



**SCOTTISH COMMISSION FOR PUBLIC AUDIT**

**AGENDA**

**2nd Meeting, 2005 (Session 2)**

**Wednesday 26 October 2005**

The Commission will meet at 6.00 pm in Committee Room 4.

- 1. Items in private:** The Commission will consider whether to take agenda items 5 and 6 in private.
- 2. Audit Scotland's Budget Proposal for 2006-07 and Annual Accounts and Report on Accounts for the year to 31 March 2005:** The Commission will take evidence from-

Mr Robert Black, Auditor General for Scotland;

Russell Frith, Director of Audit Strategy;

Ms Diane McGiffen, Director of Corporate Services.

on Audit Scotland's 2006/07 budget proposals.

- 3. Auditors of Audit Scotland:** The Commission will receive an update on the appointment of auditors of Audit Scotland.
- 4. SCPA Visit to Denmark:** The Commission will receive a report from the Convener on the SCPA visit to Denmark.
- 5. SCPA Away day:** The Commission will consider a paper on a possible future away day.
- 6. Audit Scotland's Budget Proposal for 2006-07 and Annual Accounts and Report on Accounts for the year to 31 March 2005 :** The Commission will consider the evidence taken at agenda item 2.

**Clare O'Neill**

Acting Secretary to the Commission

The papers for this meeting are:

**Agenda Item 2**

Audit Scotland's Budget Proposal for 2006-07 and Annual Accounts and Report on Accounts for the year to 31 March 2005

[SCPA/S2/05/02/1](#)

Briefing paper

PRIVATE PAPER

**Agenda Item 3**

Cover note

[SCPA/S2/05/02/2](#)

**Agenda Item 4**

Briefing paper

[SCPA/S2/05/02/3](#)

**Agenda Item 5**

Cover note

[SCPA/S2/05/02/4](#)

Margaret Jamieson MSP  
Convener  
Scottish Commission for Public Audit  
Scottish Parliament  
Edinburgh  
EH99 1SP

29 September 2005

Dear Convener

**Audit Scotland's Budget Proposal 2006/07**  
**Audit Scotland's Autumn Budget Revision 2005/06**

Following my letter to the SCPA on 23 March 2005 providing our outline budget proposals for 2006/07 and the printout of our corporate plan to you on 25 May 2005, I now enclose our detailed budget submission for 2006/07.

As requested during our budget discussions last year, I have presented our Autumn Budget Revision proposals in a separate document.

I look forward to discussing our proposals with you but, in the mean time, if you need any further information, please do not hesitate to get in touch.

Yours sincerely



Robert W Black  
Auditor General

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## **Budget Proposal 2006/07**

## **Introduction**

Audit Scotland provides services to the Auditor General for Scotland and the Accounts Commission. The principal activities of Audit Scotland are to carry out the annual external audit of around 200 public bodies and to carry out a programme of performance audit studies across all parts of the public sector in Scotland.

Audit Scotland's funding comes partly from charges to audited bodies and partly from the Scottish Consolidated Fund. Audit Scotland is required to submit its budget proposals to the Scottish Commission for Public Audit (SCPA) for their consideration. The SCPA then make a report to the Scottish Parliament as part of the annual Budget Act approval process.

This paper represents Audit Scotland's budget proposals for the 2006/07 financial year. A separate paper provides information on Audit Scotland's proposal for the Autumn Budget Revision for 2005/06.

## **Business**

Our business operations and developments are set out in the Corporate Plan 2005-08 as previously outlined to the Commission. Briefly the core business is:

- To deliver the annual audit of around 200 public bodies including the Scottish Executive, Executive Agencies, Non Departmental Public Bodies, NHS Boards and Trusts, Local Authorities and Further Education Colleges
- To deliver a programme of performance audit studies, Best Value audits and overview reports for the Auditor General and the Accounts Commission
- To prepare reports on issues of public concern arising during the year at the request of the Auditor General or the Accounts Commission
- To contribute to the development of public sector policies and practices and to accounting and auditing standards.

The environment in which Audit Scotland operates continues to change. Some of the principal factors affecting Audit Scotland's work are:

- The need for public services to demonstrate that the extra resources being invested in Scotland are being used economically and efficiently, and are having a direct and significant impact on services
- The impact of Best Value legislation in local government and the extension of the best value principles across the rest of the public sector
- New ways of working, including the need for collaboration between agencies to deliver services and policy objectives through initiatives such as Joint Futures and community planning, e-government and related investment in ICT
- Risks facing audited bodies such as the difficult financial position faced by a number of NHS bodies

## **Audit Scotland Budget Proposal 2006-07**

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- Additional audit responsibilities including the Transport Agency and Whole of Government Accounts.

Priorities for development of the business include:

- Completing the roll out of a revised risk based audit approach to all sectors
- Completing the first round of Best Value audits in local government and development of Best Value work in other sectors
- Implementing the new audit appointments for 2006/07 to 2010/11
- Enhancement of the training and development opportunities for staff to enable them to meet the challenges of the new audit approaches and to develop management skills
- Reviewing how we assess the impact of our work.

### **Efficient Government**

The Efficient Government agenda affects all of the organisations that we audit. Audit Scotland is committed to assisting the public sector to achieve efficiencies and is fully committed to generating efficiencies which can be redirected towards better services or returned to audited bodies. Our modernising the audit agenda is directly concerned with improvements to service quality and adding value. We are also making a further 5 percent reduction in the amount of audit work in most mainland NHS Boards arising from the abolition of NHS Trusts which is being passed back to the NHS through lower charges.

**Summary of Resource Requirements**

<b>Summary of resource requirements</b>		
	<b>2006-07</b>	<b>2005-06</b>
	<b>£(000)</b>	<b>£(000)</b>
Accounts and governance	17,359	16,698
Performance audit	7,610	7,010
Other	222	333
<b>Total Net Expenditure</b>	<b>25,191</b>	<b>24,041</b>
Income from charges to audited bodies	18,798	18,009
<b>Net Operating Cost</b>	<b>6,393</b>	<b>6,032</b>
Capital	508	493
<b>TOTAL RESOURCE REQUIREMENTS</b>	<b>6,901</b>	<b>6,525</b>

The Total Resource Requirement represents an increase of 5.8% over last year including the impact of additional audit work arising from the creation of new bodies and the introduction of Whole of Government Accounts. Annex 1 provides a breakdown of costs by sector; Annex 2 provides an analysis by type of expense and Annex 3 provides a breakdown between direct and indirect costs.

The Capital Expenditure proposal represents an increase of 3% and is principally for Audit Scotland's rolling Information Technology replacement and upgrading programme.

## **Principal Assumptions**

The principal assumptions underlying the budget proposal are:

- General price inflation is included at 3%
- Provision has been made for pay increases including increments and for a further 0.9% increase in employers' superannuation contributions. The final amount of this increase will not be known until the completion of the actuarial valuation of the local government pension fund as at 31 March 2005. The valuation is expected by early in 2006
- Increases to approved auditors will be 3% in November 2005 and a further 3% in November 2006
- There will be an increase in the amount of non-chargeable audit work estimated to amount to around 2 per cent of the net funding requirement arising from the creation of new bodies, principally the Transport Agency and from the introduction of Whole of Government Accounts
- Efficiencies in the delivery of NHS audits will lead to savings of 5 per cent in the audit work for most mainland Health Boards for the 2005/06 audits.



**Appendix 1**

**Cost breakdown in gross terms**

The table below analyses the expenditure estimated to be incurred by Audit Scotland:

<i>2006-07 Budget</i>	<b>TOTAL £(000)</b>	<b>Local Gov'ment £(000)</b>	<b>NHS £(000)</b>	<b>Further Educ'n £(000)</b>	<b>Scottish Executive £(000)</b>
Accounts and governance	<b>17,359</b>	8,155	3,512	544	5,148
Performance audit	<b>7,610</b>	4,156	1,889	100	1,465
Other	<b>222</b>				
<b>Total Net Expenditure</b>	<b>25,191</b>	<b>12,311</b>	<b>5,401</b>	<b>644</b>	<b>6,613</b>
Income from charges to audited bodies	<b>18,798</b>	<b>(12,311)</b>	<b>(4,351)</b>	<b>(544)</b>	<b>(1,592)</b>
<b>Net operating cost</b>	<b>6,393</b>	0	1,050	100	5,021

*2005-06 Budget*

<b>Total Net Expenditure</b>	<b>24,041</b>	11,909	5,204	651	6,277
Income from charges to audited bodies	<b>(18,009)</b>	(11,909)	(4,181)	(551)	(1,368)
<b>Net operating cost</b>	<b>6,032</b>	0	1,023	100	4,909

**Appendix 2**

**Subjective breakdown of running costs:**

	<b>2006-07</b>	<b>2005-06</b>
	<b>£(000)</b>	<b>£(000)</b>
<i>Employees:</i>		
Salaries and temporary staff	10,815	10,178
Employer's oncosts	3,059	2,806
<b>Total employee costs</b>	<b>13,874</b>	<b>12,984</b>
Approved auditors	5,502	5,744
Performance audit and other consultancy	1,159	684
Training and development	561	278
Travel and subsistence	846	817
Recruitment & Other Staff Costs	268	332
Professional Subscriptions	44	41
Premises	1,429	1,256
Office expenses	588	605
IT	392	364
Publications and media	283	304
Depreciation	319	505
Cost of capital	20	40
<b>Total Audit Scotland expenditure</b>	<b>25,285</b>	<b>23,954</b>
Accounts Commission costs	159	162
Sundry income	(253)	(75)
<b>Total Net Expenditure</b>	<b>25,191</b>	<b>24,041</b>

**Direct and Indirect Costs**

Appendix 3

	<b>Total</b>		<b>Direct Costs</b>		<b>Indirect Costs</b>	
	<b>Budget</b>	<b>Budget</b>	<b>Budget</b>	<b>Budget</b>	<b>Budget</b>	<b>Budget</b>
	<b>2006-07</b>	<b>2005-06</b>	<b>2006-07</b>	<b>2005-06</b>	<b>2006-07</b>	<b>2005-06</b>
	<b>£(000)</b>	<b>£(000)</b>	<b>£(000)</b>	<b>£(000)</b>	<b>£(000)</b>	<b>£(000)</b>
Audit Strategy	687	646	344	323	343	323
Approved Auditors	5,502	5,742	5,502	5,742		0
Audit Services	8,880	8,376	8,880	8,376		0
Performance Audit	5,304	4,599	5,304	4,599		0
Corporate Services	4,677	4,366	2,339	2,183	2,338	2,183
<b>Total audit-related expenditure</b>	<b>25,050</b>	<b>23,729</b>	<b>22,369</b>	<b>21,223</b>	<b>2,681</b>	<b>2,506</b>
Commission members	159	162				
Audit Scotland board	13	13				
Auditor General	222	212				
<b>Total gross expenditure</b>	<b>25,444</b>	<b>24,116</b>				
Sundry income	(253)	(75)				
<b>Total Net Expenditure</b>	<b>25,191</b>	<b>24,041</b>				



# **Autumn Budget Revision 2005/06**

## **Introduction**

Audit Scotland's budget and Parliamentary funding is subject to scrutiny by the Scottish Commission for Public Audit as are any revisions to that Parliamentary funding.

This paper represents Audit Scotland's proposals for the 2005/06 Autumn Budget Revision.

## **Overall proposal**

The only proposed revision is for Audit Scotland to take up its entitlement to End Year Flexibility (EYF) arising from 2004/05. The overall proposal is:

	<b>Revenue</b>	<b>Capital</b>
	<b>£000</b>	<b>£000</b>
<b>EYF</b>	430	1,174
<b>Total</b>	<u>430</u>	<u>1,174</u>
<b>Revised total funding</b>	<u>6,462</u>	<u>1,667</u>

## **Revenue EYF**

Audit Scotland's underspend on its revenue budget in 2004/05 was £430,000, a significant reduction on 2003/04 (£2,252,000).

As most of the underspend relates to chargeable audit work we intend to use the majority of the revenue EYF to reduce audit charges. The remainder of the EYF would be used to support a number of internal projects including a new Management Information System.

## **Capital EYF**

The capital underspend is £1,174,000. The vast majority of this (£900,000) relates to funding for the refurbishment of offices at 18 George Street, Edinburgh. The proposed refurbishment was initially delayed when asbestos was found in the building. The work to seal in the asbestos has been completed. Design work identified a preferred solution which exceeded the available budget. Discussions were held with the landlord regarding capital contribution to the work, possibly in exchange for a revised lease. The landlord then offered the possibility of taking over the leases of both our George Street buildings and finding a single site which could have a number of significant operational benefits. These discussions were progressing when the landlord abruptly sold 18 George Street in late July. We will now proceed with refurbishment work on 18 George Street to meet our lease obligations.

The remainder of the EYF will be used for the new management information system as described in the corporate plan.



# Annual Accounts

Year ended 31 March 2005

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# Foreword

## **Basis of Accounts**

These are the accounts of Audit Scotland for the year ended 31 March 2005. The accounts have been prepared in compliance with a direction given by the Scottish Ministers in accordance with section 19(4) of the Public Finance and Accountability (Scotland) Act 2000.

## **Statutory Background**

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

## **Aims and Objectives**

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

## **Principal Activities**

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

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

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

## **Sources of Funding**

Audit Scotland may, under Part 2 of the Public Finance and Accountability (Scotland) Act 2000, make reasonable charges to audited bodies in respect of the exercise of its functions. Audit Scotland must seek to ensure that, taking one year with another, its charges for certain types of work are broadly equivalent to its expenditure. Any expenditure not met from charges is payable out of the Scottish Consolidated Fund.

## **Going Concern**

The balance sheet at 31 March 2005 shows net liabilities of £10.5M. This reflects the inclusion of pension liabilities falling due in future years, which are to be financed by charges for audit work and funding from the Consolidated Fund. Such funding will be from grants of Supply approved annually by the Scottish Parliament, to meet Audit Scotland's Net Cash Requirement.

In common with similar public bodies, the future financing of Audit Scotland's liabilities will be met by future grants of Supply and the application of future income, both to be approved annually by the Scottish Parliament. The approval for amounts required for 2005-06 has already been given and there is no reason to believe that future approvals will not be forthcoming. We have accordingly considered it appropriate to adopt a going concern basis for the preparation of these financial statements.

## **Review of Results**

The results for the year are reported in the attached accounts and show Net Operating Cost of £8.3M (2004 – £5.8M). Audit Scotland produces an Annual report, which sets out the activities and performance of the organisation. This report is available on Audit Scotland's website at [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

## **Post Balance Sheet Events**



## Foreword

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

### **Pensions and Early Departure Costs**

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

### **Board and Management**

The Audit Scotland Board consists of the Auditor General and the Chairman of the Accounts Commission and three other members appointed by them. Its composition comprises the Auditor General, the Chairman of the Accounts Commission, the Depute Auditor General, and two other members.

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

Mr Alastair MacNish was appointed by Scottish Ministers as Chairman of the Accounts Commission on 1 October 2001.

Ms Caroline Gardner was appointed Depute Auditor General on 4 September 2000.

Mr Phil Taylor (non-executive) was appointed as a member of the Board on 1 October 2001.

Professor John Baillie (non-executive), a member of the Accounts Commission, was appointed as a member of the Board on 6 February 2004.

The Depute Auditor General (C Gardner), the Managing Director of Audit Services (H Hall), the Director of Audit Strategy (R Frith) and the Director of Corporate Services (D McGiffen) are employees of Audit Scotland. These individuals, together with the Auditor General for Scotland, form the Management Team. Details of the remuneration and pension arrangements of the Board, the Auditor General and the Management Team of Audit Scotland are provided in Note 2 to the accounts.

The Accounts Commission was established under section 97 of the Local Government (Scotland) Act 1973. Details of the Accounts Commission members' remuneration are provided in Note 2 to the Accounts.

### **Staff relations and Equal Opportunities**

Audit Scotland is committed to ensuring that recruitment and management of employees is carried out on merit on the basis of equal opportunity for all. Full and fair consideration is given to applications for employment from disabled persons where they have the skills and abilities to perform the job.

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

### **Payment to Suppliers**

In line with CBI Prompt Payment Code Audit Scotland has a policy to pay all invoices not in dispute in 30 days or the agreed contractual terms if otherwise specified: 94% of all invoices for the year were paid on or before the due date.

## Foreword

### **Auditors**

Accounts prepared by Audit Scotland must, under section 19 of the Public Finance and Accountability (Scotland) Act 2000, be sent to the Scottish Commission for Public Audit (SCPA) for auditing. The SCPA appointed Mazars LLP, as auditors to Audit Scotland for a three-year period commencing January 2002, and has extended this appointment to January 2006.

### ***R W Black***

Auditor General  
Accountable Officer

16 June 2005

# Statement of Accountable Officer's Responsibilities

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

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

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

In preparing the accounts the Accountable Officer is required to comply with the Resource Accounting Manual (RAM) and in particular to:

- observe the accounts direction including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards, as set out in the RAM have been followed, and disclose and explain any material departures in the accounts;
- prepare accounts on a going concern basis.

The responsibilities of the Accountable Officer, including responsibility for the propriety and regularity of the public finances for which an Accountable Officer is answerable, for keeping proper records and for safeguarding assets, are set out in the "Accountable Officer's Memorandum".

## Statement on The System of Internal Control

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

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

The system of internal control is based on a continuing process designed to identify the principal risks to the achievement of Audit Scotland's policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them effectively and economically. This process was in place throughout the year to 31 March 2005 and up to the date of approval of the annual report and accounts.

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

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

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

**R W Black**  
Accountable Officer

16 June 2005

*Schedule 1*  
**Summary of Resource Outturn**  
**Year ended 31 March 2005**

	<i>2005 Estimate £000</i>	<b>2005 Actual £000</b>	<b>2004 Actual £000</b>
<b>Net Total Costs</b>	<u>(8,752)</u>	<u>(8,310)</u>	<u>(5,795)</u>
<b>Net Cash Requirement</b> ( <i>see below</i> )		<b>6,750</b>	<b>4,818</b>
<b>Reconciliation of resources to Net Cash Requirement</b>			
	<b>Note</b>	<b>2005 £000</b>	<b>2004 £000</b>
Net Operating Cost ( <i>Schedule 2</i> )		8,310	5,795
Capital: Purchase of fixed assets	7	369	455
		<b>8,679</b>	<b>6,250</b>
<b>Adjustments</b>			
Non cash items:			
- Depreciation	4	(298)	(271)
- Notional interest on capital	4	35	(32)
- Pension scheme - net revenue charge		(607)	(118)
- Movement in net pension liabilities		584	(1,251)
Opening net debtors/creditors		9,669	8,995
Closing net debtors/creditors		(11,640)	(9,669)
Creditor due to Consolidated Fund	9	328	914
		<b>(1,929)</b>	<b>(1,432)</b>
<b>Net Cash Requirement</b> ( <i>Schedule 4</i> )		<b>6,750</b>	<b>4,818</b>

*Schedule 2*  
**Operating Cost Statement**  
 Year ended 31 March 2005

	Note	2005 £000	2004 £000
<b>Administration Costs</b>			
Staff costs	2	(12,926)	(10,733)
Other administration costs	4	(11,986)	(10,239)
<b>Gross administration costs</b>		<b>(24,912)</b>	<b>(20,972)</b>
Operating income	5	16,670	15,379
Other finance income	6	(68)	(202)
<b>NET OPERATING COST</b>		<b>(8,310)</b>	<b>(5,795)</b>

**Statement of recognised gains and losses (SRGL)**

	Note	2005 £000	2004 £000
<b>Net Operating Cost</b>		<b>(8,310)</b>	<b>(5,795)</b>
Actual return less expected return on pension scheme assets	726		3,256
Experience gains/(losses) arising on pension scheme liabilities	7		(30)
Changes in financial assumptions underlying the present value of the pension scheme liabilities	(710)		(1,857)
<b>Actuarial gain/(loss) recognised</b>	3	<b>23</b>	<b>1,369</b>
Prior year adjustment		-	(9,570)
<b>Total losses recognised since last annual report</b>		<b>(8,287)</b>	<b>(13,996)</b>

Schedule 3  
**Balance Sheet**  
**As at 31 March 2005**

	Note	2005 £000	2004 £000
<b>Fixed Assets</b>			
Tangible assets	7	770	699
<b>Current Assets</b>			
Debtors	8	1,477	6,351
Cash at bank and in hand		328	914
		<b>1,805</b>	<b>7,265</b>
<b>Creditors</b>			
Amounts falling due within one year	9	<b>2,956</b>	<b>6,731</b>
<b>Net Current (Liabilities)/Assets</b>		<b>(1,151)</b>	<b>534</b>
<b>Total assets less current liabilities</b>		<b>(381)</b>	<b>1,233</b>
Deferred liabilities	10	(94)	(123)
Provision for early retirement	11	(1,164)	(847)
Net funded pension liabilities	3	(8,903)	(8,319)
<b>NET LIABILITIES</b>		<b>(10,542)</b>	<b>(8,056)</b>
<i>Represented by:</i>			
<b>TAXPAYERS' EQUITY</b>			
Net funded pension liabilities	3	(8,903)	(8,319)
General Fund	12	(1,639)	263
	16	<b>(10,542)</b>	<b>(8,056)</b>

**R W Black**  
Auditor General  
Accountable Officer

16 June 2005

*Schedule 4*  
**Cash Flow Statement**  
**Year ended 31 March 2005**

	<b>Note</b>	<b>2005</b> £000	<b>2004</b> £000
Net cash outflow from operating activities	<i>(note a)</i>	(6,381)	(4,363)
Capital expenditure and financial investment	<i>(note b)</i>	(369)	(455)
Financing from the Consolidated Fund (supply)	<i>(note c)</i>	6,164	5,266
<b>(Decrease)/Increase in cash in the period</b>		<b>(586)</b>	<b>448</b>

*Notes to the Cash Flow Statement*

		<b>2005</b> £000	<b>2004</b> £000
<b>a) Reconciliation of operating cost to operating cash flows</b>			
Net operating cost ( <i>Schedule 2</i> )		(8,310)	(5,795)
<i>Adjustment for non-cash items:</i>			
- Depreciation	7	298	271
- Notional interest on capital		(35)	32
- Pension scheme - net revenue charge		607	118
Decrease/(Increase) in debtors		4,874	(2,015)
(Decrease)/Increase in creditors		(3,487)	3,940
Adjustment for cash balance due to Consolidated Fund	9	(328)	(914)
<b>Net cash outflow from operating activities</b>		<b>(6,381)</b>	<b>(4,363)</b>
<b>b) Capital expenditure and financial investment</b>			
Purchase of fixed assets	7	<b>(369)</b>	<b>(455)</b>
<b>c) Analysis of financing</b>			
Opening Cash balance payable to the Consolidated Fund		914	466
From Consolidated Fund (Supply)		5,250	4,800
<b>Financing from the Consolidated Fund (supply)</b>		<b>6,164</b>	<b>5,266</b>
Decrease/(Increase) in cash		586	(448)
<b>Net cash requirement (<i>Schedule 1</i>)</b>		<b>6,750</b>	<b>4,818</b>



*Schedule 5*
**Resources by Departmental Aims and Objectives  
for the year ended 31 March 2005**

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

<b>Net Operating Cost</b>	<b>Gross Expenditure £000</b>	<b>Income £000</b>	<b>Net Expenditure £000</b>
<b>2005 Actual</b>	24,912	16,602	<b>8,310</b>
<b>2004 Actual</b>	20,972	15,177	<b>5,795</b>

# Annual Report and Accounts 2004-05

## Notes to the Resource Accounts

### 1: Statement of Accounting Policies

The Accounts have been prepared in accordance with the accounts direction issued by Scottish Ministers under section 19(4) of the Public Finance and Accountability (Scotland) Act 2000 and also in accordance with the Resource Accounting Manual applicable for the year. The particular accounting policies adopted by Audit Scotland are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

#### *a) Basis of accounting*

The accounts have been prepared under the historical cost convention. In accordance with the principles of resource accounting, the gross funding received from the Scottish Consolidated Fund is recorded directly within the General Fund (note 12) and therefore is not included in the operating income received in the year in Schedule 2.

The balance sheet at 31 March 2005 shows net liabilities of £10.5M. This reflects the inclusion of pension liabilities falling due in future years, which are to be financed by charges for audit work and funding from the Consolidated Fund. Such funding will be from grants of Supply approved annually by the Scottish Parliament, to meet Audit Scotland's Net Cash Requirement.

In common with similar public bodies, the future financing of Audit Scotland's liabilities will be met by future grants of Supply and the application of future income, both to be approved annually by the Scottish Parliament. The approval for amounts required for 2005-06 has already been given and there is no reason to believe that future approvals will not be forthcoming. We have accordingly considered it appropriate to adopt a going concern basis for the preparation of these financial statements.

#### *b) Tangible fixed assets*

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

#### *c) Depreciation*

Depreciation has been provided at a rate calculated to write off cost in equal annual instalments over the estimated useful lives of assets. Asset lives are normally written off as follows:

<i>Leasehold premises</i>	<i>life of lease</i>
<i>Furniture and fittings</i>	<i>5 years</i>
<i>Computer equipment</i>	<i>3 years</i>

#### *d) Amortisation of rent-free periods*

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

#### *e) Operating income*

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

# Annual Report and Accounts 2004-05

## Notes to the Resource Accounts (continued)

### 1: Statement of Accounting Policies (continued)

#### *f) Cost of capital charge*

An interest charge reflecting the cost of capital utilised by Audit Scotland is included in the operating statement. The charge is calculated on the average value of fixed assets and working capital held during the year at the Government's standard interest rate of 3.5% per annum.

#### *g) Pension arrangements*

Audit Scotland has complied fully with the requirements of FRS 17 for the year ended 31 March 2005. Audit Scotland makes pension provision for present and former employees through three pension schemes. The Auditor General has benefits provided through a scheme by analogy to the Local Government Pension scheme. Employees joining Audit Scotland after 1 April 2000 and those transferring to Audit Scotland from the Accounts Commission have benefits provided through the Local Government scheme.

Employees transferring to Audit Scotland at 1 April 2000 from the NAO are covered by the provisions of the Principal Civil Service Pension Scheme.

### 2: Staff Costs and Numbers

Staff costs comprise:	<b>2005</b>	<b>2004</b>
	<i>£000</i>	<i>£000</i>
<b><i>Administrative Staff</i></b>		
Salaries	9,555	8,614
National Insurance	806	704
Superannuation	1,482	1,264
Provision for early retirement costs	-	152
Adjustment for retirement benefit scheme costs ( <i>see below</i> )	977	(84)
	<b>12,820</b>	<b>10,650</b>
<b><i>Accounts Commission Members</i></b>		
Salaries	92	68
National Insurance	3	5
Travel and subsistence	11	10
	<b>106</b>	<b>83</b>
	<b>12,926</b>	<b>10,733</b>

The average number of directly employed staff during the period was 274 (2004 – 242).

# Annual Report and Accounts 2004-05

## Notes to the Resource Accounts (continued)

### 2: Staff Numbers and Costs (continued)

<i>Analysis of local government retirement benefit scheme costs:</i>	<b>2005</b>	<b>2004</b>
	<i>£000</i>	<i>£000</i>
Current service costs	1,611	1,298
Past service costs	305	-
Curtailment and settlements	705	-
	<hr/>	<hr/>
	2,621	1,298
Less: Employees' contributions	(411)	(359)
<b>Charge to revenue</b>	<b>2,210</b>	<b>939</b>
Actual contributions	(1,233)	(1,023)
	<hr/>	<hr/>
Adjustment for retirement benefit scheme costs	<b>977</b>	<b>(84)</b>
	<hr/>	<hr/>

#### *Accounts Commission for Scotland*

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

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

#### ***Audit Scotland Board***

Under the provisions of schedule 2 of the Public Finance and Accountability (Scotland) 2000 Act the Auditor General and the Chairman of the Accounts Commission and any employee of Audit Scotland or member of the Accounts Commission are not entitled to any remuneration in respect of their membership of the Audit Scotland Board. The remuneration of the independent member of the Board fell within the band £5,000 to £10,000.

# Annual Report and Accounts 2004-05

## Notes to the Resource Accounts (continued)

### 2: Staff Numbers and Costs (continued)

#### Senior Management

The salaries paid (including any overtime and bonus payable, but excluding employer's superannuation and national insurance contributions), pension entitlements (including the annual increase in real terms) and benefits in kind of the most senior managers of Audit Scotland during the year ended 31 March 2005 were in the bands shown as follows:

		<b>R Black</b>	<b>C Gardner</b>	<b>H Hall</b>	<b>R Frith</b>	<b>D McGiffen</b>
		<i>Auditor General</i>	<i>Depute Auditor General</i>	<i>Managing Director of Audit Services Note(iv)</i>	<i>Director of Audit Strategy</i>	<i>Director of Corporate Services</i>
<b>Salary</b> <i>Note(i)</i>	<b>£000</b>	125-130	105-110	90-95	80-85	70-75
<b>Real increase in value of accrued pension</b>	<b>£000</b>	0-2.5	0-2.5	0-2.5	0-2.5	0-2.5
<b>Value of total accrued pension as at 31 March 2005</b>	<b>£000</b>	5-10	5-10	0-5	0-5	0-5
<b>Lump Sum</b>	<b>£000</b>	See Note 3c	80-85	95-100	30-35	35-40
<b>Cash equivalent transfer value (CETV) as at 31 March 2004</b>	<b>£000</b>	See Note 3c	257	-	127	109
<b>Cash equivalent transfer value (CETV) as at 31 March 2005</b>	<b>£000</b>	See Note 3c	337	451	153	144
<b>Real increase in CETV</b> <i>Note( ii)</i>	<b>£000</b>	-	80	-	16	36
<b>Estimated value of benefits in kind</b> <i>Note( iii)</i>	<b>£</b>	-	-	-	-	3,100

#### Notes

- (i) Salary, for those joining or leaving the Management Team, relates to the amounts earned from the date of joining or to the date of leaving.
- (ii) This is calculated after adjustment for inflation and changes in market investment factors.
- (iii) The estimated value of benefits in kind relates to the provision of vehicles. Values to the nearest £100.
- (iv) From 10 May 2004

### 3: Pension assets and liabilities

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

# Annual Report and Accounts 2004-05

## Notes to the Resource Accounts (continued)

### 3: Pension assets and liabilities (continued)

#### a) Local government scheme

Audit Scotland has an agreement with City of Edinburgh Council under which all staff are eligible to enter the Lothian Pension Fund (the name of the Local Government Superannuation Scheme managed by the Council) in accordance with its rules. It is a defined benefit scheme providing pension benefits and life assurance for all permanent staff.

The following valuations have been provided by Hymans Robertson, the independent actuaries to Lothian Pension Fund. The financial assumptions used for the purposes of their FRS 17 calculations as at 31 March 2005 were as follows:

	<b>2005</b>	<b>2004</b>
Price increases	2.9%	2.9%
Salary increases	4.4%	4.4%
Pension increases	2.9%	2.9%
Discount rate	5.4%	5.5%

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

	<i>£000</i>	<i>£000</i>
Assets (see below)	24,247	20,857
Liabilities	(33,150)	(29,176)
<b>Net Funded liabilities</b>	<b>(8,903)</b>	<b>(8,319)</b>
Unfunded liabilities – early retirement provision	(1,164)	(847)
<b>Net Pension Liabilities</b>	<b>(10,067)</b>	<b>(9,166)</b>

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

	<b>Long Term Return at 31 March 2005</b>	<b>Assets at 31-Mar-05</b>	<b>Long Term Return at 31 March 2004</b>	<b>Assets at 31-Mar-04</b>
	<i>% per annum</i>	<i>£000</i>	<i>% per annum</i>	<i>£000</i>
Equities	7.7%	19,323	7.7%	16,343
Property	5.7%	2,319	6.5%	1,769
Bonds	4.8%	1,624	5.1%	1,330
Cash	4.8%	981	4.0%	1,415
<b>Estimated employer assets</b>	<b>7.2%</b>	<b>24,247</b>	<b>7.2%</b>	<b>20,857</b>
Total value of liabilities		(33,150)		(29,176)
<b>Net Pension Deficit</b>		<b>(8,903)</b>		<b>(8,319)</b>

# Annual Report and Accounts 2004-05

## Notes to the Resource Accounts (continued)

### 3: Pension assets and liabilities (continued)

Liabilities are valued on an actuarial basis using the projected unit method, which assesses the future liabilities of the fund discounted at their present value. The valuations are based on a valuation as of 31 March 2005 by Hymans Robertson.

The movement in the funded part of the net pension liability for the year to 31 March 2005 is as follows:

	<b>2005</b>	<b>2004</b>
	<i>£000</i>	<i>£000</i>
<b>Opening net pensions liability at 1 April</b>	<b>(8,319)</b>	<b>(9,570)</b>
Current Service cost	(1,611)	(1,298)
Employer and employee contributions	1,673	1,382
Past service costs	(348)	-
Impact of settlements and curtailments	(253)	
Net return on assets	(68)	(202)
Actuarial gain	23	1,369
	<hr/>	<hr/>
<b>Closing Net Pension Liabilities at 31 March</b>	<b>(8,903)</b>	<b>(8,319)</b>

#### History of Experience Gains and Losses

	<b>2005</b>	<b>2004</b>
	<i>£000</i>	<i>£000</i>
Difference between the expected and actual return on assets	726	3,256
Value of assets	24,247	20,857
<b>Percentage of assets</b>	<b>3.0%</b>	<b>15.6%</b>
Experience Gains/(Losses) on funded liabilities	7	(30)
Total present value of liabilities	33,150	29,176
<b>Percentage of the total present value of funded liabilities</b>	<b>0.0%</b>	<b>(0.1%)</b>
Actuarial gains/(losses) recognised in SRGL	23	1,369
Total present value of funded liabilities	33,150	29,176
<b>Percentage of the total present value of funded liabilities</b>	<b>0.1%</b>	<b>4.7%</b>

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

# Annual Report and Accounts 2004-05

## Notes to the Resource Accounts (continued)

### 3: Pension assets and liabilities (continued)

#### *b) PCSP Scheme*

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

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

During the year ended 31 March 2005, Audit Scotland paid an employer's contribution of £223k (2004 - £250k) into the PCSP scheme at rates between 12% and 18.5% of pensionable pay (2004 - 12% to 18.5%). Audit Scotland has been informed that contributions will increase from April 2005 to between 16.2% and 24.6%. Employer contribution rates are reviewed every three years following a scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when costs are actually incurred, and they reflect past experience of the scheme.

#### *c) By analogy scheme*

Mr R W Black has benefits provided by analogy to the Local Government pension scheme. Contributions are paid to the Scottish Consolidated Fund. During the year ended 31 March 2005, Audit Scotland paid an Employer's contribution of £23.0k (2004 - £21.3k) into this scheme. No information is available regarding cash equivalent transfer values or lump sum benefits.

#### *Early Departure Costs*

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



# Annual Report and Accounts 2004-05

## Notes to the Resource Accounts (continued)

### 4: Administration Costs

	2005	2004
	£000	£000
<b><i>Fees and Expenses to audit firms:</i></b>		
Local authorities	2,835	2,345
National Health Service	1,849	1,719
Water	148	131
Further education	388	347
Scottish Executive and sponsored bodies	455	444
	<b>5,675</b>	<b>4,986</b>
<b><i>Other Costs:</i></b>		
Rent and rates	789	776
Other accommodation costs	407	275
Travel and subsistence	743	646
Legal and other fees	1,055	394
Stationery and printing	359	283
Training	482	304
Staff recruitment	399	268
Communications (telephone, postage)	135	70
Insurance	135	115
Information technology	415	296
Audit fees	57	25
Other	181	(10)
VAT on revenue expenditure ( <i>see below</i> )	891	1,508
<i>Non-cash items:</i> Depreciation	298	271
Notional interest on capital	(35)	32
	<b>6,311</b>	<b>5,253</b>
	<b>11,986</b>	<b>10,239</b>

*Rent and rates includes £536k in respect of property leases (see note 13).*

#### ***Value Added Tax***

During the year ended 31 March 2004 HM Customs & Excise confirmed its view of Audit Scotland's VAT position that all VAT expense is irrecoverable.

Up to 31 October 2004 input VAT was recorded as a separate expense and met through funding from the Scottish Consolidated Fund. From 1 November input VAT has been included in the individual costs and recovered through charges to audited bodies. Accordingly the detailed analyses of Administration Costs are not directly comparable between years.

# Annual Report and Accounts 2004-05

## Notes to the Resource Accounts (continued)

### 5: Operating Income

	<b>2005</b>	<b>2004</b>
	<i>£000</i>	<i>£000</i>
<i>Fees and charges payable:</i>		
- by Local Authorities	9,619	9,022
- by National Health Service bodies in Scotland	4,293	4,079
- by Water bodies	201	142
- by Further Education Colleges	605	514
- by Scottish Executive and sponsored bodies	1,591	1,166
	<b>16,309</b>	<b>14,923</b>
Bank Interest	134	105
Rent from External Tenants	10	42
Miscellaneous Income	217	309
	<b>16,670</b>	<b>15,379</b>

### 6: Other finance income

	<b>2005</b>	<b>2004</b>
	<i>£000</i>	<i>£000</i>
Expected return on local government pension scheme assets	1,583	1,176
Interest on pension scheme funded liabilities	(1,651)	(1,378)
	<b>(68)</b>	<b>(202)</b>

# Annual Report and Accounts 2004-05

## Notes to the Resource Accounts (continued)

### 7: Fixed Assets

	<b>Leasehold premises</b>	<b>Furniture and fittings</b>	<b>Computer equipment</b>	<b>Total</b>
<i>Cost</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
At 1 April 2004	287	346	1,261	<b>1,894</b>
Additions	80	8	281	<b>369</b>
Disposals			(176)	<b>(176)</b>
<b>At 31 March 2005</b>	<b>367</b>	<b>354</b>	<b>1,366</b>	<b>2,087</b>
<i>Depreciation</i>				
At 1 April 2004	106	300	789	<b>1,195</b>
Charge for the year	56	26	216	<b>298</b>
Depreciation on Disposals			(176)	<b>(176)</b>
<b>At 31 March 2005</b>	<b>162</b>	<b>326</b>	<b>829</b>	<b>1,317</b>
<i>Net Book Value</i>				
<b>At 31 March 2005</b>	<b>205</b>	<b>28</b>	<b>537</b>	<b>770</b>
<b>At 31 March 2004</b>	<b>181</b>	<b>46</b>	<b>472</b>	<b>699</b>

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

### 8: Debtors

	<b>2005</b>	<b>2004</b>
	<i>£000</i>	<i>£000</i>
Trade debtors	53	5,894
Work in progress	918	59
Prepayments	505	386
Ombudsman	1	12
	<b>1,477</b>	<b>6,351</b>

# Annual Report and Accounts 2004-05

## Notes to the Resource Accounts (continued)

### 9: Creditors

	<b>2005</b>	<b>2004</b>
	<i>£000</i>	<i>£000</i>
<i>Amounts falling due within one year:</i>		
Trade creditors	506	182
Cash balance payable to Consolidated fund	328	914
Deferred income	1,103	5,248
Other taxes and social security costs	265	-
Superannuation	175	-
Accruals	549	357
Rent free period on premises – current liability ( <i>Note 10</i> )	30	30
	<b>2,956</b>	<b>6,731</b>

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

### 10: Deferred Liabilities

Audit Scotland rents premises in various locations in accordance with its operational requirements. During the year ended 31 March 2003 various leases were negotiated with rent-free periods.

	<b>2005</b>	<b>2004</b>
	<i>£000</i>	<i>£000</i>
<b>Opening balance at 1 April:</b>		
Current	30	30
Deferred	123	154
	<b>153</b>	<b>184</b>
Additions	-	-
Released during year	(29)	(31)
	<b>124</b>	<b>153</b>
<b>Closing balance at 31 March</b>		
<i>Whereof:</i>		
Current	30	30
Deferred	94	123
	<b>124</b>	<b>153</b>

# Annual Report and Accounts 2004-05

## Notes to the Resource Accounts (continued)

### 11: Provision for early retirement

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

	<b>2005</b>	<b>2004</b>
	<i>£000</i>	<i>£000</i>
<b>Opening balance at 1 April</b>	<b>847</b>	<b>1,030</b>
Additions	253	-
Utilised in year	(68)	(122)
Revaluation	132	(61)
	<hr/>	<hr/>
<b>Closing balance at 31 March</b>	<b>1,164</b>	<b>847</b>

### 12: General Fund

	<b>2005</b>	<b>2004</b>
	<i>£000</i>	<i>£000</i>
<b>Opening balance at 1 April</b>	<b>263</b>	<b>1,556</b>
Opening Cash balance payable to the Consolidated Fund	914	466
Funding received from Consolidated Fund	5,250	4,800
Closing Cash balance payable to the Consolidated Fund	(328)	(914)
	<hr/>	<hr/>
<b>Net funding from Scottish Parliament</b>	<b>5,836</b>	<b>4,352</b>
Net Operating Cost	(8,310)	(5,795)
Notional interest on capital	(35)	32
Transfer to net funded pension liabilities	539	-
Net return on assets ( <i>Note 6</i> )	68	202
Adjustment for retirement benefit scheme costs	-	(84)
	<hr/>	<hr/>
<b>Pension scheme - net revenue charge</b>	<b>607</b>	<b>118</b>
	<hr/>	<hr/>
<b>Closing balance at 31 March</b>	<b>(1,639)</b>	<b>263</b>

# Annual Report and Accounts 2004-05

## Notes to the Resource Accounts (continued)

### 13: Leases

During the period to 31 March 2005 the amounts charged to revenue in respect of operating leases for premises and equipment were as follows:

	<b>2005</b>	<b>2004</b>
	<i>£000</i>	<i>£000</i>
Premises ( <i>Note 4</i> )	536	551
Equipment	391	376
	<u>927</u>	<u>927</u>

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

	<b>2005</b>		<b>2004</b>	
	<b>Premises</b>	<b>Equipment</b>	<b>Premises</b>	<b>Equipment</b>
<b>Lease expiry</b>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Within one year	-	58	-	75
In two to five years	-	186	-	235
After five years	696	-	542	-
	<u>696</u>	<u>244</u>	<u>542</u>	<u>310</u>

### 14: Related Party Transactions

Audit Scotland is a statutory body funded by the Scottish Parliament. The latter is regarded as a related party. Audit Scotland's income arises principally from audit fees and charges levied on public sector bodies. During the period none of Audit Scotland's management staff has undertaken any material transactions with related parties.

### 15: Capital Commitments and Contingent Liabilities

At 31 March 2005 there were no capital commitments or contingent liabilities.

# Annual Report and Accounts 2004-05

## Notes to the Resource Accounts (continued)

### 16: Movement in Taxpayers' Equity

	<b>2005</b>	<b>2004</b>
	<i>£000</i>	<i>£000</i>
<b>Opening balance at 1 April</b>	<b>(8,056)</b>	<b>(8,014)</b>
Local government pension scheme - current service cost	(1,611)	(1,298)
Employer and employee contributions	1,673	1,382
Past service costs	(348)	-
Impact of settlements and curtailments	(253)	-
Net return on assets	(68)	(202)
Actuarial gains/(losses)	23	1,369
Movement in general fund ( <i>Note 12</i> )	(1,902)	(1,293)
	<b>(2,486)</b>	<b>(42)</b>
<b>Closing balance at 31 March</b>	<b>(10,542)</b>	<b>(8,056)</b>

## Direction by the Scottish Ministers

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

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

Signed by the authority of the Scottish Ministers

*25 April 2001*



# Independent Auditors' Report

## To the Scottish Commission for Public Audit

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

### AUDIT SCOTLAND

We have audited the organisation's accounts for the year ended 31 March 2005, which comprise the Summary of Resource Outturn, Operating Cost Statement, Balance Sheet, Cash Flow Statement, Resources by Departmental Aims and Objectives and the related notes 1 to 16. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

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

### Respective responsibilities of Audit Scotland and auditors

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

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

We report to you on the matters set out in section 22(1)(a) and (b) of the Public Finance and Accountability (Scotland) Act 2000 and our opinion as to whether the Resource Accounts give a true and fair view and are properly prepared in accordance with section 19(4) of that Act. We also report to you if, in our opinion, the Foreword is not consistent with the accounts, if the organisation has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

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

### Basis of opinion

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

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

### Opinion

In our opinion, the accounts give a true and fair view of the state of affairs of Audit Scotland as at 31 March 2005 and of its net resource outturn for the year then ended, have been properly prepared in accordance with section 19(4) of the Public Finance and Accountability (Scotland) Act 2000, and the expenditure has been incurred and receipts have been applied in accordance with section 22(1)(a) and (b) of the Public Finance and Accountability (Scotland) Act 2000.

### MAZARS LLP

Chartered Accountants  
and Registered Auditors  
90 St Vincent Street  
Glasgow G2 5UB

16 June 2005

**Scottish Commission for Public Audit**

**2nd Meeting 2005, Wednesday 26 October 2005**

**Auditors of Audit Scotland**

**Background**

1. Under section 19 of the Public Finance and Accountability (Scotland) Act 2000, Audit Scotland must send its annual accounts to the Scottish Commission for Public Audit ('the Commission'). Under section 25, the Commission 'must appoint a qualified person to audit an account of Audit Scotland sent to the Commission for auditing under section 19(8).'
2. In December 2000, the Commission appointed Mazars Neville Russell CA (later renamed Mazars) as the auditor for Audit Scotland for a period of three years. This contract was subsequently extended twice for a period of one year. The current contract terminates in January 2006.
3. At its meeting on 25 May 2005 the Commission agreed to seek to appoint a new auditor for Audit Scotland.
4. The new contract will be for three years, with the possibility of extension for a fourth and then a fifth year. The total value of the contract, including provision for further 3Es reports, is likely to be in the region of £150,000. An open tender process will therefore take place.
5. Audit Scotland currently contracts with a number of audit firms to deliver work. Clearly it would be inappropriate for those firms, or for Mazars, to be included in the tender exercise. Additionally it will be made clear in the tender advertisement that the successful firm will for the duration of the contract be precluded from carrying out any work for Audit Scotland.
6. A panel of SCPB staff, including the Audit Adviser and the Acting Secretary to the Commission plus a member of the Procurement Department, will undertake the tender exercise. A recommendation will then be submitted to the Commission.
7. The tendering exercise is currently underway and a shortlist of successful tenderers will be completed by the end of November 2005 with a view to letting the new contract in early 2006 to secure continuity of cover.

**Recommendation**

8. **The Commission is invited to note the information contained in this paper.**

Andrew Munro  
Audit Adviser to the Commission

**Scottish Commission for Public Audit**

**2<sup>nd</sup> meeting 2005, Wednesday 26 October 2005**

**SCPA Visit to Denmark**

**DELEGATES**

Brian Monteith MSP  
Margaret Jamieson MSP  
Mary Mulligan MSP  
Margaret Smith MSP  
Bob Black (Auditor General for Scotland)

**INTRODUCTION**

1. Following a visit by the Danish Auditor General in February 2005, the Audit Committee received an invitation on 8 April 2005 to visit the Danish Parliament, Folketing, and meet with the Danish Public Accounts Committee (PAC). At its meeting on 26 April 2005, the Committee agreed that a visit to Denmark would be extremely worthwhile and would provide an opportunity for members to examine a completely different model and way of working.
2. Following discussions at the meetings of the Audit Committee on the 19 and 26 April 2005, it was felt that due to the similarity between the Danish PAC and the SCPA, the Convener of the SCPA should attend the visit.
3. On 26 September 2005, 3 members of the Audit Committee, the Convener of the SCPA and the Auditor General for Scotland visited the Danish Parliament and met with members of its PAC and the Danish Auditor General and representatives from the National Audit Office of Denmark (NAOD).

**DANISH PUBLIC ACCOUNTS COMMITTEE**

**Introduction**

4. During the visit to Denmark, delegates met with the Danish PAC to discuss responsibilities and working practices of their respective committees and commission. The issues discussed are summarised below.

**The appointment of the Danish PAC**

5. The PAC is an independent body and consists of 6 paid members who are appointed by the Parliament as laid out in the constitution. Members are appointed every 4 years on the recommendation of political parties. They are appointed on the basis of proportional representation so that each main party is represented on the Committee. Members are not required to be MPs themselves and 2 political parties state that being a member of the PAC excludes that member from being an MP. Members cannot be dismissed during this 4 year period. The Chairman is traditionally the longest serving member of the Committee. The Public Accounts

Committee Act specifies the rules of appointment and the procedures and activities of the PAC.

### **The relationship between the Danish PAC and the NAOD and the Parliament**

6. Denmark has a two-level audit system. The responsibility of auditing the Danish public accounts rests jointly with the PAC and the Auditor General. The role of the Auditor General is to carry out audit examinations and the PAC directs opinions at Ministers rather than Accountable Officers.
7. The Auditor General decides the focus of his audit activities independently. The Auditor General does not provide the PAC with an annual forward work programme however the PAC can request the Auditor General to perform audits within specific areas if it so wishes. Only the PAC can request the NAOD examine certain matters. The Auditor General can only submit his reports to the PAC.

### **Evidence gathering and reporting systems**

8. The PAC has access to all accounts which include public funds.
9. The PAC's conclusions and opinions on the findings of the Auditor General appear as an addendum note to the Auditor General's report. The PAC will always reach consensus and agreement on their opinions and these are addressed directly to the minister involved.
10. The PAC will not make recommendations or suggest solutions to any weaknesses uncovered in the audit examination as this is the responsibility of the minister involved.

### **Style of working**

11. The PAC meets once a month in private to consider the reports of the Auditor General. The PAC does not hold any oral evidence sessions or request any written evidence on the Auditor General's report.
12. The Minister must respond to the report within 4 months specifying what measures will be taken to address the issues raised in the report. The Auditor General must submit his comments on the ministerial response within one month. In a subsequent meeting, the PAC will consider the ministerial response and the comments from the Auditor General. If the PAC is satisfied it will then close the inquiry and forward all the documents to the Parliament. If not, the PAC may ask the Auditor General to investigate further before closing the inquiry.
13. The PAC publishes all its reports along with the ministerial response and Auditor General's comments.

## **NATIONAL AUDIT OFFICE OF DENMARK (NAOD)**

14. The NAOD is an independent institution under the authority of the Parliament. Its mission is “to encourage sound and efficient public sector administration” .The Auditor General is the head of the NAOD and is appointed by the Chairmanship of the Parliament on recommendation of the PAC. Only the Danish PAC can request that that the NAOD examine certain matters. Such requests are provided for in the Auditor General’s Act which requires the Auditor General to assist the Committee in its review of the government accounts by carrying out inspections and submitting reports on matters the PAC wishes to have examined. The NAOD comprises of 6 divisions and currently employs around 260 staff.
15. The NAOD produces 18-20 reports a year. The Auditor General reports to the PAC which forwards the report, with any comments to the Parliament and the Minister concerned.

## **RECCOMENDATION**

16. The Commission is invited to;

- Note the visit to Denmark; and discuss areas of interest for possible future visits.

**Clare O’Neill**  
**Acting Secretary to the Commission**  
**October 2005**

**Scottish Commission for Public Audit**

**2nd Meeting 2005, Wednesday 26 October 2005**

**Commission Away Day**

1. This note invites members to consider whether the Commission wishes to hold an away day which will provide the Commission with the opportunity to discuss various issues arising in relation to how the Commission operates. The first meeting of the Commission was in February 2000 and to date the Commission has not held an away day.
2. Possible areas for discussion could include:
  - Topics for future 3Es examinations of Audit Scotland
  - The working practices of the Commission
  - The protocols currently agreed between the Commission and Audit Scotland and the Commission and the Finance Committee
  - Areas of interest for possible future visits.
3. If the Commission agrees in principle to hold an away day then members may wish to discuss whether it invites Audit Scotland to attend. Finalisation of dates, venue and agenda could take place by correspondence.

**Recommendation**

4. **The Commission is invited to;**
  - **consider if it wishes to hold an away day;**
  - **and if agreed, consider possible areas for discussion.**

Clare O'Neill  
Acting Secretary to the Commission