit of
Inverness College

The 2003/04 audit of
West Lothian College

The 2003/04 audit of
Lews Castle College

The 2004/05 audit of
the Scottish Prison Service

The 2004/05 audit of
**Argyll and Clyde
Health Board**

The 2004/05 audit of
Grampian Health Board

The 2004/05 audit of
Highland Health Board

The 2004/05 audit of
Lanarkshire Health Board

The 2004/05 audit of
Western Isles Health Board

The 2004/05 audit of
**Scottish Executive
consolidated resource
accounts**

The 2004/05 audit of
**the NHS Pension Scheme
Scotland accounts**

The 2004/05 audit of
Inverness College

This year saw:

- the first full year of the modernised audit in the health sector
- the development of a Best Value approach for health and central government
- integrated overview reports covering the NHS, local government and the water industry in Scotland.

Maximising the value of the audit

delivering the audit

We continually aim to improve the way we work so our audits can achieve the best possible value and impact for the public. During 2005/06 we continued to develop and rollout our modernised approach to audit, and refine our methods for Best Value audits and national studies.

To do this we try to ensure our staff have the knowledge and skills to support new ways of working, and to build the experiences of service users into the audit process. We measure the public value of our work by seeking feedback, tracking changes that occur as a result of our work, reviewing the quality of the work and assessing public perceptions of Audit Scotland.

Delivering the modernised audit

In 2005/06, Audit Scotland carried out the first full year of the modernised audit in the health service. We also piloted this new approach in local and central government. Feedback from audited bodies and stakeholders has been very positive, recognising that, through the development of priority and risk frameworks, we are taking the time to better understand what they do. For example:

- Following the first full year of the modernised audit, a survey of health clients found that 82 per cent of clients found their management letters and governance reports either 'excellent' or 'good', while 88 per cent found the annual audit report to be 'excellent' or 'good'.
- In local government, pilots of the modernised audit in the two councils that took part were well received. A post implementation review was conducted on the two pilots, and recommendations have been taken forward into the audits of the 2005/06 year.
- In central government, the modernised audit was piloted in three areas of the Scottish Executive. Central government poses a different challenge to the health and local government portfolios in that it covers a wide variety of organisations and subject areas. As a result of changes to the way we managed the Scottish Executive audit, we were able to issue our audit report on their accounts one month earlier than the previous audit year.

While we feel it has been a successful year we continue to seek opportunities to improve the way we deliver the audit. For example, we are currently developing our approach to the local and best value audits to identify ways in which they can be delivered more seamlessly, to the benefit of clients, stakeholder and the audit teams.

Reporting arrangements

In 2005/06, 196* final annual audits were completed. Of these, 113 were done by Audit Scotland and 83 by private accountancy firms.

Auditors report to the Auditor General and the Accounts Commission. In some cases their work results in requests for further reports on specific issues, or the audits may be used as the basis of wider overviews of entire sectors. Auditors also report directly to the public bodies they audit, enabling them to identify problems and plan improvements themselves.

In 2005/06, auditors reported a range of issues to the Auditor General which he drew to the attention of the Scottish Parliament. This resulted in 12 reports on accounts (Section 22 reports). Some related to technical accounting matters, while others were about issues such as the breach of EU procurement regulations at Western Isles Health Board, potential liability at the Scottish Prison Service and deficits at three FE colleges and four health boards.

There were no qualifications to the accounts of local authorities, for only the second time since local government reorganisation in 1996. There were two qualifications in the previous year. There were no reports to the Accounts Commission as a result of illegality, loss or impropriety in the way a local authority conducted its financial affairs.

Breakdown of audited bodies:

| | |
|--------------------|------------|
| Central government | 59 |
| NHS | 24 |
| Further education* | 42 |
| Councils | 32 |
| Joint boards | 35 |
| Water sector | 1 |
| Total* | 193 |

* In October 2005, the Scottish Further Education Funding Council and the Scottish Higher Education Funding Council merged to form the Scottish Funding Council. Audit Scotland produced final audit reports for the first six months of the 2005/06 year for both bodies during 2005/06.

During 2004/05, Glasgow College of Building and Printing and Glasgow College of Food Technology merged to form Glasgow Metropolitan College. Audit Scotland produced final audit reports for all three bodies during 2005/06.

Delivering quality

We remain committed to delivering a public audit service that is valued by clients, stakeholders and the general public. To do this, we need to ensure quality in everything we do. In 2005 we revised the Corporate Quality Framework for Audit Scotland. Building on existing approaches to quality management in the organisation, the corporate framework aims to provide greater consistency in quality control, management and review.

Our Audit Strategy Group undertakes quality appraisals of audits, both those delivered by Audit Scotland and those delivered by external firms. All but one of the auditors appraised in 2005/06 obtained a satisfactory assessment (in 2004/05 all auditors appraised obtained satisfactory assessments). Action was taken by the auditor to change the audit team and ensure that the issues identified were addressed.

The involvement of private accountancy firms in public sector audit continues to support the quality of the overall audit output. In 2005/06, we assisted the Auditor General and the Accounts Commission in tendering for our external appointments for the next five-year audit cycle (see page seven for more information).

In 2005/06 we continued our efforts to make Audit Scotland a more efficient and effective organisation. We have been making changes in the way we run our business, just as audited bodies are expected to improve the way they run theirs. Our commitment to continuous improvement is illustrated by the developments in the way we manage our people, processes and technologies.

Building an efficient and effective organisation

running the business

Audit Scotland is committed to achieving best value in how we manage our financial resources, people and technology. To do this we must ensure our staff have the necessary professional and managerial skills and the appropriate technology, and that we manage our resources efficiently.

We are developing and rolling out a management development programme and have mechanisms in place to monitor its impact and value for money. Similarly, we are implementing a new finance system. Other projects include an electronic document and records management system, improved internal and external communications and an environmental management strategy. We carry out internal best value reviews and seek feedback from inside and outside the organisation on our performance.

Efficiency and effectiveness

The Audit Scotland Board is prescribed in statute. One of its main functions is to enable most of the work for the Auditor General and the Accounts Commission to be performed by a single audit agency, with consequent gains in efficiency and effectiveness.

We apply best value principles to everything that we do in managing our resources. For example, over 2004/05 and 2005/06 we were able to reduce audit fees to the NHS in Scotland by ten per cent. At the same time we significantly improved the audit outputs to NHS bodies and to Parliament. This is seen in the improved financial and performance overview reporting to Parliament, which did not exist before 2000.

The largest part of our income comes from charges to audited bodies. We benchmark our charging regime using information from the Audit Commission and the National Audit Office and intelligence on audit firms' fees. More than a third of the value of our annual audit activity is put to competitive tender in the private sector, following full EU procurement rules. This ensures there is a mixed market for public audit provision in Scotland and enables us to set fees at the correct level and contain the overall costs.

Accountability

Audit Scotland is held to account through statutory arrangements put in place by the Scotland Act and by the Parliament through the Public Finance and Accountability Act. The Scottish Commission for Public Audit (SCPA) is central to these arrangements. The SCPA scrutinises our budget and annual report and appoints an external firm, Haines Watts, to audit our accounts.

We carry out quality and best value reviews internally. Also, an external firm of accountants performs a programme of internal auditing of all our activities. This internal audit programme is set by, and reports to, the Audit Scotland Board's Audit Committee. The committee also receives regular reports on Audit Scotland's risk management process.

Developing people

Audit Scotland employs about 280 people in offices in Aberdeen, East Kilbride, Edinburgh and Inverness. In 2005/06, we introduced a new learning and development strategy, which sets out our commitment to the development of our employees. It involves leadership and management development, as well as a wide range of personal and professional development opportunities for staff at all levels.

We revised our personal development system (PDS) to make it more streamlined and more focused on meaningful discussion between individuals and their line managers.

Developing processes

We delivered a service review of our facilities and administrative management functions, which resulted in taking a more corporate approach to the management of our estate. We also developed and implemented an environmental policy, and gave all staff the opportunity to contribute to this. The policy included setting out and committing to a range of sustainability targets to reduce our impact on the environment.

We have also reviewed our approach to records management and will be implementing a new electronic document and records management system in 2007.

Diversity

We introduced the Diversity Excellence Model into Audit Scotland in 2005/06. We have assessed our current practice against its framework and developed a plan for making diversity an intrinsic part of our work.

Correspondence, complaints and Freedom of Information

In 2005/06, Audit Scotland received 210 items of correspondence (193 in 2004/05) raising issues about the organisations that we audit. We investigate where we assess that there may be an audit issue.

The nature and complexity of 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 taken steps to deliver financial probity and make best use of resources.

During 2005/06, Audit Scotland met its target of acknowledging correspondence within ten working days in 95 per cent of cases; and in 78 per cent of cases we met our target of providing a full response within one month of the date of acknowledgement. This compares with 98 per cent and 80 per cent respectively in 2004/05.

Audit Scotland welcomed the introduction of the Freedom of Information legislation in 2004/05 and we are committed to its successful implementation. We provide a wide range of information in response to requests every day. We proactively publish the results of our work and issue press releases. Also, a wide range of information is available through our publication scheme.

We keep a log of the requests that are less straightforward to deal with and have a formal process, agreed by Audit Scotland's Board, for how to treat such enquiries. In 2005/06, we logged nine such Freedom of Information requests.

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. Bill Magee is Secretary to both the Accounts Commission and the Audit Scotland Board, and is also responsible for legal and procedural advice.

The board comprises:

Alastair MacNish¹
Chair, Accounts Commission

Robert W Black²
Auditor General and
Accountable Officer

Phil Taylor³
Independent non-
executive member

Caroline Gardner⁴
Deputy Auditor General

John Baillie⁵
Member of Accounts
Commission

In addition, Managing Director of
Audit Services **Hugh Hall**⁶ acts as
adviser to the board



The Audit Scotland Board and Management Team

who we are

Governance

Audit Scotland's work is overseen by its board, made up of the Auditor General, the Chairman of the Accounts Commission and three other members appointed by them. Currently the three members are John Baillie, a member of the Accounts Commission; Phil Taylor, independent non-executive member; and Caroline Gardner, Deputy Auditor General and Controller of Audit. Hugh Hall, Managing Director of Audit Services, acts as an advisor to the board. The board has Audit and Remuneration Committees reporting to it.

The Management Team is responsible for the day-to-day running of the business. The Auditor General is Audit Scotland's Accountable Officer and leads the Management Team, which also includes Caroline Gardner, Hugh Hall, Russell Frith (Director of Audit Strategy) and Diane McGiffen (Director of Corporate Services).

The Audit Scotland Management Team

Caroline Gardner
**Deputy Auditor General and
Controller of Audit**
Caroline works with the directors of performance audit on performance studies of public sector organisations and audits of Best Value in councils. She oversees the overview reports on health, local government and central government. Caroline also manages investigations into issues of public concern.

Hugh Hall
Managing Director of Audit Services
Hugh leads the audit services group. They carry out or manage the audits of more than 100 public sector bodies in Scotland. Hugh works with the directors of audit to encourage and support performance improvements and higher standards of accountability in the public sector.

Russell Frith
Director of Audit Strategy
Russell is responsible for procurement and resources, auditing and accounting standards, technical support and quality assurance.

Diane McGiffen
Director of Corporate Services
Diane manages the development of Audit Scotland as an organisation. She leads on business planning and performance reporting and heads up the following services: human resources and training, information technology, finance, administration, and communications.

Our sector teams

Local government
As director of performance audit **David Pia** reports on themes and issues within local authorities, police boards and fire boards. David's team also produces overview reports, performance studies and Best Value audits of local government. Typical reports include *Overview of the local authority audits* and *Following the Public Pound*.

Audit services director **Gavin Stevenson** manages the inhouse audit service we provide to local authorities, police boards and fire boards, examining their individual performance. His work includes financial statements, governance and performance management matters.

Health and community care
Director of performance audit **Barbara Hurst** is responsible for investigating issues of public concern, and producing overview reports and performance studies. Typical reports include *Overview of the performance of the NHS in Scotland 2004/05* and *Tackling waiting times in the NHS in Scotland*.

Audit services director **Lynn Bradley** is responsible for the inhouse audit services we provide to the health sector, including the audit of financial statements, governance and performance management matters.

Central government

In 2005/06, **Arwel Roberts** directed the Central government team, leading both the performance audit and audit services work for the sector. The Central government team covers departments of the Scottish Executive, national public sector organisations such as Historic Scotland and Scottish Water, and further education colleges.

The performance audit team is responsible for investigating matters of public concern, overview reports and performance studies. Typical reports include *Overview of the water industry in Scotland* and *Performance management in Scottish Enterprise*.

The audit services team is responsible for auditing financial statements, governance and performance management matters.

We have recently streamlined our arrangements for managing the Central government and Health and community care teams, following the retirement of Arwel Roberts. Barbara Hurst now directs the performance audit teams for both sectors, and Hugh Hall oversees the team providing audit services to the Central government sector.

The task of auditing Scotland's public bodies has expanded greatly since 2000. In 2005/06, Audit Scotland spent £25 million on services for the Auditor General and the Accounts Commission: this is less than 0.1 per cent of the £27 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.

A summary of income and expenditure

financial summary

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 Haines Watts 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/ar2006

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 2005/06, 78 per cent of expenditure was spent on staff and fees to auditors. This compares with 75 per cent in the previous year.

| Income | 2005/06 | | 2004/05 | |
|----------------------------------------------------|---------------|------------|---------------|------------|
| | £000 | % total | £000 | % total |
| Fees paid by local authorities | 13,229 | 65 | 9,619 | 58 |
| Fees paid by health bodies | 4,402 | 22 | 4,293 | 26 |
| Fees paid by water bodies | 169 | 1 | 201 | 1 |
| Fees paid by further education colleges | 553 | 3 | 605 | 4 |
| Fees paid by Scottish Executive & sponsored bodies | 1,590 | 8 | 1,591 | 10 |
| Bank interest | 145 | 1 | 134 | 1 |
| Miscellaneous | 190 | 1 | 227 | 1 |
| Other finance income (pensions)* | (259) | -1 | (68) | (1) |
| Total | 20,278 | 100 | 16,602 | 100 |

* Other Finance Income is comprised of the income from the expected return on the local government pension scheme assets less the interest payable on the scheme liabilities

| Expenditure | 2005/06 | | 2004/05 | |
|-----------------------------------------|---------------|------------|---------------|------------|
| | £000 | % total | £000 | % total |
| Staff and members' costs | 13,458 | 54 | 12,952 | 52 |
| Fees and expenses to appointed auditors | 5,952 | 24 | 5,675 | 23 |
| Buildings, rent and depreciation | 1,770 | 7 | 1,494 | 6 |
| Operating costs | 3,535 | 15 | 4,791 | 19 |
| Total | 24,715 | 100 | 24,912 | 100 |

Staff and members' costs

During the year, the average number of directly employed staff was 279 (274 in 2004/05).

The number of staff, excluding the Auditor General, whose salaries were over £70,000 was nine (five in 2004/05).

| | Salary £000 |
|------------------------------------------------|-------------|
| Auditor General | 130-135 |
| Deputy Auditor General | 115-120 |
| Managing Director of Audit Services | 115-120 |
| Director of Audit Strategy | 85-90 |
| Director of Corporate Services | 85-90 |
| Director of Central Government | 80-85 |
| Director of Audit Health | 80-85 |
| Director of Performance Audit Local Government | 80-85 |
| Director of Audit Local Government | 75-80 |
| Director Performance Audit Health | 70-75 |

The Accounts Commission Chair and members were remunerated as follows:

| | Banding £000 |
|--------------------|--------------|
| Chair | 25-30 |
| Deputy chair | 10-15 |
| Commission members | 0-10 |

Payments made during the year to the independent member of the Audit Scotland Board fell within the band £5,000-£10,000.

appendix i

Audit Scotland's performance indicators

Supporting effective democratic scrutiny

| Performance indicator | Outcome |
|------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| No. of performance audit reports published | 16 performance audit reports were published* (17 in 2004/05*). * this number does not include Best Value or Statutory Performance Indicator reports. |
| Response times for correspondence from members of the public concerning potential audit issues | In 2005/06, 187 items of correspondence were received. 95% was acknowledged on time. In 2004/05, 193 items were received and 98% were acknowledged in time. 86% was responded to in full within one month of being acknowledged (80% in 2004/05). |

Building an effective and efficient organisation

| Performance indicator | Outcome |
|--------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Percentage of invoices paid within 30 days | 96% were paid within the target time. (94% in 2004/05). |
| Sickness absence | Sickness levels were, on average, 4 days per employee. Average days lost per employee/annum in public services 10.3 days. Source: CIPD Absence Management Survey 2005 |
| Staff turnover | Starters: 35 Leavers: 20 (13 people left in 2004/05). |

Maximising the value of the audit

| Performance indicator | Outcome |
|---------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Percentage of audits delivered against statutory or Accounts Commission timescale for each sector | 98% of audits were completed on time (98% in 2004/05). By sector: Health 100% Central government 100% Further Education 100% Local authorities 97% Other LA audits 94% |
| Percentage of audit plans submitted and fees agreed within specified timescales | 97% of audit plans submitted to Audit Scotland within specified timescales (78% for 2004/05). 72% of fees agreed within specified timescales (37% for 2004/05). |
| Results of quality appraisal scheme | All but one of the auditors appraised in 2005/06 obtained a satisfactory grade (ie, B or higher). There was one C grade. (In 2004/05 all outcomes were satisfactory). |

appendix ii

Audit Scotland's publication scheme

Freedom of Information: Audit Scotland's publication scheme

Much of the information we hold is freely available for downloading from our website (www.audit-scotland.gov.uk). If you do not have internet access, or if the information is not available in electronic format, we will provide a single copy in print or an alternative format.

You can contact us in the following ways:

Tel: 0131 477 1234

Email: info@audit-scot.gov.uk

Fax: 0131 477 4567

In writing: Mandy Gallacher
Audit Scotland
110 George Street
Edinburgh EH2 4LH

If the information you require is not in our publication scheme you can make a request for it using the contact options listed left.

When requesting information, please include the following details: your name and address, and the information or documents you want to see.

If you are having difficulty in identifying the information you require, please contact us and we will be happy to help.