

# **AUDIT COMMITTEE**

Tuesday 25 January 2000  
(*Afternoon*)

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## CONTENTS

Tuesday 25 January 2000

Col.

ACCOUNTING POLICIES .....	169
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### AUDIT COMMITTEE

#### 2<sup>nd</sup> Meeting 2000 (Committee Room 3)

##### CONVENER:

\*Mr Andrew Welsh (Angus) (SNP)

##### DEPUTY CONVENER:

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

##### 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)

\*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 25 January 2000*

*(Afternoon)*

[THE CONVENER *opened the meeting at 14:01*]

**The Convener (Mr Andrew Welsh):** The first item on our agenda is the determination of accounting policies and the second item is our future work programme.

I suggest that we consider item 2, the future work programme of the committee, in private. That would allow details of the fact-finding visit to be finalised. Does the committee agree to discuss that item in private?

**Members** *indicated agreement.*

**The Convener:** I have received apologies from Margaret Jamieson.

### Accounting Policies

**The Convener:** I refer members to the letter from the Minister for Finance, dated 12 December 1999, and the accompanying memorandum on the determination of accounting policies. The minister seeks the views of the Audit Committee on the proposals that are set out in that memorandum. I invite comment on the memorandum.

**Brian Adam (North-East Scotland) (SNP):** Convener, do you want us to go through it paragraph by paragraph?

**The Convener:** We could do that. However, if members have any specific concerns, I invite them to raise them.

**Brian Adam:** The matters that I want to address are largely on the second page.

**The Convener:** We could go through the memorandum page by page, which might speed things up. Do members have any points to raise on page 1, paragraphs 1 to 5? It seems not. Do members have any comments on page 2, paragraphs 6 to 12?

**Brian Adam:** I have a question on paragraph 6. Why is the Executive saying that these things should exclude local authorities?

**The Convener:** Paragraph 6 states:

"The Public Accounts Committee and the Treasury Select Committee recommended that there should be independent oversight and approval of the application of financial reporting standards and practices to the public sector (but excluding local authorities)."

Can anyone advise us on that?

**Mr Arwel Roberts (National Audit Office):** I do not know why it should explicitly say "excluding local authorities". It may be meant implicitly, but why it is explicit I do not know.

**Nick Johnston (Mid Scotland and Fife) (Con):** Are we going back to the old chestnut about responsibility and a local authority's accountability to its electorate?

**The Convener:** The simplest answer is that we do not know, but it might be useful to find out why local authorities are explicitly excluded.

Are there any other comments on paragraphs 6 to 12?

**Brian Adam:** I would like to make a point about paragraph 7, which contains the first mention of the Financial Reporting Advisory Board to the Treasury—FRAB. Is the Scottish Parliament expected to share in the costs of that body, as a consequence of potentially using it, or will we get it as a freebie?

The last sentence of paragraph 7 says:

"Because of its macro-economic management responsibilities the Treasury may, where appropriate, determine that the advice of the Board should not be applied."

That gives a reason why the Treasury may choose to ignore the advice. I hope that the people who drafted this document will not take offence, but it strikes me that it has been drafted from a Treasury document, and given some add-ons at the end. The Scottish Parliament, or the Scottish Executive, may, for good reason, choose to ignore the advice or to decide that it should not be applied, but that is not made explicit in the document.

If the Treasury, from time to time, can find a reason for not taking the advice, the same may go for the Scottish Executive and/or the Scottish Parliament, whether that advice comes from the Financial Reporting Advisory Board to the Treasury or any other such body. If this paragraph is going to say anything at all, it should say that those who commission the advice reserve the right to accept it or reject it. It is not only the Treasury that will be commissioning advice.

**Lewis Macdonald (Aberdeen Central) (Lab):** Brian's first point is answered in paragraph 20, at least for the situation that applies at the moment. Paragraph 20 makes it clear that the secretariat for the advisory board is provided by the Treasury.

**Brian Adam:** I just wanted the document to be explicit.

**Lewis Macdonald:** There is no suggestion that, if we used the same advisory board, the Scottish Parliament would need to support it financially. Paragraph 23 suggests that

"the secretariat could continue to be provided by the Treasury"

but that there would have to be changes in the way that the board presented itself, reflecting the fact that it was no longer simply an adviser to the Treasury but an adviser to Scottish ministers.

Brian's second point was about the Treasury's flexibility or discretion in considering the advice of the board. It might well be worth while making it explicit in the remit, if we go down that road, that Scottish ministers should have the same flexibility or discretion.

**Cathie Craigie (Cumbernauld and Kilsyth) (Lab):** Paragraphs 2 to 10 talk about the background and the document then goes on to talk about how devolution affects things. Paragraph 23 states that

"The overall remit would need careful rewording".

If we were to agree that this was the way forward, we would need to take note of that. A lot of it would need rewording. As I say, paragraphs 2 to 10 are really background for a Westminster context.

**Nick Johnston:** I wish to draw attention to paragraph 29, which says:

"Extending the remit of the FRAB has many attractions with the only drawback being continued reference to the Treasury."

In that paragraph, the Executive acknowledges that someone has to have overarching responsibility and tries to make the point that establishing yet another free-standing group would be unnecessary.

**Andrew Wilson (Central Scotland) (SNP):** While I am reasonably relaxed about some of the arguments in the memorandum, I am concerned about the committee coming to any conclusions today on the basis of the memorandum's contents.

Nick Johnston made a sensible point, but, by the same token, if we are set upon a course where the Executive is responsible to the Scottish Parliament and we seek, as we did for the Public Finance and Accountability (Scotland) Bill, to have our own approach to these matters, I cannot see the value or the necessity of the assumption that we must stick with the Treasury approach. While a case could be made for that approach, the paper seems to start from the assumption that the Treasury approach is correct and sees no reason for further devolving the matter. That is not a sound principle on which this paper should be based.

Nick referred to paragraph 29, which says:

"Determining such matters as best practice in financial reporting is not best suited to internal committees. They lack the real objectivity and external experience".

I find that comment odd. If we require advice on

best practice, we should call for external advice. It is our job to exercise that judgment, just as it is the job of members of the Public Accounts Committee in London.

While I am relaxed about the principle, as there is not too much at stake, certain points in the memorandum set alarm bells ringing. The most important of those is found in paragraph 15, which says:

"Any system for external validation of the Executive's proposals must recognise that relationship"—

that is, the relationship between the Parliament, the Executive and our committees—

"while being sufficiently flexible to ensure that the process is efficient in its delivery".

I see nothing in that sentence to guarantee that the views of the Audit Committee and the Finance Committee would be upheld. I may be completely wrong, but from what the memorandum says, the Treasury-based committee could be used potentially to supersede our own requests. I am uncomfortable with that, until we know more about exactly what FRAB does and how it would impact on our work. These proposals are very much in the abstract. We should liaise with the Finance Committee and obtain a bit more background information on what we are signing off.

**Lewis Macdonald:** I do not agree with Andrew that the paper starts from an assumption. I think that it is a well-balanced paper, which goes through the three options available to us. It contains a well-made argument for financial reporting and the form that that should take. The key point in the paper is that the Treasury will retain a role and a duty to seek reports from the Scottish ministers on the use of public funds, which is implicit in the devolution settlement. Therefore, the logic is fairly clear—the same body determines the financial reporting procedures.

As Andrew conceded, I do not think that this is a matter of fundamental political significance; rather, it is a matter of good housekeeping. The logical action to take would be to go with the recommendation that there should be Scottish involvement in FRAB and that it should continue to work with the Treasury and with Scottish ministers. Like Brian Adam, I would welcome clarification of the way in which Scottish ministers deal with that advice once it has been received.

**Miss Annabel Goldie (West of Scotland) (Con):** To follow on from that point, convener, I was looking at paragraph 18, which deals with the three mechanisms whereby the Executive could provide assurance to Parliament on the suitability of accounting policies. If I detect the mood of the committee correctly, I think that we are rather anxious to ensure that, as far as possible, we remain in control of the affairs that are under our

jurisdiction.

Paragraph 18 talks about

“mechanisms whereby the Executive could provide assurance”.

It suggests three models: an internal committee, an extension of the role of FRAB and an altogether new body.

Although I understand the relevance of FRAB in the macroeconomic sense—and I agree that there must be liaison between us and the Treasury at Westminster in that respect—I want to be reassured that FRAB is not being used as a kind of rubber stamp by the Executive to say that the matter does not even need to be discussed, as FRAB has recommended, advised or agreed it. I have a slight concern over that.

**Brian Adam:** Paragraph 12 highlights a concern. TRAM—the Treasury resource accounting manual—will be produced by FRAB, and perhaps others. The last sentence of the paragraph states:

“Any substantial move away from the TRAM would require the maintenance of two distinct data sets.”

I do not view the position in those terms. However, the ability of the Executive in conjunction with the Finance Committee and the Audit Committee to choose the form of accounts could be removed. We need to be clear about that.

14:15

This comes down to the idea that power devolved is power retained. If the Scottish Executive is to recommend a form of accounts to be agreed with the Finance Committee and the Audit Committee, what role should this other body have in that process? Our independence, and that of the much-vaunted Public Finance and Accountability (Scotland) Bill—which is to give us a system that is more advanced than systems elsewhere—could be undermined.

**The Convener:** Let us try to draw this together. Your first point, about the cost being shared between Parliaments, is met by paragraph 20.

**Brian Adam:** The position needs to be spelt out. I accept that it is implicit in what is said elsewhere, but I would rather have it stated explicitly.

**The Convener:** Perhaps a letter asking for further information on that would address your point.

You raised a substantial point on devolution. The responsibility for monitoring progress in Scotland no longer lies with the Treasury; it rests with this Parliament. However, everybody recognises that there must be good housekeeping, and we want to avoid duplication. I suggest that

we take evidence from those in the Scottish Executive who are responsible for this, and perhaps from the National Audit Office, so that we can explore those points further. We must know whether, when power is devolved here, we return it to the Treasury—that is fundamental to the principle of devolution. Lewis Macdonald and Annabel Goldie also asked for clarification, and taking evidence might be a way of providing that. Would that be the best way in which to proceed?

**Brian Adam:** That is a substantive point. I have a couple of other minor points that are relevant, but I am happy with that suggestion.

**Cathie Craigie:** I would be happy enough with that as well. The committee is clearly unable to make a decision based on the information that we have, so I support the convener's suggestion. It would be useful if we could receive that information either in writing or through oral evidence.

**The Convener:** We could do both. We could ask for written evidence prior to an oral session. The issue is fundamental; we must thrash it out and make it clear to ourselves and to the public.

**Lewis Macdonald:** I want to respond quickly to Brian Adam's final point, about the format of accounts and the measures that we discussed under the bill. Paragraph 21 of the document makes it clear that, if the remit of FRAB was extended to cover the Executive and the Scottish Parliament, it would not cover all the areas that are for the Finance Committee and the Audit Committee to deal with. The paragraph says that FRAB's remit would extend only to the accounting principles and the minimum disclosure levels, which the Public Finance and Accountability (Scotland) Bill recognises are separate from the format of accounts and so on. The concerns should not be too great.

I have no difficulty with the proposal to take evidence. I note that the minister has asked for our response by the end of this week. I wonder whether that is to do with getting the mechanisms up and running for the new financial year and, if so, whether we need to make haste on any decisions that we have to take.

**Andrew Wilson:** Lewis makes a fair point, but that is not an issue at this stage. We cannot be expected to respond precipitately, and I cannot see the matter affecting this financial year at all. Could we ask what status any advice from FRAB would have?

**The Convener:** If we have agreed that we will ask for further written and oral evidence, it may be of assistance to the Executive if we raise any points that immediately come to mind, rather than go through this document paragraph by paragraph. Are there any other points on which members

seek clarification?

**Brian Adam:** I have two points. Paragraph 16 says that the role of the financial reporting system is to

“provide the Parliament with information which is reliable and . . . sufficient . . . for its needs”,

and to

“underpin the central government planning”

and monitoring. Will Parliament get the same information as the Executive?

Paragraph 21, which Lewis just mentioned, relates to what I am asking about. It refers to

“restricting the advice to devolved bodies to accounting principles and minimum disclosure levels”.

I am sure that that could be explained to us, but I am concerned about the phrase “minimum disclosure levels”, which implies that some people will have minimal disclosure and others will have full disclosure. I hope that there will not be different levels of disclosure in this Parliament, and that the information that is available to the Executive will also be available to the Parliament and its committees. I may be misinterpreting the matter, but I would like clarification.

**Nick Johnston:** The only point that I wish to make, without debating paragraph 21 in its entirety, is that Brian has picked up only a phrase. If one reads the whole paragraph, one will see not only that it talks about

“restricting the advice to devolved bodies to accounting principles and minimum disclosure levels”,

but that it goes on to recognise

“the different relationships which the devolved bodies have . . . in the format of the accounts, further levels of disclosure and in the issuing of applicable guidance.”

In addition, paragraphs 24 and 28 specifically acknowledge the roles of the Audit Committee and the Finance Committee.

The only difficulty that I have with this matter—and I listened to the arguments carefully—is that if we start to get into an argument about who has the right to impose accounting standards, we are in danger of having different standards across the UK. I would not like to see that, although it might be an attraction to some people.

**Brian Adam:** That is not the point that I was trying to make.

**The Convener:** The memorandum argues that, because accounting standards are fairly general, it is unlikely that Scotland would require a different system from the one used in the rest of the UK. However, the point is that, if Scotland did differ, it probably would do so for good Scottish reasons. The matter is left in the hands of the Treasury;

Scotland will not have an option. That concerns me.

The decision that we will eventually take is whether we leave this matter in the hands of the Treasury or provide for some other mechanism through which this Parliament can decide. The chances are that, either way, nobody would be too far out of line on accounting practice, for good accounting reasons.

**Cathie Craigie:** I would not be happy to leave this matter in the hands of the Treasury, as people will have to report their expenditure to the Scottish Parliament. However, I do not think that that is what is suggested. The paper suggests that we make use of a body that is already established, altering its set-up to take into account the devolution settlement. Like Nick Johnston, I think that it would be good to have a standard across the UK, to allow proper comparisons. I would like more detail on that.

Paragraph 26 mentions the work done by the private sector on harmonising standards internationally. If the private sector is doing that because it makes it easier to compare financial reports, perhaps the Government should consider the same approach. We should embrace best practice from both the private and public sectors. I would like further information on those issues.

**The Convener:** I agree. We should look beyond the UK to European and worldwide practice. The paragraph says that the Treasury may

“determine that the advice of the Board should not be applied”.

**Cathie Craigie:** Which paragraph is that?

**The Convener:** That is paragraph 7. In other words, the Treasury would ultimately decide. We must decide whether we agree to that or whether we want the Scottish system to have the final decision. That is a fundamental issue.

**Cathie Craigie:** Paragraph 7 sets out the background, rather than the proposal. If we accept the recommendation in paragraph 30, there would have to be a change in who would have the final say.

**Brian Adam:** I think that Nick Johnston misunderstood my earlier point. I was trying to link the phrase “minimum disclosure” with the content of paragraph 16. Much of paragraph 21 is to be welcomed and, overall, I am fairly relaxed about which route we take. I think that only one of the three options is extensively explored—the paper lacks balance in that. The conclusion has been reached with no justification, although that is not to say that it is the wrong conclusion.

The point that I was trying to make—however cack-handedly—was that I am anxious that the



information that is available to the Parliament is the same as that available to the Executive. In any accounting practice, there should not be different levels of disclosure. Paragraph 16 sets out the aims of the financial reporting system, but I want to ensure that I have access to the same information as everyone else. The Executive should not receive information at a more detailed level than we do.

**Nick Johnston:** I might have misunderstood that.

**Andrew Wilson:** I do not have any recollection of the position of the financial issues advisory group on this matter. Perhaps we should consider that. Why has the paper come to us at this stage? Did FIAG have a position on the role of FRAB? Why did we not consider the issue along with the Public Finance and Accountability (Scotland) Bill?

**The Convener:** We shall seek briefing notes on that. The Executive will read the committee's comments and will probably respond to some of them immediately. We would like to take oral evidence from the Scottish Executive and perhaps from the National Audit Office to clarify the points that have been raised. Is that agreed?

**Members indicated agreement.**

**Mr Roberts:** If the committee would find it helpful, the NAO would be more than happy to provide background briefing information for such documents.

**The Convener:** That would be very helpful.

**Mr Roberts:** The days of the National Audit Office in Scotland are numbered.

**The Convener:** That sounds ominous.

**Mr Roberts:** Audit Scotland will carry on the work. As a general principle, we will provide briefings if members would find it useful.

**The Convener:** That is appreciated. None of us wants meetings to proliferate, but a briefing would have helped to make this meeting more productive.

If members receive their papers and want extra information, I am sure that the NAO will be happy to help.

14:30

*Meeting continued in private until 15:03.*



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