



The Scottish Parliament  
Pàrlamaid na h-Alba

## Official Report

### MEETING OF THE COMMISSION

Wednesday 17 November 2010

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**MEETING OF THE COMMISSION**

**3<sup>rd</sup> Meeting 2010, Session 3**

**CONVENER**

\*Angela Constance (Livingston) (SNP)

**COMMITTEE MEMBERS**

\*Robert Brown (Glasgow) (LD)

\*Derek Brownlee (South of Scotland) (Con)

\*George Foulkes (Lothians) (Lab)

\*Hugh Henry (Paisley South) (Lab)

\*attended

**THE FOLLOWING GAVE EVIDENCE:**

Mr Robert Black (Auditor General for Scotland)

Russell Frith (Audit Scotland)

Richard Gibson (Haines Watts)

Diane McGiffen (Audit Scotland)

**SECRETARY TO THE COMMISSION**

Terry Shevlin

**LOCATION**

Committee Room 5



## Scottish Parliament

### Meeting of the Commission

*Wednesday 17 November 2010*

[The Convener *opened the meeting at 10:09*]

### Decision on Taking Business in Private

**The Convener (Angela Constance):** Good morning and a warm welcome to one and all to the third meeting in 2010 of the Scottish Commission for Public Audit. I remind members and witnesses to switch off mobile phones if they have not already done so. We have no apologies this morning; all members of the commission are in attendance.

The first item of business is to ask the commission to take various items in private: items 5, 6 and 7 on this morning's agenda and, at future meetings, consideration of a draft report on Audit Scotland's budget proposal for 2011-12 and our approach to the appointments to Audit Scotland's board. Do members agree to consider all of those items in private?

**Members** *indicated agreement.*

## Audit Scotland Annual Report and Accounts 2009-10 and Auditor's Report

10:10

**The Convener:** The second item on the agenda is to consider Audit Scotland's annual accounts for 2009-10 and the auditor's report on the accounts. The commission is responsible for securing the audit of Audit Scotland's accounts and has contracted HW Chartered Accountants to undertake the role. We will hear first from representatives of Audit Scotland and then briefly from the auditors to confirm their opinion.

I offer a warm welcome to Mr Black, Auditor General for Scotland, who is the accountable officer for Audit Scotland; Mr Frith, assistant auditor general; and Miss McGiffen, chief operating officer for Audit Scotland. I invite Mr Black to make a short opening statement.

**Mr Robert Black (Auditor General for Scotland):** Thank you and good morning, convener.

I start by mentioning that, as some of you may be aware, there have been changes in the management responsibilities at the top of Audit Scotland, which might explain a little of who does what this morning. The deputy auditor general Caroline Gardner is now working for the Department for International Development as the lead officer in sorting out the finances and governance of an overseas territory in the Caribbean. She was invited to do that by the minister, and she will be away for a year. I have not filled her post; instead, I have asked Russell Frith and Diane McGiffen in particular to take on some extra responsibilities. Russell has widened his remit as the assistant auditor general and Diane has taken on the role of chief operating officer for all our business. They will be able to help me to answer your questions fully this morning.

I should say as an aside that, in a professional magazine, Russell was recently nominated as one of the top 50 most influential accountants in the whole of the world, so I have a reasonable degree of confidence that he might have mastered the Audit Scotland numbers—but time will tell.

I will turn to our annual report, in which we attempt to capture the highlights of 2009-10. There are elements of the work that are evident to Parliament; in particular, I put in that category the 23 performance audits and best-value reports that we published in the past year. Less evident to Parliament at this level, but possibly evident to members of the Parliament at a local level, are the

215 final audit reports that have been produced. Even less evident than that, but evident to the audited bodies, are the 881 separate reports on governance and financial management and performance produced primarily for the 215 public bodies that we audit. I am also pleased to say that our surveys of local and central Government bodies find that well over 90 per cent consider that we provide a high-quality service, which is reassuring for me as the Auditor General and the accountable officer.

Two points relating to our people and how we work are worth a quick mention. We are well into the list of the 75 best places to work in the public sector in the United Kingdom according to *The Sunday Times* independent survey, and we have again been awarded Shaw Trust accessible+ accreditation for having a website that is friendly and usable for people with disabilities. It was a significant year of achievement.

This year we started one or two things that I am sure we will talk about later. We are working hard to ensure that the audit effort is streamlined and addresses the major risks and performance issues in public bodies in Scotland. We have recently revisited our forward programme of performance audit work to put a new emphasis on risk and efficiency and how resources are used. That has been presented to the Public Audit Committee and has its support. For some time now, we have been taking action to improve our own efficiency and reduce our costs. Some of that work started last year, and I think that we are beginning to see the benefits flow this year. No doubt, we will come back to that when we talk about the budget submission.

Thank you for the opportunity to introduce the annual report. My colleagues and I will be happy to answer any questions to the best of our ability.

10:15

**The Convener:** Thank you, and congratulations to Mr Frith.

I will start with some general questions on the management commentary. I was interested to read on page 1:

“This year we have received 250 requests from people wanting us to look at a number of high profile issues, often of a controversial nature. We examine all such requests.”

I am interested to know how many of those requests you go on to investigate and whether there has been an increase in the number of requests that you receive and follow through.

**Mr Black:** We monitor those requests every year. The profile changes between health, central Government and local government. Over the years, the number has risen, partly, I think, as a

result of an increase in Audit Scotland’s profile. As we state in the report, we take every one of those requests seriously. Some of them are dealt with simply by correspondence—there might be no role for us—sometimes there are issues that require an exchange with the audited body that is affected, and very occasionally requests lead to higher-level reporting, including reports to the Parliament. That has been known to happen.

I doubt that we have much detail on that with us today, but perhaps Diane McGiffen can expand on what I have said.

**Diane McGiffen (Audit Scotland):** The volume of correspondence on issues of concern in relation to public bodies has been increasing steadily. In 2007-08, there were just over 200 pieces of correspondence, and last year there were 250. We do a breakdown by sector, and the local government sector generates most of the correspondence that we get.

As Bob Black said, we have a variety of ways of dealing with that. Sometimes people correspond with us when they know that we are working on a topic or have an area of investigation in our work programme, so correspondence does not necessarily generate a brand new piece of work. It might add to information that we already have or concerns that we are aware of as part of a piece of work that we are engaged in. In 250 pieces of correspondence, there will not be 250 separate items of concern. There might be a number of pieces of correspondence about the same broad issue.

**The Convener:** Thank you. I am also interested in page 9, where you discuss the responses to your quality survey. It appears that you have a very high level of satisfaction from both local and central Government with regard to the impact of audit, but I notice that local government has higher levels of satisfaction in all the areas of impact of audit. Can you give me a feel as to why that might be?

**Russell Frith (Audit Scotland):** It is difficult to put a finger on the precise reasons. I suspect that one reason is that, typically, council audits have more resource allocated to them and tend to cover a slightly wider range of topics than do audits of most central Government bodies, taking the Scottish Government itself out of the equation. Given the nature of the people who complete the surveys, I suspect that a wider range of work comes to their attention than is typically the case in central Government.

**The Convener:** My final question for the moment is about page 5, where you state:

“We have a framework for assessing and reporting on the longer-term impact of our work, which provides a wider picture of the value of audit.”

You go on to state:

"We now routinely prepare impact reports",

and you confirm that you published 15 of them in 2009-10. Are those reports on the longer-term benefits and impact of audit?

**Mr Black:** The short answer is yes. The first main assessment is done after about a year. We revisit topics further down the line to see what the impact has been, and we occasionally revisit a topic and report to the Public Audit Committee.

**Robert Brown (Glasgow) (LD):** The payment of invoices is referred to on page 29. I think that I might have asked about this last year—I seem to recall that there was an improved information technology arrangement for dealing with them. However, 7 per cent of them are still not paid within 30 days. That is not a huge number, but why are 100 per cent of invoices not paid within 30 days? It does not seem to be too difficult a target to meet.

**Diane McGiffen:** Included in those figures are invoices that are under dispute, which can lead to our not being able to agree either that the goods were received or that the price was correct. We are unable to pay a small number of invoices because we are clarifying or querying their content.

We have been working steadily on improving the payment of invoices within the 30-day and 10-day targets that we discussed with the commission this time last year. We are seeing a steady improvement in paying invoices within 10 days. In the six months to September this year, we paid 71 per cent of our invoices within that time. In the most recent quarter, that went up to 74 per cent. We are paying attention to that area and seeing an improvement.

The electronic system is a significant contribution to that, although it is not the whole answer to paying everything within the timescale. We are working with colleagues to ensure that priority is given to chasing up and resolving quickly any issues with outstanding invoices.

**Robert Brown:** Page 10 has case study three, which is about streamlined audits and not having 20,000 bodies descending on a council. You indicate that you tested the new model of shared risk assessment at seven councils and reviewed the outcomes. That all sounds very promising. Does it lead to identifiable savings for Audit Scotland and for the councils that are audited? It sounds as if what has been tested ought to be helpful.

**Mr Black:** There is a three-part answer to that. First, Audit Scotland co-ordinated that exercise on behalf of the Accounts Commission, which has formal oversight of local government. It resulted in

a 36 per cent reduction in the volume of scrutiny activity planned for local government, which is significant. A lot of the costs are compliance costs to public bodies as well as direct costs. However, the inspectorates are funded separately by Government and they have their own efficiency targets to meet.

Secondly, the Accounts Commission has mandated Audit Scotland to work hard on a revised model of best-value scrutiny—best value 2—which will place a much stronger emphasis on risk awareness through shared risk assessment, focusing on the key issues in public bodies.

Finally, as the commission will see when we talk about our budget, we are proposing to make quite significant reductions in our cost base in real terms during the next few years. Best value will play a part in that, but as we speak we are still working through the resource consequences of the rationalisation of best value. The director in charge of that, Fraser McKinlay, is working on the staff resources that will be appropriate to delivering a streamlined scrutiny model into the future. It is a bit like what is happening with the invoices: it is work in progress, but the direction of travel is pretty encouraging.

Do colleagues have anything to add to that?

**Diane McGiffen:** I think that that is the picture. The best-value resources that Audit Scotland spends will reduce in line with Audit Scotland's overall expenditure reduction. We have to put resources into the co-ordination of other people's activities, so there is an investment in making reductions happen in local authorities. More of our effort is put into the shared risk assessments that we do with inspectorates than was the case previously. However, there is less time on site with local authorities, which frees up their officers' time to do other things. The process is much simpler. Local authority officers understand for the whole year who will come in to do what and when they will do it, and information and expertise are shared across all the inspectorates before anyone goes on site. The process is much more streamlined and all the scrutiny bodies are committed to improving it.

**Robert Brown:** That is very good. It is helpful that that will reduce budgetary pressure on people instead of increasing it.

I have a final point, which might go a little bit beyond our remit. Page 4 of the report refers to the impact of your work and how local government has done rather better than central Government on joint purchasing arrangements and so on. There is a lot of discussion about issues such as having a single police force for Scotland, collaboration across emergency services and councils joining together—it is almost a

centralisation agenda. The general impression appears to be that there are savings to be made from such an approach. At the same time, some of the smaller councils are generally regarded as being at least as efficient as the bigger ones, if not more so.

Is the balance between shared costs and centralisation on the one hand and greater local autonomy and localisation on the other fully reflected in the work that you do on all that sort of stuff? Centralisation sometimes seems to lead to bigger costs from higher salaries and more important officials at the top of the organisation.

**Mr Black:** It is not unfair to say that progress towards shared services in Scotland has been slower than a lot of people might have hoped and that the delivery of results has been patchy and limited, so it is still early days. As you will know, over the years, there have been some major initiatives in the west to deliver shared services: Sir John Arbuthnott is fully engaged in that process at the moment. We will certainly need to monitor what is happening in that area.

Shared services have two core purposes: one is to do with the quality of service that is provided and ensuring that it is the best; the other is to get the cost out. It is entirely reasonable to expect audit to be able, in due course, to report independently on whether efficiency savings are being achieved, but it is rather early days for it to do that yet.

We have done pieces of work that are relevant to that. Most recently, as Mr Henry will be aware, we did a major piece of work on the Scottish Police Services Authority, which is a shared-services organisation. On the back of that report, we have attempted to distil a checklist of all the key questions that should be asked before a shared-services project is entered into, and in evaluating whether it is delivering the anticipated benefits.

The SPSA has recently had a number of successes in improving efficiency, but it had a troubled start and we thought that there were lessons to be learned, not only from that but from our general knowledge of what was happening across Scotland. We hope that the work that we have done will be a useful starting point and will act as a framework that we will be able to use in future years to assess whether the various public agencies have approached the issue in a business-like fashion.

**George Foulkes (Lothians) (Lab):** Hello. On page 10 of the report, in the ethical standards section, you say:

"The independence of public audit helps ensure its effectiveness."

I agree with that, and I see that Russell Frith has the relevant responsibility.

I understand the importance of the excellent work that you do on increasing efficiency in the public sector and on best value—the best-value reports are very good—but there is a fine line between doing such work and moving into public policy, particularly in relation to cuts in services and priorities. You know that I raised that issue at a recent meeting of the Public Audit Committee in the context of a particular report.

In the current financial climate, there is widespread but not universal support for the idea that there ought to be cuts; I am one of those who do not support that idea. What are you doing to safeguard your independence and to ensure that you are not put under undue pressure to move into making recommendations that justify or support cuts instead of advocating efficiency and best value?

10:30

**Mr Black:** There are two aspects to that. Do I have licence to widen the question slightly? In my experience, pressure is more likely to come from audited bodies saying, "You don't really want to report that, do you?" or, "Have you got a right to investigate that issue? We're not sure about your rights and powers to look at that." I would prefer not to give chapter and verse. There is no doubt in my mind that a great strength of the Scottish model is the fact that Audit Scotland—on my behalf and on behalf of the Accounts Commission—appoints the auditors independently of any council, health board or non-departmental public body, remunerates them independently in a transparent way that we report and holds them to account for the quality of their reporting. That is the intrinsic strength of the model.

I acknowledge the importance of not being drawn into policy. We are extremely vigilant about that. We have long years' experience of observing the boundary between being involved in policy advice or consultancy and carrying out the proper role of audit. I agree that there is a fine line between using the knowledge that we have and the expertise that we build up to help audited bodies to understand their issues and make improvements and engaging directly in the policy agenda.

**George Foulkes:** Let us go back to the case that I mentioned, which related to concessionary fares for elderly and disabled people. Towards the end, the report seemed—to me, at least—to verge on advocating that the Scottish Government should consider limiting eligibility. That is a public policy issue; it is nothing at all to do with efficiency and best value. Is there a danger that you might



get caught up in a wave of belief that the only way in which to deal with the current financial problems is through cuts in public services, leading you to get carried away and recommend that?

**Mr Black:** Yes, I think that there is a risk of that. I personally encouraged the auditors to provide in the final paragraphs of that report on the concessionary fares scheme in Scotland an objective analysis of the sums of money involved as well as the sums of money that would be involved under different future scenarios. That was purely and simply providing information. I apologise if the report gave the impression that we were advocating a policy; that was certainly not the intention. We used words carefully to say what would happen under different scenarios. Under the do nothing scenario—if I remember correctly—an uncapped cost to the public purse could rise to something in the order of £500 million. There were also options to draw back from that, and numbers were provided simply so that policy makers and decision takers would have them.

I venture to suggest that, in the current climate and the climates that we are heading into, it is probably right to encourage the auditors to be a bit bolder in producing clear numbers in that way—not to advocate a policy line, but to provide the financial numbers that they think are attached to the policies that are currently conceived of.

**The Convener:** On the subject of fine lines, I remind members that the focus of this item is the accounts as opposed to operational matters.

**George Foulkes:** Well, I did refer to page 10.

**The Convener:** As I say, it is a fine line.

**George Foulkes:** A very fine line.

I have another question. Unlike Robert Brown and Derek Brownlee, I do not find all the detail of the figures as important as some other things, and the question that I am about to ask may seem trivial. The reports that you produce on your work are generally some of the most readable and digestible reports that we get in the Scottish Parliament. However, this report is turgid. Why can you not get the people who design and produce the reports on your audit work to do the reports on your annual accounts?

**Mr Black:** Lord Foulkes, I entirely agree with you that this accounts report is a very dense narrative. I encourage you—as we have done the Public Audit Committee in the past—to read the Audit Scotland annual report, which is given to every member but has not been circulated with your papers. It even has photographs in it to populate it with human interest.

**George Foulkes:** Oh, good. I will get a copy of that.

**Mr Black:** To be serious, though, the annual report is designed for public consumption. It does not have all the detailed numbers that are in the accounts report, but it does give the highlights and some of the key performance measures. I encourage the commission in future to use the annual report, which has been well received out there and might be more suitable to the high-level questioning that you may have.

**George Foulkes:** That is an excellent answer—well done again.

**The Convener:** Thank you. While I have some sympathy with Lord Foulkes's preference for words as opposed to numbers, do we have any more questions with respect to the accounts?

**Hugh Henry (Paisley South) (Lab):** I would like to ask a question that relates to the remuneration report on page 27. You will be aware, I think, of the general drift of what the Cabinet Secretary for Finance and Sustainable Growth is likely to report this afternoon. We do not yet know the details, but it has certainly been well trailed that we can expect a salary freeze for many public service employees. I do not know whether there will be any suggestions of a cut for those at the top. The Scottish Parliament budget has been reported as being significantly reduced over the next few years. The money for Audit Scotland will come from the Scottish Parliament budget. Will you reflect those constraints in the way that you manage your resources? What do you intend to do in relation to the salaries of senior employees, given the constraints that are being discussed elsewhere?

**Mr Black:** The short answer is yes; we will take them seriously into account. We were one of the early bodies to require a pay freeze, which has been in place since this last April and applies to everyone in the organisation. As we will no doubt touch on when we come to the budget, we see that pay freeze being in place for this year and next.

We are very mindful of the overall public sector environment and have been taking costs out, including senior management costs, and will continue to do so. For example, in the audit services group, which is the largest group of staff, we are reducing the number of assistant directors from seven to five. We are also, as part of the rearrangements that I mentioned earlier with Caroline Gardner going, running for a period with one director in charge of that whole area of business. I encourage you to think in terms of the total salary bill at the senior level rather than to concentrate on individual posts.

With regard to individual posts, we have frequently checked our remuneration against remuneration that is paid in other comparable

areas and it has been robustly assessed by the remuneration committee of Audit Scotland. We are taking money out of senior posts as we speak and we will continue so to do.

**Hugh Henry:** I accept what you say about the total bill and your exhortation that we look at what is happening overall. However, given the close relationship between funding for Audit Scotland and the Scottish Parliament budget and given that certain decisions will be made in relation to senior employees in the Scottish Parliament and given what may happen across the public sector in relation to senior employees, will you follow the same example in relation to individuals and not just in relation to the total bill?

**Mr Black:** We will certainly have very close regard to what is happening to pay policy at a senior level in Government and in the public sector more widely.

**Hugh Henry:** Can you explain for me how the figures in the line headed “Lump Sum” have been calculated? Is it to do with length of service?

**Russell Frith:** Yes—for all the people on the list. The four of us cover three different pension schemes. The lump sum is essentially a multiple of the annual pension—usually three times—which is earned in relation to service in the organisation.

**Hugh Henry:** So it ignores previous service that was accrued in other organisations.

**Russell Frith:** Yes—in other organisations or under other schemes.

**Hugh Henry:** What is reflected by the real increase in cash-equivalent transfer value—CETV?

**Russell Frith:** The transfer value is effectively the value that would need to be transferred if moving the pension to another scheme were attempted. The figure is after inflation is deducted, which is why it is termed a real increase.

**Hugh Henry:** Will the constraints on budgets and public sector pay be reflected in the amounts that are to be contributed to real increases in CETV?

**Russell Frith:** That will depend heavily on inflation. The real element is there. As we are all members of national schemes, it also depends on the policies for those schemes.

**Hugh Henry:** So although public pay might be constrained, there could still be substantial increases in the contributions that are made to pensions.

**Russell Frith:** If the contribution rates for the local government pension scheme or the principal civil service scheme increase—yes.

**Hugh Henry:** There is discussion elsewhere about increases in the region of 18 or 20 per cent. Is that trend in increased contributions likely to continue?

**Russell Frith:** It is difficult to say. An actuarial valuation of the local government scheme is due at the end of March. It is a triennial valuation. The valuer will take into account what has happened to investment yields, discount rates and inflation rates.

**Hugh Henry:** Contribution to the schemes is explained in a bit more detail on page 43 of the report and accounts. Who determines what the rate of increase is for pension contributions?

**Russell Frith:** The actuaries. In this case it is a firm called Hymans Robertson, which advises on the local government pension schemes. For us, that is the Lothian part of the local government pension scheme. The trustees—a group of councillors—take the advice of the actuaries and set the rates for the next three years.

**Hugh Henry:** So the figures that we see on page 43 will apply to every member of the Lothian scheme, irrespective of their salary.

**Russell Frith:** They will apply to every member in Audit Scotland. The rates are set differently for each of the major employers in the scheme, on the advice of the actuaries. Our rates happen to be slightly lower than those for some of the bigger employers in the scheme, because we have a workforce with a younger profile.

**Hugh Henry:** That raises a slightly wider concern, not specifically in relation to Audit Scotland but in relation to the management of public finances. Although budgets are being constrained you are telling me that, for a very significant part of organisations’ finances, employers might be facing increases upwards of 20 per cent. Further cuts in real services could be required to pay for that. It is an issue that I can perhaps pursue elsewhere.

**Robert Brown:** I have a small technical matter to raise. On page 44, the “Legal and other professional fees” seem to have gone down by about a half, from £1,242,000 to £794,000. Can you give us some background to that? It is obviously a welcome development in budgetary terms, but does it entail some oddity of policy or practice?

10:45

**Russell Frith:** It is largely a matter of timing. The phrase “Legal and other professional fees” covers a multitude of subheadings that include all the professional support that we get for our performance audits. For example, if we use the services of a palliative care nurse—as we did—to

advise on our palliative care study, it goes under that heading, as do the payments that we make to the Audit Commission for the national fraud initiative and any consultancy-type expenditure for running our own business.

The amount has varied; it has gone up and down over the years. If you examined the trend over four or five years, you would see that that is the case. It varies significantly according to the study profile and the nature of the studies that we undertake.

**Robert Brown:** So there is not a policy in the background; you are not deliberately holding those things down.

**Russell Frith:** We have been careful in what we commit to, as we have been with all other expenditure, but there is not a deliberate policy not to spend on support in that fashion.

**Hugh Henry:** On page 44 on administration costs, under the heading “Fees and Expenses to appointed audit firms”, does the increase between 2009 and 2010 reflect an increase in workload or the charging of higher fees?

**Russell Frith:** For that period, the increase in remuneration rates for the firms would have been the same as for our own staff. It is a very low percentage; I cannot remember the number. It was around 1.5 or 2 per cent; it would have been no more than that. The rest would have been volume related.

**Hugh Henry:** We discussed constraints on budgets earlier. There will certainly be a difficult few years. It is obvious from the work that we see in the Public Audit Committee that demand is unlikely to reduce. The convener asked about inquiries from individuals and organisations; I suspect that they will continue to increase in number as people become exercised about what is happening, feel resentful and want to ensure that money is being properly used.

Audit Scotland is an organisation that people can identify with and trust, so the level of individual inquiry will increase, but demands from bodies such as the Scottish Parliament to ensure that money is being used properly will also increase. There is a dilemma: you face a period of constrained resources while demand might go up. Alternatively, we can consider the situation as individual consumers. The members around this table will—quite rightly—have their salaries frozen, like many others, but utility bills will go up significantly, particularly for the low paid, so people’s living standards will start to fall.

It is clear that the private sector will not necessarily be constrained and freeze fees and charges simply because the public sector has frozen—or is cutting—its budgets. Is it likely that

there will be not only an increase in demand but an increase in charges from private sector companies? How will you cope with that?

**Mr Black:** I will start with an answer to that and invite Russell Frith to come in with more detail.

We touched on the operation of the public audit regime in Scotland earlier in the meeting. The fact that auditors are appointed and remunerated independently makes it possible for us to set the target rate for the cost of an audit. Russell Frith will be able to explain that more fully, but I know that the SCPA and the external auditors have already done a lot of work on that. Aside from that particular control, we have recently imposed on the firms the same efficiency targets that I have required Audit Scotland to deliver. In other words, the firms have to march in step with us. Similarly, we will tie the firms’ remuneration to movements in our own staff costs to get the relationship right.

We are also in the midst of retendering the portion of the work that the firms carried out hitherto, and Russell Frith has introduced an element of price competition to see whether we can achieve more efficiency gains over and above the top-down efficiency requirements that we have imposed on firms in the past. That exercise will have an impact on the issue you raised in the first part of your question. I on behalf of the Parliament need to be assured that the work of auditing public bodies is sufficient and fit for purpose. I am not expecting this to happen, but one could imagine a scenario in which a firm came in and—to use an old-fashioned phrase—low-balled its bid to win the work. It would be for Russell Frith and his team to evaluate very carefully the inputs and the quality of work that that firm would deliver before we would take such a bid seriously. In that way, we are trying to lay the need to get costs down off with the need to secure the minimum quality of audit necessary to do the work.

Speaking more strategically, I do not think that it will come as a surprise to anyone that I have a growing concern about financial risk out there. Public bodies are going to face quite challenging reductions and there is a risk of financial performance falling off, budgets not being absolutely deliverable and so on. At some point, we will have to tell the auditors to be vigilant about risk assessment and we cannot pare the work of audit to a level below what we are asking for in the budget.

Russell Frith will say a bit more about how we are driving down costs with the firms.

**Russell Frith:** I am fairly confident that the price competition element that we have introduced into the current procurement exercise will reduce the costs of firms below the level that we bear at the moment. In essence, we will be able to lock all that

in for the next five years, which means that the firms will not be able to use any upturn in the short term to raise charges.

**The Convener:** I have a final, brief, question. I am aware of the change in accounting policy, but why was a provision for property dilapidations created in 2009-10 and not in previous years?

**Russell Frith:** Provisions for dilapidations are routinely made by organisations as they reach the end of their leases. One could argue that such a provision should be introduced at the beginning of the lease, but the reality is that that does not happen very often. Normally, as they get towards the end of their leases, organisations start to review whether they are likely to renew them or whether they will leave the premises and go elsewhere.

Quite early in 2009-10, we looked at our property portfolio and took more formal decisions than we had previously taken. We decided that we would vacate one of our Edinburgh properties when the lease comes up in 2012 and that we would look to relocate out of the two George Street premises when their leases expire in 2014-15. Having come to a firmer view on those things than we had in the past, we felt it appropriate to take advice on the likely level of provision for dilapidations across those properties. We did that, and I have accordingly made provision for it.

**George Foulkes:** So you have decided to move out of 110 George Street when the lease comes to an end. Is that right?

**Russell Frith:** Our ideal scenario is to move into a single Edinburgh-based or east-based building because it is likely that that will be more efficient and effective.

**George Foulkes:** Right. There are plenty of buildings around, are there not?

**Russell Frith:** There are at the moment.

**Robert Brown:** The figure for dilapidations is quite substantial, bearing in mind that it relates to one building. I guess that there will be decorating and other things to do when people have been in a building for a year or two, but why is the figure so large?

**Russell Frith:** The figure relates to at least four buildings.

**Robert Brown:** So it is not just for the building that you are moving out of.

**Russell Frith:** It is for both buildings in George Street, the building in Haymarket, which we will vacate first, and one of our northern buildings. The figure is the adviser's view of what we may have to pay. Obviously we will seek to reduce it. I hope that we will, but the prudent approach is to make

now the provision that we have been advised to make.

**Hugh Henry:** I would like to follow up on a comment you made about what might happen at the end of the leases. You said that you will seek to move to one Edinburgh-based or east-based location. Are you considering moves beyond the Edinburgh area in line with other shifts by public bodies to disperse employment throughout Scotland?

**Russell Frith:** We already have a significant number of dispersed staff. We have a significant office in East Kilbride and offices in Inverness and Aberdeen. We look to locate our staff near the work they carry out, and we seek to base them throughout Scotland because we carry out work throughout Scotland. We need to have a significant presence in the east to cover all the work in that area and the work in supporting Parliament.

**The Convener:** I would recommend Livingston.

**George Foulkes:** I went to see VisitScotland at its impressive new headquarters at Ocean Point. I had free parking and there were excellent views. I strongly recommend that area.

**The Convener:** We should probably rein back the discussion before members of the commission start to argue about the respective merits of the areas they represent.

I thank Audit Scotland for the evidence on its accounts, which is useful. It has taken us into territory that we will discuss again later in the meeting. We are all casting an eye to the future.

There will now be a brief suspension to allow for a witness changeover.

10:58

*Meeting suspended.*

10:59

*On resuming—*

**The Convener:** Good morning. I welcome Mr Richard Gibson of HW Chartered Accountants, external auditor to Audit Scotland. I ask Mr Gibson to confirm that HW has received all the necessary information and explanations to inform its opinion on the accounts and to provide an overview of any observations arising from its work.

**Richard Gibson (Haines Watts):** Good morning, convener. Yes, I am happy to confirm that we received everything that we needed to undertake our audit for the year ending 31 March 2010.

I will say a few short words. HW Chartered Accountants was appointed to undertake the external audit of Audit Scotland five years ago, following a competitive tender. This is the fifth and final year in which we will undertake the audit under that contract. My job is to provide you with three things. The first of those is the external audit report, which is attached to the annual accounts and which I will return to shortly. The second is the report to management, or management letter, that we provide, which recommends improvements that we feel need to be made to the systems and controls at Audit Scotland. The third thing is the verbal report, which I am happy to give you this morning.

We undertook the audit from May into June 2010. We received all the information that you would expect to allow us to undertake the work and the audit was completed with very few issues. We signed it off in June 2010. I am happy to confirm that the audit report is unqualified—that is, we found no issues that we felt required to be brought to the attention of readers of the accounts. We are happy to confirm that it was what we call a clean audit report.

The report to management—the management letter—which you have also received among your written submissions, addresses matters that are not significant enough to be brought to the attention of a reader of the accounts but which are, nonetheless, the subject of recommendations for improvements that we feel may need to be made. Over the course of the five-year contract, we have made a number of recommendations to Audit Scotland via the management report, and every one of them has been adopted and implemented. I am pleased to say that, this year, the report to management contained no issues of significance that we felt should be reported. It has been a very smooth audit this year.

I record my thanks and the firm's thanks to the staff of Audit Scotland and the support staff of the SCPA for the past five years—it has been an education and an entertaining process, at times. Over the past five years, the audits have become progressively smoother, and we are grateful to the SCPA and Audit Scotland for their support in allowing us to complete them.

**The Convener:** Thank you, Mr Gibson. I suppose that it is appropriate for me to place on record the commission's thanks for the work that you have done on our behalf, as the external auditor. I have one question. You will have heard the earlier discussion about the fact that Audit Scotland has created provision in its annual accounts to cover property dilapidation costs that may materialise when certain property leases expire. Can you confirm that you have reviewed the provision that has been created for property

dilapidation and that you are content with the proposed accounting treatment?

**Richard Gibson:** Yes, I can. We had a meeting with David Hanlon, the director of finance at Audit Scotland, prior to the year end, at which point at which Audit Scotland had identified that it was probably going to vacate its premises. We discussed the appropriate accounting treatment and agreed the treatment that you see in the accounts this year. Audit Scotland then undertook an external review of the potential dilapidation costs through a firm of surveyors, which reported the costs that provided the quantum that you see in the accounts.

So, yes, I am happy with both the policy—the principle—and the quantity that has been allocated for the purposes of the accounts. It is worth noting that standard accounting policy would say that, until an organisation had decided to leave a property, it would not accrue for dilapidation. That is standard accounting practice. We are, therefore, happy that now is the time to introduce such a provision.

**The Convener:** There are no further questions from colleagues. Thank you very much, Mr Gibson.

11:04

*Meeting suspended.*

11:05

*On resuming—*

## **Audit Scotland Autumn Budget Revision 2010-11**

**The Convener:** I welcome back the Audit Scotland team. We have before us Audit Scotland's proposal for a 2010-11 autumn budget revision. I invite Mr Black to make a short opening statement.

**Mr Black:** I will be brief. Over the past few years, we have managed to reduce significantly our requests for end-year flexibility, and our underspend has come down. As the commission will be well aware, it is not possible for Audit Scotland to carry balances and it would, strictly speaking, be illegal for Audit Scotland to run a deficit. It is a challenge to manage that, but we have reduced the underspend significantly. We are able to continue that trend within the framework of the current proposal.

As members will see from the submission, we were informed by the actuaries in May that the expected cost of pensions in 2010-11 is likely to rise by about £0.5 million. That is over and above the amounts that we pay over to the scheme. Because of some of the early actions that we have taken in the recent past to contain our budget, which we touched on earlier, we can absorb a substantial amount of that additional cost, but we are requesting EYF of £246,000 to make up the difference, because we cannot see a way in which we could readily take any more than the amount that we have identified out of the budget for next year.

Again, my colleagues will be more able than I am to help with any detailed questions that the commission has.

**The Convener:** Do colleagues have questions?

**Hugh Henry:** I want to follow up on the theme of the questions that I asked earlier. There is a significant increase in pension costs. This is perhaps going off at a bit of a tangent, but Mr Frith said earlier that some organisations will have to make higher contributions as a result of the adjustment. From the work that Audit Scotland does with local authorities and other public sector bodies in auditing their accounts, do you know whether the issue is causing substantial problems for organisations because they are having to make contributions that are even higher than the ones that Audit Scotland is having to make?

**Mr Black:** The short answer to that is that it is a significant pressure on the budgets of any public body that is required to make a contribution to

pension costs. Audit Scotland will make a report to the Scottish Parliament in the early months of next year that will give a picture of the overall burden of unfunded liabilities in Scotland. That should be with the Parliament by March at the latest. It will give members an up-to-date assessment of the position as we see it in Scotland.

**Hugh Henry:** In relation to Audit Scotland's budget, have you had staff taking early retirement in the past year?

**Diane McGiffen:** No, not early retirement, although there have been normal retirement dates.

**Hugh Henry:** So none of the costs that are reflected is to do with people having to leave early and your having to make additional contributions. It is purely because the actuaries have brought in different calculations.

**Russell Frith:** Yes. Just to be clear, given the conversation that we had earlier, the general upward pressure on employer contributions applies across all members of the various public sector schemes. The particular addition that we are talking about arises because of the sudden drop in interest rates during 2009-10, which has resulted in the annual charge that needs to be recognised in our accounts moving above the amount that we actually pay in contributions. That is in accordance with the accounting standard.

It is a very complicated and, some would say, unhelpful accounting standard, which tries to recognise the true total cost of pensions in each year rather than the amount that is paid over each year to the pension fund. Accordingly, it is much more volatile than the amount that is paid over to the pension fund, which is determined by the actuary, usually for a three or four-year period, and is relatively stable over that period. It may increase but the amount for that period will be known.

The charge that appears in the accounts is also a function of applying the accounting standard and it is very susceptible to changes, particularly in interest rates. In previous years, the amount that we have paid over to the pension scheme has exceeded the amount that we were required to recognise in our accounts. As you will remember, in previous years that has been one component of our underspend. This year, for the first time that I remember, it has flipped the other way by quite a significant amount.

**Hugh Henry:** Can you explain that last part again? You are underpaying.

**Russell Frith:** By the definitions of the accounting standard, the amount that we are paying over in cash for this year is less than the full accounting cost of the pension. In previous

years, it has been more. Over the lifetime of the scheme, it balances out.

**Hugh Henry:** If you are accounting at a higher rate than you are paying, I presume that what you are paying is also reflected in your accounts. How is the difference reflected in your accounts?

**Russell Frith:** The difference is reflected as a non-cash charge or a non-cash credit.

**Mr Black:** The figures at the bottom of page 2 of our autumn budget revision show the values of the non-cash credits that have been released by that phenomenon in recent years. The point that Russell Frith is trying to make—my apologies; I mean the point that he is making—is that in the past quite a number of non-cash credits have come back to the Parliament. It just so happens that, this year, it has tipped the other way because of the volatility of these numbers in relation to what can sometimes be quite small movements in the real discount rate. It is a fact of life.

**Hugh Henry:** Does the same phenomenon apply to all public sector bodies?

**Russell Frith:** It will apply to central Government bodies that are members of the local government pension scheme. For local government bodies, statutory mitigation is in place that enables them, for the purposes of calculating council tax, to ignore the volatility and simply record the amount that they are paying over to the pension fund. That is a specific statutory mitigation that was brought in four or five years ago.

**Hugh Henry:** Would it be helpful if bodies such as yours did not have to do as you do but were able to do as local government does? Would that be helpful in the preparation of accounts?

**Russell Frith:** It would certainly reduce one of the biggest volatilities between the budgets that you approve well before the start of the year and the likely outturn for us.

**Hugh Henry:** What financial benefit is there in your being required to follow that standard when local government is not required to do so?

**Russell Frith:** The principle would be that public bodies should follow accounting standards wherever possible. The issue for local government is that the volatilities that have been introduced by its slowly adopting all the same standards as the private sector have also had the potential to impact in the short term on the amount required to be raised through council tax, although any payments involved would not have to go out for many years hence.

**Hugh Henry:** I understand that, but what is the benefit of this accounting standard?

11:15

**Mr Black:** From the point of view of the health of public finances in Scotland as a whole, by taking into account the present cost of future pension liabilities, we know what obligations the public sector is taking on for future pensions. However, the reality is that, under the current regime for calculating the discount, we rely on discount rates that actuaries set, which can vary. As we capture on page 3 of our report, the real discount rate was 1.6 per cent at March this year whereas, back in March 2009—just a year previously—it was 3.7 per cent. As the numbers are highly geared, such changes can produce a significant difference in the result.

I know that the Treasury is concerned about the issue. I am not sure whether it is consulting on the matter or whether something is planned.

**Russell Frith:** Not at present.

**Hugh Henry:** I am struggling to think why, if the standard is important enough to apply to organisations such as Audit Scotland, it is not applied to local government, notwithstanding some of the problems in relation to council tax. If the local government arrangement can apply without significant concern, why not allow the same flexibility for all other organisations? Should we make representations for the accounting standard to be dispensed with for other public sector bodies?

**Russell Frith:** The number of central Government bodies that are affected is relatively small, because the measure applies only to members of the local government scheme. Members of the principal civil service scheme, the national health service scheme or the teachers scheme deal with another different form of accounting, which dispenses with the need for the volatility. The answer is probably that nobody has regarded the issue as a sufficient priority.

**Hugh Henry:** That raises the question whether we should submit that the accounting standard should be dispensed with for bodies that are affected, such as Audit Scotland. Is the issue not significant?

**Mr Black:** I suggest that the Public Audit Committee might want to reflect on that matter when it considers the report that we will publish early next year on the state of play with public sector pensions.

**Hugh Henry:** Should the SCPA not comment on the standard, as it has an impact on Audit Scotland's accounts?

**Mr Black:** That is clearly a judgment for the commission to make.

**Robert Brown:** I am not sure whether I am getting more than a frisson of understanding of the matter.

**George Foulkes:** That is more than I am getting.

**Robert Brown:** I presume that the objective is to avoid a black hole in the accounts—to avoid having to pay £1 million at some point to catch up because you have not paid in the past. I presume that the notional figures are intended to keep you up to date and are right in principle. However, we have a cash difference. Forgive me if I am wrong, but it sounds as if the way in which you are required to account—you ask us for the increase to do that—is the proper, prudent and right way to operate across the years. Am I correct?

**Russell Frith:** That is absolutely correct.

**Robert Brown:** Following Hugh Henry's point, I think that that might raise the question whether local authorities will be landed with a gigantic and larger bill, because they have an exception and a dispensation. They already have quite a serious pension challenge, have they not?

**Russell Frith:** In theory, the response to your first point is no because, over the scheme's life, the amounts that are charged to accounts each year will equate to the contributions that are paid over.

**Robert Brown:** We are being asked to find more money and to skew Audit Scotland's accounts, but the provision applies differently to local authorities.

**Russell Frith:** The commission is being asked to approve resources, not cash. There is no change in the cash that is being paid over.

**Robert Brown:** In a way, you are saying, "You've had the benefit of that £2 million in the past, but this year we're asking for an amount to come the other way." Is it reasonable to regard the amount that we are being asked to carry forward under EYF this year as being, in effect, a loan that will be recouped in future years when the rates change?

**Russell Frith:** To use your analogy, I would say that we have £2 million on deposit from previous years and are seeking a withdrawal.

**Robert Brown:** It depends on your starting point, does it not?

**Russell Frith:** Indeed.

**Robert Brown:** In the previous year, you sought to carry forward £500,000 of EYF to fund a number of initiatives, one of which involved the question of on-going best-value development, in relation to which £182,000 was not used. Is anything suffering because of that? Are there any

pieces of work that you have not been able to do or will not be able to do, and will that have adverse consequences on your general work?

**Diane McGiffen:** No. We have been able to deliver the programme of best-value work without using those resources because the timing of changing from the first model of best value to the new streamlined model of best value has enabled us to restructure the resources that we required for development. Through the pilot process of the new best-value model, we were able to try out the way in which we were going to run the best-value programme as we were developing it. We now have a tried and tested approach that we can deploy earlier than we would have been able to if we had developed it and then tested it.

We were able to work closely with members of local government and we had support from peers as part of the assessment and valuation process.

**Robert Brown:** Not peers such as Lord Foulkes, I assume. I take it that you mean another sort of peer.

**Diane McGiffen:** I mean local government peers. I do not think that Lord Foulkes was involved.

Through the commitment of local government to make the best-value model move forward, we were able to bring in expertise and develop the process in co-operation with local government. That reduced some of the costs that were involved in development.

**Robert Brown:** Of the work that was completed, we are told that £112,000 was incurred in relation to "Own staff", who were two whole-time equivalents. Were they staff who were already employed, or does that refer to staff who came in from somewhere else?

**Diane McGiffen:** Those were a mix of secondments, temporary promotions and so on.

**The Convener:** With regard to the £555,000 that has to be found because of changes to the pension scheme, I was interested to note that £309,000 will be found through efficiency savings, and that you are looking to fund the rest from EYF. Where was the starting point? Did you first calculate how much money you could get through efficiency savings and then work out how much EYF you required? Are you confident that you will reach those efficiency savings of £309,000, or is there scope for those savings to be lower or higher, as time progresses?

**Diane McGiffen:** We are confident that we can make those efficiency savings, partly because of the actions that we took earlier in the year, which we mentioned earlier, such as freezing pay. The fact that that has been accompanied by a recruitment freeze allows us to be sure that we are



on track to meet the other pressures in the budget and contribute to funding that cost.

**The Convener:** Okay. Thank you.

## **Audit Scotland Budget Proposal 2011-12**

11:24

**The Convener:** Agenda item 4 concerns consideration of Audit Scotland's detailed budget proposal for 2011-12. The commission will report to the Parliament on the proposal and forward a copy to the Finance Committee so that it can consider it as part of its wider scrutiny of the Scottish Government's 2011-12 draft budget.

I invite Mr Black to make a brief statement.

**Mr Black:** Thank you, convener, for the opportunity to say a few words. What I am about to say echoes aspects of the discussion that we had earlier. My colleagues and I in Audit Scotland are absolutely committed to getting costs down as far as possible and as quickly as possible, but we must balance that with the need to deliver robust and independent audit and comment on significant issues. Determining how far we can go in doing that requires a professional judgment.

The commission was interested in having not only a detailed budget proposal for the coming financial year but an indication of our long-term intentions. Therefore, we have attempted to give a detailed budget proposal for 2011-12 and outline projections for the following three financial years. Broadly speaking, I think that that marches in step with the timescale for the comprehensive spending review.

I reiterate one point that came up in earlier discussion: we are not starting now; we started earlier. We have already frozen pay and undertaken selective freezing of our establishment. We are also working hard on various other efficiency initiatives. That means that, from this November, audited bodies will see real reductions in their audit fees. Russell Frith will be able to give you more information on that as you require.

Moving forward from that start, through the budget proposal, we will be able to reduce the costs of audit by 7 per cent in real terms in 2011-12 and to continue that into future years. Overall, we propose to reduce the cost of audit over the four years coming up by just under 17 per cent in real terms. That is the net cost reduction that will have to be recovered from fees and from the Parliament.

I place on record the fact that, because we started early, the reduction in fees from this year onward will actually be just under 20 per cent.

We have provided as much detail as we can in the budget submission but, as ever, we will do our

best to help you with any detailed questions that you may have.

**Robert Brown:** Is the reduction in the cost of audit intended to come through in total in the reduction in the cost of Audit Scotland, which is not quite the same thing?

**Diane McGiffen:** Yes. We are reducing the cost. The scale and timing of the reductions might vary within year and across the four-year period, but the direction of travel is the same for the cost of Audit Scotland and the cost of audit.

**Robert Brown:** Will you give us a flavour of the implications of that? Hugh Henry touched on the point that the quality and impact of audit are particularly important at this difficult time. Are you able to reduce the cost without reductions in the quality and effectiveness of your audits?

**Mr Black:** It will be a challenge, needless to say—and so it should be. We have invested quite a lot over the past few years in IT. Russell Frith will be able to help if you are interested in that. We have introduced a new system of electronic working papers to underpin all the audit work. That will certainly generate efficiencies, which are planned into the budget. It will also bring about enhancements in quality through the speed and focus of the work that is undertaken.

We have always committed to training and developing our staff and there is no doubt that we see the benefits of that. I can see it in the quality of the reporting that I get these days.

Looking to the future, the current plan is to remove 47 posts from our establishment over the next three years, starting now and rolling forward. We are confident that we can achieve the first part of that in this financial year through the freezing of vacancies and the natural turnover of staff.

It is fair to say that, going ahead, we will need to be vigilant to ensure that the scope and quality of the work does not fall off. However, because of the investments that we have made in the past and new ways of working on risk assessment and so on, colleagues in Audit Scotland are confident that we can deliver the required reduction without putting the quality of the work at too much risk.

11:30

**Robert Brown:** As I understand it, there was an increase in audit charges because of the introduction of international financial reporting standards. I think that it was intimated to the audited bodies that costs would go up by 6 per cent to cover that. Will you describe the relationship between those pressures and what we have just been talking about?

**Mr Black:** IFRS came in first in health and central Government. It was new for everybody, including professionals in the audited bodies and Audit Scotland. It was certainly necessary for extra money to be injected into the budget to allow the tooling up, the investment and the resource to allow that to happen. It is fair to say that, subsequently, quite a lot of learning has been going on throughout financial provision in Scotland and so we thought that we could deliver our end of the IFRS business within our existing budget. In effect, we might call that a cash efficiency saving, because we are going to do it within existing resources. Russell Frith can say more on that.

**Russell Frith:** I will build on what the Auditor General has said. We did indeed increase the charges to health and central Government bodies for the implementation of IFRS. This year, we are reducing the charges halfway back again to reflect the fact that there was a peak of work during the implementation and, although there is an increase in the continuing work, it is less than the full amount. The 6 per cent figure is now down to 3 per cent.

For local government, we have been able to do the work within existing resources, because IFRS came in a year later for local government and we have learned from the experience with health and central Government. Also, one of the most complex aspects of IFRS was implemented a year early by local government. That was the private finance initiative and public-private partnership accounting.

**Robert Brown:** Is the net result no increased cost for local government and a 3 per cent increase, ultimately, for health and central Government? I think that you said that the cost for health and central Government was 6 per cent halved.

**Russell Frith:** Historically, it was 6 per cent. We are now reducing it back down again.

**Mr Black:** It is a reduction.

**Robert Brown:** Yes, and then 7 per cent below that in real terms as you go forward in budget. Have I got that right? Probably not.

**Russell Frith:** The 7 per cent will include an element for that part of our work.

**Hugh Henry:** You mentioned that you might well be able to meet the required reduction in staff this year but that you do not know what might happen in the future. Is there a possibility that staff will anticipate that you are going to offer an early retirement and early severance scheme and delay leaving in order to benefit from an enhanced scheme?

**Mr Black:** First, there is no immediate evidence of that at the moment. The staff turnover levels are

sustaining themselves at a somewhat higher level than we might have anticipated during the year, so there is no objective evidence of that.

Secondly, as Diane McGiffen will be able to describe in more detail than I can, we are pitching the voluntary early retirement scheme at a level that will be attractive enough to encourage some people who are towards the end of their careers to go, but not so attractive that people might apply for it purely because they see a financial benefit. A huge amount of work has been done on that, and work is continuing. We are in negotiation with the union, so I guess that the amount of detail that we can give today is limited. However, I ask Diane McGiffen to give Mr Henry an indication of our approach.

**Diane McGiffen:** I will explain a couple of things just so that we are all clear. We are looking to reduce our staffing by 42 over the four-year period, and the reduction that we are seeking in the first year is about 17 staff.

Because of the recruitment freeze that has been targeted this year, we have already secured the staffing reduction that we need for the whole of the financial year that we are discussing today.

With our trade union, we are currently discussing the range of ways in which we can reduce staffing overall through a voluntary early release scheme, not an early retirement scheme. As the Auditor General has said, this year we have experienced a continuing level of turnover—I think that it was about 8 per cent in the most recent quarter—which has helped us with our target of reducing staffing. Our employees are securing jobs in other parts of the public sector where their skills are valued and desired. Particularly at the moment, people with a sound financial background and experience in auditing and so on are sought after.

The early release scheme that we hope to operate this year will have sound governance arrangements around it. We will open it up and look to secure the reductions in staffing in the places that we need them. However, we are not considering an early retirement scheme. People will be invited to make their own choices about their retirement timing, their financial situation and so on.

**Hugh Henry:** A couple of questions follow from that. First, will the early release scheme involve one-off contributions rather than the annual contributions that the early retirement scheme would also require?

**Diane McGiffen:** It will depend on the circumstances of each individual employee and the pension scheme that they are in. Generally speaking, it will involve one-off contributions.

**Hugh Henry:** Secondly, you say that the skills of the people who are leaving Audit Scotland to go elsewhere are highly desirable. Are career promotion opportunities opening up or are people deciding that it is better to be in local government than in Audit Scotland? Are people leaving purely because they are able to use their skills to move up the ladder?

**Diane McGiffen:** I think that, most often, people are moving on to career promotion opportunities. One employee left to be the auditor general of the Cayman Islands and others have taken up senior positions in local government. Some people have found that auditing is not what they want to do, and a small number of people will decide to do something else. However, people are leaving mostly to pursue career promotion opportunities.

**Hugh Henry:** I have a final question that applies to other public bodies as well as to Audit Scotland. One of my fears about the period into which we are moving is that there will be not just job losses, but a lack of training and development opportunities for young people. Local authorities may continue to provide training and apprenticeships, but organisations such as yours may no longer provide training opportunities for graduates. Will those opportunities be affected, or will you protect your ability to train the next generation, which we will need at some point?

**Diane McGiffen:** We are fully committed to continuing with our graduate training programme. We think that it is not only essential for our organisation, but that it makes a significant contribution to the development of financial skills for the public sector. That is how we view it. Not everyone who undertakes their training with us will stay with us, but they will make a contribution to the public sector. Indeed, we are this week advertising for the next intake of our graduate training programme.

We have also developed some student placement programmes with colleges and universities. We have someone on a student placement with our IT team at the moment and we are considering other options. We are committed to continuing to invest in learning and development. It would be very counterproductive of us to do otherwise.

**George Foulkes:** I wish to clarify the point that you are reducing the number of staff this year by 17, and by 42 over the next few years.

**Diane McGiffen:** It is 42 in total.

**George Foulkes:** You are saving more than £1 million in staffing costs in this coming financial year, yet you say that you are able to provide the same level of activity as in the past. Is that right?

**Diane McGiffen:** The budget that is before you is based on the same level of activity, audit and so on. The possibility of the volume of work that is required from us increasing significantly is not taken account of in the budget proposals. Similarly, if there was to be a reduction in the scope of the work that is required from us, we would have to revisit the matter. We are able to do that, for some of the reasons that the Auditor General mentioned earlier.

We are benefiting significantly from investment in the new ways of working and technology that have been put in place in our biggest business group, the audit services group, which comprises about 150 people.

Over the past while, we have been putting in place an electronic working papers project and a way of working that has now been fully rolled out across the organisation, and we are now able to reap the benefits of that.

We have discussed the streamlining and simplification of the best-value programme. We are doing a range of activity on best value, but we have reduced the size and shape of the best-value audit.

Across our performance audit work, which you will be more familiar with, we streamlined and restructured the group and the teams in April this year, so that we could benefit from pooling together a range of data analysis and data collection resources and skills in one place, as well as streamlining and simplifying some of that work.

It has been an on-going journey for us. We did not start it simply in response to the current financial situation, but we have been able to benefit at this point from some of the work that we have put in place in past years.

**George Foulkes:** If I may be the devil's advocate, the question might arise why you could not have done this earlier.

**Diane McGiffen:** There are a couple of reasons. The electronic working papers package is only just now being used across all the audits, so the efficiencies that arise from it were not available before. We had not rolled out the training and support for it and we had not made everyone familiar with it. We expect the efficiencies that we get from it to build up, year on year. We have been taking a measured approach to the introduction of the package. We have learned from one sector that has been using it and then implementing it with a shorter learning time thereafter, having resolved some of the difficulties that arose initially. We have built that up steadily so that we could introduce new ways of working without compromising delivery while doing so.

We have always balanced maintaining delivery and quality with changing the way in which we work. We do not have the ability to stop doing what we do so as to switch to a big-bang approach to making change happen.

The stage of development of the best-value audit has been an important factor, and the on-going consultation on areas of focus for the performance audit programme has enabled us to focus on projects and work that will make a difference.

We are very much committed to ensuring that Audit Scotland stays at the forefront of auditing standards, and the budget is based on ensuring that we deliver a high-quality audit. We have restructured our business groups, and Russell Frith's role in relation to the quality of audit across the public audit regime has been enhanced, so that we maintain consistency of judgment across that regime. That includes our own directly employed staff and the firms that work with us. Next week, we are bringing together all those partners in delivering audit for a sector meeting, at which we will be setting out with all of them the challenges that lie ahead and discussing with them the aspects of quality and focus that we need to maintain.

We hear and share your concerns about ensuring that the quality of audit is maintained.

11:45

**George Foulkes:** I am just imagining an Audit Scotland report on Audit Scotland. In many of the reports that you have put to the Public Audit Committee, it has been clear that during times of increasing expenditure and the availability of more public funding the resultant improvement in services has not been at the same level as the increase in the money going in. In other words, we have not got an adequate return on the money that was put in. Equally, is it an unfair criticism to say that new ways of working are found only when public bodies are put under pressure to save money?

**Mr Black:** It is not an entirely unfair criticism. Maintaining tight financial discipline is intrinsically a good thing throughout the public sector. If you read the *Official Report* of previous meetings, you will find that I have said that we in audit need to be responsible with the resources that we demand of the Parliament. By and large, if you take out inflation, our real costs have not moved ahead significantly over the past number of years, except when new requirements have been placed on us.

I will give you two examples. The first is the best-value regime, which was enshrined in an act of the Scottish Parliament and required us over a period of three or four years to produce an entirely

new form of reporting for each of the 32 councils in Scotland, to develop that and to migrate it to police and fire authorities, which we are still doing. That was a significant new burden that had to be resourced. Secondly, we took on the audit of Transport Scotland, which was a large new commitment. I am prepared to suggest that, if those commitments are stripped out, our resource requirement has not increased significantly above inflation over the years.

**George Foulkes:** I would like to think further ahead. I hope that, eventually, we will get back to the days of growth, with more money available in the public sector. One of the lessons that we should learn from what you are saying is that we need to ensure that there is a return on any extra pound that is put into the public sector and that the money is not just used to make everyone better off, without improving the efficiency and effectiveness of the service that people in the public sector provide. Are you looking ahead to see whether there is work that you could do on that, or is the matter outwith your responsibility?

**Mr Black:** It comes back to a conversation that we had in a meeting of the commission some time ago about the extent to which Audit Scotland should be explicit about the opportunities for cost reduction and the release of resources. Over the many years in which we have produced reports, we have identified significant areas in which there is less than adequate evidence that services have improved as a result of major injections of resources.

**The Convener:** There are no further questions. I thank Mr Black, Ms McGiffen and Mr Frith for their helpful evidence this morning. As always, it was interesting and illuminating.

11:48

*Meeting continued in private until 12:14.*



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