

AUDIT COMMITTEE

Tuesday 14 September 1999
(*Afternoon*)

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CONTENTS

Tuesday 14 September 1999

Col.

PUBLIC FINANCE AND ACCOUNTABILITY (SCOTLAND) BILL: STAGE 1	19
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AUDIT COMMITTEE

3rd Meeting

CONVENER:

*Mr Andrew Welsh (Angus) (SNP)

COMMITTEE MEMBERS:

*Brian Adam (North-East Scotland) (SNP)
*Scott Barrie (Dunfermline West) (Lab)
*Cathie Craigie (Cumbernauld and Kilsyth) (Lab)
*Miss Annabel Goldie (West of Scotland) (Con)
*Margaret Jamieson (Kilmarnock and Loudoun) (Lab)
*Mr Nick Johnston (Mid Scotland and Fife) (Con)
*Lewis Macdonald (Aberdeen Central) (Lab)
*Paul Martin (Glasgow Springburn) (Lab)
*Euan Robson (Roxburgh and Berwickshire) (LD)
Andrew Wilson (Central Scotland) (SNP)

*attended

COMMITTEE CLERK:

Sarah Davidson

SENIOR ASSISTANT CLERK:

Shelagh McKinlay

ASSISTANT CLERK:

Alastair Macfie

Scottish Parliament

Audit Committee

Tuesday 14 September 1999

(Afternoon)

[THE CONVENER *opened the meeting at 14:02*]

The Convener (Mr Andrew Welsh): Before we start, please will committee members remain after the formal meeting is concluded. There are one or two internal housekeeping points to discuss.

Public Finance and Accountability (Scotland) Bill: Stage 1

The Convener: Welcome to this meeting of the Audit Committee to consider and report on the Public Finance and Accountability (Scotland) Bill. May I remind members that stage 1 of the consideration of a bill has two parts. First, the general principles of the bill are considered and reported on by committees. Secondly, Parliament debates and agrees—or otherwise—those principles.

The purpose of stage 1 is an overview of the bill, rather than a detailed examination of its principles. Members may wish, in general terms, to point to issues to which they intend to return at stage 2, but no amendments to the bill may be lodged until the completion of stage 1. I also point out that we cannot mention part 1 of the bill, as that is in the remit of our colleagues on the Finance Committee. Part 2 is dedicated to this committee.

On a housekeeping note, we must take account of the views of our colleagues on the Finance Committee and on the Subordinate Legislation Committee. I am informed that their reports will be to hand shortly. I believe that at its meeting this morning the Finance Committee broadly welcomed the principles of the bill. I suggest that we request that the clerk draws together the comments of our colleagues on those committees and circulates them to us. That will allow us to complete this part of the process. Is that agreed? It is agreed.

I propose to divide the meeting into three sections. First, I would like to consider whether there has been adequate public consultation. Secondly, I would like to allow detailed discussion on the principles of the policy memorandum and, thirdly, I would like to have a decision-making section.

First, then, I ask for your comments on the

adequacy of public consultation.

Mr Nick Johnston (Mid Scotland and Fife) (Con): I have a point of information. In your remarks, you said that we cannot discuss part 1, which is in the remit of the Finance Committee. Can we discuss the policy memorandum as it relates to part 1?

The Convener: I have taken advice from the clerk and the answer is yes, in broad terms, but not in detail.

Mr Johnston: In broad terms.

The Convener: I remind members that, in the same way that the Finance Committee members were careful not to stray into our remit, we must respect theirs.

Mr Johnston: With respect, there are some things in part 1 that I think are in the remit of this committee. The Auditor General's salary is mentioned, for instance.

The Convener: Where appropriate, yes, but we must take care.

Can I have comments on the adequacy of public consultation?

Cathie Craigie (Cumbernauld and Kilsyth) (Lab): There has been full consultation through the financial issues advisory group process. Since then, the Executive has consulted further and some recommendations have come out of that process. We can rest assured that the people who have an interest in this have been widely consulted.

The Convener: Is that generally agreed? It is.

Is the committee satisfied with the general principle that there has been adequate public consultation on the bill? That is agreed.

We now move to the policy memorandum. Are there any comments?

Miss Annabel Goldie (West of Scotland) (Con): I am looking at policy objectives and I have listened to your remarks about it not being within our remit to comment on part 1 of the bill. However, I am concerned that the bill, in broad audit terms, will still not embrace local authorities, which, as I understand it, will continue to be audited by the Accounts Commission.

Given the allocation of spending by Scottish local authorities, which is currently about £6.4 billion, it seems a peculiar anomaly that we and our colleagues in the Finance Committee should spend a lot of time considering the bill and its ancillary documentation, despite the fact that the Parliament has no control over that area of spending. My understanding of the technical position is that the accounts that are audited by

the Accounts Commission are not laid before Parliament, and I am concerned about that.

The Convener: You have raised an important point. Now that it is on record, the Scottish Executive can note your comments and I am sure that you will be able to raise the matter again at stage 2.

Miss Goldie: I am grateful.

Brian Adam (North-East Scotland) (SNP): I understand the issue that Annabel Goldie raised about the separation of powers. However, it is unfortunate that, under devolution, we have made no progress on ministerial responsibility for local authority expenditure. It seems that, in audit terms, local authorities will not be accountable to Parliament.

It would be worth examining the global sums involved, but we must recognise that local authorities have their own mandates and that the separation exists for a reason. It is nevertheless an issue that should be explored further, and it would be interesting to hear what the Minister for Finance has to say about accountability to Parliament, at least for the overall position.

I have a couple of other points to make, and I hope that, if I stray into inappropriate territory, I will be guided by the convener.

The purpose of audit is to ensure that there is clarity and openness in financial dealings and to provide mechanisms for doing that. The bill refers to the Keeper of the Registers of Scotland and to the percentage return on capital, which applies across a range of areas. In the past, there has been a lack of clarity and openness about moneys related to the return on capital, especially when money has been recycled in the health service and targets have been set for efficiency savings. It is not clear whether such moneys are new or recycled, and the Audit Committee should be open about what is being done with the public pound. I would like to hear how the minister would deal with that, and the bill provides an opportunity to ask him about those areas of expenditure.

Another semi-negative point is the issue of the expenditure of contingency funds. Although, in every other area, the money in the Scottish Consolidated Fund is earmarked for a particular purpose, that is not the case with contingency funds. Emergency needs have to be met, but the new Parliament must make ministers as accountable as possible. Although the policy memorandum says that ministers should bring the matter before Parliament as soon as possible, in another place people have been offended by new initiatives and emergency measures being announced outside Parliament. I hope that, as part of the process of proper accounting and accountability, such announcements will be dealt

with in the Parliament and perhaps the minister will address the issue with regard to the bill. The bill should not hogtie the minister, but make him accountable to Parliament.

On a more positive note, the memorandum refers to the development of performance indicators. I feel strongly that we should encourage, or write into the bill, a proactive role in research and development for Audit Scotland and the Auditor General. That feeling was reinforced by the interesting interviews that we had with the candidates for the post of Auditor General for Scotland. The Auditor General and Audit Scotland should be at the cutting edge of making best practice, instead of following it.

The Convener: Brian, I direct your attention to paragraph 8(v) on page 9 of the policy memorandum. FIAG considered your point and shared some of your concerns.

The paragraph says:

“Auditors should be able to suggest what indicators might be appropriate for a specific policy objective but . . . they should *not* be able to require organisations to use specific indicators as this would give auditors an unacceptable amount of influence over policy”.

Therefore you have raised an important point.

There is also an important point to be made about answerability to Parliament as opposed to through the media or through other methods, and I hope that ministers will respect the fact that such matters should be referred first to Parliament.

Legitimate points about lack of clarity on return of capital and about local authority global sums should be addressed directly to the minister during stage 2. No doubt he will read the committee's proceedings and will take into account the points that have been raised.

Mr Johnston: I am worried to find that I agree with many of Mr Adam's comments. I do not want to stray into specific areas of the legislation, but we should re-examine the business of primary and secondary legislation that is mentioned in paragraph 8 of the policy memorandum. The minister could clarify why, as it says in paragraph 8(f):

“For technical reasons, provisions to allow for budget revisions to be dealt with by secondary legislation cannot be included in this Bill”.

If we go to paragraph 8(j)—by the way, I am not just showing off that I have read the memorandum—

The Convener: No problem. Please do.

Mr Johnston: Paragraph 8(j) says:

“The Budget Acts will set the Parliamentary controls at Departmental level”.

That would stop the transfer of funds between health and education. I would be happier if that were more tightly controlled.

14:15

The Finance Committee is considering the format of the accounts this morning, so I will leave that until a later date. On paragraph 8(m) about the transfer of staff from the National Audit Office and Accounts Commission, we should ensure that the two processes are contiguous; in other words, take place at the same time. We broadly welcome paragraphs 8(o), (p) and (s), which bring various public bodies into the realms of public audit, specifically the Scottish Further Education Funding Council and the national health service.

I have great concern about section 21(3) and (4) of the bill. Those set out the competency of the Auditor General for Scotland and state that he is only competent to examine bodies that have more than half their funds provided from the public purse. If a public body receives 49 per cent of its funds from the public purse and 51 per cent from private means, that is still a lot of money from the public purse. Like Brian, I will move on to paragraph 8(v) and ask, who will validate the targets? Never mind validating the outcomes, how do we make sure that the targets are valid?

The Convener: That is impressive. Mr Johnston has put down some interesting markers for stage 2. I am sure that the minister will note those concerns. The Finance Committee is approaching the Procedures Committee with a view to amending standing orders to make the subordinate financial legislation process more open and efficient, so obviously his views are shared by the Finance Committee.

Lewis Macdonald (Aberdeen Central) (Lab): It is useful for the committee to have notice of issues that members want to explore. In general terms and on broad principle, the bill seems to have paid heed to the consultation process that has been undertaken since the first draft appeared before us. The financial issues advisory group's recommendations have been translated into substantial legislative proposals. If we come back at stage 2 to discuss the concerns that have been raised, we should do so in that context.

The Convener: We should compliment FIAG, which certainly did its work in producing 82 recommendations. It is clear that the Executive has responded to FIAG's work, which has eased our burden on consultation.

The final stage is to make some decisions. Does the committee agree with the general principle that there should be a single public sector audit service, staffed by existing NAO and Accounts Commission personnel? That is agreed.

Does the committee agree with the general principle that there should be a single corporate body, which provides support and services for the Auditor General for Scotland and Accounts Commission? That is agreed.

Does the committee agree with the general principle of a Scottish Commission for Public Audit, whose task it is to scrutinise the funding and audit of the Auditor General for Scotland—an auditor's auditor? That is agreed.

Does the committee agree with the general principle that Scottish ministers should set the format for accounts to be produced by the Scottish Administration and other directly funded bodies, the format of accounts to be set in formal directions after consultation with Parliament?

Miss Goldie: What does "after consultation with Parliament" mean? Does it mean after detailed consultation with the Finance Committee and the Audit Committee?

The Convener: Yes.

Miss Goldie: So we would be privy to the proposed layout of the accounts and have an opportunity to make clear our view?

The Convener: That is correct.

Miss Goldie: Subject to that, I agree.

The Convener: I certainly would not agree to the principle if that were not so. I share your view.

Brian Adam: In order to clarify that point, perhaps it should read, "in consultation with Parliament and its committees". I agree with the point that Annabel was making, that if it only says "Parliament", it could just mean plenary session. It would be helpful to have that in the minute.

The Convener: It is probably assumed that we would represent Parliament, but I agree with you.

Does the committee agree with the general principle that there should be a system of a named principal accountable officer, and other named accountable officers, of the Scottish Administration, and that they should be answerable to Parliament? That is agreed.

I think that it is important to add that they be answerable to Parliament for the Scottish Administration finances.

Miss Goldie: I apologise if I am being tiresome, but could we return to the former point for which you sought approval? We are being asked to agree that there should be named personnel in, I presume, the Audit Scotland office.

The Convener: No, they are in the Scottish Executive. We are clarifying who those people are who are answerable for the auditing of the accounts. They will be named people who can be

brought before this committee and be made answerable for their actions.

Miss Goldie: Thank you for clarifying that.

The Convener: Does this committee agree with the general principle that a similar system of accountable officers be answerable to Parliament for the finances of the Scottish Parliamentary Corporate Body? In other words, does the committee agree that the principle be extended to the SPCB? That is agreed.

Brian Adam: I suggest that in principle, as part of their remit, the Auditor General and Audit Scotland ought to pursue a proactive role in research and development in the audit field.

The Convener: We are considering the general principles.

Brian Adam: That is a general principle as well. We should set out the stall at the beginning.

The Convener: You raise an important point, but I suggest that it should be left until stage 2, and be raised as a possible amendment to the bill, which would allow it to be discussed properly. We are looking at the policy memorandum and the recommendations put forward by it. Your proposal is perfectly reasonable but should be raised at stage 2. No doubt the ministers will take note of what you have said.

The last question is, does this committee agree with the general principles as set out in the policy memorandum? That is agreed.

We have gone through the business at a reasonable pace and I thank members for their assistance in that. I would also like to thank our colleagues on the Finance Committee and on the Subordinate Legislation Committee for their assistance and views. I formally bring these proceedings to a close.

Meeting closed at 14:23.

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