AUDIT COMMITTEE

Tuesday 6 January 2004
(*Morning*)

Session 2

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AUDIT COMMITTEE
1st Meeting 2004, Session 2

CONVENER

*Mr Brian Monteith (Mid Scotland and Fife) (Con)

DEPUTY CONVENER

*Mr Kenny MacAskill (Lothians) (SNP)

COMMITTEE MEMBERS

*Rhona Brankin (Midlothian) (Lab)
*Susan Deacon (Edinburgh East and Musselburgh) (Lab)
*Robin Harper (Lothians) (Green)
*Margaret Jamieson (Kilmarnock and Loudoun) (Lab)
*George Lyon (Argyll and Bute) (LD)

COMMITTEE SUBSTITUTES

Chris Ballance (South of Scotland) (Green)
Mr Ted Brocklebank (Mid Scotland and Fife) (Con)
Marlyn Glen (North East Scotland) (Lab)
Mr Andrew Welsh (Angus) (SNP)

*attended

THE FOLLOWING ALSO ATTENDED:

Mr Robert Black (Auditor General for Scotland)
Caroline Gardner (Audit Scotland)
Graeme Greenhill (Audit Scotland)
Peter Tait (Audit Scotland)

CLERK TO THE COMMITTEE

Shelagh McKinlay

SENIOR ASSISTANT CLERK

Joanna Hardy

ASSISTANT CLERK

Christine Lambourne

LOCATION

The Chamber

Scottish Parliament

Audit Committee

Tuesday 6 January 2004

(*Morning*)

[THE CONVENER *opened the meeting at 10:04*]

Items in Private

The Convener (Mr Brian Monteith): I open the first meeting in 2004 of the Audit Committee in the second session of the Scottish Parliament. I ask members and guests to ensure that their mobile phones and pagers are switched off. I welcome all members of the committee, clerks, representatives of Audit Scotland and members of the public and the press and I wish everyone a guid new year. We have received no apologies—we have full attendance.

Agenda item 1 is to seek the agreement of the committee to discuss in private agenda items 5, 6 and 7. Item 5 will be discussion of our evidence-taking session on Scottish Enterprise at the forthcoming meeting on 20 January. Item 6 will be discussion of our draft report on the inquiry on the Auditor General for Scotland's report "Supporting prescribing in general practice—a progress report". Item 7 will be consideration of our approach on the Auditor General for Scotland's report, "Overview of the National Health Service in Scotland 2002/03".

Unless members want to raise any questions, I suggest that we take items 5, 6 and 7 in private. Are we agreed?

Members *indicated agreement*.

"Overview of the National Health Service in Scotland 2002/03"

10:06

The Convener: Item 2 is a briefing from the Auditor General for Scotland on the report, "Overview of the National Health Service in Scotland 2002/03". I invite the Auditor General, Mr Robert Black, to address the committee.

Mr Robert Black (Auditor General for Scotland): Thank you. I, too, take the opportunity to wish everyone a happy new year.

I welcome the chance briefly to introduce the report, which provides an overview of the main issues that arise from the 2002-03 audit of national health service boards and trusts. It also summarises how the NHS in Scotland is funded and explains how it is organised, including the organisational changes that will result from the integration of trusts with their NHS boards.

In the report, I review financial stewardship and corporate governance in the NHS and I comment on the financial performance of the health service in 2002-03. I also highlight four NHS bodies in which financial health is of most concern.

Overall financial stewardship in the health service continues to be very good. The audits were completed on time and there were no qualifications to the "true and fair" opinions that were provided by the auditors.

However, the auditors of a number of NHS bodies qualified their audit opinions on the regularity of family health service expenditure and income. That is because of continuing difficulty in obtaining sufficient evidence that family health service expenditure and income were incurred and applied in accordance with all the enactments and guidance that are in place. I have mentioned that problem in previous years.

FHS activity remains a significant source of potential fraud—I emphasise the phrase "potential fraud"—and irregularity in the health service. The Common Services Agency estimates that practitioner fraud may cost the health service in Scotland £40 million to £100 million per annum, out of the annual expenditure on the family health service of £1.6 billion. Practitioner fraud occurs when claims are submitted for services or prescriptions that have not been legitimately provided. The CSA also estimates that patient fraud cost the health service more than £12 million during 2002-03. Patient fraud occurs when patients falsely claim entitlement to free prescriptions and other services, which results in under-recovery of income by primary care trusts. The CSA is responsible for making the payments in this area. It made significant progress in 2002-03 in improving the control environment and in introducing robust payment verification checks, but it is important that further progress be achieved in order to avoid similar qualified regularity audit opinions in future.

I would like to say, however, that the report also comments on a number of good aspects of corporate governance in the health service. One example is that the new unified boards have made good progress in getting the committee structures in place—board and committee meetings are occurring regularly. There are encouraging signs that a good co-operative approach is being taken to management of each local health area.

A second example of good practice relates to the bedding down of the new performance assessment framework, which is a comprehensive performance management framework for the NHS in Scotland that was introduced in 2002. Auditors report that most health boards have found the performance assessment framework indicators to be helpful in reviewing and assessing their performance.

I will stay just for a moment on the corporate governance theme. A feature of the current structural changes is that individual health boards propose different management structures for the new integrated organisations that are coming in to replace the former boards and trusts. In my report, I point to the opportunities that may exist for health boards to learn valuable lessons from one another in successfully integrating their trusts.

I turn now to financial performance. The first thing to note is that the NHS introduced a new financial framework for 2002-03. The intention is to improve consistency in financial reporting and to provide a better picture of the overall financial performance of the health service. There will be a new operating cost statement which, in essence, will describe the net operating costs of health service bodies. Net operating costs will then be compared to the revenue resource limit, which is set by the Scottish Executive for NHS boards. In turn, a revenue resource limit is set by boards for each trust. The revenue resource limit is, in effect, the amount of resources available in a financial year to each NHS body to fund its activity.

The revised financial framework also resulted in changes to the financial targets for the NHS in Scotland. However, the statutory break-even target remains and is now interpreted as requiring NHS bodies to remain within the revenue resource limit. Twenty-three of the 28 trusts were at, or within, the new revenue resource limit targets for 2002-03, compared with 25 trusts that achieved their break-even targets in 2001-02. It is clear, however, that achievement of financial targets remains a challenge for NHS bodies.

Auditors identified three main methods that allowed the revenue resource limits to be met in 2002-03. The first of those is the rerouting of underspends within NHS systems. In the NHS in Tayside, for example, underspends within the primary care trust allowed funds to be transferred to the acute trust. That shows the benefits that co-operative working can bring to management of NHS finances. The fact that that rerouting of underspends was necessary at all, however, is indicative of the financial pressures that continue to face NHS bodies.

There is still a need to identify and address the underlying recurring deficits if financial balance is to be achieved in the foreseeable future. In the current structure of health boards and separate trusts, it is clear when budgets are reallocated between trusts—I have just given the example of Tayside—but there is a risk that, under the proposed single-tier NHS system, such transparency might be lost, and that underlying recurring deficits in particular services or directorates within a unified board may not be disclosed and tackled effectively.

Secondly, and also on the financial theme, many NHS bodies have been developing financial recovery plans, which include implementation of cash-releasing efficiency savings. It is important that NHS bodies continue to review the way in which services are provided, and to seek efficiency savings whenever that is possible. However, I have to report that the auditors of several NHS bodies have concerns about the ability of NHS bodies to deliver savings plans, which are essential if financial recovery plans are to be viable.

A third issue is that, as in previous years, it is clear that many trusts relied on non-recurring funding—totalling £266 million—to balance their books in 2002-03. Several different types of non-recurring funding can be identified, which I detail in an exhibit in the report. In some cases, in which the Scottish Executive Health Department's funding of specific initiatives is involved, health bodies can form a reasonable expectation that some funding will be received annually, although its level and exact purpose may not be known in advance. In such cases, the earmarked income for those initiatives should be matched to the specific spending needs, and is of little or no help in achieving a balanced recurring budget. In other cases, for example in disposal of surplus property, funding is available only once. Although those sources of income can be used to alleviate in-year deficits, it is important that NHS bodies do not become too dependent upon those one-off sources when they plan to achieve year-on-year financial balance.

10:15

Over the next three years, the Scottish Executive is committed to spending significantly more on the NHS in Scotland. Planned expenditure is expected to rise from £6.7 billion in 2002-03 to £8.5 billion in 2005-06. There is an expectation—understandably so—that the extra funds will contribute to improved health care, but our best guess is that much of the extra money is likely to be used to meet increased staff costs that will arise from recruitment of more consultants and nurses, from introduction of new contracts for consultants and other staff, from full implementation of the European Union working time directive, and from introduction of new general practitioner contracts.

I highlight in my report four NHS bodies whose financial health is of most concern. Those are Lothian University Hospitals NHS Trust, Grampian University Hospitals NHS Trust, NHS Argyll and Clyde and NHS Fife. My report outlines the position of each of those bodies. I will take a moment or two to give the committee a brief outline of the position, if that is agreeable to the committee.

In Lothian University Hospitals NHS Trust, the achievement of financial targets has depended significantly on non-recurring funding. The trust's financial recovery plan—dated March 2003—forecast a cumulative shortfall of nearly £180 million in the five years to 2007-08. By June 2003 the revised plan showed a balanced financial position for the current financial year. As at September 2003, however, the trust was reporting an overspend of £6.6 million against its 2003-04 budget.

Grampian University Hospitals NHS Trust recorded an overspend of £5.2 million in 2002-03, which was due to the accumulated deficit that had been brought forward from the previous year. The trust received brokerage funding from the Scottish Executive Health Department and other non-recurring—that is, one-off—financial support from Grampian NHS Board. The trust has agreed a plan to repay the brokerage funding and to recover its accumulated deficit by the end of 2005-06, but it needs to address a number of significant issues and cost pressures for that to be achieved.

During 2002-03, NHS Argyll and Clyde faced an underlying budget deficit of more than £6 million. A recovery plan was prepared, and financial performance of the Argyll and Clyde Acute Hospitals NHS Trust was seen to be a key factor in achievement of the plan. In 2002-03, the board and all three local trusts reported an overspend of £9.6 million, of which the share of Argyll and Clyde Acute Hospitals NHS Trust was £4.8 million. Without the non-recurring funding, the total deficit in the area could have been as high as £31.4 million. NHS Argyll and Clyde prepared a new financial recovery plan in July 2003, when the local trusts were formally dissolved. However, the auditor is concerned about some of the assumptions in the plan: he considers that NHS Argyll and Clyde's accumulated deficit could reach between £60 million and £70 million by 2007-08, and he suggests that it could be very difficult indeed to correct that deficit, given the pressures in the system.

Finally, during its financial planning for 2002-03, NHS Fife identified an underlying deficit of £6.9 million, spread across Fife NHS Board and both of its local trusts. All three Fife NHS bodies achieved their financial targets for 2002-03, but the trusts did so only with the use of £9.6 million of non-recurring funding. The auditors were asked to review the financial monitoring and the recovery planning process of the NHS system in Fife. They found features of good financial management, but they also found some scope for improvement. The auditor also expressed concern about NHS Fife's ability to achieve its savings plans because of pressures.

In summing up, I do not need to remind committee members that the NHS in Scotland is undergoing considerable change. It is reorganising its structure and its management arrangements at the same time as significant additional funding is being provided. Against that background, the health service faces persistent financial pressures, not least from increasing staff costs and the rising costs of health care.

Once the new unified board structures are in place, it should be an essential requirement that transparency be maintained within the NHS. In my opinion, individual health boards should allow us a clear view of the complex operational and financial activity that will continue to take place between what were formerly acute trusts and primary care trusts to support the delivery of health care in Scotland. I believe that that is important in order to support sound and open accountability and to allow a clear view of the health-care benefits that will result from the extra investment that will flow into the service.

As always, I am happy to answer any questions. My colleagues are here to help me to do that.

The Convener: Members will be aware that, under agenda item 7, we can discuss how we might respond to the report, but there is ample opportunity to ask questions of the Auditor General at this juncture.

Margaret Jamieson (Kilmarnock and Loudoun) (Lab): I want to ask about the Common Services Agency. The CSA caused some concern to the previous Audit Committee, which took evidence on qualification of primary care trusts' accounts in previous years. The report states that the CSA believes that between 3 per cent and 8 per cent of claims from practitioners could fall into the category of fraudulent claims. Further on, the report indicates that the regional centres wrote to patients throughout Scotland to ask for verification of treatment, but that the general practitioner sub-committee in Dumfries and Galloway did not agree to such letters' being issued. Was a reason given for that? What action can the CSA take to ensure that there is proper scrutiny of any claims that are made?

Mr Black: I will turn to my team to ask whether they can provide an answer to the question about the detail of the position in Dumfries and Galloway.

Graeme Greenhill (Audit Scotland): The question is largely one of patient confidentiality. The requirement was to write to patients who were identified as having received treatment, but I think that the GPs in Dumfries and Galloway felt that that was a step too far in terms of patient confidentiality.

Margaret Jamieson: That leads to another question about why we cannot be assured that proper claims are being made. There are GPs throughout each of the health board areas, yet because the GPs in one area refuse, we cannot check there although we check everywhere else. Patient confidentiality should be the same in Dumfries as it is in Dundee or Dingwall. How do we overcome that?

Mr Black: We would not wish to mislead the committee, so the committee may have to take up that issue with the Health Department. We also have to reflect on the possibility that the world will have moved on since the timing of the report, which mentions an issue that was of current concern at the point when we were completing the audit.

George Lyon (Argyll and Bute) (LD): One issue that is highlighted in the report is that, by amalgamating the trusts into single-tier boards, we might lose transparency about where deficits or losses occur. Can you give us more detail about what needs to happen to address that problem? I understand that Argyll and Clyde NHS Board is talking about abolishing the three trusts and setting up three new divisions. With one hand the trusts are made to disappear, but with the other hand they are brought back. Can you indicate how other areas of Scotland will manage those bigger units?

Mr Black: I will be pleased to do that; I believe that that is an extremely important issue.

The report identifies some of the in-year developments that take place in order to allow the health system at board level to report financial balance. A recurrent experience is that pressure within financial years tends to come on acute trusts. That seems to be a feature in all parts of Scotland. There must be a possibility, therefore, that in-year pressures on acute trusts will continue in future years. Budgets will have to be reallocated from primary care and community care activity in order to bring the whole system into balance. The Health Department will have dictated its strategic priorities for the health service as a whole and, in turn, health boards will have set budgets to accord with their own priorities. It strikes me that there is a possibility that a recurring feature will be that the money is not actually spent where it was intended to be spent. I imagine that that would be of continuing concern to the committee. That is one possible risk that exists.

Another risk that exists is that the provider units will not have clear incentives to manage their budgets well. If I were managing an acute directorate budget and got into the habit of depending on funding's being transferred from other parts of the NHS system each year, perhaps I would have a less clear incentive to manage within the budget than if there were transparent financial reporting on my budget.

My final point relates to the role of the committee: if the financial reporting deals with, say, only the overall financial performance of an NHS board, where the bottom line is that the board has achieved financial balance, that means that the committee could comment only at a very high level on what is happening within the health service. The committee would not therefore have been in a position to scrutinise terribly effectively what was happening to, for example, the £748 million of public funds that Lothian NHS Board that were spent in the financial year in question.

For all those reasons, it is important that we encourage the Scottish Executive Health Department to expect health boards to report in a transparent and consistent way the moneys that are spent on the acute sector, on primary care and on joint resourcing.

George Lyon: You said that it is always the acute sector that seems to lose control of the budget during the year. What are the underlying reasons for that? Is it because of poor planning or just because of unexpected and unforeseen increases in demand?

Mr Black: It is fair to acknowledge that the challenges of managing the budgets in the acute sector are particularly intense. Committee members will be well aware of what those are, but let us just remind ourselves. The new deal for junior doctors and the national pay awards are flowing through the system and we have the introduction of the European working time directive. We have significant increases in employers' superannuation and national insurance contributions and we have the cost pressures from drugs, which affect acute care and primary care.

Given the nature of the business of an acute hospital—very capital intensive and intensive in the use of highly professional manpower—there are clearly severe pressures on those budgets. There might, in order to try to balance the system, be greater scope in-year to turn the tap off for some of the activity that takes place in community care and joint future funding. It is possibly marginally less challenging in the primary care and community care sectors to turn the taps off during the course of a financial year.

That perhaps indicates some of the systemic reasons why it is important that the committee be able to understand what is happening within health boards as well as at overall health board level.

10:30

George Lyon: Paragraph 3.31 of the report states:

"SEHD does not know the cost of implementation of New Deal".

That is a staggering statement in an Auditor General's report. Given your explanation of the cost pressures in the system, surely the Scottish Executive Health Department must have a handle on the cost to the system in the next two or three years of the new deal, the new contract for GPs, new consultants' contracts and the European Union working time directive. If not, how on earth does it construct budgets and work out whether all the extra money that we are delivering into systems will deliver one extra better example of health care? That seems to be the fundamental question.

Mr Black: It goes without saying that the department is best placed to answer that challenge. However, I invite Caroline Gardner to give a sense of our understanding of what is happening in this area.

Caroline Gardner (Audit Scotland): Both the new deal and the new general medical services contract are United Kingdom-wide agreements that are being implemented in Scotland. I know that the Health Department is doing a great deal of work to enable it to understand what the implications may be, both nationally and at health board level. The department is reaching the point of having ranges of estimates for each element, depending on the circumstances in which those elements are implemented. However, it does not have a clear figure for the cost of implementation. The committee may want to take up that issue when it considers how it would like to progress the report.

George Lyon: That raises the question of how we meet ministerial targets.

Caroline Gardner: Yes. We must accept that budgeting in the health service is complex. To a great extent, the service is demand led and responds to emergency or urgent pressures. For that reason, health service budgeting is not an exact science. That is no defence for not doing the best that we can to produce sound estimates. However, there will always be an element of financial management in the health service. That highlights the importance of the transparency to which the Auditor General referred when he introduced the report. We must start with the best estimates that we can produce and examine what changes in practice as the service develops and is delivered throughout the year.

Susan Deacon (Edinburgh East and Musselburgh) (Lab): I give notice that, if time permits, I would like to ask a couple of questions specifically about Lothian NHS Board. For now, I will restrict my questions to a few of the bigger national issues on which the Auditor General touched. I suspect that I should protect myself by noting that those issues relate to measures that I was responsible for introducing during my time as Minister for Health and Community Care. However, I do not think that that presents me with a conflict of roles when asking about subsequent developments.

My first question relates to the performance assessment framework. I am pleased to hear that its role in assessing the performance of the NHS, both locally and nationally, is bearing fruit. However, I am aware of concerns—which I had at an early stage and have heard voiced more recently—that there is at least a danger that everything and awthing will be added into the performance assessment framework, which will consequently lose focus.

There is also concern that, by its nature, any performance assessment system can place undue emphasis on quantitative measures, rather than some of the wider qualitative measures that are important for the strategic objectives of the health service—not least some of the wider health improvement aims that the Executive has set. Can you comment on the development of the PAF? What are your observations on the specific concerns that I have raised?

Mr Black: We are working on a report that considers the performance management and reporting systems in the health service, which will be published before too long. When the report appears, there will be further objective information that will allow us to answer your questions and to address your concerns more fully. I suggest that we take up the matter when that report, which will be complementary to the report that we are discussing today, is published in the spring. We are acutely conscious of the need to reflect adequately the performance targets that are more difficult to measure. That is a challenge for the health service.

Susan Deacon: I am grateful for that answer.

The second issue about which I want to ask is the on-going process of integration of decision making. Again, I am pleased to hear and read your observations that the move towards integration and the establishment of unified boards have led to greater co-operation within the system. What evidence is there that the process is delivering greater efficiencies and, in some cases, economies of scale, through the integration of common functions such as finance and human resources? The duplication of many of those functions under the internal market was one of the main concerns that drove the process of integration. Are we seeing changes on the ground? Is the sharing of functions allowing the release of resources that can be directed at other aspects of health service delivery?

Mr Black: The short answer to that question is that it is too early to provide evidence that the new arrangements are achieving benefits. The process of integration is under way at the moment. As I am sure members of the committee are aware, the department is placing considerable emphasis on the sharing of back-office functions. Our on-going conversations with senior people in the health service suggest that progress so far in that area is encouraging. I look forward to being able in a year or so to report objective audit evidence of the benefits that are being delivered.

Another issue on which I touched in my opening remarks was the emerging evidence of diversity and difference in how the 15 health boards organise their affairs. I made the observation that it would be good if the NHS learned lessons from the different practices and arrangements that are developing in different parts of Scotland. I hope and intend that the audit process will monitor the efficiency gains that are achieved, so that the NHS as a whole can learn lessons from the different experiences that are beginning to emerge. However, it is very early days.

Susan Deacon: I want to pursue the subject of integration and to pick up George Lyon's line of questioning about transparency and your concerns that there is a risk that there will be a reduction in transparency as trusts are dissolved and the process of unification continues. Can you comment further on that issue? It strikes me that your comments could be interpreted as suggesting that a system based on completely separate entities is necessary in order to have transparency. I know that you were not suggesting that, but is it not the case that there are many examples of public and private sector organisations that operate in a corporate fashion but nonetheless have systems that generate a high degree of transparency and accountability at different managerial levels? As the NHS in Scotland moves forward into the next phase of its development, how can it ensure that it adopts the best practices in that regard?

Mr Black: At this early stage, the only comment that I can offer is to encourage the department and health boards to ensure that they report in a transparent way, so that the public, the Scottish Parliament and the committee are aware of how these very large sums of money are being used. Integration does not mean that hospitals disappear—they will still be huge cost centres. We need to be aware of how budgets are being managed within those cost centres.

Susan Deacon: My final question relates to the working time directive. I ask you to share with us your overview of the wider impact of the working time directive on the public sector in Scotland, as you are probably uniquely placed to do that. We hear a great deal about the impact of the working time directive on the NHS, but I have also heard comments from the police service, for example, about the way in which the working time directive is being implemented in the UK and the impact that that is having on public service delivery and costs. To help us to benchmark a little, can you say whether problems and costs that are being encountered by the health service are replicated in other parts of the public sector and the extent to which such problems and costs are unique to the NHS?

Mr Black: I am sorry, but I doubt whether we have such information at hand. Perhaps one of my colleagues feels sufficiently in tune with what is happening in other parts of the public sector to comment.

Caroline Gardner: Bearing in mind Bob Black's caveat, I will hazard a comment, which will be no more than that.

We have kept an eye on the working time directive and it is obvious that its impact will be much greater on organisations such as the health service that provide a 24-hour service and are demand led. In such services, one cannot stop at 5 o'clock, say that that is the end of the working day and go home. The indications are that the health service is by far the most significantly affected service, but services that have some of the same characteristics as the health service, such as the police, will be similarly affected. The directive will become more of an issue for the justice system and courts—for example, youth courts and drugs courts—that are open outwith the normal working day for good reasons; they might be open either all the time or on particular occasions.

Managers will have to start to take more account of the impact of the working time directive on their ability to provide extended services and the costs of doing so. We bear such things in mind as we look ahead to the future work that we will carry out for the Auditor General and the Accounts Commission. I hope that what I have said gives the committee an indication of the type of services that are affected.

The Convener: That is helpful.

Robin Harper (Lothians) (Green): I want to check that I understand the terminology correctly. Paragraph 29 of the report mentions "cash releasing efficiency plans". I presume that that means efficiency plans that allow people to spend the money that has been saved and vire it to another department.

Mr Black: The phrase means initiatives that have been identified that will allow money to be released for redeployment to other activities or to help with a deficit without damaging the level of service that is currently being delivered.

The Convener: If members have no further questions, Susan Deacon may ask about Lothian.

Susan Deacon: Auditor General, you said earlier that significant cost pressures still have to be addressed in Lothian. Will you elaborate on that? I have read the section of the report that deals with the matter and declare an interest as a Lothian MSP.

There are many claims and counter-claims in Lothian—I am sure that similar claims are made in other parts of the country—as to whether the problem relates to management practices or to disproportionate cost pressures as a result of the area's particular characteristics. I suppose that a specific difference in Lothian is the new Edinburgh royal infirmary. Can you comment further on the matter, beyond what you have already said?

Mr Black: As you say, we have outlined the situation in Lothian in some detail. We are talking about a hugely complex and very large-scale operation, so it might be worth my commenting only on the issue of private finance initiatives, which is a recurrent concern and appears in the media from time to time.

Lothian University Hospitals NHS Trust makes payments of around £28 million a year to the PFI contractor for Edinburgh royal infirmary. The financial pressures largely result from double-running costs in running out the old service while the new service is building up. The health board provided almost £17 million of non-recurrent funding in 2002-03 to help to meet such pressures. In other words, the short-term pressures are double-running costs.

As a result of the audit, we do not have any real evidence that the PFI deal of itself is a major contributor to the financial pressures that are being faced, but given that there is a commitment to PFI payments for 25 years or so, once those PFI costs are taken out, the pool of expenditure to achieve efficiency gains and redeploy resources is smaller, which simply adds to the pressures. However, one would expect a trust and indeed a unified health board to spend such sums in securing acute care, whether through a PFI deal or conventional financing and service delivery.

10:45

George Lyon: I have a couple of questions on NHS Argyll and Clyde that directly affect my constituency. In paragraph 4.18 of your report, you speculate that NHS Argyll and Clyde's cumulative deficit could reach £60 million to £70 million by 2007-08, which is around 10 per cent of its annual funding. The report goes on to say that NHS Argyll and Clyde's financial recovery plan

"would be daunting for any NHS system".

It also states:

"NHS Argyll and Clyde has a history of not meeting savings targets".

Will you elaborate on that? What are you concerned about in respect of NHS Argyll and Clyde's ability to adhere to the agreed recovery plan?

Mr Black: I turn to Caroline Gardner for help to answer that question.

Caroline Gardner: The issue in Argyll and Clyde relates to the fact that the board has had significant financial and other problems in the past. A lot of action has been taken to deal with those problems. The report is based on the auditor's comments. The auditor, who has had detailed involvement with the board's managers in considering the action plan, has reached the view that the targets are very challenging and will be hard to achieve, that progress during the first half of this financial year shows difficulties and that the board has a record of finding it hard in practice to achieve the savings that it has identified as part of the plans that have been required to allow things to come into balance in future. The auditor reached the view that there is still a reliance on non-recurring funding to make up the plan for future years. The assessment is based on the judgment that the situation is difficult to bring back into balance; it is also based on the board's history of finding it difficult to take action for all the reasons that we understand, relating to the need to respond to demands for health care while continually—not just on a one-off basis—trying to rein back spending.

Mr Black: Perhaps it is worth emphasising that the £60 million to £70 million estimate is the worst-case scenario that the auditor identified if expenditure pressures continue to lead to increases in year-end spending and if the non-recurring income that the board has enjoyed dries up. I suppose that the auditor is saying that it might be very difficult—if not impossible—to recover the position, because the board has had a history of finding it difficult to achieve savings targets as a result of pressures. Efficiency savings on such a scale would be difficult to achieve in any board area, given the pressures in the NHS system.

Robin Harper: I have a small question. Is it possible or reasonable to compare the current overall administrative costs with the service's overall administrative costs 30 years ago, for example?

Mr Black: I regret that the short answer is no. The health service has changed out of all recognition over that period.

The Convener: I bring the discussion to a close. The committee can discuss later how to progress the issue. I thank the Auditor General and his team, including Caroline Gardner and Graeme Greenhill, for helping with members' questions.

Work Programme

10:49

The Convener: Agenda item 3 is consideration of the committee's work programme. The clerk has prepared a paper outlining where we are with a number of items of business. An inquiry as to how we were progressing was proposed at a previous meeting and the paper makes it clear where various matters lie. Usefully, it also provides details of Audit Scotland's provisional work programme, so members can see when publications are expected, together with the Audit Committee's work programme and the likely dates of meetings.

Members will see that the next meeting, on 20 January, is fairly full and will include an evidence-taking session on Scottish Enterprise, consideration of a draft report on the Scottish Further Education Funding Council and a number of other items. Members will also note that further meetings—on 3 February, 2 March, 16 March and 30 March—are programmed before the Easter break. That means that, unless we plan more meetings, there will be four meetings. Within those four meetings, we will need to programme in discussions of the various reports that are being prepared by the clerks and, as the committee sees fit, evidence taking on those matters.

The paper is useful. Unless there are any questions that I or the clerks can answer, I suggest that we note the report and move on to the next item. Is it agreed that we note the report on the committee's forward work programme?

Members *indicated agreement*.

Scottish Parliamentary Corporate Body

10:51

The Convener: Under agenda item 4, we will hear from the Auditor General for Scotland about his audit of the Scottish Parliamentary Corporate Body for 2002-03. Members have had various papers circulated to them, including the Auditor General's section 22 report, the Parliament's accounts and a copy of the letter from Paul Grice, who is the accountable officer as far as the Scottish Parliamentary Corporate Body's operations are concerned. I invite the Auditor General to brief the committee.

Mr Black: My report is concerned with the results of my audit of the Scottish Parliamentary Corporate Body's 2002-03 accounts. The purpose of the audit is to review independently and report on how the corporate body discharges its stewardship responsibilities with regard to the use of public money. The audit opinion is partly based on tests of the evidence relating to the amounts, disclosures and regularity of spending and receipts shown in the financial statements, but there is no examination of all the items in the accounts.

In my report, I explain that I have provided an unqualified audit opinion on the presentation of the corporate body's accounts, but that I have qualified my opinion on the regularity of expenditure. I shall detail the reasons for that qualification in a moment. What it means in plain terms is that, although there was sufficient evidence to confirm that the accounts are not materially mis-stated, there were important shortcomings in the corporate body's internal financial controls. Specifically, those weaknesses in control prevented me from gaining sufficient assurance regarding the possibility of accounting errors, or even fraud, affecting the corporate body's affairs in some way.

My qualification does not mean that there is evidence that any actual financial losses have occurred as a result of shortcomings in control. However, I considered that a qualification was necessary because of the uncertainty created by the control weaknesses and because of the serious potential risks arising. Even if those risks do not appear to have materialised, the shortcomings were serious and it is important that the corporate body should improve that aspect of its financial stewardship.

I shall now turn briefly to the specific control weaknesses that gave rise to the audit qualification. The main weakness was that, during the year, the corporate body did not perform the necessary periodic reconciliations between its bank accounts and its accounting ledger. Consequently, the corporate body could not be certain that what it had recorded as expenditure in its accounts properly and accurately reflected what its bank showed that it had actually spent in cash. As members will appreciate, it is vital that the corporate body can match those records properly and so demonstrate with certainty the accuracy and completeness of its expenditure within the accounts.

Because of the importance of that control, the corporate body, with significant input from Audit Scotland, put in a lot of extra work after the end of the financial year to try to match all the various transactions retrospectively. I am afraid, however, that its efforts had not succeeded completely by about the middle of December, when Audit Scotland, at my request, had to draw a line under matters to allow me to comply with the statutory deadline for completing the audit in time for the accounts to be laid in the Parliament and published by the end of December.

Paragraphs 6 to 9, on pages 2 and 3 of my report, provide some details of the reconciliation problem and how the corporate body has responded. Although most of the transactions can be properly matched, a small but significant number have yet to be fully and properly explained. Specifically, at the time of completing the audit, there were some 290 unmatched items between the corporate body's main bank accounts and its ledger. Because most of those 290 items involved a mix of debit and credit entries, which were offset against one another, their combined net total was reported to be very small, at just over £300. However, the combined value of the underlying transactions, which have not so far been matched, was significantly greater, at some £5.3 million.

In addition to the specific problem of matching the corporate body's bank accounts and its accounting ledger, the audit found other weaknesses in the general standards of the accounting controls and financial reporting within the corporate body. I shall summarise those weaknesses briefly.

First, there were other reconciliation problems arising from differences between the corporate body's accounting ledger and some supporting systems, such as the payroll. Secondly, there were questions about the effectiveness of cash flow management. Thirdly, standing financial instructions had not been prepared and control over some of the basic accounting transactions was poor. Fourthly, there were weak procedures for the preparation and maintenance of the accounts, with persistent errors in the accounts submitted for audit at various times. Finally, Audit Scotland concluded that, in general, there was a need for more effective leadership of the SPCB's finance department. Paragraphs 10 to 15, on pages 3 and 4 of my report, record those other weaknesses in greater detail.

I have obviously discussed matters with the clerk and chief executive because of his role as the Parliament's principal accountable officer. He accepts that things could and should have been done better, but he has emphasised that action is in hand to address the concerns that Audit Scotland and I have raised. The corporate body's action in response to the various points is summarised in paragraph 18 of my report. Again, I shall briefly mention those points.

The corporate body is seeking to recruit someone to a new post of financial controller, after the previous head of finance resigned last April. That post was advertised in November. The corporate body is continuing to work to complete the outstanding reconciliations in consultation with Audit Scotland. That needs to be done, not least to provide a secure foundation for the 2003-04 accounts—the accounts for the current financial year. The corporate body is addressing the identified control weaknesses. For example, I understand that, since April last year, it has completed the necessary bank reconciliation every month. Finally, the corporate body is preparing standing financial instructions, which it intends to introduce in March 2004.

My colleagues and I will be happy to answer any questions that members of the committee may have.

Margaret Jamieson: You referred to standing financial instructions. Are there instructions at the moment, how robust are they and what advice was provided by the Parliament's auditors?

Mr Black: There are no financial instructions of a comprehensive nature in place at the moment. That is an important issue, because financial instructions provide the overall framework for internal financial control. They should be documenting the controls that the corporate body itself has decided, at a higher level, should be in operation and they should provide guidance on how they operate in practice. It is an urgent issue because, without clear financial instructions, staff might take a pragmatic approach to implementing internal controls on a day-to-day basis. One of the examples that Audit Scotland came across is staff's ability to write off amounts to the ledger without authorisation as no instruction was in place. It has been a serious issue. That is now recognised within the corporate body and by the principal accountable officer. As I have indicated, they are now working to get those instructions introduced in the spring.

11:00

Margaret Jamieson: Given what you have said, should the auditors not have drawn the fact that there were no standing financial instructions to the Parliament's attention before year 4?

Mr Black: The short answer to that is yes. I assure the committee that there has been a considerable period of dialogue between the auditors and corporate body officials about these matters. In essence, the way that we like to proceed, and have proceeded in this case, is in the first instance to draw matters of concern to the attention of officers of the Parliament. After a period, in the course of the normal audit, we would report those concerns if they were not being addressed fully.

Margaret Jamieson: Thanks very much.

George Lyon: I seek further clarification. From what you have said, I take it that you highlighted the problem in year 1.

Mr Black: The issue would have been highlighted at an earlier stage.

George Lyon: I take it that it would have been highlighted in year 1, when you did the first set of accounts.

Mr Black: I refer you to my team for a detailed answer to that.

Peter Tait (Audit Scotland): Good morning. I have been involved in the audit of the corporate body for the past three years. It is important to acknowledge that the body is still a young organisation and has been evolving over those three years. To ask whether it had standing financial instructions is to put a very black-and-white question. The answer is that it did not have a full set of formally approved standing instructions, but it had various procedures that it inherited from previous arrangements. It adopted various practices as it developed its procedures. The day-to-day procedures that were in place had evolved since the start of the Parliament, but there was not a complete set of approved procedures. The procedures are in effect the organisation's policies on how it is run. The point that we were making in our most recent audit concerned the formal approval of procedures on such matters as the write-off of debts and who is authorised to write off those debts. It is right to say that there were no formally approved procedures, but the body was not without day-to-day instructions on how to do things. There were low-level procedures, but not high-level policy statements, particularly with regard to the write-off of debts.

George Lyon: You said that the procedures in place in year 1 were inherited from previous arrangements. I do not understand what you mean by that. Were you referring to arrangements pre-devolution, before the project started?

Peter Tait: The original arrangements were handled by the Scottish Executive and were then handed over to the corporate body at its creation. The corporate body uses and has used the same ledger as that used by the Scottish Executive. Originally it used a system referred to as SCOAP—the Scottish Office accounting package. It then implemented a new ledger system in parallel with the Scottish Executive. Many of the day-to-day instructions are related to the running of the financial ledger. In that sense, the corporate body inherited the original instructions and day-to-day procedures when it took up the SCOAP financial system as run by the Scottish Executive. When the new ledger system was introduced, the initial procedures were converted to it and there were certain parallels with the Scottish Executive's procedures at that time.

The whole process has been evolving with the implementation of the new ledger system and the detailed instructions have also been evolving. In the first part of the corporate body's existence, it used an older ledger system that it inherited from the Executive and the procedures went with it. It is now using a new ledger system, which is shared with the Scottish Executive. The procedures have evolved from the old procedures, but there is an urgent need to review the high-level policies on how the financial instructions are enacted. I understand that a party has been seconded from the City of Edinburgh Council to assist in the drafting of those policies. Once they are complete, they will be submitted for approval.

The Convener: I draw to members' attention the second-last bullet point in the letter from Paul Grice, which gives his response on what action is being taken. That action is intended to be completed by March this year.

Rhona Brankin (Midlothian) (Lab): I want to get a bit of context and put the matter into perspective. You said that there is no evidence of any irregularity whatever and that in relation to the overall budgets, the amounts involved are very small. However, the matter is important enough to make you qualify your audit opinion. What is the next step in the qualification of the audit opinion? What are the implications of it? How do we ensure that steps have been taken and that what is happening is beginning to bear fruit in relation to tightening up the system? Where do you take it from here and what are the next steps for us?

Mr Black: The signing of the audit opinion and the making of my report to Parliament are the end of the matter for me in relation to the past financial year; a line is drawn under that.

Rhona Brankin: Absolutely.

Mr Black: At the next level down, there is an on-going relationship between the management of the corporate body and the external audit team from Audit Scotland, which is led by Peter Tait, who has been answering your questions this morning. In the course of the next six months, the team will engage in the audit of the financial year 2003-04. In undertaking that audit it will have particular regard to the concerns that have been revealed in the past financial year. I imagine and expect confidently that Peter Tait and his team will take a particular interest in reviewing the financial instructions that we have been talking about to ensure that they meet the standards of best practice in that area.

The members of the corporate body are responsible for overall governance. They receive reports from the accountable officer, the audited accounts and any reports that I make. I understand that they have been informed of the qualification of the audit and of my report. There is also an audit advisory board, which receives detailed reports from both internal and external audits. That board meets the auditors and has the opportunity to discuss the issues raised. It is fair to say that I am satisfied that these matters are being addressed seriously at a number of levels. Indeed, it is important to put on record that I am satisfied that they are being seriously addressed by the principal accountable officer—the clerk and chief executive of the Parliament—and by the other bodies, particularly the audit advisory board, that have a particular role in this respect. We have had a very extensive dialogue with them about these issues.

Mr Kenny MacAskill (Lothians) (SNP): First of all, I want to raise a point of clarification that members might or might not choose to follow up. Did you say that the head of finance resigned in April?

Mr Black: That is correct.

Mr MacAskill: Your report says that the post was advertised in November 2003 and that we are now at the point of shortlisting candidates. Presumably, by the time the person who is recruited gives and serves out their notice, it will be April 2004 before they take up their post. Did the lack of a head of finance have any effect with regard to drawing up the remit or introducing the changes that might have been required? Was there any good reason for the delay between April and November 2003 to take steps to advertise and fill such a high-profile and senior post? Finally, is it normal public sector practice to have left such a senior position unfilled without any good reason between—at the very least—April and November 2003?

Mr Black: I think that there are two parts to that question, the first of which concerns the question whether the resignation and therefore absence of the head of finance might have contributed to the problems that have been highlighted. The second part of the question concerns the filling of the vacancy.

On the first part, the resignation of the head of finance and the lack of leadership within the finance department were significant issues. It seems very clear that there were problems with the quality of the upward reporting from finance to the principal accountable officer and from there on to the SPCB and the audit advisory board. As a result, the short answer to the first part of Mr MacAskill's question is yes, the situation caused by the vacancy at the head of finance level—and possibly the situation before that person departed—contributed to the problems.

As for the question of filling the vacancy, I understand that arrangements were made to fill the post on an interim basis. However, I am sure that Peter Tait, who is closer to these matters, will be able to provide the recent history of how the vacancy was handled.

Peter Tait: When the previous head of finance left the post, the SPCB as an interim measure appointed another person to hold the position. That person managed the SPCB's financial affairs on a daily basis under the supervision of senior management, which included the clerk and chief executive of the Parliament.

Senior management had been aware of difficulties with the bank reconciliations. Indeed, we had been in touch with management about the importance of clearing them and significant progress was made on the matter from April through to September. When we arrived to commence the final accounts audit, we were informed initially that the accounts were reconciled. The audit advisory board and the accountable officer had also been told that the accounts had been reconciled; indeed, internal auditors had reported to the board that the accounts were reconciled and the problems resolved.

However, during the first stages of our work, we became aware that the accounts were not reconciled and, within a matter of days, I had written to the clerk and chief executive to inform him of our concerns. In a two-month period through October and November, the SPCB undertook a great deal of work to attempt to reconcile the bank accounts before the end of the audit and we ourselves put in a substantial amount of additional audit resource to assist and complete the work before the statutory deadlines. However, time was against the SPCB. The scale of the task was really too great for it to be completed by the deadline. The Auditor General has already pointed out that, under his instructions, we had to draw a line. At that point, there were 290 unreconciled items, which formed a significant enough aspect for us to take them into consideration in recommending a conclusion to the final audit.

11:15

Robin Harper: As I understand it, the current financial procedures are based on established Scottish Office practices, which have been modified over the years to meet the Scottish Parliament's very special needs. However, you have indicated that those procedures have not received formal approval. What would be the process for securing formal approval for the procedures that have evolved over the past three years?

Mr Black: The process is relatively straightforward. The principal accountable officer oversees the preparation of a set of guidelines, which are subject to independent comment by the external auditor to ensure that he or she is satisfied that they are along the right lines and at the right level and that they cover the right issues. As far as the SPCB is concerned, I confidently expect the audit advisory board, which contains very senior people from an accountancy background, to take a close interest in the matter. Once the board has satisfied itself that the guidelines are appropriate, it is likely that they will be presented to the SPCB for its formal approval.

Robin Harper: So the SPCB ultimately approves the guidelines.

Mr Black: Yes, because it is ultimately responsible for the governance of these affairs.

Mr MacAskill: I want to pursue some of the points of clarification that Peter Tait made. I am still rather bemused by the fact that an interim head of finance was appointed in April 2003. An interim post would be left that way only if it was meant to become permanent. The fact is that there has been a considerable delay in taking steps to appoint a head of finance. Can you provide any clarification on that matter or can only the SPCB do that?

Moreover, as the convener has correctly pointed out, the accounts in question obviously end on 31 March 2003. As a result, the head of finance who resigned dealt with those matters. Will the subsequent interregnum that appears to have existed give rise to any further problems, given that we have been scrambling around to sort out the problems with the 2002-03 accounts and that we are now about to sort out the 2003-04 accounts?

Mr Black: I hesitate to answer the particular question about why there was an interim solution rather than an attempt to fill the substantial vacancy. Instead, I encourage members to seek an answer to that question from the accountable officer himself.

It goes without saying that any organisation—particularly a smaller one such as the SPCB—would face problems if a key person such as the head of finance disappeared at year end when the whole process of closing the accounts and preparing them for audit was in hand. As a result, we must acknowledge that that situation presented the SPCB with a particular challenge and I commend it for making arrangements to fill the post immediately—albeit on an interim basis—to ensure that the work could continue.

I should also point out that we are very satisfied with the progress that has been made since April of the current financial year in tackling these matters, not least in addressing the reconciliations. Unfortunately, for the reasons that Peter Tait and I have given, sufficient progress was not made by December to avoid the necessity of qualifying the accounts and of drawing the matter to the Parliament's attention.

George Lyon: Your report says that 290 underlying transactions have not been matched so far, and that the sum that is involved is about £5.3 million. You said that since you became involved, a huge amount of work has been put in to try to reconcile the accounts. I take it that that work took place after the previous finance director left and the interim position was filled. Was there any accurate reconciliation at the beginning of the process, when you became involved, or was there a need to start from scratch?

Mr Black: I would require Peter Tait's help to provide a full answer to that. In order for us to maintain an overall sense of what is happening, I point out that the qualification means that the accounts that were presented for audit were adrift. Many elements were presented appropriately, but others were not—in particular, the external auditor uncovered problems with a lack of reconciliation. The picture is complex and it is difficult to give specific examples of what is involved. It is important to say that all the significant errors have been corrected in the final version of the accounts.

If you want some examples, the technical errors in the draft accounts included incorrect treatment of a creditor balance of £1.84 million; assets valued at just over £1 million being incorrectly written off during 2002-03; incorrect treatment in 2001-02 of a retention of £1.28 million in capital contracts; and creditor accruals being understated by just over £1 million. That gives you a flavour of our findings but, at the risk of repeating myself, I emphasise that all the significant errors have been corrected in the final version of the accounts.

Margaret Jamieson: Your report indicates internal control weaknesses. A weakness which is of concern to every member of the committee is on the reporting of expenditure on MSP allowances. Some of us have been subjected to harassment on that in the past year. Can we take any comfort, given that you cannot verify that the amounts that are stated are correct? Where does that leave MSPs and where do we stand in relation to the list of weaknesses that has been published?

Mr Black: It is important to put it on the record that MSP salaries are included in the general running costs of £49 million. MSP allowances are controlled through a separate system, and the audit of that system's internal controls regarded them as satisfactory. The situation is not without risk, because the key weakness that was identified related to the lack of reconciliation between that system and the ledger. A risk is identified in our report, but I do not think that it is a significant risk. It was appropriate to mention it because it is a fundamental element of sound financial practice to reconcile what is in the system that controls payments with the ledger.

Susan Deacon: At the risk of sounding pedantic, I want to go back to a point that Peter Tait made. He referred to the Parliament having inherited a Scottish Executive system but, for accuracy, it is important to say that it was a Scottish Office system. As Robin Harper said, a great deal of the practices and the culture that you have described were inherited from the Scottish Office. To contextualise the matter, it is worthwhile to note that distinction and to note that, post-devolution, both the Scottish Executive and the Scottish Parliament have made significant changes to the systems that are involved and to the practices and culture that underpin them. Is it fair to say that?

Mr Black: Yes, it is fair to say that.

Susan Deacon: Having said that, I am interested in how financial management is performed in the Parliament and more widely in the public sector. I note that on the head of finance post, reference is made to "suitably qualified" applicants being shortlisted and interviewed at the moment. What qualifications are expected? Are we talking about people with professional financial or accounting qualifications? A Scottish Office practice that continues in the Scottish Executive means that that the principal finance officer and many other senior people within the finance function are not necessarily qualified accountants or finance professionals—that is different from the situation in many other organisations. Is that one of the changes that we will see in the Parliament?

Mr Black: My understanding is that the advertisement for the post indicated that, as an essential requirement, the corporate body would be looking for someone with a financial qualification.

Susan Deacon: To gain a sense of perspective on the issue, would it be fair to say that the problems that you have identified and which we have discussed are confined to weaknesses in the accounting and financial management functions? That is not to minimise the importance and significance of those weaknesses, but is it fair to see the problems in that way rather than as evidence of widespread weak financial management throughout the organisation?

Mr Black: It is fair to take away from this session the reassurance that no financial loss has been discovered and neither is there any indication that expenditure has been made inappropriately. However, I indicate to the committee that the control weaknesses were serious; controls are not optional but fundamental to the running of any public body. It is reasonable to expect the corporate body to operate at the standard of best practice in that area. The weaknesses are serious because they expose the corporate body to unnecessary risk. It is fair to say that the principal accountable officer recognises that there are weaknesses—that is reflected in his recent letter to the committee—and is acting swiftly to improve the situation.

Susan Deacon: How frequently do you make such a qualification on the accounts of a public body?

Mr Black: It is comparatively unusual to qualify the accounts of a public body for significant control weaknesses involving such issues. Having said that, the committee will recall that, under an earlier agenda item, we talked about family health service expenditure and the qualifications that have occurred year on year. Such qualifications are not common, but we have to make them from time to time.

George Lyon: In view of your reply to Susan Deacon, in which you said that there were serious concerns about the financial rules and that, although no moneys have been lost, the issue is still serious, a question arises. If the problems were highlighted in year 1, why has action been taken only today to address the concerns?

11:30

Mr Black: The general approach that we take to audit is that, if concerns arise in the audit of a financial year, we share those concerns with the management of the audited body and we expect action to be taken to rectify the problems. If no action were to be taken, the auditors would quite properly alert me in pointed terms. If appropriate, I would then make a qualification or a report. It is not necessary for there to be a qualification for a report to be made and there have been occasions on which I have made financial reports to the Parliament in the absence of a qualification.

One of my colleagues put it succinctly yesterday when he said that we give people a yellow card and then give them a red card. In a sense, that is what has happened in this situation. There has been a long history of the auditor engaging with the appropriate people in the SPCB on issues of concern and receiving assurances that those matters were being addressed. However, it now transpires that they were not being addressed as timeously or comprehensively as they should have been and it is only in the current financial year—from April of this year—that sound action is being taken to rectify the position.

George Lyon: You are telling us that you have engaged with the chief executive and the organisation's previous finance officer a number of times over the past three years, but that no response has been made that would deliver—

Mr Black: I would not want to give you the impression that there has been no response.

George Lyon: Has there been insufficient response?

Mr Black: It is important to bear in mind my phrase about the lack of financial leadership and the quality of the upward financial reporting that was taking place. It seems clear that inappropriate assurances were being given to the highest levels of the SPCB.

The Convener: In the annual report for the 12 months ending 21 March 2003, we note that there is a director of clerking and reporting, a director of corporate affairs, a director of legal services and so on, but no director of finance. Similarly, in our discussion today, we have talked about a head of finance. That suggests to me and, I suspect, to the general public listening to us, that there is not a director of finance or, at least, no one as senior as the other members of the management team. Again, you have highlighted the difficulty relating to reporting up. Is it the auditors' view that the control of finance did not rest at a senior enough level and that it might have been more appropriate to have a director of finance? Might that have made a difference to the outcome?

Mr Black: I would hesitate to suggest that there must be a director of finance. It is reasonable to expect that a suitably qualified and experienced person should be in overall charge of the financial management of the SPCB's budget. I will say that the auditors did not have full confidence in the previous incumbent, which might have led the principal accountable officer and the SPCB to consider raising the professional requirements of the post that is now being advertised.

The Convener: I thank the Auditor General and Peter Tait for that briefing.

The committee must now discuss what further action we might take. From the questions that members have put, it strikes me that there are a number of unresolved issues about which we need to be satisfied. Further, there is a wider audience that would like us to ensure that our house is in order before we pontificate about other public organisations. That being the case, I am minded to suggest that we invite the principal accountable officer, Paul Grice, to come along to a future meeting. Given our work programme, I think that the soonest that we could manage to see him would be at our meeting on 3 February. Do members agree to invite Paul Grice to that meeting to answer further questions on the auditors' report on the accounts for 2002-03?

Rhona Brankin: Given that the Auditor General has said that he considers that the action that is being taken by the principal accountable officer will significantly improve the financial controls, I wonder whether it is necessary to invite Paul Grice to the committee at this stage or whether we might want to leave that until a later point when we can assess the changes that have been made.

The Convener: I hear what you are saying, but I also bear in mind the points that were raised during Kenny MacAskill and George Lyon's lines of questioning on the accounts for 2002-03. There has been some degree of interregnum in recruiting and, while a temporary situation has been put in place, we are already approaching the end of 2003-04. I think that it would be useful to the committee and to Paul Grice if he were to come before the committee and explain not only what has happened in the past, but what is happening currently and how expeditiously he intends to resolve the difficulties.

Susan Deacon: I have no difficulty with our inviting Paul Grice to give evidence to the committee as it will provide an opportunity for matters that have been raised to be probed further. However, I am conscious that matters have progressed to a significant extent and I wonder whether it might help us to strike a better balance if we had that meeting at a slightly later date. Alternatively, perhaps we could acquire, prior to our meeting on 3 February, a written submission from Paul Grice on the progress that has been made to date.

If I understood the Auditor General correctly—I would not ask him to speculate on this, because I understand that he cannot—it might well be that, if a line had not had to be drawn in December and there had been a few more months in which to work, some of the more considerable weaknesses would have been addressed.

As Margaret Jamieson and others said, the standing financial instructions are on track to be completed by March 2004. That is a key development and it will take place quite soon. Perhaps we should focus our consideration on such key developments that have flowed from the audit process. It might be more useful for us to focus on future improvement than to continue to go over elements of past practice, some of which have become quite clear.

Mr MacAskill: I take on board much of what Susan Deacon said. It is important that we investigate the matter briefly, just to clarify it in the best interests of the Parliament and the SPCB. The Auditor General raised matters that cannot be addressed by him; therefore, in the interests of all parties, I would like to find out whether false, misleading or inaccurate information was given. If such information was given, it is to the credit of the SPCB and the principal accountable officer that they managed to address that matter. Such things happen, but we should be told about them.

I would like some clarification about the interregnum in the head of finance appointment process, and some indication that we are heading towards having the correct post that will be able to deal with such matters. Any information-gathering session with the principal accountable officer should not be conducted in terms of blame, but should seek clarification that we have drawn a line under what went wrong and that we are taking the right steps to address it. Susan Deacon is correct in saying that we are heading in the right direction, but we should take a belt-and-braces approach to ensuring that we are.

Robin Harper: I support Susan Deacon and Kenny MacAskill, as well as the proposal that we do not rush at the issue too early. Perhaps a meeting held at a later date in March would be better than one held on 3 February, which is quite early.

Would it be appropriate to ask for some input from the SPCB?

The Convener: We have to focus on the principal accountable officer; he is the one who can answer the questions and who is directly responsible for the operation. The letter from Paul Grice says that he is

"happy to address any specific points the Committee might have in light of tomorrow's briefing from the Auditor General."

There is, therefore, a willingness to ensure that any questions are answered.

George Lyon: It is the Audit Committee's duty to get to the bottom of those questions that have been raised as a result of the Auditor General's report but which he is not in a position to answer. It is in the interests of the Parliament and of Paul

Grice that he should have a chance to explain publicly the cause of the problem and the action that has been taken to address the difficulties that have arisen. Much of that is linked to the personnel changes that we have heard about today, and Paul Grice should be given the chance to put on the record the action that he took as principal accountable officer. If the cause of the original problem has been identified, and right and swift action has been taken, it is in everyone's interests to get that story into the public domain as soon as possible.

The Convener: My reading is that the committee agrees that we should meet Paul Grice; that is beyond dispute. There is a natural concern that it would be of more benefit to have Paul Grice come to a possible meeting on 2 March rather than on 3 February. It is a question not just of having the information, but of the committee being seen to deal with the matter as expeditiously and seriously as possible. We have to strike a balance between considering the matter further, hearing the information and then putting the matter to bed.

Susan Deacon was right to ask whether we would get more information if we waited until 2 March. I suggest that we ask Paul Grice to come to the meeting on 3 February, with the caveat that if there would be substantially more benefit in having that meeting a month later—in that we might have a resolution on the appointment of a head of finance and there might be considerable resolution of other outstanding matters—I would be willing to move the meeting to 2 March. There would have to be substantial gain to be had by waiting for a month, otherwise we would benefit by being seen to move quickly and holding the meeting on 3 February. With that caveat, is the committee agreed?

Members *indicated agreement*.

The Convener: We will work along those lines. I thank the Auditor General for his help on those matters.

That being the end of agenda item 4, we move into private session. While we do so, and to give the press, public and broadcasters the opportunity to leave the chamber, I suspend the meeting for 10 minutes so that members might have a comfort break.

11:44

Meeting suspended until 11:59 and thereafter continued in private until 12:47.

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