



Holding to account and helping to improve

Audit Scotland
Annual Report 2007/08



AUDIT SCOTLAND

Audit Scotland helps the Auditor General and the Accounts Commission ensure that public money in Scotland is used properly, efficiently and effectively. Our aim is to hold public bodies to account and help them improve. Audit Scotland audits the majority of devolved public services in Scotland. We audit about 200 public bodies in Scotland which spend more than £31 billion a year.

This annual report is organised around the key themes of Audit Scotland's corporate plan, which are:

- supporting effective democratic scrutiny
- maximising the value of the audit
- building an effective and efficient organisation.

You will find the report structured to reflect these priorities.

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Our year

Welcome from the Auditor General and the chair of the Audit Scotland Board

Highlights of 2007/08

201 final annual audit reports produced

18 public performance reports published

100 per cent of all audits completed on time

Audit Scotland auditors produced 530 separate reports for the 201 public bodies they audited

97 per cent of local government bodies and 86 per cent of central government bodies thought Audit Scotland provided a high-quality audit service

£9.7 million overpayments and savings achieved by the National Fraud Initiative

An independent review of the Best Value process found it was 'well established, credible and has been effective in contributing to improvement'

Audit Scotland staff presented to more than 50 external seminars, conferences and training events

Audit Scotland staff served on 54 external bodies and working groups

314,000 visits to our website since its relaunch in September 2007

Welcome to Audit Scotland's annual report for 2007/08.

This year has seen major developments in moving towards a more integrated scrutiny landscape, illustrated by the Crerar report and the response of the Scottish Government (see page 16). Audit Scotland will have a key role to play on behalf of the Auditor General and the Accounts Commission in supporting this changing environment. Indeed, we are already participating in the follow-up discussions set up by the Scottish Government.

Audit Scotland works hard to place the minimum burden on public bodies wherever possible. Where they share a common interest, joint studies for the Auditor General and the Accounts Commission are already conducted by Audit Scotland as a single exercise. Details of such joint reports are contained in this annual report. The fact that we have a single organisation delivering audit across the public sector allows us to have this joined-up approach.

As we say elsewhere in this report, we continue to work hard to support the Scottish Parliament and its Audit Committee in their roles. We also carried out a series of visits and meetings with our key clients and stakeholders following the local and national elections in May 2007.

A glance at the case studies in this report will give you a real flavour of the breadth, depth and sheer variety of work in which Audit Scotland is now involved. From high-profile reviews of key policy areas such as free personal care, to rapid analysis of capital projects such as the Edinburgh transport projects review, our work this past year has had major local and national impact. It can also have major financial impact. Our work on the National Fraud Initiative (NFI) in 2007/08 identified £9.7 million of overpayments and savings in Scotland. Cumulative savings from the NFI have now reached £37 million.

The keynote of Audit Scotland is our independence and professionalism. At the same time as we are anticipating ever more financial pressures on public services, we have seen a year of political change at local and national level. There is an ever growing appetite for independent scrutiny. Our services are continually in demand and the results of our studies rarely out of the news.

“A glance at the case studies in this report will give you a real flavour of the breadth, depth and sheer variety of work in which Audit Scotland is now involved.”

All of this makes for a busy, interesting, and often challenging time for the staff of Audit Scotland whose work is highlighted, and who are featured, in this report.

Finally, we would like to take this opportunity to record our sincere thanks to Alastair MacNish who retired from his posts as chair of the Accounts

Commission and of the Audit Scotland Board. Alastair was six years with the Commission. His work was also recognised in the December honours list when he was awarded the OBE for services to local government. We also wish to thank Bill Magee who retired from the position of secretary to the board and to the Commission after many years of excellent advice and service.



Robert W Black
Auditor General
for Scotland and
Accountable Officer

John Baillie
Chair of the Audit
Scotland Board

A handwritten signature in black ink, appearing to read 'John Baillie', with a horizontal line extending to the right.

The logo for Audit Scotland, featuring the word 'Audit' in a stylized, bold, black font above the word 'Scotland' in a similar but slightly smaller font.

Our performance

Supporting effective democratic scrutiny

Reporting in public

- Helping Parliament understand and act on the issues facing public services.
- Reporting on government-wide performance.
- Highlighting issues of governance, accountability and performance.

Public reporting programme

Our public reporting work covers key areas of public interest. We develop our forward work programme after extensive consultation with stakeholders and audited bodies to target areas where we can support improvement in public services. We also carry out some studies in response to external requests to investigate particular issues when we believe it is in the public interest.

The reports we produce are presented in four themes:

- Central government
- Health and community care
- Local government
- Across-government.

Reports on the central government sector and the health and community care sector are prepared for the Auditor General and in some cases, where there is joint responsibility, for the Auditor General and the Accounts Commission. Reports on local government are prepared for the Accounts Commission. For more

on what happens to Audit Scotland reports once they are published and how the Scottish Parliament reviews and uses them, see Appendix 1 on page 39.

As public services are increasingly delivered across traditional sector boundaries, many of our reports cover more than one sector. Typically these will include local government, so we prepare these across-government reports for both the Auditor General and the Accounts Commission. An example of this is our report *Improving the school estate*, which looked at completed and planned work worth almost £10 billion across local and central government.

In 2007/08, we published 18 public performance reports. This was fewer than in some previous years, partly due to the national and local elections in May 2007 during which time Audit Scotland followed a six-week embargo on issuing reports, in line with public sector practice.

In 2007/08 we published:

- 2 Central government reports
- 3 NHS reports
- 7 Local government reports*
- 6 Across-government reports.

*Four Best Value reports and three other local government reports

Full details of all our reports published in 2007/08 are in Appendix 2 on page 41.

Supporting Parliament

In 2007/08, the Scottish Parliament's Audit Committee held evidence sessions on three of our reports, *Dealing with offending by young people*, *Police call management* and *Overview of Scotland's health and NHS performance 2006/07*.

The committee called the relevant Scottish Government accountable officers to give evidence and answer questions about issues raised in the reports. In the case of *Dealing with offending by young people*, the committee also asked the Community Safety Minister to give evidence.

The Auditor General and the chair of the Accounts Commission gave evidence to the Justice Committee's inquiry into the effective use of police resources. This evidence drew on the *Police call management* report and our audit work in police authorities. Audit Scotland staff also briefed the Health and Sport Committee on cost pressures in the NHS, and gave evidence to the Finance Committee's inquiry into methods of funding public capital projects.

Many of our reports in 2007/08 highlighted the need for public sector bodies to develop more rigorous approaches to performance monitoring and reporting, and to focus more on outputs and outcomes. At the moment it can be difficult to find robust evidence that particular policy initiatives or developments are actually delivering best value. Our local government Best Value reports specifically set out to assess whether councils are achieving best value.

“We develop our forward work programme after extensive consultation with stakeholders and audited bodies to target areas where we can support improvement in public services.”

The impact of our reports can be seen in different ways. An example is our report *Managing long-term conditions*, published in August 2007:

- Audit Scotland staff were the opening speakers at the Scottish Respiratory Conference in Edinburgh in November 2007. At this conference the Health Secretary referenced our report. She said the Scottish Government plans to address the level of variation in chronic obstructive pulmonary disease (COPD) services across Scotland, and noted the link with health inequalities – both key messages in our report.
- The Scottish Government has announced that clinical standards for COPD will be developed for Scotland in 2008/09 and respiratory-managed clinical networks will be encouraged to reduce variation in services across Scotland. Our report was quoted in highlighting links with deprivation, variation in services, and inadequacy of pulmonary rehabilitation services.
- NHS Quality Improvement Scotland (NHS QIS) is taking this report into account when developing their own work programme on long-term conditions. Audit Scotland staff attended a NHS QIS meeting on supporting the present and future long-term condition agenda in Scotland in September 2007.

Case study

Free personal and nursing care

Free personal and nursing care for older people was introduced in Scotland in 2002 and the policy has attracted widespread comment and publicity. A number of reviews have taken place, but none has been able to quantify the costs of the policy. This is an important part of post-legislative scrutiny and the policy is having a big impact on councils. Early in 2007 the Auditor General and the Accounts Commission asked Audit Scotland to examine and report on the financial impact, and an Audit Scotland team began scoping the study.

In June 2007, the Scottish Government commissioned an independent review of the policy by Lord Sutherland, covering broadly the same terms of reference. We liaised closely with Lord Sutherland's team so we could ensure there was no duplication of effort by either team and we did not create additional scrutiny burden for councils.

Audit Scotland agreed to bring forward the reporting of its findings to early February 2008 to inform Lord Sutherland's later report.

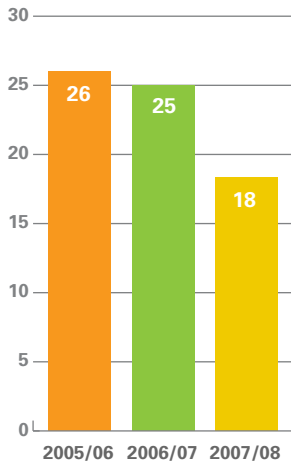


Nick Hex, Keira Shepperson, Carolyn Smith

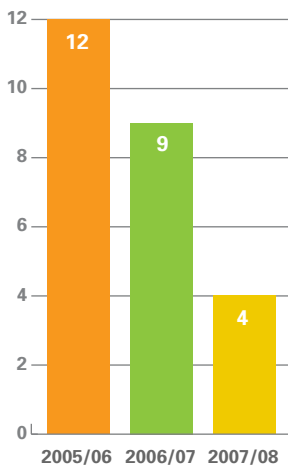
Despite this added time pressure, we were able to thoroughly analyse the costs of the policy and to report a robust and clear set of conclusions and recommendations. The report was well received and resulted in substantial media coverage across the UK. Hugh Henry MSP, convener of the Scottish Parliament's Audit Committee, said the report made 'a powerful contribution to one of the most significant debates facing the Parliament'.

Lord Sutherland published his review in April 2008 and his conclusions backed many of those in the Audit Scotland report. Both reports should help the Scottish Government and councils to carry out the policy with a clearer understanding of its financial implications.

Number of public performance reports published over past three years



Number of S22s over past three years



Highlighting issues from accounts (Section 22s)

Auditor General reports, made under Section 22 of the Public Finance and Accountability (Scotland) Act 2000, raise issues arising from the annual audits of public bodies under his remit. We presented four Section 22 reports to Parliament in 2007/08. These reports, while produced in the 2007/08 year, are on the audits of the 2006/07 year.

The fact that we produced fewer Section 22 reports than in past years reflects generally improved financial performance and governance at many of the bodies we audit.

In 2007/08, the Scottish Parliament’s Audit Committee chose to hold an inquiry into the issues raised by our Section 22 report on NHS Western Isles (see case study).

Details of the Section 22 reports published in 2007/08 are in Appendix 2 on page 41.

Case study

NHS Western Isles Section 22

NHS Western Isles has faced financial, governance and staffing issues over a number of years and the Auditor General has issued three consecutive Section 22 reports on the board since 2004/05.

The key issues have been repeated financial deficits and the requirement to develop its governance arrangements and standards of internal control and to design appropriate care models.

Between 2004/05 and 2006/07, the board’s deficit went from £738,000 to £3.4 million and the auditor questioned the board’s financial recovery plan. The Auditor General reported to Parliament on various governance and management issues in those years, and during that time several senior members of staff resigned, as did a board chairman and his temporary replacement.

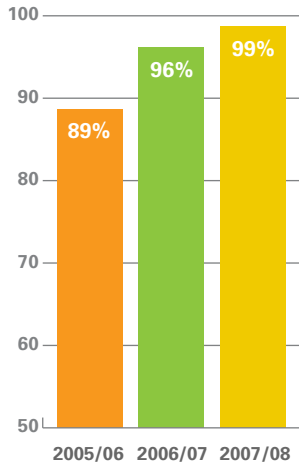
Following the latest Section 22, in October 2007, the Scottish Parliament’s Audit Committee decided to hold an inquiry into NHS Western Isles. This was prompted

by the seriousness of the issues arising and the length of time which had elapsed without a clear resolution.

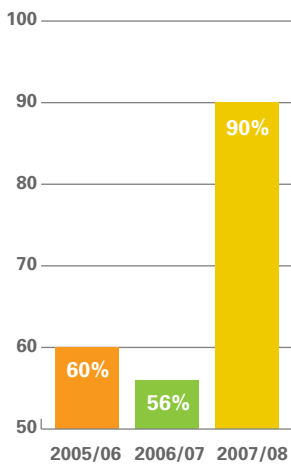
The first hearing was held on 11 January 2008 in Stornoway so that the local community could attend. Current and past board representatives and Scottish Government Health Directorate (SGHD) officials gave evidence. The committee held two further hearings: in February, where the previous chairman and chief executive gave evidence; and March, where the NHS chief executive was questioned.

The Audit Committee published its report on 6 May 2008. It said the board had faced cost pressures and also problems relating to its remoteness, but these had been exacerbated by the board’s poor financial management and internal control systems. It needed a clear and innovative clinical strategy, and improved governance and internal control arrangements. The committee called for more decisive action from the SGHD when problems arose in boards.

Percentage of audit plans submitted to Audit Scotland within specified timescales



Percentage of fees agreed within specified timescales



Monitoring financial management and governance

- Delivering and reporting on the audit of public sector bodies.
- Focusing on sound financial management, governance and probity.
- Preventing and detecting fraud in the public sector.

Delivering the audit

Audit Scotland met all its targets for delivering the audits to statutory or Accounts Commission timescales for each sector. One hundred per cent of all the audits completed in 2007/08 in health, central government, further education and local authorities were completed on time, compared with 99% overall in 2006/07. There was also improvement in the delivery of audit plans and agreement of fees within timescale.

There were 201 final annual audits for the year 2006/07 completed in 2007/08. Of these, 94, or two thirds by public sector expenditure, were delivered by Audit Scotland and 107, or a third by monetary value, by private firms.

The annual audits continue to be the foundation of our work. These provide assurance to local elected representatives and board members and support improvement in public organisations. This work also informs many of our national performance

studies. The work is conducted according to the Code of Audit Practice which reflects the ever changing international standards for the quality of audit. It is therefore important that we continually strive to improve the way we conduct the audit, ensuring our clients and stakeholders gain maximum value from the audit process.

Our current audit approach has a clear focus on priorities and risks and is based on a sound understanding of the business.

Appointing the auditors

The Auditor General and the Accounts Commission appoint auditors from Audit Scotland and private sector firms to undertake audits of Scottish public bodies. Approximately a third, by public sector expenditure, of the public audits in Scotland are conducted by private sector accountancy firms, with the remaining two thirds conducted by Audit Scotland. A full list of appointed auditors is available on our website at <http://www.audit-scotland.gov.uk/about/as/audits.php>

The appointment mix is designed to develop greater collaborative working between private firms and Audit Scotland to deliver greater value to clients and stakeholders. All auditors involved in the audit of particular sectors meet regularly to share experiences, keep up to date with policy developments and discuss technical auditing matters.

201

audits completed in 2007/08 on the 2006/07 financial year.

65

Central government

23

NHS

39

Further education

32

Councils

41

Joint boards

1

Scottish Water

Reporting arrangements

Auditors report to the Auditor General and the Controller of Audit. 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 2007/08, Audit Scotland's auditors produced around 530 separate reports for the public bodies they audit. These management reports cover a wide range of areas, for example:

- main financial systems
- partnership working in Community Health Partnerships
- information and communication technology.

Annual audit reports cover the full range of audit work undertaken in the year, providing clients and stakeholders with a comprehensive and independent view of financial management, governance and performance in public bodies. The annual audit reports can be found on Audit Scotland's website. Auditors also attended some 250 audit committees of public bodies across Scotland.

Overall, the standard of financial stewardship in Scotland remains sound. One of the prime responsibilities of appointed auditors is to carry out a body of work which will enable the provision of an audit certificate, or opinion, in relation to each year's transactions and activities.

The great majority of opinions given by appointed auditors are clear and unqualified. However, there are situations where an auditor may disagree that an organisation's financial statements offer a true and fair view of its financial position or where they may wish to refer to any limit of scope of that opinion. In these cases the auditor will qualify their opinion. There were nine audit qualifications across all sectors for the 2006/07 financial 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. However, there was one report conducted by the Controller of Audit under section 102(1) of the Local Government (Scotland) Act 1973, on the departmental reorganisation and voluntary redundancy of the chief executive of East Lothian Council.

Delivering quality

We remain committed to delivering a public audit service that is valued by clients, stakeholders and the general public. Our Audit Strategy Group is responsible for setting the standards expected of all public sector auditors through a Code of Audit Practice.

In 2007/08, we conducted a detailed survey of the compliance arrangements of all auditors involved in financial audit work with International Standards on Quality Control and concluded that all the auditors had appropriate arrangements in place to meet the required standards.

We also conducted a service quality survey as part of our audit quality appraisal framework. We surveyed the local government and central government sectors on the 2006/07 audits. The local government survey showed that 97 per cent of respondents considered that their auditor provided a high-quality audit service and 97 per cent also thought the audit makes a positive impact. The corresponding figures for the central government survey were 86 per cent and 92 per cent respectively.

Our performance audits follow a rigorous project methodology to ensure quality at every stage in the process, from project scoping to reporting and follow up.

Case study

Asif Haseeb

I am a senior manager within our Audit Services Group, the part of our business which delivers the annual audits of local authorities and joint boards, health boards, non-departmental public bodies (NDPBs) and the Scottish Government. My clients include two local authorities, North Ayrshire and South Ayrshire Councils, and two small boards, Ayrshire Valuation Joint Board and South West Criminal Justice Authority. I have two small teams working in each local authority.

Auditing is about providing independent assurance, holding to account and helping to improve. Getting the balance right between these three areas can be challenging, especially if your client is having difficulties and asking for help and advice. There are usually no right or wrong answers; it is about making judgements.

The job is very rewarding when clients who are going through a difficult period ask you for help and advice and they actually take your advice. You spend a lot of time with clients but have to keep an arms-length relationship to maintain your independence. Auditing is excellent training for future managers as it gives a bird's eye view of the key issues facing organisations and requires analytical and questioning skills.



Asif Haseeb

I became an auditor through an unusual route. I had wanted to be an engineer but I realised you had to be good at physics, so I followed a friend's suggestion of accountancy instead. I left college just as unemployment levels in the UK hit three million people in the early 1980s and struggled to find trainee posts.

After eventually getting a clerical post in the civil service, I was offered a civil service scholarship to study chartered management accountancy and I qualified in 1989. Thus I am 100 per cent committed to the public sector as it helped me out of unemployment and invested in my training.

My interests outside work are the health and education services and I have held a couple of non-executive posts in these sectors. I was recently invited to serve on the court of the University of the West of Scotland. Accountancy and audit training stands you in good stead in these roles, and you learn new skills and best practice which can be shared with your clients.

Case study

Quality management in Audit Services

Our Audit Services Group (ASG) has continued to develop its quality framework by introducing improved quality controls across the group. This included implementing the updated corporate time recording system, and developing an online reporting mechanism which provides real time information on audit progress and delivery. A new online database has also been developed to support the planning and recording of staff rotation in

fulfilment of professional ethical standards for auditors.

A full quality monitoring programme has been completed under the quality framework and feedback sessions were held with all staff to update them on the main findings and consider future training needs in support of the audit methodology. A refreshed learning and development plan for ASG is being developed, which will include a renewed focus on professional audit skills.

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 Local Government SORP Board 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.

Audit Scotland's Technical Services Unit, part of our Audit Strategy Group, continues to provide technical advice

and guidance for all public sector auditors in Scotland, ensuring they are aware of important developments in audit and accountancy and play a key role in sustaining the high quality of public audit.

Ethical standards

Audit Scotland expects the highest ethical standards to be applied by all our staff and partners. During 2007/08 Audit Scotland adopted the principles of the ethical standards issued by the UK Auditing Practices Board for all its staff and all of its work (not just the financial audit work formally covered by the standards) and issued guidance to our staff on the application of those standards to the particular circumstances of public sector audit in Scotland.

Our director of Audit Strategy, Russell Frith, undertakes the role of ethics partner and provides advice on the application of the standards in particular cases.

National Fraud Initiative

The National Fraud Initiative (NFI) is a data matching exercise undertaken by Audit Scotland every two years in partnership with the Audit Commission in England and Wales. NFI compares information from a range of public bodies and financial systems (housing benefits, local authority and NHS payrolls, public sector pensions etc). NFI helps to identify fraud and error in the public sector.

Investigation work and data ‘matches’ were undertaken mainly between January 2007 and March 2008. The NFI identified £9.7 million of overpayments and savings in Scotland, and cumulative savings have now reached around £37 million.

This year’s savings remain significant, even though they were less than the £15 million identified from the previous exercise in 2004/05.

The next NFI will commence in October 2008. We are also in discussion with the Scottish Government Justice Department about bringing Audit Scotland’s powers to conduct data matching exercises into line with those available to other UK audit agencies.

Housing and council tax benefit

From 2008, the Accounts Commission is taking over the responsibility for the scrutiny of housing and council tax benefit (HB/CTB) services in Scotland. Audit Scotland will manage and resource this task on behalf of the Accounts Commission.

During the past year we have worked closely with the Department for Work and Pensions, the Audit Commission and the Wales Audit Office (WAO) to develop an approach to our new HB/CTB audit responsibilities.

In November 2007 we recruited two benefits auditors. A project advisory group, consisting of representatives from local authorities and other stakeholders, has scrutinised the new HB/CTB audit methodology. This was piloted in February and March 2008, and the new audit programme will be rolled out early in 2008/09.

Best Value in Scotland’s public services

- Delivering the programme of Best Value audits in local government.
- Reviewing our progress and developing the programme.
- Developing Best Value in health and central government.

Reporting on Best Value in Scotland’s councils

Our Best Value audit reports provide an overall picture of each council’s performance and give the public an independent view on whether their council is achieving continuous improvement. When the Audit Scotland team has completed its work, the Accounts Commission considers each report and makes its findings, which are published. The council must meet to consider the report and findings and make a formal response, usually including an improvement plan to address the issues raised.

During 2007/08 we published four Best Value reports; full audit reports on East Lothian and Clackmannanshire Councils, and progress reports on West Dunbartonshire and the Moray Council. This was fewer than in some previous years, partly due to the national and local elections in May 2007 during which time Audit Scotland followed a six-week embargo on issuing reports, in line with public sector practice.

We also submitted a Best Value report on Aberdeen City Council to the Accounts Commission in March 2008. The Commission decided to hold a public hearing in response to the report and this was due to be held in May 2008.

Reviewing and improving on Best Value

An independent review of the Best Value audit process has been completed and was reported to the Accounts Commission in May 2007. It concluded that the Best Value audit process is well established, credible and has been effective in contributing to improvement. We have tried to conduct the Best Value audits in a co-operative manner with councils, so we particularly welcomed the review’s conclusions that, in the main, they have found it a challenging but useful process. The report also identified a series of challenges for improving the audit in the future:

- The need for a stronger outcome focus.
- An increased emphasis on self assessment.
- The need for a more proportionate and flexible audit approach.
- An increased emphasis on community leadership and partnership working.
- Better use of benchmarks and existing good practice.

In late 2007 and early 2008, the Accounts Commission held a series of consultation meetings with councils and met other key bodies such as COSLA, SOLACE, the Scottish Consumer Council and the Scottish Government, to respond positively to these challenges and develop a stronger approach to the audit. Audit Scotland is supporting the Commission and we are also taking account of the changing landscape for local government, including new relationships with the Scottish Government, the greater focus on outcomes agreements and the developments in scrutiny as a result of the Crerar review.

Rolling Best Value out into health and central government

Building on the work we have done in local government, we have continued to develop our approach to the audit of Best Value in health and central government. We are consulting with health and central government bodies to hear their thoughts on our plans.

A toolkit on financial management was piloted in health audits, and a sample of central government audits, in 2007/08.

We have a number of national studies in our current programme which cover important Best Value dimensions, for example, performance management, asset management and strategic procurement.

Developments to extend single outcome agreements beyond local government, and the emerging outcomes from the Crerar review of scrutiny, will influence our approach.

Case study

East Lothian Best Value report

Being a member of a Best Value audit team is a rewarding experience. We gain a good insight into the workings of a council and bring our combined knowledge of Scottish local government together to help the council to improve and deliver best value.

In undertaking the Best Value audit of East Lothian Council, the team took time to understand the context within which the council was operating and how it was delivering best value. The main audit work was carried out during January to April 2007.

The audit process requires a lot of background reading covering many diverse documents, over 300 during this audit. Approximately 30 interviews were carried out with elected members, council officers and community planning partners. Committee and managerial meetings were observed by the team and council staff were involved through a series of focus groups. None of this would have been possible without the co-operation and assistance provided to the audit team by the council during the audit.



Lesley McGiffen

Team members worked closely with colleagues from other parts of Audit Scotland to ensure everyone was aware of current developments.

The Accounts Commission considered the Best Value report at its September meeting and it was published October 2007. The report identified that the council had made limited progress in establishing best value. The impact of the report, and the other work carried out around the same time has resulted in an improvement plan that will help the council deliver best value.

The Crerar review of scrutiny

In June 2006, Scottish ministers commissioned Professor Lorne Crerar to evaluate the current systems of external scrutiny of public services and complaints handling across the Scottish public sector. They also asked him to make recommendations on a framework for the future.

Audit Scotland seconded a member of staff to the review team. We also submitted two reports to the review: *The cost of external scrutiny of public services in Scotland: a preliminary analysis*, and *Risk-based and proportionate scrutiny*. The Auditor General and the Accounts Commission submitted survey data to the review team, as well as more detailed submissions of evidence at the team's request.

The review reported in September 2007 and its report can be found at <http://openscotland.gov.uk/Publications/2007/09/25120506/0>

The government has set up a board to oversee changes as a result of the review, and Deputy Auditor General and Controller of Audit Caroline Gardner has been appointed to that board.

The government also created five teams to carry out the planning and implementation of the review's recommendations. Audit Scotland staff members are involved in the teams looking at:

- accountability and governance
- user focus
- policy and approaches
- reducing burdens.

A fifth team is looking at complaints handling.

Further supporting democratic scrutiny

International and development work

Audit Scotland continues to be involved in international activities, in particular supporting developing countries in improving their own public audit arrangements. We have formed a steering group to develop and deliver on our international strategy. Our future international work will focus around the European Union, the accession countries, those in the Balkans and the Baltic states and those on the periphery of the EU. Much of our work in the international arena is conducted in partnership with other audit agencies, particularly the National Audit Office (NAO) and the Swedish NAO.

We hosted several visits from overseas delegations in the past year. Visitors were keen to hear about the public audit model in Scotland, which is of particular interest to countries which are developing their own public audit arrangements. These visits also allow us to learn from other countries and at times challenge our own thinking and assumptions. In the past 12 months we have welcomed visitors from:

- Uganda
- Bosnia-Herzegovina
- China
- Ethiopia
- Romania
- Norway
- Pakistan.

In addition, Audit Scotland staff have been involved in capacity-building projects overseas. As well as providing invaluable support to the recipient country, this international work provides development opportunities for our staff. In the past year, we have provided experts to projects in Moldova (see case study opposite), Jordan and Bosnia-Herzegovina. Some of these projects will continue into 2008/09.

This year, we were invited to deliver presentations on the audit of new forms of financing and outsourcing of public activities at the European Organisations of Regional External Public Finance Audit Institutions (EURORAI) sixth congress in Crans-Montana, Switzerland, and the representation of women in Scottish public life to the first Bangladeshi Audit and Accounts women's forum conference.

Public correspondence and complaints

Audit Scotland receives many items of correspondence from members of the public wishing to draw our attention to issues of concern in public bodies.

The nature and complexity of correspondence varies widely. Provided the issues are within our remit we refer correspondence to the auditor of the public body concerned. Based on the auditor's response we decide whether the matter needs no further action, whether it should be included in our annual audits or whether it will be investigated further to form the basis of a public audit report.

In 2007/08, we received 216 items of correspondence which compares with 527 the previous year. The 2006/07 figure included 284 repeat items relating to East Lothian Council and Glasgow Housing Association. When these are excluded the year-on-year volume is similar.

Audit Scotland met its target of acknowledging correspondence within ten working days in 87 per cent of cases; and in 74 per cent of cases we met our target of providing a full response within one month of the date of acknowledgement. This compares with 97 per cent and 90 per cent respectively in 2006/07. As a result we have reviewed our correspondence processes and from April 2008, correspondence is centralised under the control of a senior manager.

Case study

Moldova

Audit Scotland staff members Jim Rundell, Carol Hislop and Lorna Meahan have been working in Moldova in a joint project with the Swedish National Audit Office to help develop modern auditing practices in the former Soviet republic.



Lorna Meahan, Jim Rundell, Carol Hislop

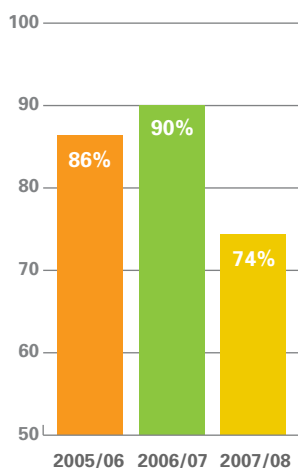
Moldova, a land-locked country between Romania and the Ukraine, is a former Soviet republic with aspirations of joining the European Union. It is one of the poorest countries in Europe, and the accountancy and audit environment is still developing.

Audit Scotland is helping the Moldovan Court of Accounts (CoA) develop a modern, fit-for-purpose quality framework that complies with the International Standards of Auditing.

Most of the staff in the CoA are trained as economists or lawyers. While they understand theoretical issues, they have limited knowledge of auditing and accounting in practice so they value our knowledge and understanding of audit and in particular how to put theory into practice.

On a practical level, we have had to overcome the language barrier and the travel, but the project has been enjoyable and rewarding. We are also deriving other benefits, such as the opportunity to reflect on how we can improve our own quality framework and audit manual.

Percentage of correspondence from members of the public that Audit Scotland responded to fully within target time





Maximising the value of the audit

“Audit Scotland is committed to delivering an efficient and effective public audit service, ensuring best value in everything we do.”

Refining the audit

- Using sector plans to make the most efficient and effective use of resources.
- Improving efficiency, effectiveness and best value.

Sector planning

This year we continued to review and develop our approach to how we plan the audits for each sector. This is to make the most efficient and effective use of our organisation-wide resources. We are committed to further improvement in our partnership working between our Audit Services Group, our Public Reporting Group and the private firms to avoid duplication and overlap. Our sector plans follow and underpin the achievement of the corporate plan, and last three years with annual updates to reflect changes to the environment in which we work.

The current sector plans for local government, central government and the NHS cover the period 2007-10. The plans reflect: the changed priorities of the new Scottish Government; the outcomes of the Crerar review; the introduction of the concordat in local government; the proposal for NHS boards to be elected; and the introduction of the international financial reporting standards.

Improving efficiency and effectiveness

Audit Scotland is committed to delivering an efficient and effective public audit service, ensuring best value in everything we do. This involves a commitment to continuous improvement and to maximising the value that clients and stakeholders receive from the audit process.

This year we set up a business improvement unit for our Audit Services Group with a remit to improve efficiency and effectiveness. This development provides an opportunity to take a strategic view of our management information across the organisation, and to make further links between our two major business groups.

We implemented other changes and improvement initiatives during 2007/08 which are aimed at bringing efficiency, effectiveness and quality gains in the future. These include:

- a new approach to resource management in our Audit Services Group to deliver more efficient use of agency staff and more consistent quality, and a new quality system that increases the efficiency and effectiveness of our work
- a cross-sector approach to professional development that increases the efficiency and effectiveness of our work in relation to planning and reporting
- implementing and managing a programme of secondments to develop staff and improve quality. External secondments into Audit Scotland have supported our studies – for example, an expert in palliative care joined our team reviewing this sensitive area.

Maximising our impact through sharing knowledge with others

We continually seek to increase the impact of our work by contributing to external bodies and forums where we share the knowledge and expertise gathered during the course of our work.

Our involvement in external bodies and forums provides the opportunity for us to listen to the experiences of those managing, delivering and using public services. This helps us continue to focus on the issues that really matter to public services in Scotland.

Applying best value within Audit Scotland

In its Corporate Plan for 2007-10, Audit Scotland restated its commitment to continuous improvement and demonstrating best value in the way it conducts its business.

In 2007/08, we began internal best value reviews on our management of health and safety, and the use of internal resources in audit. The reviews are ongoing and results will be reported in 2008/09.

Case study

In 2007/08, Audit Scotland staff presented to more than 50 external seminars, conferences, training events and to overseas visitors to Audit Scotland. Examples include:

- Scottish Government national procurement conference
- presentation to Heriot Watt University students on auditors' perspective on financial systems
- presentation to the NHS Lothian Board on Best Value.

We remain committed to making the most of what we know and do and will continue to find new ways to share our experience more widely.

We aim to contribute fully to the development of public sector finance and scrutiny through our membership and contribution to external bodies and groups. During the year 52 members of our staff served on 54 external bodies and working groups. Examples of our involvement in bodies and groups are:

- Chair of CIPFA in Scotland (part year)
- Member of the CIPFA Board for regions
- NHS Corporate Governance and Audit Group
- Treasury Steering Group on Government Accounting
- Financial Reporting Advisory Board
- Cabinet Office Civil Contingencies Regulatory Forum
- Senior Strategic Steering Group on Police Performance
- Scottish Advisory Board on Gender Equality Duty
- ICAS Audit and Assurance Committee.

Diversity and equality

- Delivering our diversity and equality action plan.
- Scrutinising diversity arrangements in other bodies.

Diversity and equality at Audit Scotland

Valuing diversity and promoting equality of opportunity are seen as core best practice for modern day organisations. Audit Scotland has an opportunity as an employer, a public body, an auditor and service delivery agent to the Auditor General and the Accounts Commission to take a leading role in the promotion and application of best practice in diversity and equality of opportunity.

During 2007/08 Audit Scotland:

- designed a module which specifically dealt with the application and promotion of diversity and equality within our management development programme. To date, 57 senior managers have completed or part-completed this module
- introduced an online diversity and equality programme consisting of three modules and a comprehension and understanding test. The majority of staff have now completed the programme with the remaining due to complete in 2008/09. Results showed that managers and staff achieved high scores of 94 per cent and 92 per cent respectively

- included the concept of respect and understanding differences in a customer services programme for our front-line staff
- started work to expand our current, three equality duties to cover age, sexual orientation and religion and belief and to shape into one overarching equality scheme. This work will continue next year
- included equalities as a strand within the review of our staff competencies framework. This will ensure we measure performance on the delivery of appropriate individual, team and organisational equality objectives
- started trialling the Scottish Government's equality impact assessment tool to help us consider the impact on different equality groups in a more robust way
- improved accessibility to our information and reports through the redesign and implementation of our new Audit Scotland website. The development benefited from the contribution of the Royal National Institute of Blind People who conducted an accessibility audit for us.

Case study

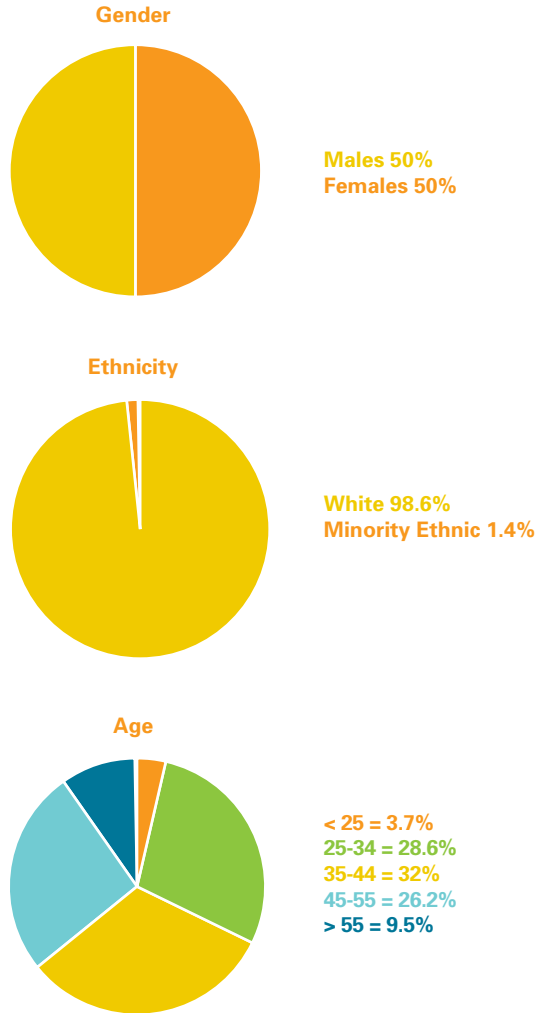
Mainstreaming diversity and making it a part of our work
Our Project Management Framework requires us to consider in-house any potential equalities issues at the scoping stages of every public reporting study. We also send copies of all study briefs to the main equalities organisations for comment as part of the normal consultation process for each study. When a study has significant equalities issues, we involve relevant experts at key stages of the study.

We produced a guidance document on how to make diversity and equality issues an intrinsic part of our public reports. The booklet, *Building diversity into our work*, gives technical advice to our report teams on areas including: identifying diversity issues; designing surveys that will get information from hard-to-reach groups and cover D&E issues; and relevant aspects of design, presentation and report writing.

An example of how we have addressed diversity and equality issues in our work in 2007/08 was our report *Managing long-term conditions*, published in August 2007.

The study team arranged venues for focus groups with people with a specific long-term condition that were near public transport links (and reimbursed travel expenses), to ensure that participants didn't need to have ready access to a car in order to attend. The venues for the focus groups all had wheelchair access; an important consideration in encouraging patients with disabilities to attend and have their views heard.

Our staff profile is as follows:





Building an effective and efficient organisation

Training our staff and developing our leaders

- Rolling out leadership and management training across Audit Scotland.
- Committing to professional training and supporting staff through examinations.
- Seeking Investors in People recognition.

Developing staff, professional training and learning opportunities

We work to ensure that our people are effective, confident and able to deliver for our clients and stakeholders. Our Personal Development Scheme (PDS) is one of the primary vehicles for providing performance feedback and identifying training and development needs of our staff. Our PDS is now fully embedded, which means that all members of staff benefited from at least one formal appraisal meeting during the year with their manager.

In 2007/08, our staff received about nine days of training and personal development per person. This development ranged from formal training courses to self development through reading work-related articles.

This year saw the continuation of the Management Development Programme, begun in 2006, with a further 25 managers starting the programme. Fifty-seven senior managers have now taken part and the course will continue into 2008/09.

A new skills-building course was designed and piloted this year and is currently being rolled out to all first-line managers.

We also developed our staff in a range of technical and support skills, including diversity and equality, health and safety, information technology, Freedom of Information and customer care.

More than 100 staff members received training in preparation for the new International Financial Reporting Standards (IFRS) at four two-day courses in Glasgow, Edinburgh, Bridge of Allan and Perth. The training was delivered in partnership between CIPFA and PricewaterhouseCoopers and the course content was designed in consultation between the trainers and members of our Audit Services Group.

There were 29 auditors and trainees working towards their ACCA and CIPFA qualifications this year.

Investors in People (IiP)

The IiP standard fully embraces the ethos of continuous improvement and represents a useful framework with which to assess our progress and priorities.

In 2007/08, we conducted some preliminary work to assess our performance and development strategies against the IiP standards. This will inform our strategy for progressing towards IiP accreditation in 2008/09.



Alasdair Craik

Case study

Management development programme

Audit Scotland's senior managers have been going through a management development programme designed to raise our knowledge, skills and confidence.

The programme started with a feedback session to illustrate to everyone how others perceive them and to highlight strengths and weaknesses. Following this was a series of modules combining both theoretical and practical elements aimed at developing a deeper understanding of how change happens, our role in leading and managing change, methods of communicating and influencing others, and ensuring effective delivery through sound performance management.

The programme not only updated existing skills but also provided a variety of new management tools. The programme gave us both a clearer understanding of the wider strategic role we play in Audit Scotland and the confidence to be flexible and creative in our responses to situations and to encourage others to do the same.

“We work to ensure that our people are effective, confident and able to deliver for our clients and stakeholders.”

Managing our resources

- Ensuring our business processes support efficient and effective working.
- Further improving financial management and reporting at Audit Scotland.

Efficiency and effectiveness

During 2007/08 we undertook a number of initiatives to improve our efficiency, effectiveness and best value. We:

- implemented a new print contract for Audit Scotland’s publications. In this first full year of the contract there was an overall cost and efficiency saving of £28,000 in the print budget for 2007/08, with further savings to be made over the duration of the contract
- continued to publish the local government SPI data on the Audit Scotland website only, resulting in annual recurring saving of £28,000

to Audit Scotland. This e-approach to publication has allowed us to publish the SPI data earlier each year, and improved our ability to meet the needs of our stakeholders who use this data for assessing performance and benchmarking progress

- conducted a review of our business insurances and stationery buying arrangements. As a result we have saved approximately £37,000 this year on insurance and have put in place a contract for stationery which will give combined insurance and stationery annual recurring savings of approximately £80,000. In addition we believe the new stationery contract will save in staff time
- refurbished our office at 18 George Street to increase the effectiveness of the floor space and utility usage. Staff desk capacity has been increased from 50 to 80 units; lights were fitted with movement sensors to reduce power consumption; and toilets were fitted with dual flush controls to reduce water usage

- re-organised the administration support within the Audit Services Group, reducing staff numbers by 2.5 whole-time equivalents. This generated a saving of £54,000.

Information and knowledge management

In early 2007/08, we updated our intranet system to enable better sharing and searching for information across Audit Scotland.

In 2007/08, we continued to build on our electronic document and records management system project by appointing a corporate project officer to support the project and to help ensure we clear out our old information and put our policies and procedures into practice. The way we hold and manage information has changed. Since the start of the project, 68 per cent of our information is now held in secure public areas of our network, up from 38 per cent.

Case study

Audit Scotland prize winners

Audit Scotland is committed to providing an excellent graduate training scheme, to support the continued quality of our own work and to provide a pool of skilled public sector auditors for the future. A number of Audit Scotland staff were CIPFA Scotland prize winners in 2007.



Anne Cairns

DR Bishop prize, this is awarded to the student in Scotland with the highest exam marks in the final CIPFA exams



Louise Robertson

An award in Governance and Public Policy



Ursula Lodge

Awards in Financial Accounting, and Financial Management Systems and Techniques

Internal audit of systems, processes and quality

During 2007 the Audit Scotland Board undertook a competitive tendering process for internal auditing services. RSM Bentley Jennison was appointed by Audit Scotland’s audit committee as the sole provider of internal audit services until 2010. RSM Bentley Jennison commenced their work on our systems and processes by interviewing senior staff and developing an Audit Needs Assessment Periodic Plan covering the next three years.

Internal audits were conducted on corporate governance, information technology, key financial systems and risk management.

Reviewing performance information

Performance is monitored and reviewed at a personal, team, sector and organisational level and reported to Audit Scotland’s management team and its board on a quarterly basis. This annual report is based on our corporate performance information.

Audit Scotland joined with the other UK audit bodies to develop performance indicators for public sector corporate services. The indicators were launched in May 2007 in a report called *Value For Money in public sector corporate services*. The indicators will enable comparisons to be made between the performance of public bodies on corporate matters such as sickness absence, IT and finance. Benchmarking data was recorded from the 2006/07 year and will be compared in 2008/09 against this financial year.

Sickness absence levels were, on average, 8.11 days per employee (compared with 5.3 days in 2006/07). This compares favourably with the average days lost per employee/annum in public services of 10.3 days.

Developing our new finance system

A new finance system has now been fully implemented and we have developed web-based financial reporting which allows managers access to live information on their budgets. These have resulted in:

- being able to close the month end accounts one week earlier each month thereby achieving our internal performance target
- allowing managers to resolve queries and make financial decisions more quickly without the need for finance staff input
- a reduction in workflow interruption, due to queries, within the finance team.

In 2007/08, we also began developing a web-based purchase order process which will enable us to comply better with the requirements of the McClelland report on public sector procurement.

Initial development work began this year to identify efficiency and effectiveness savings through better integration of the finance system with payroll and our human resources systems. Work in this area will continue in 2008/09.

We continued with our target for the payment of invoices within 30 days. We achieved 88 per cent within the target time, up from 84 per cent in 2006/07.

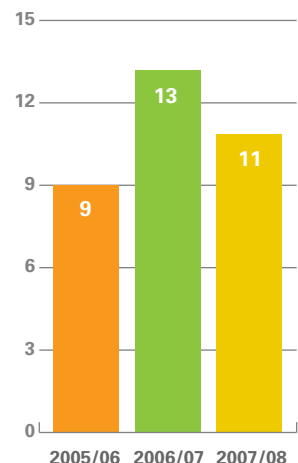
Information regulations and legislation

We recognise the value of openness and transparency and the potential public interest in the information we hold. A wide range of information is available through our publication scheme, details of which can be found on our website.

We have improved the efficiency and effectiveness of the way we manage and handle information requests by extending the remit of our Freedom of Information Group to encompass the Environmental Information Regulations, the Reuse of Public Sector Information Regulations, and the Data Protection Act.

When information that we hold is requested, it is our normal policy to supply it. When the request for information is less straightforward, we keep a log of it and have a formal process for dealing with such enquiries. This includes consideration by a small internal panel. We logged 11 such Freedom of Information requests, details of which can be found on our website at www.audit-scotland.gov.uk/foi. There were no environmental information or data protection requests in 2007/08.

FOI requests which required a panel decision



Sustainability

Audit Scotland is committed to sustainability. We try to reduce the impact of our work on the environment by focusing on the key areas where Audit Scotland has its biggest environmental impact.

The highlights of our work in 2007/08 to reduce our impact on the environment were:

- the printing of our published reports on paper exceeding our target of having an 80 per cent recycled fibre content. We also managed to reduce our internal paper consumption this year by seven per cent from our 2006/07 usage
- the installation of recycling containers for plastic bottles, aluminium cans and glass in addition to paper. To encourage staff to recycle, the number of general purpose waste bins has been reduced
- working with the British Trust for Conservation Volunteers Scotland as part of our environmental management strategy. Some of Audit Scotland staff spent a day carrying out conservation work on Corstorphine Hill, Edinburgh. A seminar was delivered by a spokesperson from the World Wide Fund for Nature (WWF) on the subject of Scotland's environmental footprint, which was well attended
- introducing technology into our offices to allow us to video conference with other bodies to reduce the need to travel.

Further work and effort is required on a number of our environmental targets:

- Our use of environmentally-friendly methods of transport:
 - we targeted a reduction in the number of miles we travelled on

business but our mileage has increased by approximately one per cent over the last year

- we targeted a reduction in our use of taxis. However, after an initial reduction our usage has increased by approximately six per cent. We are examining the reasons for this.
- More work needs to be done on our utility infrastructure so that we can more accurately record our usage, analyse trends and identify reductions.

Developing technology

We continued to develop new systems and work on getting the most from our existing technologies. For example, we:

- implemented a new time recording system, allowing us to monitor and report more accurately on time and cost information
- concluded the roll out of our new phone system which improves the service for external and internal callers and keeps call costs down
- developed a new financial management information system which allows real time online access to financial reports and information
- implemented a new intranet which improves information sharing
- replaced all our aging printers with multi-functional devices to improve our efficiency and effectiveness and to control costs. This will deliver printing cost savings of about 60 per cent and savings in electricity usage of about 60 per cent
- implemented enhanced systems to improve our IT management, work flow and disaster recovery capabilities
- have now connected 26 audit sites to the Audit Scotland network, allowing auditors to spend more time on client sites and work more effectively with their technology.

Case study

Audit Scotland's website

During 2007/08 we revised and relaunched Audit Scotland's website. The site has an improved design with clearer navigation and better accessibility.

We ran the redesign alongside a larger review of the design of our published reports, to maintain consistency in our work. Audit Scotland's communications team created the site and an external developer helped build its content management system.

Site usage

Our site supports a high volume of traffic, with users looking for reports and information about us. The majority of downloads are in PDF format, and we also provide RTFs and podcasts in MP3 format.

Between relaunching the site in September 2007 and the end of March 2008, we recorded:

- 313,872 total visits
- 62,148 total PDF and RTF downloads
- 5,057 total podcast downloads.

The download figures are for the top 500 downloaded items.



Our organisation

Audit Scotland staff are based at six sites around Scotland

Our people

Audit Scotland senior management

(from left to right)

Robert Black

Auditor General and Accountable Officer for Scotland

Robert Black is the first Auditor General for Scotland and was appointed in 2000. He was previously Controller of Audit with the Accounts Commission and, in his earlier career, was chief executive of Tayside Regional Council and Stirling District Council.



Caroline Gardner

Deputy Auditor General and Controller of Audit

Caroline was appointed Deputy Auditor General when Audit Scotland was formed in 2000, and became Controller of Audit in 2004. She previously worked for the Accounts Commission, and the Audit Commission in England and Wales. She trained as a chartered public finance accountant with Wolverhampton MBC, and has an MBA from the University of Warwick.

Russell Frith

Director of Audit Strategy

Russell was appointed director of Audit Strategy shortly after Audit Scotland was formed in 2000. He was previously director of Financial Audit in the National Audit Office in Edinburgh. Prior to that, he worked in the private sector in audit and corporate finance roles as well as being a finance director in the financial services sector. He qualified as a chartered accountant with KPMG.

Diane McGiffen

Director of Corporate Services

Diane was appointed director of Corporate Services in 2000. She previously worked with the Accounts Commission, and before that worked in urban regeneration and local government. She has an MSc in Social and Public Policy from the University of Edinburgh.

Sector management



(from left to right)

Audit services

Our directors of Audit Services, **Fiona Kordiak** and **Lynn Bradley**, are responsible for the in-house audit services we provide to the health, central government and local government sectors, including the audit of financial statements, governance and performance management.

Public reporting

Our directors of Public Reporting, **Barbara Hurst** and **David Pia**, are responsible for investigating issues of public concern, and producing overview reports and performance studies across the health, central government and local government sectors and Best Value audits for local government.

Fiona Kordiak

**Director of Audit Services
(health and central government)**

Fiona was appointed as director of Audit Services in 2007. She joined the Accounts Commission as a trainee in 1987, having previously worked as a finance trainee in the Scottish health service. She is a chartered public finance accountant and has an MA in history and sociology.

David Pia

**Director of Public Reporting
(local government)**

David was appointed director of Public Reporting in 2003 after joining Audit Scotland from the Social Work Inspectorate of the former Scottish Executive in 2001. He worked for 15 years in a range of posts in central government and before that for 15 years in three local authorities in Scotland and England. He is a qualified social worker with Masters degrees from the Universities of Edinburgh and York.

Barbara Hurst

**Director of Public Reporting
(health and central government)**

Barbara was appointed director of Public Reporting in 2000 and has worked in audit for the past 16 years. Before that she has worked in the public, private and voluntary sectors in a variety of roles, including teaching English as a foreign language, managing college library services, rape counselling, freelance consultancy and providing information services to national voluntary organisations. Barbara has an MSc (Econ) in social research methods from the University of Cardiff.

Lynn Bradley

**Director of Audit Services
(local government)**

Lynn joined Audit Scotland as director of Audit Services in 2005. She previously held senior posts in local government, consultancy and Scottish Homes. Lynn qualified as a chartered public finance accountant with the National Audit Office and as a chartered accountant with Ernst & Young.

278

The average number of whole-time equivalent staff at Audit Scotland in 2007/08

52

Audit Scotland staff served on external bodies and working parties

57

Senior managers have been through the Management Development Programme

250

Audit committees at public bodies that Audit Scotland staff attended

530

Separate reports that Audit Scotland auditors produced for public bodies

Our governance

Board



(from left to right)

The board oversees Audit Scotland's work. The board has an audit committee which appoints our internal auditors and receives our annual accounts and internal audit reports.

The board also has a remuneration committee which sets and reviews the salaries of senior staff (excluding the Auditor General for Scotland whose salary is set by the Parliamentary Corporate Body) and the main terms and conditions for all staff.

Robert Black

See biography on page 29.

Caroline Gardner

See biography on page 29.

Phil Taylor

Non-executive board member

Director of Lacus Exploration Ltd. Former board member of North of Scotland Water Authority and Petroleum Venture Management Ltd. Former director of Power Generation, BG plc. Former chair of Premier Power Ltd, Northern Ireland, BG Cogen Ltd and Citigen (London) Ltd.

Catherine Coull

Secretary to the Audit Scotland Board

Also responsible for legal and procedural advice. Catherine took over from Bill Magee, who retired from this role in September 2007.

Isabelle Low

Deputy chair of Accounts Commission

Former senior civil servant. Former member of the State Hospitals Board for Scotland and of the Statistics Commission, and member of the Scottish Consumer Council.

John Baillie

Chair of the board and chair of Accounts Commission

Visiting professor of Accountancy at Glasgow University. Member of the Reporting Panel of the Competition Commission. Former partner in a big four accountancy firm.

Accountability to Parliament

Scottish Commission for Public Audit

Audit Scotland is held to account through statutory arrangements put in place by the Scotland Act 1998 and through the Public Finance and Accountability (Scotland) Act 2000. The Scottish Commission for Public Audit (SCPA) is central to these arrangements. The SCPA is made up of five MSPs that meet in public. It scrutinises our budget, annual report and accounts and appoints our external auditor.

SCPA membership*:

Angela Constance (Convener)
Robert Brown
Derek Brownlee
George Foulkes
Hugh Henry

*Correct as of June 2008

The SCPA met four times during 2007/08. At those meetings, the commission considered Audit Scotland's annual report and accounts for 2006/07 and our budget proposals for 2008/09. We also provided the commission with updates on our progress against our 2007/08 budget.

The commission has also asked HW Chartered Accountants, the external auditors of Audit Scotland, to carry out a follow-up review to a previous commission report on our fees and charges.

Internal and external audit

Our external auditors are appointed by the SCPA, and are currently HW Chartered Accountants.

Our internal auditors are RSM Bentley Jennison.

Neither our internal nor external auditors have any other professional relationships with us.



Our financial performance

“ Audit Scotland’s accounts are independently audited on behalf of the Scottish Commission for Public Audit. ”

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 (SPCA), which appointed HW Chartered Accountants to carry out the audit.

The full accounts and Audit Scotland’s full management commentary are available on our website www.audit-scotland.gov.uk

A summary of income and expenditure

The task of auditing Scotland’s public bodies has expanded greatly since 2000. In 2007/08, 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 £31 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.

Sources of income

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

Analysis of expenditure

In 2007/08, 79 per cent of expenditure was spent on staff and fees to auditors. This compares with 77 per cent in the previous year.

Income	2007/08		2006/07	
	£000	% total	£000	% total
Fees paid by local authorities	12,578	62	11,425	61
Fees paid by health bodies	4,142	20	4,067	22
Fees paid by Scottish Water	181	1	230	1
Fees paid by further education colleges	528	3	600	3
Fees paid by Scottish Government & sponsored bodies	1,579	8	1,591	8
Bank interest	196	1	147	1
Miscellaneous	346	2	248	1
Other finance income (pensions)*	556	3	554	3
Total	20,106	100	18,862	100

* Other finance income is comprised of income from expected returns on the local government pension scheme assets less the interest payable on the scheme liabilities.

Other revenue funding	2007/08		2006/07	
	£000 required	£000 available	£000 required	£000 available
Direct funding from Parliament	4,918	8,126	6,056	8,472

Expenditure	2007/08		2006/07	
	£000	% total	£000	% total
Staff and members' costs	13,927	56	13,599	55
Fees and expenses paid to appointed auditors	5,669	23	5,605	22
Buildings, rent and depreciation	1,871	7	1,782	7
Operating costs	3,557	14	3,932	16
Total	25,024	100	24,918	100

Staff and members' costs

During the year, the average number of directly employed staff was 278 whole-time equivalents (267 in 2006/07 and 279 in 2005/06).

The number of staff whose salaries were over £70,000 was 8 (8 in 2006/07).

Salary	Banding £000
Auditor General	135 - 140
Deputy Auditor General	125 - 130
Director of Audit Strategy	90 - 95
Director of Corporate Services	85 - 90
Director of Public Reporting – Local Government	85 - 90
Director of Public Reporting – Health and Central Government	85 - 90
Director of Audit Services – Local Government	80 - 85
Director of Audit Services – Health and Central Government	75 - 80

The Accounts Commission Chair and members were remunerated as follows:

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

* During 2007/08 the chair of the Accounts Commission changed from Alastair MacNish to John Baillie. They each received remuneration in the £10,000 - £15,000 banding.

The executive members of Audit Scotland's Board and the two members from the Accounts Commission receive no remuneration for their roles on the board. The non-executive member received remuneration in the £5,000 - £10,000 banding.



Appendix 1.

Where we fit in

Audit Scotland

Audit Scotland exists to provide services to the Auditor General for Scotland and the Accounts Commission, allowing them in turn to provide assurance to the Scottish Parliament and ministers that public money is being spent appropriately.

Auditors report the detailed findings of audits directly to the bodies they audit. In 2007/08, together with the private firms we produced 201 final audit reports, which set out in detail the findings, conclusions and recommendations of the auditor. All of our reports are made public. Final audit reports are based on evidence and provide an opinion on public bodies' financial statements, performance and governance arrangements.

Audit Scotland also produces overview reports showing how different sectors perform during each financial year. We have recently extended our overview reporting to cover major policy areas, such as transport. In 2007/08, we published sector overviews of the NHS and local authorities.

We also produce reports that look at performance and value for money, either in an individual organisation or across a sector or sectors. For more information on our performance reports, turn to Appendix 2 (Audit Scotland's public performance reports).

The Auditor General for Scotland

The Auditor General for Scotland (AGS) is a Crown appointment, made on the recommendation of the Scottish Parliament. It is an independent position and not subject to the control of the Scottish Government or the Scottish Parliament.

The AGS is responsible for the audit of the Scottish Government and most other public sector bodies, except for local authorities and fire and police boards. He also performs the comptroller function in Scotland, which involves him formally approving the release of funds from Westminster to the Scottish Government.

The AGS reports to the Scottish Parliament on the proper, efficient and effective use of public funds. With the support of Audit Scotland, he also delivers a programme of performance audits to Parliament, after consultation with Parliament and other stakeholders.

The accountability process for reports to the AGS

The AGS can report to Parliament under Sections 22 and 23 of the Public Finance and Accountability Act (Scotland) 2000. After Audit Scotland prepares such a report for the Auditor General, he presents that report to Parliament and it is published.

The audit committee of the Scottish Parliament can then hold evidence sessions to explore the issues detailed in the Auditor General's report. Typically, the committee will question senior officials, including the relevant accountable officer, and can call ministers to give evidence.

Having taken evidence, the audit committee publishes its own report, with detailed recommendations aimed at ensuring lessons are learned. Where appropriate, the Scottish Government responds to the audit committee report by publishing its response and action plan for each recommendation.

Other committees of the Scottish Parliament can and have used Audit Scotland reports in their work.

The Accounts Commission

Accounts Commission members are appointed by Scottish ministers following a public appointments process. The Commission is independent of local authorities and of the Scottish Government. The Accounts Commission publishes its own annual report which is available at www.audit-scotland.gov.uk/about/ac/docs.php

The Commission is responsible for the audit of all local authorities and associated bodies (such as fire and police boards). It also supports improvement in local government

and ensures councils are striving to achieve best value. Each year, the Commission publishes information on how councils are performing against a number of indicators, which allows elected members and the public to compare performance within and across councils. The Commission can make recommendations and reports to ministers. The Commission also has powers to take action against councillors and council officials if they break the law or if their negligence or misconduct leads to money being lost.

The accountability process for reports to the Accounts Commission

Local government reports, including Best Value audits, are prepared by Audit Scotland under the direction of the Deputy Auditor General, who acts as the Controller of Audit. Reports are presented to the Accounts Commission and published. Having received a report from the Controller of Audit, the Accounts Commission can:

- report and make recommendations to the organisation being scrutinised
- hold a hearing
- report and make recommendations to Scottish ministers.

Working with scrutiny partners

Audit and inspection bodies must work effectively together to minimise the burden of scrutiny and maximise the value gained from all of our work. An independent audit function is a key element of the accountability framework in public services and helps maintain trust in public services, public servants and elected representatives.

Audit Scotland and other bodies put a significant amount of effort into working together to streamline our scrutiny of public services. We have agreed ways of working with our scrutiny partners, such as NHS Quality Improvement Scotland (NHS QIS) and the Scottish Public Services Ombudsman. These agreements set out each body's powers and responsibilities, and arrangements for joining up audit and review in public bodies where it is appropriate to do so. We also have a track record of joint work with inspectorates and other bodies, such as joint inspections of education authorities with Her Majesty's Inspectorate of Education (HMIE), and joint studies with HMIE, Her Majesty's Inspectorate of Constabulary and NHS QIS.

Where possible, we also seek to reduce the scrutiny burden on public bodies and avoid duplication of effort by sharing data. For example, in 2007/08 we liaised with Lord Sutherland when producing our report on free personal and nursing care to ensure we did not overlap with his review of the policy and thus place more burden on councils.

Audit Scotland is in regular contact with the other public audit agencies in the UK: the National Audit Office, the Audit Commission, the Wales Audit Office and the Northern Ireland Audit Office. Audit Scotland takes a full part in the Public Audit Forum (PAF), a body formed by the agencies in the four UK nations and the Republic of Ireland, to provide a focus for: developing public audit; making public audit more efficient and effective; advising on common technical problems; and sharing good practice.

During 2006/07, the Scottish Executive commissioned an independent review, led by Professor Lorne Crerar, of the country's scrutiny bodies. The review looked at the arrangements for delivering audit, inspection, regulation and complaints handling in Scotland and reported in the summer of 2007. For more information, please turn to page 16 in the Our Performance section for details of the Crerar review, the Scottish Government's response and Audit Scotland's actions.

Appendix 2.

Audit Scotland's public performance reports

Across-government reports

Improving the school estate

March 2008

Billions of pounds have been spent over the past decade on over 200 new schools and many school improvements. The Scottish Government and councils need to draw up detailed plans to ensure all the remaining schools are fit for 21st century education.

A review of free personal and nursing care

February 2008

Free personal and nursing care needs to be better planned, managed and funded for it to continue to benefit older people in the future. Demand will grow with the projected increase in the older population in Scotland.

Police call management: An initial review

September 2007

Scotland's police receive almost 16,000 calls a day and people are generally satisfied with the service when they call 999 or a non-emergency number. However, forces cannot show whether new systems they have installed are delivering value for money.

Sustainable waste management

September 2007

There has been a huge increase in the number of recycling schemes, services and facilities. But to meet EU Landfill Directive and Scottish Government targets, councils need

to increase their recycling rates and achieve rapid reductions in the volumes of waste going to landfill.

Dealing with offending by young people: performance update

August 2007

Increased funding and a stronger focus on youth justice services over recent years has delivered some positive changes. However, it is still not possible to demonstrate clearly that resources provide value for money and are being used effectively.

Managing long-term conditions

August 2007

The NHS in Scotland can improve the care it gives to people with long-term illnesses by better targeting resources, further developing community-based services and driving a national strategy.

Central government reports

Estate management in higher education

September 2007

There needs to be a sustained commitment to maintaining and developing Scotland's higher education estate, which is worth almost £5 billion.

Edinburgh transport projects review

June 2007

This reviewed the arrangements for managing the delivery of the Edinburgh trams and Edinburgh Airport Rail Link (EARL) projects.

Health reports

Overview of Scotland's health and NHS performance 2006/07

December 2007

The performance of the NHS is improving against key targets and boards are managing their finances better. However, the service needs to improve performance reporting so the impact of public spending is clear.

Overseas staff in the NHS – pre-employment checks

November 2007

This report looked at whether NHS boards were following their own procedures on pre-employment screening of staff recruited from outside the European Economic Area.

Primary care out-of-hours services

August 2007

Most patients are satisfied with NHS out-of-hours care. But fewer GPs are working during the out-of-hours period and there is a significant risk the service is unsustainable in its current form.

Local government reports – The Audit of Best Value and Community Planning

West Dunbartonshire Council: progress report

January 2008

In this follow-up study to the previous year's Best Value report, the Accounts Commission acknowledged the council's increased commitment to continuous improvement and the progress made by the council within a fairly short timescale.

East Lothian Council

October 2007

East Lothian Council is performing just below the Scottish average, and has made limited progress in establishing Best Value. The Accounts Commission said that the council has a very good opportunity to introduce change to address the major issues it faces.

Clackmannanshire Council

September 2007

Clackmannanshire Council faces a number of significant challenges specific to its situation.

The Moray Council: progress report

August 2007

In this follow-up report the Accounts Commission acknowledged improvement in the council's corporate leadership and strategic direction, but said that there are still areas of concern.

During 2007/08 we also submitted a Best Value report on **Aberdeen City Council** to the Accounts Commission. The commission has chosen to hold a hearing on the issues raised in the report.

Other local government reports

Overview of the local authority audits 2007

February 2008

In this annual review of the issues facing local authorities the Accounts Commission recognised the improvement achieved by local government in Scotland. It highlights progress in services and the need for an increased focus on key areas to meet the challenges ahead.

Local authority performance information website

December 2007

The Accounts Commission has a statutory responsibility to specify information that councils must publish about their performance, in the form of statutory performance indicators. The Commission then publishes information about the comparative performance of councils, police forces and fire and rescue services across Scotland. These can be found at <http://www.audit-scotland.gov.uk/performance/>

East Lothian Council: Departmental reorganisation and voluntary redundancy of the chief executive

June 2007

This report looked at the departmental reorganisation and voluntary redundancy of the chief executive at East Lothian Council. The process fell a long way short of the standards expected of public bodies. The Accounts Commission emphasised the wider lessons to be learned.

Section 22 reports

The Mental Health Tribunal for Scotland Administration (MHTSA)

During 2006/07, the MHTSA did not have appropriate governance in place. While it had made progress from the previous year, it still needs to improve in order to meet good governance standards.

Western Isles Health Board

The board's cumulative debt was at £3.36 million at the end of 2006/07, and its financial recovery plan is unrealistic. There were also serious weaknesses in the board's corporate governance arrangements, and significant failings in clinical governance and risk management.

Scottish Arts Council

The council paid £70,000 to its former chief executive in 2006/07 to terminate his employment. The council did not seek approval from the then Scottish Executive prior to the payment, as the Scottish Public Finance Manual stipulates.

Scottish Water

This S22 was an update to Parliament on the Auditor General's 2005 report *Overview of the water industry in Scotland*. It reported on Scottish Water's efforts to cut operating costs and generate savings, and the impact on household water bills. It also updated the body's progress on its capital investment programme and its customer performance.

Other documents

Quick Guide to Audit Scotland, the Auditor General and the Accounts Commission

February 2008

An updated introduction to our role in public audit and the relationship between these three bodies.

Audit Scotland Disability Equality Annual Report 2007

and

Accounts Commission Disability Equality Annual Report 2007

December 2007

A review of the steps we have taken to fulfill our disability equality duties.

Priorities and Risks Framework: 2007/08 National Audit Planning Tool for Local Government

and

Priorities and Risks Framework: A national planning tool for 2007/08 NHS Scotland audits

November 2007

The Priorities and Risks Framework (PRF) is a tool for auditors to use when planning the audits. It is an annual document which summarises the key national priorities and risks which face public bodies in the coming year.

Equal Pay Review

October 2007

Health and community care bulletin

October 2007

The bulletin primarily aimed to share information with non-executive health board members and elected members of councils. It also provided a summary of our work of interest to staff working in health and community care services.

Equal pay statement

September 2007

Independent review of the Best Value audit process

July 2007

This report was commissioned by the Accounts Commission as part of its wider review of the progress of the Best Value and Community Planning council audits. The study was undertaken by a team from Cardiff and Edinburgh Universities and was based on consultation with stakeholders.

Audit Scotland Gender Equality Scheme

June 2007

The scheme contained an action plan and a prioritisation of Audit Scotland's policies and activities for impact assessment.

Accounts Commission Gender Equality Scheme

June 2007

An action plan and a prioritisation of the Accounts Commission's policies and activities.

Audit Scotland Race Equality Scheme

June 2007

A review of the previous scheme's action plan, an updated action plan and a prioritisation of Audit Scotland's policies and activities for impact assessment.

Accounts Commission Race Equality Scheme

June 2007

A review of the previous scheme's action plan, an updated action plan and a prioritisation of the Accounts Commission's policies and activities.

Audit Scotland Annual Report and accounts 2006/07

June 2007

Accounts Commission Annual Report 2006/07

June 2007

Value For Money in public sector corporate services

May 2007

Audit Scotland joined with the other UK audit bodies to launch indicators to enable comparisons to be made between the performance of public bodies on corporate matters such as sickness absence and finance.

Audit Scotland
Annual Report 2007/08

Holding to account and helping to improve

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