

# **AUDIT COMMITTEE**

Tuesday 11 January 2000  
(*Afternoon*)

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### AUDIT COMMITTEE

#### 1<sup>st</sup> Meeting 2000 (Committee Room 1)

##### 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)  
\*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

##### THE FOLLOWING ALSO ATTENDED:

Mr Arwel Roberts (National Audit Office)

##### COMMITTEE CLERK:

Sarah Davidson

##### ASSISTANT CLERK:

Alastair Macfie



## Scottish Parliament

### Audit Committee

*Tuesday 11 January 2000*

*(Afternoon)*

[THE CONVENER *opened the meeting at 14:03*]

**The Convener (Mr Andrew Welsh):** I bring this meeting of the Audit Committee to order by wishing everyone a happy new year. We have received apologies from Lewis Macdonald; are there any other apologies?

**Members:** No.

**The Convener:** The committee has already agreed to go into private session for the first item on the agenda. Does the committee also agree to remain in private session for the second agenda item on the committee's future work programme?

**Members** *indicated agreement.*

**The Convener:** We will now go into private session.

14:05

*Meeting continued in private.*

14:40

*Meeting resumed in public.*

### Agricultural Business Improvement Scheme

**The Convener:** Item 3 on the agenda is the agricultural business improvement scheme. I refer members to the letter that was sent by the convener of the Rural Affairs Committee regarding the ABIS, dated 7 December 1999. That committee took evidence on the ABIS and remains concerned about the unresolved questions on the administration and management of the scheme: why systems to measure demand failed, which led to a £2 million budget having to meet a demand for £22 million; whether there was a breakdown in communication between officials; and whether failures of administration may, if not corrected, jeopardise other European grant schemes. The committee formally requests that we consider the matter with a view to possible investigation by the Comptroller and Auditor General.

Given the seriousness of the matter for one of Scotland's most important industries and the nature of the evidence that was heard by the Rural

Affairs Committee, I suggest that it would be appropriate for me to write to the Comptroller and Auditor General to suggest the ABIS as a suitable subject for an investigation. Any decision on whether the ABIS merited investigation would be a matter for the Comptroller and Auditor General, who would not be able to investigate any policy aspect of the scheme. Members should note that any report on the ABIS by the Comptroller and Auditor General would be laid before Parliament and could be considered by the Audit Committee.

Do members feel that that is an appropriate response?

**Members** *indicated agreement.*

## Financial Procedures (Draft Written Agreements)

**The Convener:** The next item on the agenda is complicated. We will examine the item section by section to make it as straightforward as possible.

I refer members to the letter from the Minister for Finance regarding draft agreements on financial procedures. It was accompanied by a revised draft agreement on the form of accounts and powers of direction. I suggest that we comment on the letter paragraph by paragraph.

Members may want to refer to the draft agreement on the format of the budget documents, which is referred to in the minister's letter, and the letter from the convener of the Finance Committee to the Minister for Finance dated 20 December 1999.

Do members agree to examine the letter paragraph by paragraph?

*Members indicated agreement.*

**The Convener:** Paragraph 1 says that the Executive is pleased that there seem to be few issues of substance on which we do not hold the same views. Is this paragraph agreed to?

*Members indicated agreement.*

**The Convener:** We will consider paragraphs 2, 3 and 4 together, as they relate to the level of disaggregation of accounts.

The letter reads:

"The Executive would be able to produce both the documents accompanying Budget Bills and the accounts down to 'sub-programme' level. But bearing in mind that the term 'sub programme' has no legal definition, I think the only way to establish if this would meet both the Executive's and the Parliament's requirements is to review the operation in practice.

It may then become apparent that in some areas further disaggregation will be needed to make them meaningful. But, there are also some accounts where disaggregation to main programme level might be sufficient. I suggest therefore that the question of disaggregation is taken forward jointly by the Executive, the Audit Committee and the Finance Committee and that decisions are taken on the basis of what works in practice, rather than on what might seem sensible in theory.

The Committee has proposed a form of words to govern revision to this agreement. This is an issue that was also raised by the Finance Committee, as a result of which we have prepared a standard paragraph to be added to each agreement on financial procedures."

Is paragraph 2 agreed to?

*Members indicated agreement.*

**The Convener:** Are paragraphs 3 and 4 agreed to?

*Members indicated agreement.*

**The Convener:** Are paragraphs 5 and 6 agreed to? Are there any comments?

14:45

**Brian Adam (North-East Scotland) (SNP):** I am disappointed that the principal reason for rejecting the committee's suggestion is that it might clutter up the accounts. The inclusion of percentages clarifies the accounts, which tend to have many large numbers. People understand percentage changes more easily than they do a comparison between £897 million this year with £769 million last year, for example. If the percentage change were shown, the difference between one year and another would be clear.

A lot of finance and audit work is about percentage changes, as opposed to absolute numbers. I do not think that the absolute numbers give the clarity that the percentage change does. I am disappointed that Mr McConnell and his advisers have taken the view that they have. If the information is on another piece of paper, that means that there is more work for those who are trying to understand the figures. The purpose of the Public Finance and Accountability (Scotland) Bill was to bring transparency to the accounts. Percentage changes in the accounts would help to provide such transparency, whereas the Executive's proposals would not. We should ask the Executive to think again about this issue.

**Cathie Craigie (Cumbernauld and Kilsyth) (Lab):** I sympathise with where Brian is coming from. He said that one of the purposes of the bill was to ensure that the accounts were open and transparent; one of the most important issues was that the public and non-professional people should be able to understand them. We have gone a long way towards ensuring that the general public will more easily understand our documents. Let us see how we go, because to add another line of figures, whether percentages or block figures, will confuse the issue and make it more difficult for the general public to understand the accounts. I hope that the public become more involved in the finances of the Scottish Parliament, as well as in other issues in Parliament. Let us go with what we have and ensure that the accounts can be easily read and understood, without adding another line of figures.

**Miss Annabel Goldie (West of Scotland) (Con):** Has the Finance Committee had an opportunity to comment on this matter?

**Andrew Wilson (Central Scotland) (SNP):** The committee went through a similar process. We should consider both arguments that the Minister for Finance puts forward in his letter. The first is that the addition of percentages would involve "additional scrutiny". However, he goes on to say

that he would be willing to provide the information anyway, so the initial argument does not stand. The only other argument against including percentages is clutter. That strikes me as bizarre.

I agree with Cathie Craigie's point to an extent, but the inclusion of a percentage change clarifies the accounts—absolute numbers are meaningless without knowing what happened in the previous year. If the previous year's numbers are included in the accounts—as they are—the Executive may as well do the additional scrutiny. It can be seen from Mike Watson's letter to the Minister for Finance that the Finance Committee stuck to what it asked for when it last discussed the issue. None of the minister's arguments is in any way convincing, so there is no need for us to move from our previous position.

**The Convener:** It would be helpful to point out that the minister also said that the Executive would not

"be unwilling to provide the Parliament with this type of information. But it might be more effective as part of the budgeting process rather than with the accounts."

He also said that the Executive

"could consider making supplementary information of this sort available to Committees when the Budget documents are published."

We could make such a request to the minister.

**Andrew Wilson:** The Finance Committee has already made that request. We are talking about the difference between the budget and the accounts, which is the difference between the audited version of what was spent and the estimates. The argument for including percentage changes stands for both—as we are seeing what is planned, we should also see what is happening. If the figures are good for one, they are good for the other—there is no argument for a distinction between the two.

**The Convener:** The Executive's argument is that the figures would clutter the accounts. However, it also says that it would be willing to provide the figures as supplementary evidence to the committee, so would not that supply the information that you require?

**Andrew Wilson:** We are talking about the difference between either having a table that includes a line to show how spending has changed or having to refer to another document to work out what has happened, which strikes me as causing more clutter. I am sure that environmental sustainability could be raised as an argument that is as substantial as that of the Executive.

**Miss Goldie:** The important point is that the minister is not averse to the principle—that is helpful. The next question is how easily we execute the practice. We should do it by including

the percentages in the accounts. I agree with Andrew Wilson: if there is no objection to producing the percentages, I would far rather have them in gremio than tacked on to other bits of paper.

**The Convener:** Should we leave it to those who design the final shape of the accounts to ensure that that is possible?

**Miss Goldie:** With the technology that we have in this day and age, that is not a major issue. We are not talking about quill pens and ledgers with columns—or are we?

**The Convener:** I hope that we are not.

**Nick Johnston (Mid Scotland and Fife) (Con):**

It might be helpful to have some sort of draft account before us so that we could see what shape the accounts are likely to take. I take Andrew Wilson's point. In my business, the management accounts had these headings: current spend; year to date spend; current budget; year to date budget; last year's figure; and percentage. Six columns is not a lot to look at. Everything is transparent and included for all to see.

**Brian Adam:** I do not want to have a supplementary anything; I want to have the information in one table so that it is obvious what changes have taken place. In most cases, it is the percentage changes that are of interest—thereafter one might want to see the absolute figures. It is clear that there is no objection in principle to providing the information, but how that information is provided is important. More work would be needed to produce a supplementary document, and there would be more work for those seeking the information. There is no validity in the Executive's argument for not providing the percentage figures.

**Euan Robson (Roxburgh and Berwickshire) (LD):** It is interesting that the plural is used in this sentence; it says that "we" would be reluctant, although "I" is used elsewhere. I suspect that the word "reluctant" is important, and that if we pressed the point, we would be able to obtain the percentages.

What on earth does the phrase "additional scrutiny" mean? Does it just mean additional work? Heavens above, in this day and age, with computer typesetting and so on, it should be possible to include percentages. Reading between the lines, I do not think that the minister is particularly worried one way or the other, but I may be wrong.

**Cathie Craigie:** I agree with Euan Robson; I do not think that the minister is particularly worried. This will be the first time that we have produced accounts, and we are committed to producing

figures and information that are understandable. The door is certainly not closed to producing the accounts in the way in which members suggest, so we should not go to war with the minister over this matter. The way in which the information is presented can develop.

**The Convener:** It is not a question of going to war, but the committee is anxious to ensure clarity and to have all the figures gathered in one area, where percentages would add to the information and, we hope, to the reader's understanding. The minister says that percentages will clutter things up, but the counter argument is that, in the modern age of form design, what we are asking should not be a problem. The question is whether the committee wishes to insist on its view in seeking clarity and a single source for the budget figures.

**Margaret Jamieson (Kilmarnock and Loudoun) (Lab):** We are all talking about what the minister is saying, but we are forgetting the other part to the sentence, which says that the inclusion of percentages

"makes them less effective as a public summary document."

The set of figures that we have had when we have examined accounts previously has been bad enough, but the inclusion of percentages as well could make people who are not au fait with this type of work baulk at accounts and decide that they are not really bothered. It is fine for us in this committee and in Parliament to consider the figures in percentage terms—I agree that, in terms of our requirements, we should have percentages. However, the inclusion of percentages might confuse the general public, although if it makes things clearer for them, that is fine.

**The Convener:** I do not think that we will get consensus on this. Margaret Jamieson has requested that we do not produce accounts that are less effective as public summary documents. That argument is being used by both sides, however: one side is saying that percentages would make things clearer and the other is saying that they would not. We will have to push the matter to a vote, as I cannot see any other way around it. The question is whether we accept what the minister has said or request that percentages be included in the document. I think that it is as straightforward as that.

**Brian Adam:** I suggest that we again ask the minister to include percentages.

**Cathie Craigie:** I would not like to push the committee to a vote, because we should feel that we have talked the matter through. As the person who first raised the matter, I am not prepared to move on it.

I agree with what Margaret Jamieson said about

the efficacy of the document, but I would not wish to split the committee on this issue, on which I believe the Parliament will eventually find a suitable outcome. I believe that, as he has framed it, the minister is asking us to take the first documents and to make improvements from there.

**The Convener:** It is ultimately a question of end product. It would be useful to know what the minister has in mind. It would be easy to produce mock documents, some showing percentages and others not—that would allow the committee to make up its mind. I wonder whether that would be helpful. I am open to hear members' views.

**Margaret Jamieson:** What you suggest is at least a compromise.

**Brian Adam:** Are you suggesting, convener, that we defer consideration on this matter until we see the mock-up examples, and then revisit the question? I would be happy to go along with that.

**The Convener:** We can find out what the minister has in mind and then come to a judgment. If we are still disagreed, we will have a vote on the matter.

We have not agreed on paragraphs 5 and 6 of the minister's letter.

Paragraphs 7, 8 and 9 of the minister's letter refer to paragraph 7 of the draft agreement, although they mention different topics, so it would be wise to consider them one at a time.

Paragraph 7 of the letter states that the Executive has

"some reservations about the Audit Committee's proposals in paragraph 7 of the draft . . . Producing a list of all existing capital assets is not practicable. To list all the Executive's capital assets would result in the notes to the accounts running to hundreds of pages. What I suggest is that in accordance with normal accounting practice, the notes to the Executive's accounts should contain a summary of tangible fixed assets showing valuation and a breakdown by category such as land and buildings, road network, and IT equipment. If the Committee wanted more detailed information on a specific case, the Executive would of course seek to provide it."

Are there any comments on paragraph 7?

**Andrew Wilson:** I am really surprised at the Executive's statement that producing such a list is not practicable, given that such a list already exists for the UK as a whole. The national asset register was published by Alistair Darling when he was Chief Secretary to the Treasury.

All that we are asking is that the Scottish Executive's portions of that document are presented to us. Given that the list exists for the UK, why is it not possible to have such a list for one region of the UK? I would like clarification of why the Executive has made that statement.

It is probably a good idea to provide a summary



by sector, but given that the list of detailed assets is available, there is no reason why members should not be able to see what the Parliament and the Executive have at their disposal. I do not understand the Executive's statement.

15:00

**The Convener:** You are happy with the notes, but you seek clarification of why we cannot get the list.

**Andrew Wilson:** Yes, especially as one already exists.

**The Convener:** Is that agreed by the committee?

*Members indicated agreement.*

**The Convener:** We have agreed to the paragraph pending the response to the request for information.

Paragraph 8 deals with public-private partnerships and the private finance initiative. It states that the Executive believes that

"PFI/PPP plans should be free-standing from the audited accounts and . . . that such information is more appropriate in a budgeting context."

The Executive suggests a PPP/PFI expenditure plan as part of the budgeting process, setting out project servicing costs by sector. It says that showing

"servicing costs by project could jeopardise future tender exercises."

Are there any comments on that?

**Andrew Wilson:** The Finance Committee discussed this matter. The issue at that committee was the difference between producing information by sector and by project. I believe that the National Audit Office can ask for the information on a project-by-project basis anyway—the information should not be made publicly available only when a specific tender process is under way.

**Miss Goldie:** I want to extend that point and ask Arwel Roberts whether there are any such cases for which a National Audit Office report is now on the public record. For example, the costs of the M74 extension are now publicly known.

**Mr Arwel Roberts (National Audit Office):** It is certainly true that we produced reports.

**Miss Goldie:** I am a little uneasy. I feel that the project costs should be shown by project.

**Andrew Wilson:** The Finance Committee, through Mike Watson's letter, has already asked for that and I do not see any reason to change our position.

**The Convener:** Does the committee agree that

we should say to the minister that costs should be shown on a project basis and that we should seek a response from him?

*Members indicated agreement.*

**The Convener:** We will not agree to the paragraph until we receive a response from the minister.

**Andrew Wilson:** The other issue in that paragraph is whether the information should be part of the budgeting process or part of the audited accounts. As with the previous issue, I see no reason why there should be a distinction between the two, given that one is what is planned and one is an audit of what has happened. I agree that the plans should be free-standing from the rest of the accounts, but I believe that what is happening within PFI should have an audit trail. We should ask for the information to be part of the audited accounts but free-standing from the rest of the sector accounts.

**The Convener:** Does the committee agree?

*Members indicated agreement.*

**The Convener:** Paragraph 9 states that the final proposed addition to paragraph 7 in the revised draft is not included because

"such information will be recorded in the Balance Sheet as a matter of course, in accordance with normal accounting standards."

Are there any comments on paragraph 9?

**Miss Goldie:** I have lost my original draft, so will you clarify what the final proposed addition was?

**The Convener:** We do not have that with us. I propose that we adjourn for a minute so that we can supply that information. Is that agreed?

*Members indicated agreement.*

15:03

*Meeting suspended.*

15:07

*On resuming—*

**The Convener:** Let us continue. This all boils down to the removal of the proposal for

"a statement setting out any accumulated resources and reserves".

**Miss Goldie:** I thought that that was quite important when we discussed it.

**Nick Johnston:** Are you saying, convener, that such a statement is now recorded in the balance sheets as a matter of course?

**The Convener:** Apparently it is done as a "matter of course" and

"in accordance with normal accounting standards".

**Andrew Wilson:** If that information is recorded on the balance sheet, does that mean that it is part of the auditing accounts or part of the on-going budget, in which case it would be after the fact?

**The Convener:** We need clarification of that. I suggest that we do not agree to this paragraph until we have absolute clarification of what is meant by

"recorded in the Balance Sheet".

Is that agreed?

**Members** *indicated agreement.*

**The Convener:** We have agreed to the draft agreements with various amendments and we will ask for a response from the minister.

## Deputy Convener

**The Convener:** Item 5 is the election of a deputy convener. On December 16 1999, Parliament decided that the deputy convener of the Audit Committee should be from the Conservative party. I invite candidates for the position of deputy convener.

**Miss Goldie:** From the bruises on the faces of the pair of us, you will see that we that we have tussled for the honour—I deferred to Nick Johnston.

**Andrew Wilson:** I suggest five-minute speeches from both candidates.

**The Convener:** It is a case of one woman, one vote and the one woman just voted. [*Laughter.*]

Are there any other nominations? No.

*Nick Johnston was elected deputy convener by acclamation.*

**The Convener:** The standing orders state that the deputy convener shall chair meetings of a committee in the absence of the convener and shall carry out the functions of the convener at other times if a convener is unable to act as convener.

I congratulate Nick Johnston on his appointment.

**Nick Johnston:** Thank you, convener. I shall try to emerge from your shadow as and when necessary. However, I hope that you keep extremely healthy.

**The Convener:** I thank members for their participation in our first meeting of the millennium.

*Meeting closed at 15:09.*

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