



# **Annual Accounts**

**Year ended 31 March 2004**

## Accounts for the year ended 31 March 2004

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## Foreword

### **Basis of Accounts**

These are the accounts of Audit Scotland for the year ended 31 March 2004. 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 2004 shows net liabilities of £8.1M. 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 2004-05 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 £5.8M (2003 – (Restated) at £5.1M). 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).

## Foreword

### Post Balance Sheet Events

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 changed during the year and now 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 was appointed as a member of the Board on 1 October 2001.

Mr Ronnie Hinds resigned as Depute Auditor General on 30 November 2003.

Mr John Baillie, 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 Secretary to Audit Scotland and the Accounts Commission (W Magee, to 30 June 2004), the Director of Corporate Services (D McGiffen), the Director of Audit Strategy (R Frith) and a new post of Managing Director of Audit Services (H Hall, from 10 May 2004) 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, as auditors to Audit Scotland for a three-year period commencing January 2002, and recently extended this appointment to January 2006.



***R W Black***

Auditor General  
Accountable Officer

Date: 14 September 2004

## 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 2004 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 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

Date: 14 September 2004

**Schedule 1**  
**Summary of Resource Outturn**  
**Year ended 31 March 2004**

	<i>2004 Estimate</i>	<b>2004 Actual</b>	<b>2003 Actual (Restated)</b>
	<i>£000</i>	£000	£000
<b>Net Total Costs</b>	<b>(8,047)</b>	<b>(5,795)</b>	<b>(5,132)</b>
<b>Net Cash Requirement</b> ( <i>see below</i> )		<b>4,818</b>	<b>5,973</b>
<b>Reconciliation of resources to Net Cash Requirement</b>			
	<b>Note</b>	<b>2004</b>	<b>2003</b>
		£000	<b>(Restated)</b> £000
Net Operating Cost ( <i>Schedule 2</i> )		5,795	5,132
Capital: Purchase of fixed assets	7	455	392
		<b>6,250</b>	<b>5,524</b>
<b>Adjustments</b>			
Non cash items:			
- Depreciation	4	(271)	(255)
- Notional interest on capital	4	(32)	(76)
- Pension scheme - net revenue charge		(118)	(23)
- Movement in net pension liabilities		(1,251)	-
Opening net debtors/creditors		8,995	9,332
Closing net debtors/creditors		(9,669)	(8,995)
Creditor due to Consolidated Fund	9	914	466
		<b>(1,432)</b>	<b>449</b>
<b>Net Cash Requirement</b> ( <i>Schedule 4</i> )		<b>4,818</b>	<b>5,973</b>

**Schedule 2**  
**Operating Cost Statement**  
**Year ended 31 March 2004**

	Note	2004 £000	2003 (Restated) £000
<b>Administration Costs</b>			
Staff costs	2	(10,733)	(10,333)
Other administration costs	4	(10,239)	(10,266)
<b>Gross administration costs</b>		<b>(20,972)</b>	<b>(20,599)</b>
Operating income	5	15,379	15,324
Other finance income	6	(202)	143
<b>NET OPERATING COST</b>		<b>(5,795)</b>	<b>(5,132)</b>

There were no discontinued operations during the period.

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

	Note	2004 £000	2003 (Restated) £000
<b>Net Operating Cost</b>		<b>(5,795)</b>	<b>(5,132)</b>
Actual return less expected return on pension scheme assets	3,256		(5,622)
Experience gains and losses arising on pension scheme liabilities	(30)		(1,998)
Changes in financial assumptions underlying the present value of the pension scheme liabilities	(1,857)		(827)
<b>Actuarial gain/(loss) recognised</b>	3	<b>1,369</b>	<b>(8,447)</b>
Prior year adjustment	16	(9,570)	-
<b>Total losses recognised since last annual report</b>		<b>(13,996)</b>	<b>(13,579)</b>

**Schedule 3**  
**Balance Sheet**  
**As at 31 March 2004**

	Note	2004 £000	2003 (Restated) £000
<b>Fixed Assets</b>			
Tangible assets	7	699	515
<b>Current Assets</b>			
Debtors	8	6,351	4,336
Cash at bank and in hand		914	466
		<b>7,265</b>	<b>4,802</b>
<b>Creditors</b>			
Amounts falling due within one year	9	<b>6,731</b>	<b>2,577</b>
<b>Net Current Assets</b>		<b>534</b>	<b>2,225</b>
<b>Total assets less current liabilities</b>		<b>1,233</b>	<b>2,740</b>
Deferred liabilities	10	(123)	(154)
Provision for early retirement	11	(847)	(1,030)
Net funded pension liabilities	3	(8,319)	(9,570)
<b>NET LIABILITIES</b>		<b>(8,056)</b>	<b>(8,014)</b>
<i>Represented by:</i>			
<b>TAXPAYERS' EQUITY</b>			
Net funded pension liabilities	3	(8,319)	(9,570)
General Fund	12	263	1,556
	16 & 17	<b>(8,056)</b>	<b>(8,014)</b>



**R W Black**  
Auditor General  
Accountable Officer

Date: 14 September 2004

**Schedule 4**  
**Cash Flow Statement**  
**Year ended 31 March 2004**

<b>Cash Flow Statement</b>	<b>Note</b>	<b>2004</b>	<b>2003</b>
		£000	(Restated) £000
Net cash outflow from operating activities (note a)		(4,363)	(5,581)
Capital expenditure and financial investment (note b)		(455)	(392)
Financing from the Consolidated Fund (supply)		5,266	6,122
<b>Increase in cash in the period</b>		<b>448</b>	<b>149</b>

**Notes to the Cash Flow Statement**

**a) Reconciliation of operating cost to operating cash flows**

Net operating cost (Schedule 2)		(5,795)	(5,132)
<i>Adjustment for non-cash items:</i>			
- Depreciation	7	271	255
- Notional interest on capital		32	76
- Pension scheme - net revenue charge		118	23
(Increase) in debtors		(2,015)	(559)
Increase in creditors		3,940	222
Adjustment for cash balance due to Consolidated Fund	9	(914)	(466)
<b>Net cash outflow from operating activities</b>		<b>(4,363)</b>	<b>(5,581)</b>

**b) Capital expenditure and financial investment**

Purchase of fixed assets	7	(455)	(392)
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**c) Analysis of financing**

Opening Cash balance payable to the Consolidated Fund		466	317
From Consolidated Fund (Supply)		4,800	5,805
<b>Financing from the Consolidated Fund (supply)</b>		<b>5,266</b>	<b>6,122</b>
(Increase) in cash		(448)	(149)
<b>Net cash requirement (Schedule 1)</b>		<b>4,818</b>	<b>5,973</b>

**Schedule 5**  
**Resources by Departmental Aims and Objectives**  
**for the year ended 31 March 2004**

*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>2004 Actual</b>	20,972	15,177	<b>5,795</b>
<b>2003 Actual (Restated)</b>	20,599	15,467	<b>5,132</b>

# Annual Report and Accounts 2003-04

## Notes to the Resource Accounts (continued)

### 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 modified to account for the revaluation of fixed assets at their value to the business by reference to their current cost. In accordance with the principles of resource accounting, the gross funding received from the Scottish Executive 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 2004 shows net liabilities of £8.1M. 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 2004-05 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:

<i>Leasehold buildings</i>	<i>life of lease</i>
<i>Furniture and office equipment</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 the value of carrying out the relevant work are included in creditors.

# Annual Report and Accounts 2003-04

## 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 2004 and has restated prior year information as appropriate. 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 Numbers and Costs

Staff costs comprise:	<b>2004</b>	<b>2003</b>
	£000	<b>(Restated)</b> £000
<i>Administrative Staff</i>		
Salaries	8,614	8,047
National Insurance	704	600
Superannuation	1,264	1,187
Provision for early retirement costs	152	254
Adjustment for retirement benefit scheme costs ( <i>see below</i> )	(84)	166
	<b>10,650</b>	<b>10,254</b>
<i>Accounts Commission Members</i>		
Salaries	68	68
National Insurance	5	3
Travel and Subsistence	10	8
	<b>83</b>	<b>79</b>
	<b>10,733</b>	<b>10,333</b>

The average number of directly employed staff during the period was 242 (2003 – 227).

# Annual Report and Accounts 2003-04

## Notes to the Resource Accounts (continued)

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

<i>Analysis of local government retirement benefit scheme costs:</i>	<b>2004</b>	<b>2003</b>
	£000	£000
Current service costs	1,298	1,066
Past service costs	-	259
	<u>1,298</u>	<u>1,325</u>
Less: Employees' contributions	<u>(359)</u>	<u>(331)</u>
<b>Charge to revenue</b>	<b>939</b>	<b>994</b>
Actual contributions	<u>(1,023)</u>	<u>(828)</u>
Adjustment for retirement benefit scheme costs	<u><b>(84)</b></u>	<u><b>166</b></u>

#### *Accounts Commission for Scotland*

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

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

#### *Audit Scotland Board*

Under the provisions of schedule 2 of the PFA (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 members of the Board fell within the band £0 to £5,000.

# Annual Report and Accounts 2003-04

## Notes to the Resource Accounts (continued)

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

#### Senior Management

Audit Scotland's disclosure of 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 2004 were in the bands shown as follows:

		<b>R Black</b>	<b>W Magee</b>	<b>C Gardner</b>	<b>R Hinds</b>	<b>D McGiffen</b>	<b>R Frith</b>
		<i>Auditor General</i>	<i>Secretary</i>	<i>Depute Auditor General</i>	<i>Depute Auditor General (to 30/11/03)</i>	<i>Director of Corporate Services</i>	<i>Director of Audit Strategy</i>
<b>Salary</b> <i>Note(i)</i>	<b>£000</b>	120-125	90-95	90-95	60-65	60-65	75-80
<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	0-2.5
<b>Value of total accrued pension at 31 March 2004</b>	<b>£000</b>	5-10	0-5	0-5	0-5	0-5	0-5
<b>Lump Sum</b>	<b>£000</b>	See Note 3c	85-90	30-35	45-50	10-15	25-30
<b>Cash equivalent transfer value as at 31 March 2003</b>	<b>£000</b>	See Note 3c	598	229	343	88	108
<b>Cash equivalent transfer value as at 31 March 2004</b>	<b>£000</b>	See Note 3c	643	257	N/A	109	127
<b>Real increase in CETV</b> <i>Note(ii)</i>	<b>£000</b>	-	54	25	N/A	18	12
<b>Estimated value of benefits in kind</b> <i>Note(iii)</i>	<b>£</b>	-	2,300	-	-	2,900	-

#### 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.

### 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

# Annual Report and Accounts 2003-04

## Notes to the Resource Accounts (continued)

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

liability for payment of pension rests with the Scottish Executive. In addition, Audit Scotland operates a “by analogy” scheme outside the two main schemes.

#### 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 2004 are as follows:

	<b>2004</b>	<b>2003</b>
Price increases	2.9%	2.5%
Salary increases	4.4%	4.0%
Pension increases	2.9%	2.5%
Discount rate	5.5%	5.4%

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

	£000	£000
Assets (see below)	20,857	15,540
Liabilities	(29,176)	(25,110)
<b>Net Funded liabilities</b>	<b>(8,319)</b>	<b>(9,570)</b>
Unfunded liabilities – early retirement provision	(847)	(1,030)
<b>Net Pension Liabilities</b>	<b>(9,166)</b>	<b>(10,600)</b>

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

	<b>Long Term Return at 31 March 2004</b>	<b>Assets at 31 March 2004</b>	<b>Long Term Return at 31 March 2003</b>	<b>Assets at 31 March 2003</b>
	% per annum	£000	% per annum	£000
Equities	7.7%	16,343	8.0%	11,898
Property	6.5 %	1,769	6.0 %	1,769
Bonds	5.1 %	1,330	4.8 %	1,444
Cash	4.0 %	1,415	4.0 %	429
<b>Estimated employer assets</b>	<b>7.2%</b>	<b>20,857</b>	<b>7.4%</b>	<b>15,540</b>
Total value of liabilities		(29,176)		(25,110)
<b>Net Pension Deficit</b>		<b>(8,319)</b>		<b>(9,570)</b>

# Annual Report and Accounts 2003-04

## 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 2004 by Hymans Robertson.

The movement in the funded part of the net pension liability for the year to 31 March 2004 is as follows:

	<b>2004</b>	<b>2003</b> <b>(Restated)</b>
	£000	£000
Net pensions liability at 1 April 2003	(9,570)	(1,100)
Current Service cost	(1,298)	(735)
Employer and employee contributions	1,382	828
Contributions in respect of unfunded benefits		-
Past service costs	-	(259)
Net return on assets	(202)	143
Actuarial gain/(loss)	1,369	(8,447)
<b>Net Pension Liabilities</b>	<b>(8,319)</b>	<b>(9,570)</b>

#### History of Experience Gains and Losses

	<b>2004</b>	<b>2003</b> <b>(Restated)</b>
	£000	£000
Difference between the expected and actual return on assets	3,256	(5,622)
Value of assets	20,857	15,540
<b>Percentage of assets</b>	<b>15.6%</b>	<b>(36.2)%</b>
Experience (Losses) on funded liabilities	(30)	(1,998)
Total present value of liabilities	29,176	25,110
<b>Percentage of the total present value of funded liabilities</b>	<b>(0.1)%</b>	<b>(8.0)%</b>
Actuarial gains/(losses) recognised in SGRL	1,369	(8,447)
Total present value of funded liabilities	29,176	25,110
<b>Percentage of the total present value of funded liabilities</b>	<b>4.7%</b>	<b>(33.6)%</b>

During the year ended 31 March 2004, Audit Scotland's contribution to the pension fund represented 17.1% (2003 – 16.5%) 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 2003-04

### 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 2004, Audit Scotland paid an employer's contribution of £250k (2003 - £225k) into the PCSP scheme at rates between 12% and 18.5% of pensionable pay (2003 - 12% to 18.5%). It has been agreed that contributions will remain at that level for the next year. 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 2004, Audit Scotland paid an

Employer's contribution of £21.3k (2003 - £20.1k) 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 2003-04

## Notes to the Resource Accounts (continued)

### 4: Administration Costs

	£000	2004 £000	2003 £000
<b><i>Fees and Expenses to Approved Auditors:</i></b>			
Local authorities	2,345		2,771
National Health Service	1,719		1,761
Water	131		188
Further education	347		346
Scottish Executive and sponsored bodies	444		358
		<b>4,986</b>	<b>5,424</b>
<b><i>Other Costs:</i></b>			
Rent and rates	776		799
Other accommodation costs	275		268
Travel and subsistence	646		643
Legal and other fees	394		281
Stationery and printing	283		248
Training	304		185
Staff recruitment	268		74
Communications (telephone, postage)	70		60
Insurance	115		107
Information technology	296		316
Audit fees	25		17
Other	(10)		87
VAT on revenue expenditure ( <i>Note 7</i> )	1,508		1,426
<i>Non-cash items:</i> Depreciation	271		255
Notional interest on capital	32		76
		<b>5,253</b>	<b>4,842</b>
		<b>10,239</b>	<b>10,266</b>

*Rent and rates includes £551k in respect of property leases (see note 13).*

# Annual Report and Accounts 2003-04

## Notes to the Resource Accounts (continued)

### 5: Operating Income

	<b>2004</b> £000	<b>2003</b> £000
Fees and charges payable:		
- by Local Authorities	9,022	9,407
- by National Health Service bodies in Scotland	4,079	3,991
- by Water bodies	142	207
- by Further Education Colleges	514	447
- by Scottish Executive and sponsored bodies	1,166	1,031
	<b>14,923</b>	<b>15,083</b>
Bank Interest	105	56
Rent from External Tenants	42	48
Miscellaneous Income	309	137
	<b>15,379</b>	<b>15,324</b>

### 6: Other finance income

	<b>2004</b> £000	<b>2003</b> £000
Expected return on local government pension scheme assets	1,176	1,351
Interest on pension scheme funded liabilities	(1,378)	(1,208)
	<b>(202)</b>	<b>143</b>

# Annual Report and Accounts 2003-04

## Notes to the Resource Accounts (continued)

### 7: Fixed Assets

	Leasehold premises £000	Furniture and fittings £000	Computer equipment £000	Total £000
<b>Cost</b>				
At 1 April 2003	264	346	1,081	<b>1,691</b>
Additions	23	-	432	<b>455</b>
Disposals	-	-	(252)	<b>(252)</b>
<b>At 31 March 2004</b>	<b>287</b>	<b>346</b>	<b>1,261</b>	<b>1,894</b>
<b>Depreciation</b>				
At 1 April 2003	51	272	853	<b>1,176</b>
Charge for the year	55	28	188	<b>271</b>
Depreciation on Disposals	-	-	(252)	<b>(252)</b>
<b>At 31 March 2004</b>	<b>106</b>	<b>300</b>	<b>789</b>	<b>1,195</b>
<b>Net Book Value</b>				
<b>At 31 March 2004</b>	<b>181</b>	<b>46</b>	<b>472</b>	<b>699</b>
<b>At 31 March 2003</b>	<b>213</b>	<b>74</b>	<b>228</b>	<b>515</b>

Fixed assets are shown at historic 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

	2004 £000	2003 £000
Trade debtors	5,894	2,689
Work in progress	59	1,129
Value Added Tax	-	1,426
Provision for Irrecoverable VAT	-	(1,426)
Prepayments	386	289
Ombudsman	12	229
	<b>6,351</b>	<b>4,336</b>

#### *Value Added Tax*

HM Customs & Excise clarified its view of Audit Scotland's VAT position during the year that all VAT expense is irrecoverable. This has not been finalised. However, it is considered unlikely to change. Therefore, £1,508k has been charged to operating costs in relation to the input VAT for the year.

# Annual Report and Accounts 2003-04

## Notes to the Resource Accounts (continued)

### 9: Creditors

Amounts falling due within one year:	<b>2004</b>	<b>2003</b>
	£000	£000
Trade creditors	182	1,028
Cash balance payable to Consolidated fund	914	466
Deferred income	5,248	280
Other taxes and social security costs	-	216
Superannuation	-	135
Accruals	357	422
Rent free period on premises – current liability ( <i>Note 10</i> )	30	30
	<b>6,731</b>	<b>2,577</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>2004</b>	<b>2003</b>
	£000	£000
Opening balance at 1 April:		
Current	30	8
Deferred	154	96
	<b>184</b>	<b>104</b>
Additions	-	110
Released during year	(31)	(30)
<b>Closing balance at 31 March</b>	<b>153</b>	<b>184</b>
<i>Whereof:</i>		
Current	30	30
Deferred	123	154
	<b>153</b>	<b>184</b>

# Annual Report and Accounts 2003-04

## 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>2004</b>	<b>2003</b>
	£000	£000
Opening balance at 1 April	1,030	855
Additions	-	254
Utilised in year	(122)	(124)
Revaluation	(61)	45
	<hr/>	<hr/>
<b>Closing balance at 31 March</b>	<b>847</b>	<b>1,030</b>
	<hr/>	<hr/>

### 12: General Fund

	<b>2004</b>	<b>2003</b>
	£000	(Restated) £000
<b>Opening balance at 1 April</b>	<b>1,556</b>	<b>933</b>
	<hr/>	<hr/>
Opening Cash balance payable to the Consolidated Fund	466	317
Funding received from Consolidated Fund	4,800	5,805
Closing Cash balance payable to the Consolidated Fund	(914)	(466)
	<hr/>	<hr/>
<b>Net funding from Scottish Parliament</b>	<b>4,352</b>	<b>5,656</b>
Net Operating Cost	(5,795)	(5,132)
	<hr/>	<hr/>
Notional interest on capital	32	76
Pension scheme - net revenue charge	118	23
	<hr/>	<hr/>
<b>Closing balance at 31 March</b>	<b>263</b>	<b>1,556</b>
	<hr/>	<hr/>

## Annual Report and Accounts 2003-04

### Notes to the Resource Accounts (continued)

#### 13: Leases

During the period to 31 March 2004 the amounts charged to revenue in respect of operating leases for premises and equipment were as follows:

	<b>2004</b>	<b>2003</b>
	£000	£000
Premises ( <i>Note 4</i> )	551	605
Equipment	376	363
	<u>927</u>	<u>968</u>

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

	<b>2004</b>		<b>2003</b>	
	<b>Premises</b>	<b>Equipment</b>	<b>Premises</b>	<b>Equipment</b>
	£000	£000	£000	£000
<b>Lease expiry</b>				
Within one year	-	75	-	20
In two to five years	-	235	-	290
After five years	542	-	542	-
	<u>542</u>	<u>310</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 2004 there were no capital commitments or contingent liabilities.

# Annual Report and Accounts 2003-04

## Notes to the Resource Accounts (continued)

### 16: Prior Year Adjustment

In order to comply with the full disclosure of FRS17 *Retirement benefits* the following prior year adjustment is required to restate the net operating cost, statement of recognised gains and losses, and taxpayers' equity as at 1 April 2003:

	Income	SRGL	Taxpayers' Equity
	£000	£000	£000
Restatement of pension deficit as at 1 April 2003	-	-	(1,100)
FRS17 Pension services cost	(735)		(735)
FRS17 past service cost	(259)		(259)
FRS17 other finance income	143		143
Employer contributions	828		828
Actuarial loss		(8,447)	(8,447)
Net expenditure restated		(5,132)	
<b>Prior year adjustment</b>	<b>(23)</b>	<b>(13,579)</b>	<b>(9,570)</b>
<b>As previously stated</b>	<b>(5,109)</b>	-	<b>1,556</b>
<b>As restated</b>	<b>(5,132)</b>	<b>(13,579)</b>	<b>(8,014)</b>

### 17: Movement in Taxpayers' Equity

	2004
	£000
As at 31 March 2003 - previously stated	1,556
Prior year adjustment ( <i>Note 16</i> )	(9,570)
<b>As at 31 March 2003 - restated</b>	<b>(8,014)</b>
Local government pension scheme - current service cost	(1,298)
Employer pension contributions	1,382
Net return on assets	(202)
Actuarial gains/(losses)	1,369
Movement in general fund ( <i>Note 12</i> )	(1,293)
	(42)
<b>As at 31 March 2004</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 2004, 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 17. 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 2004 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

Chartered Accountants  
and Registered Auditors  
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Glasgow G2 5UB