

# **AUDIT COMMITTEE**

Tuesday 20 June 2000  
(*Afternoon*)

© Parliamentary copyright. Scottish Parliamentary Corporate Body 2000.

Applications for reproduction should be made in writing to the Copyright Unit,  
Her Majesty's Stationery Office, St Clements House, 2-16 Colegate, Norwich NR3 1BQ  
Fax 01603 723000, which is administering the copyright on behalf of the Scottish Parliamentary Corporate  
Body.

Produced and published in Scotland on behalf of the Scottish Parliamentary Corporate Body by The  
Stationery Office Ltd.

Her Majesty's Stationery Office is independent of and separate from the company now  
trading as The Stationery Office Ltd, which is responsible for printing and publishing  
Scottish Parliamentary Corporate Body publications.

---

# CONTENTS

Tuesday 20 June 2000

Col.

<b>BUDGET DOCUMENTS .....</b>	<b>269</b>
-------------------------------	------------

---

## AUDIT COMMITTEE

### † 10<sup>th</sup> Meeting 2000, Session 1

#### 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

#### WITNESSES

Alasdair McLeod (Scottish Executive Finance Department)

Ian Smith (Scottish Executive Finance Department)

#### CLERK TEAM LEADER

Callum Thomson

#### SENIOR ASSISTANT CLERK

Anne Peat

#### ASSISTANT CLERK

Sean Wixted

#### LOCATION

The Chamber

† 7<sup>th</sup>, 8<sup>th</sup> and 9<sup>th</sup> Meetings 2000, Session 1—held in private.



## Scottish Parliament

### Audit Committee

*Tuesday 20 June 2000*

*(Afternoon)*

[THE CONVENER *opened the meeting at 16:03*]

**The Convener (Mr Andrew Welsh):** I open the meeting. We will question officials from the Scottish Executive in public on the written agreement on the format of accounts. Thereafter we will go into private session for the consideration of the draft report on Scottish Enterprise skillseekers training. I suggest that we take 10 minutes in private to consider our line of questioning before I invite Mr Smith and Mr McLeod in. Is that agreed?

**Members** *indicated agreement.*

**The Convener:** It will take half a minute or so to clear the room. Meantime, I should announce that Cathie Craigie has given her apologies and Annabel Goldie will be late. [MEMBERS: "She is here."] The fast-moving Annabel Goldie. I beg your pardon—you are very welcome. I also welcome the National Audit Office officials, who are here to keep us right.

16:05

*Meeting continued in private.*

16:18

*On resuming—*

### Budget Documents

**The Convener:** We now move into public session. I welcome Mr Ian Smith, head of the accountancy department of the Scottish Executive, and Mr Alasdair McLeod, deputy head of the Scottish Executive finance department. I invite one of them to make a short statement about the pro-forma accounts and the outturn statements.

**Ian Smith (Scottish Executive Finance Department):** In the memorandum we have tried to show how we approached the accounts and the reference points that we chose: commercial accounting, the financial issues advisory group report, the resource accounting manual that the Treasury uses and other sources of information that we hope will inform the debate on how we should present the accounts. Resource accounts should follow commercial principles; they should look like commercial accounts when they are

prepared. We have tried to supply as much information in the accounts as is reasonable; it is always difficult to draw a line between what information is given and what is left out, but we have suggested what we see as the way forward and are happy to discuss it with the committee.

**The Convener:** The committee first raised this issue in January. We asked for mock-ups with percentages. Why has that not been produced?

**Ian Smith:** We have supplied two sets of statements to the committee, one with the preferred option giving a comparison principally with the budget. We have also supplied a set of statements that show the presentation of a percentage comparison of outturn to outturn. Those should be with the committee's papers today.

**The Convener:** Paragraph 23 of the memorandum says that

"there is no technical reason"

why the percentages should not have been produced, but that

"it would be most unusual; there is no known example of percentage changes being shown on the face of published accounts."

It also says that

"it would relate only to revenue statements; percentage changes on the balance sheet and cash flow statements would have no relevance whatsoever."

Your version of what was asked for has been given to us, not what the committee asked for. The memorandum gives excuses for not producing what the committee asked for and excuses for why percentages would not be appropriate. Those excuses are, I think, wholly inadequate. This parliamentary committee asked for mock-up accounts so that it could make a judgment based on a comparison. Your failure to provide what we asked for is hindering the work of the committee. Is that what was intended?

**Ian Smith:** We have no intention whatever to hinder the work of the committee. We have supplied a set of pro-forma statements that are some 50 pages long and show the normal presentation of commercial accounts extended to demonstrate a comparison with the budget, which represents the primary relationship with the Parliament. In the additional set of revenue statements, we have supplied what the committee asked for, showing a comparison in percentage terms of outturn to outturn. To show a percentage change on the face of a balance sheet—for example, between fixed assets from one year to another—does not communicate anything to the reader of the accounts. There is a note in the pro-forma statements that shows in detail the movement between one year and the next on

items such as fixed assets, debtors, creditors, loans and similar items that are on the face of the balance sheet. They are shown in the normal fashion, in nominal terms, for comparing one amount to another and showing movements between one year and the next in any detail.

**The Convener:** In January, we specifically asked for brief mock-ups so that we could compare the format with percentages to the format without percentages. You have not produced that. When will you do so, so that the committee can make a judgment?

**Ian Smith:** If the committee wishes to see more than the revenue statements with a percentage column down the side, we can produce that quickly. I repeat that we have given the committee what it asked for with respect to revenue statements. To produce percentages on a balance sheet and in the cash flow is simply presentational arithmetic; it does not communicate any information.

**The Convener:** What we get is what the public will see. We have tried to achieve clarity. We specifically asked for brief mock-ups so that we could compare what the accounts would look like with and without percentages. We asked for that in January and we have not got it. When will we be given those mock-ups?

**Ian Smith:** We will supply a balance sheet with a column showing percentages on it within a week. However, there are no figures at the moment to inform the debate. All that we will have is three columns: the assets and liabilities as at last year, the assets and liabilities as at this year and a percentage column that says "this has moved by X per cent". That movement will not in itself communicate very much to anyone—one needs to know why it has moved rather than just that it has moved.

**The Convener:** Perhaps we did not make ourselves clear. I hope that we are doing so now.

**Miss Annabel Goldie (West of Scotland) (Con):** I understand that the percentage entry on the balance sheet in itself may not be helpful. However, you could put in a percentage entry only in the case of, for example, tangible assets that were not heritage, showing that they had altered for some reason or, in the case of reserves, that they had gone up or down. Is that the source of concern—that it will be difficult within the framework of accounts to delineate meaningfully why the movement has taken place?

**Ian Smith:** The movement of such items as tangible assets will be for a number of reasons. The accounts carry the values at current cost, so there will be movement because of a change in the prices index, because of additions purchased during the year, because of disposals and

because of depreciations during the year. There are five or six different reasons for movement on that one item—on that single line on the face of the balance sheet. The note should address the dynamics that underpin the movement in the percentage; that is where we think the information should be. It is not possible to translate those five or six different and possibly competing movements on to the face of the balance sheet.

**Andrew Wilson (Central Scotland) (SNP):** You are correct that what we are calling for is an arithmetical presentation on the revenue accounts, which should assist the rapidity and ease with which we can read the accounts. We will still want to have that. Taking on board what you have said on the balance sheet, are we correct in understanding—because I cannot find it in the notes—that each specific change would be detailed in the notes, in terms of both the actual percentage change and the source of that change?

**Ian Smith:** On fixed assets, there is a note—I think that it is number 8—which sets out in tabular form the various types of tangible fixed assets, giving the opening values and the various movements during the accounting period. As you see, there are a number of movements in each section. The movements in the cost or value section are replicated in the depreciation section. To try to produce something that mixes numbers and percentages would be difficult in terms of presentation and communicating information. The note will show that there have been price movements. For each category, there might be different price movements.

**Andrew Wilson:** That table is useful and allays some of our concern. However, within such a table—for example, where changes have taken place under land and buildings—if you were able to provide the percentage contribution of each factor, that would help us to see what was driving the movements. It is easier for us to have an impact on the presentation at this early stage, rather than after the fact, which would be much more difficult. We are trying to take advantage of this opportunity to set a presentational precedent that would make life easier for us in future. On the basis of this table, that change can be made if we are willing to make it.

**Ian Smith:** We are happy to take the table away and have a look at it. One of my problems in deriving percentages from this information is what the starting percentage would be. Which figure would we choose to equal 100 per cent to begin with? Is it the value at the previous year end? Is it the value that we want to reach? If so, we would end up with the value at March 2000, for example, being 100 per cent, with all the ensuing figures as a percentage of that 100. In that case, what would

the percentages actually mean? They would simply say that additions during the year represented 3 per cent of the value or cost at the end of the year, for example, but as an accountant I do not get any feeling from that information.

16:30

**Andrew Wilson:** Convener, we will all be pleased to hear that accountants derive feelings from such matters.

My suggestion would be to show the percentage change between 1999 and 2000 so that we can see what has moved. It would also be of value, although it is not critical, to show the contribution of each type within that movement. If a movement is 5 per cent, for example, what is the contribution to that movement from each of the different additions? That should be reasonably straightforward. For example, additions could make up 4 of those 5 percentage points, in which case we could see that additions were driving the change, followed by the contributions of the other factors. That is not too difficult.

**Ian Smith:** If I may, I will choose one of the most difficult categories of our assets—the road network. All the calculations for the value are done inside a computer model. The additions at the end of the year are also included as part of a repriced value, so disaggregating that information might present us with some difficulty, as we did not anticipate doing that when we designed the model three years ago. However, I am happy to look at the note and see whether it can be made to communicate something other than just numbers. Accountants get a bad name for just giving people numbers and no information. That concerns me.

**Andrew Wilson:** Those of us who have run businesses, which does not include me, will appreciate that numbers can communicate a lot, but as politicians we are more able to work with what has changed rather than with what the amount is doing. It is difficult to take an amount and see what is driving it. The change is most important to us, as it enables us to see what is moving. We would be grateful if you could give that some attention.

**Ian Smith:** I am happy to look at that.

**The Convener:** Meaning is what we are questing for.

**Brian Adam (North-East Scotland) (SNP):** Perhaps I can take you back to paragraph 23. It is littered with what are clearly your opinions. You say:

“While there is no technical reason to prevent such information being given it would be most unusual”.

I do not know why you chose to use that phrase. We asked for something. We gave you the reason

why we wanted it—we think that it would inform us about the changes that are taking place and help the public to see what change is taking place. However, you have brought us a report that is extremely lengthy but tells us very little. Of what we requested, you use phrases such as

“it would be most unusual; there is no known example of percentage changes being shown on the face of published accounts.”

You then say that that

“would relate only to the revenue”.

Those are all your opinions. You are entitled to your opinion, but we heard your opinion in January. I am extremely disappointed—in fact, I am angry—that we have been presented with this large amount of material with little or no time to look at it and against a deadline that is not of our making.

Clearly, you have not understood what the committee wanted or—I hope that this is not the case—you have wilfully tried to persuade the committee of your view, for example by asserting that something is most unusual and that it would have no relevance. Surely the relevance is for us to decide and for you to comply with. It is not up to you to tell us what is relevant; it is up to us to tell you what is relevant.

I found the tone, the tenor and the weight of the document extremely disappointing. You have almost gone out of your way to be offensive to us. You made rather sweeping remarks about the balance sheet. A simple percentage change in assets and liabilities tells an awful lot. It tells us whether assets are being realised to pay for revenue. I accept that it is the combination of a series of events. It would be nice to have all the figures disaggregated and explained, but the overall figure and the percentage change tell us a lot about whether a business is viable. If someone is selling assets in order to keep their business going, it will be obvious.

I would like to see what we asked for, not what you have chosen to give us. I find it utterly incredible that you do not have the figures. I would like to see the numbers and the percentages on one piece of paper and another piece of paper without the percentages. That is what we asked for—I have not heard an explanation of why we do not have it.

**The Convener:** We are not here to badger witnesses, but I think that they get the message.

**Ian Smith:** I used the word “unusual” in the sense of unique. We set out to prepare the pro-forma accounts to comply with generally accepted accounting principles as practised in the UK. That is what we are required to do to drive out a clean audit opinion. We must have a set of accounts that

allow us—we hope—to do that.

There has been no attempt to provide the committee with information that represented my views alone. We have tried to provide the committee with a set of accounts that show, probably for the first time, the scale of the accounts and not just the primary statements. We have tried to provide the committee with an in-depth look at what the published accounts will be. We do not have the figures because the accounts to March 2000 have not yet been completed. It is as simple as that. The accounts have not been completed; the audit has not been completed; we could not publish the figures at the moment. It is simple—it is not a case of withholding figures.

**Brian Adam:** You have just restated what you said before. You have not offered us any explanation of why you did not do precisely what you were asked to do. I do not dispute that you are trying to provide us with the accounts in the form that you have described. We do not need last year's accounts now; we need a set of numbers—any set of numbers would do—and a piece of paper with the percentage changes. A number of people have put that point to you and you keep saying that last year's accounts are not available. We accept that, but why cannot you address the point that is being made? Do you accept that you have not done what you were asked to do? It is either yes or no.

**Ian Smith:** With respect, I have produced the revenue statements in the format that the committee asked for. I have acknowledged that I did not produce the balance sheet and the cash flow with a percentage column on it. I have said that I will produce that for the committee within a week. I do not think that I can take it much further than that.

**Nick Johnston (Mid Scotland and Fife) (Con):** Now that I have had a chance to look through the big bundle of paper, I would like to clarify something. Pages 1 to 44 show the proposed format of the accounts that would be presented to the committee, to Parliament and to the general public—if they have the patience and temerity to work through them. There are a further 12 pages covering the Scottish Executive summary of outturn, showing a percentage change in outturn from 1998-99 to 1999-2000. Is it that set of 12 pages that you think it would be unusual to produce?

**Ian Smith:** Yes.

**Nick Johnston:** Do you intend that those pages should be part of the format of accounts, as addenda or appendices?

**Ian Smith:** Those papers represent the revenue statements produced in the format that the committee requested. They show how we might

present the percentage change year on year in the accounts. The pro-forma statements do not have numbers on them, so they—

**Nick Johnston:** I appreciate that there are no numbers, but we could put in numbers ourselves and play about with calculators if we wanted to. What figures would go in there? Would they be real-terms figures or cash figures?

**Ian Smith:** They would be cash figures. They must be nominal figures. The balance sheet will be the nearest thing to real-terms figures available, as it is expressed in—

**Nick Johnston:** I have to say that in 27 years in business and producing accounts, I have never seen a balance sheet showing percentage changes that has meant anything to me.

**The Convener:** We have now considered that matter and our witnesses have promised to produce by next week the figures that we requested in the form that we requested.

In line with the views of the Finance Committee, this committee wanted private finance initiative and public-private partnership servicing costs to be shown by project rather than by sector. Jack McConnell's letter to me of 31 January appears to say that PFI and PPP projects will be included in the accounts if the individual cost of projects is over a certain threshold—£1 million is mentioned. Why the threshold?

**Ian Smith:** Let me go back and say what PPP and PFI projects it would be appropriate to show in those accounts. I am sorry to use the word "appropriate", but these are the accounts of the Scottish Executive and they do not include transactions by health bodies or local authorities. They deal only with the Scottish Executive's PPP or PFI projects, such as the M74, A74(M) or M6—whatever it is called these days—and similar projects. Those projects are all substantially above the £1 million threshold. There is a level below which the list simply becomes longer rather than more informative, as it does not draw out the main issues. Scottish Executive PFI commitments are detailed in one of the final notes in the accounts.

**The Convener:** So servicing costs will be shown by project rather than by sector.

**Ian Smith:** I expect so.

**Andrew Wilson:** I welcome that, and my only concern is about the threshold. If a list of projects were to be included in the accounts, how long would that list be?

**Ian Smith:** It would be very short.

**Andrew Wilson:** Why would it be short?

**Ian Smith:** There are not many PFI projects within the Executive.



**Andrew Wilson:** If it is not an issue, let us see all of them listed.

**Ian Smith:** There are only two or three, and one of them involves no cost.

**Andrew Wilson:** If there are not many of them, why bother with the threshold?

**Ian Smith:** I do not think that a threshold would have any impact on disclosure; it would not be a judgment call. All the projects are far too big to fall under that £1 million threshold.

**The Convener:** Why have a threshold at all?

**Ian Smith:** As with all such things, one must draw a line somewhere to determine how much information is to be communicated in the document.

**Euan Robson (Roxburgh and Berwickshire) (LD):** Is not it the case that, over the past few years, those projects have been larger in scale and higher in value and that they are likely to come down the value scale a bit? That is certainly the experience in local government with PFI and PPP projects in smaller-value schemes.

16:45

**Ian Smith:** I cannot envisage the Scottish Executive entering into small-value capital cost schemes of less than £1 million; I cannot imagine that we would ever do that. However, other bodies, such as health boards and local authorities, might do so.

**The Convener:** As there are quite a few projects involved, the committee would like to see all those servicing costs by project rather than by sector.

**Andrew Wilson:** We are concerned about the needless insertion of a limit and the precedent that that could set. If we could do without that, I suggest that the committee should agree to remove that threshold.

**Ian Smith:** We are all at a learning stage with accounts of this type, as this is the first time that they have been prepared, audited and published. We are all learning as we go along about the most appropriate presentational format and the most suitable level of disclosure. There will always be compromises on where to draw the line on such matters. The document is already nearly 50 pages, but I could easily make it up to 80 pages. We would then run the risk of turn-off. Accounts are not the most exciting thing to most people at the best of times.

**The Convener:** This committee finds them very exciting and would like to see those figures by project. We do not want an arbitrary threshold to be imposed.

My final point is about accumulated resources and reserves. You will be happy to know that the committee is content on that point. We have exhausted our questions and expressed our views. Do you have any other comments?

**Alasdair McLeod (Scottish Executive Finance Department):** We do not see the format of those accounts as static. Brian Adam suggested that we were attempting to impose on the committee some sort of false deadline, but we see this as an evolving situation. As Ian Smith said, we are all on a learning curve. We would like to populate the pro-forma accounts with numbers and use them as a real set of accounts and as a vehicle for further discussion with the committee on how the accounts will look from next year onwards. Those will be the first accounts of expenses authorised wholly by this Parliament.

**Ian Smith:** I have nothing to add to that. The memorandum suggests that we use the general pro forma to produce the 1999-2000 accounts, before holding further discussions with the committee. We can then decide whether they are about right or whether they need a bit of tweaking. There will be real numbers and members will be able to form real opinions as to whether those accounts deliver the information that they need to do their work. If the accounts do not do that, they will not satisfy any audience.

**The Convener:** The committee has made its views clear and we look forward to your response. Thank you for your evidence today.

16:48

*Meeting continued in private until 17:14.*



Members who would like a printed copy of the Official Report to be forwarded to them should give notice at the Document Supply Centre.

Members who would like a copy of the bound volume should also give notice at the Document Supply Centre.

No proofs of the *Official Report* can be supplied. Members who want to suggest corrections for the bound volume should mark them clearly in the daily edition, and send it to the Official Report, Parliamentary Headquarters, George IV Bridge, Edinburgh EH99 1SP. Suggested corrections in any other form cannot be accepted.

The deadline for corrections to this edition is:

**Monday 3 July 2000**

Members who want reprints of their speeches (within one month of the date of publication) may obtain request forms and further details from the Central Distribution Office, the Document Supply Centre or the Official Report.

#### PRICES AND SUBSCRIPTION RATES

##### DAILY EDITIONS

*Single copies: £5*

*Meetings of the Parliament annual subscriptions: £500*

BOUND VOLUMES OF DEBATES are issued periodically during the session.

*Single copies: £70*

Standing orders will be accepted at the Document Supply Centre.

WHAT'S HAPPENING IN THE SCOTTISH PARLIAMENT, compiled by the Scottish Parliament Information Centre, contains details of past and forthcoming business and of the work of committees and gives general information on legislation and other parliamentary activity.

*Single copies: £3.75*

*Special issue price: £5*

*Annual subscriptions: £150.00*

WRITTEN ANSWERS TO PARLIAMENTARY QUESTIONS weekly compilation

*Single copies: £3.75*

*Annual subscriptions: £150.00*

Published in Edinburgh by The Stationery Office Limited and available from:

**The Stationery Office Bookshop**  
**71 Lothian Road**  
**Edinburgh EH3 9AZ**  
**0131 228 4181 Fax 0131 622 7017**

**The Stationery Office Bookshops at:**  
123 Kingsway, London WC2B 6PQ  
Tel 020 7242 6393 Fax 020 7242 6394  
68-69 Bull Street, Birmingham B4 6AD  
Tel 0121 236 9696 Fax 0121 236 9699  
33 Wine Street, Bristol BS1 2BQ  
Tel 01179 264306 Fax 01179 294515  
9-21 Princess Street, Manchester M60 8AS  
Tel 0161 834 7201 Fax 0161 833 0634  
16 Arthur Street, Belfast BT1 4GD  
Tel 028 9023 8451 Fax 028 9023 5401  
The Stationery Office Oriol Bookshop,  
18-19 High Street, Cardiff CF12BZ  
Tel 029 2039 5548 Fax 029 2038 4347

**The Stationery Office Scottish Parliament Documentation**  
**Helpline may be able to assist with additional information**  
**on publications of or about the Scottish Parliament,**  
**their availability and cost:**

**Telephone orders and inquiries**  
**0870 606 5566**

**Fax orders**  
**0870 606 5588**

**The Scottish Parliament Shop**  
**George IV Bridge**  
**EH99 1SP**  
**Telephone orders 0131 348 5412**

[sp.info@scottish.parliament.uk](mailto:sp.info@scottish.parliament.uk)

[www.scottish.parliament.uk](http://www.scottish.parliament.uk)

**Accredited Agents**  
(see Yellow Pages)

and through good booksellers