

AUDIT COMMITTEE

Tuesday 2 March 2004
(*Morning*)

Session 2

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AUDIT COMMITTEE

4th 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)
David Pia (Audit Scotland)

THE FOLLOWING GAVE EVIDENCE:

Derek Croll (Scottish Parliament Chief Executive's Group)
Paul Grice (Scottish Parliament Clerk and Chief Executive)

CLERK TO THE COMMITTEE

Shelagh McKinlay

SENIOR ASSISTANT CLERK

Joanna Hardy

ASSISTANT CLERK

Christine Lambourne

LOCATION

Committee Room 1

Scottish Parliament

Audit Committee

Tuesday 2 March 2004

(Morning)

[THE CONVENER *opened the meeting in private at 09:37*]

10:01

Meeting continued in public.

Items in Private

The Convener (Mr Brian Monteith): As we are now in public session, I remind those who have joined us that pagers and mobile telephones should be switched off. I welcome Paul Grice and Derek Croll, from whom we will take evidence.

Before that, we must deal with agenda item 2, which is to consider whether to take agenda items 7, 8 and 9 in private. Under item 7, the committee will consider its approach to the Auditor General for Scotland's report "Performance management in Historic Scotland". Under item 8, the committee will consider the content of its report on the evidence that it has taken on the Auditor General's report "Scottish Enterprise: Special audit examination". Under item 9, the committee will consider a draft report on its inquiry into the Auditor General's report "Scottish Further Education Funding Council—Performance management of the further education sector in Scotland". There are various papers to consider and it is quite normal that such deliberations are taken in private.

Is the committee agreed that we should take those items in private?

Members *indicated agreement.*

The Convener: Also under item 2, I intimate that we will take evidence as part of our inquiry into the report "Overview of the National Health Service in Scotland 2002/03". We need to consider whether we will subsequently deliberate on that evidence in private. Given the circumstances of that inquiry, in which we are examining not so much the actions and responsibilities of individuals but the performance concerns of local health boards relative to the national scene, I suggest that we should hold our deliberations on that evidence in public. I flag up that issue to the committee at this stage.

I also mention that, as intimated in the paper on

the committee's work programme, it is my intention that we take evidence from Trevor Jones on 27 April. Given the likelihood that the Auditor General's further reports on the health service will be published a good deal later than we had anticipated, if we were to hold off hearing evidence from Trevor Jones until then, the evidence that we had taken from the various health boards would not be fresh in members' minds. In my view, we should hear from Trevor Jones as soon as possible after hearing the other evidence, so I propose that we take evidence from him on 27 April. If we need to take further evidence from him when the Auditor General's reports are published, we can do that later.

I also suggest that, although we have not yet been briefed on the Auditor General's recently published report on managing medical equipment, we can put any questions that we have on that subject to Trevor Jones while he is before us on 27 April.

Is the committee agreed on that?

Members *indicated agreement.*

The Convener: I thank members for persevering with that and I thank Mr Grice for his patience.

Scottish Parliamentary Corporate Body

10:05

The Convener: For agenda item 3, we will take evidence from Paul Grice and Derek Croll on the Scottish Parliamentary Corporate Body's accounts. I invite Paul Grice to make an opening statement, for which he has five minutes.

Paul Grice (Scottish Parliament Clerk and Chief Executive): I will keep this as brief as possible.

The principal point about which I am keen to be able to reassure the committee today is that action is in hand across a range of areas to improve the financial management issues that were identified by the Auditor General.

I begin with a brief look back. The problems that are currently being addressed began with the introduction of the Scottish Executive accounting system in January 2002. The introduction of SEAS was very much led by the Executive. The system was introduced on a very tight timescale and quicker than we would have liked, but we had to follow suit. Previously, we used the Scottish Office accounting package—SCOAP—which the Executive decided to replace.

As SEAS did not operate properly until June 2002, the first six months of the new system were very problematic for us. To some extent, we are only now tying up problems that were caused at that time. It is fair to say that that issue was compounded by performance issues in our finance team. I am happy to explain the actions that we have taken to address those.

Audit Scotland cleared our accounts for 2001-02, but it highlighted a number of matters for action, including bank reconciliation. It is important to point out that actions were taken prior to the Auditor General drawing to my attention specific concerns about the accounts for 2002-03. From 1 April 2003, we have had monthly bank reconciliations in place. We have also posted invoices to the fixed asset register by invoice rather than by block posting, which was the system that we inherited from the Scottish Office. We brought in extra resources to clear up unreconciled entries from 2002-03. We also appointed a new interim financial controller.

Since the autumn, which was when the auditors indicated to me that there was a possibility that we would receive a limitation of scope qualification, I have put a great deal of personal effort into focusing on the issue. For example, we are looking at how we can improve the reconciliation

process between the case management system for allowances and the ledger system. For the record, let me stress that the actual management of members' allowances has been very tightly run—as members will testify—and that there is no question of anything going amiss. The issue is about the tying up of payments that were made under the case management system with those in the ledger system. We are about 90 per cent of the way through that review and we are considering how further improvements can be made. The long-term solution is to replace SEAS, but that will be a three-year project so we are looking at what we can do in the short term.

We also aim to produce a comprehensive set of financial instructions. I can reassure the committee that there was certainly guidance in place previously, but it was not comprehensively pulled together. We already had an action point on that, which was to be completed by the end of March this year and which we are on target to achieve. We have received help from Audit Scotland and the City of Edinburgh Council, which has seconded a senior auditor to us to provide extra help on that. We have also appointed a permanent financial controller, who takes up post in a fortnight's time.

On the lessons to be learned, the first thing that I should make clear is that it is our responsibility to get this right. There were problems, but I believe that we started to address them significantly from the beginning of this financial year. There has been a more intense focus on those issues since about the autumn. I have personal confidence in the action plan and I believe that that is shared by the Auditor General.

The key lesson for us to learn is communication. I was certainly aware of the difficulties with SEAS and that there were some performance issues in the finance team, but I believed that the action that was in hand was adequate. I had certainly not appreciated the strength of the Auditor General's concerns. I had no inkling until September that a limitation of scope qualification was in prospect.

Since then, I have made internal structural changes by shortening the reporting line between me and the new financial controller. Derek Croll, who himself is a chartered accountant, is the only person between me and the new financial controller, so there is a much closer link down to the finance team. Derek Croll provides me with monthly reports on bank reconciliations plus a performance tracker against the action plan. Critically, we are working with the advisory audit board to assist it in the key role that it will play in taking us forward.

I hope that I can end on a slightly more positive note. No accountable officer would wish for a limitation of scope qualification. Significant

improvements were in hand, but now the focus on them is even clearer. Audit Scotland has set a high standard for us. It wants us to be an exemplar and I have no argument with that. We aspire to that high standard and I hope that we will meet it in the current year.

The Convener: I thank Paul Grice for his introduction and for making available various papers that outline his actions. It may be useful to add that at all stages of our inquiry into the matter, the committee has deliberated in public. All the germane papers that we have received will be placed in the public domain.

I invite questions from committee members. Margaret Jamieson will ask about previous problems.

Margaret Jamieson (Kilmarnock and Loudoun) (Lab): I thank Paul Grice for the paperwork that has been supplied, which has assisted us. Did the new computerised system incorporate the final quarter of 2001-02?

Paul Grice: That is right. The system was introduced in January 2002, so it incorporated the last quarter of that financial year.

Margaret Jamieson: Did the Auditor General's staff or your finance staff make you aware of any problems in that final quarter?

Paul Grice: The whole system was a problem—it misposted things. We were aware that, initially, it was a step backwards from the SCOAP system that we had used. However, ultimately we obtained a clean audit certificate for 2001-02, from which I took some comfort.

The principal communication between the auditors and me was about the auditors' understandable concern that the accounts should be ready. For example, the correspondence that I had in autumn 2002 understandably pressed us hard to provide accounts to the auditors so that they could be audited. That was our principal concern.

At that time, my focus—and I had no different advice from my team—was on having the accounts ready for presentation. Reconciliation did not stand out as a major issue, although the auditors identified it as a matter that we had to address. That flowed into the action that we took from 1 April 2003, when we began monthly bank recs and recognised that an historical problem had to be addressed.

Margaret Jamieson: Are you aware that the Auditor General's staff first wrote in October 2002 to say that a problem existed with reconciliation?

Paul Grice: I have looked back on that letter. It certainly mentions reconciliation, but the clear purpose of the letter and other correspondence in

that period, which ultimately involved a letter to me on 8 November, to which I responded on 15 November, was to urge us to re-present the accounts so that they could be audited. The reconciliation issue did not stand out for me. The purpose of that correspondence was to say, "Get your accounts to us." There were problems that meant that the auditors wanted the accounts to be resubmitted, which happened on 15 November. As I saw it, the auditors' principal purpose was, understandably, to tell us to put the accounts in shape for auditing. That letter mentions reconciliations in passing, but it should be seen in that context.

Margaret Jamieson: The Auditor General's staff also say that the advisory audit board was advised at its meetings—particularly those on 21 October and 11 December 2002—of the reconciliation difficulties.

Paul Grice: At the key meeting on 11 December, Flour City was the main focus. I have discussed the matter with the advisory audit board's independent convener. He recalls that when he asked whether, apart from Flour City, there was anything else that he as the advisory audit board's independent chair should worry about, he was told of nothing that should be worried about at that level, although several issues that were described as housekeeping matters were mentioned.

That brings me back to my point that it is ultimately the finance team's responsibility to get things right. However, perhaps the opportunity was available to flag up the significant concerns to the advisory audit board. I think that the advisory audit board's convener shares that view.

10:15

Margaret Jamieson: Are you aware that in the final quarter of 2001-02, the Audit Scotland team had to assist the Scottish Parliamentary Corporate Body's finance staff to close off the accounts for that financial year?

Paul Grice: Yes. I was aware that problems existed. As I said, I take some comfort from the fact that a clean audit certificate was ultimately issued. I do not say for a minute that there was a lack of awareness from my finance team staff, or even from me, that reconciliation issues existed. That is why we put in resources in the current financial year to resolve those historical matters and why we have a monthly reconciliation process. I entirely accept Audit Scotland's view that bank reconciliations were a problem—that stemmed from the SEAS problem. We have worked hard to get a grip on that situation, although it has probably taken longer than I would have liked to do so.

We wanted to close off 2002-03 so that we could begin with a clean slate in 2003-04, which is the current year. I think that we have achieved that—we are working on it. We put in extra resource historically to clear the 2002-03 accounts. I was aware that reconciliation was a problem, but it was only really in September last year that I became aware that the auditors' concern was so serious that they were considering a limitation of scope qualification.

It is clear that a communication issue was involved. The principal responsibility for that lies with the Parliament. There is no doubt that communication up the line from the finance team should have been better. I accept that perhaps I should have asked more focused questions. As I have said to Audit Scotland, the auditors' concerns were clearly strong. Opportunities might have arisen—perhaps in front of the advisory audit board—to flag up those concerns. However, that does not shift the responsibility, which is primarily ours. We must get our financial systems right.

Margaret Jamieson: Will I go on to ask about the system?

The Convener: We will move on to George Lyon's questions about communication, which stem from the issues that have just been covered, and we will return to the system later.

George Lyon (Argyll and Bute) (LD): It is clear that Audit Scotland had serious concerns about reconciliation and about the development of standing financial instructions on who could write off debt. How do you explain the failure to communicate that message to your level in the organisation? When were you first made aware of Audit Scotland's concerns? Will you tell us the exact date?

Paul Grice: The first time that I had any inkling that Audit Scotland was contemplating qualification was when I read its letter of September last year. I entirely accept that Audit Scotland felt that it had given clear warnings to the finance team before that. I have discussed with Derek Croll and others the fact that I believe from a note from Audit Scotland that a conversation was held with our interim financial controller around April 2003 in which Audit Scotland said that it was contemplating qualification. If that is the case—I have no reason to believe that it is not—the situation should have been communicated to me at that stage. We were clear about the problems, but perhaps the scale of the problems had not been fully appreciated.

The standing financial instructions are a slightly different matter. An action point had been agreed, but the deadline for its completion was March 2004, so at the point in question we had not reached the completion date. Indeed, we still have

some weeks to go before that date, and completion is in hand.

I accept that a decision was made about the effort that had been put into historical reconciliations. The finance team decided that it had taken that as far as it could. That decision had a rational basis, but it should not have been taken at that level. It should have been referred to me as accountable officer and I, in turn, would have discussed it with the corporate body. That is not to say that the decision was necessarily wrong. The finance team based its view on clear value-for-money grounds. It has taken an enormous effort to clear those reconciliations. The finance team judged the resource cost of that against its benefits. It would not be fair on the team to second-guess its decision with hindsight, as the decision was not put to me at the time.

The decision was not in any sense perverse—it was a rational VFM decision. It may have been the wrong decision; however, it should not have been taken at that level. That will certainly be addressed in the standing financial instructions. The finance team acted in good faith and felt that it was taking responsibility for the situation. The team had put several months of effort into historical reconciliations. We have since pursued the matter vigorously and have got the number down. No matters of concern have come up.

I fully accept that the decision should not have been taken at such a relatively junior level—although the head of finance is clearly quite a senior position. However, such an important and sensitive decision should have come from further up. I accept that we should have had a clearer set of instructions—or rather, a different set of instructions, because people were clear about them.

George Lyon: According to the letter from the Auditor General, a management letter on the 2001-02 accounts was issued on 14 February 2003 by the auditors. The letter included action plan points on bank control and account reconciliations. Those were rated as a high priority. Did that not flag up the fact that there was a serious problem?

Paul Grice: It did indeed and action was taken. Two action points were taken up. From 1 April that year—that is, very shortly afterwards—we moved to monthly bank reconciliations. In other words, we resolved the problem on an on-going basis. We recognised that there was an historical situation to clear up so additional resource was brought into the finance team to clear that up. If I were to be self-critical, I would say that we should probably have put even more resource into that. However, it is important to note that we acted on that action point and did so timeously—both to get the on-going situation right and to clear the backlog. The

finance team, with my knowledge, acted on the recommendation. With the benefit of hindsight, however, we should perhaps have put in more resource to allow us to clear the backlog more quickly.

George Lyon: Were you aware that debt was being written off at a junior level? Were the actions to write off those amounts not reported to you?

Paul Grice: Forgive me, but we were not writing off debt. Because a total had been reconciled for 2002-03, the team judged that they had taken the detailed items as far as was appropriate. I was not aware of that, but I should have been. The head of finance is reasonably senior in this organisation, so the decision was not taken at a junior level. However, I fully accept that such a sensitive decision should have been reported to me. As the accountable officer, I would have expected to be given the opportunity to take the decision myself—and, of course, I would have consulted the corporate body. That is a clear lesson that we have learned.

George Lyon: So you were not consulted on the decision and the corporate body was not notified.

Paul Grice: No, it was not.

The Convener: It would be appropriate to bring in Susan Deacon at this point, because she has a point on the culture of communication.

Susan Deacon (Edinburgh East and Musselburgh) (Lab): Before I ask about communication, I want to understand better the period that we have been discussing. To what extent were some of the issues that arose—whether to do with communication breakdown or other practices within the organisation—a function of the fact that it was an early period for the Parliament? We were just over two years into the first session of the Parliament and, since that time, systems and practices may have bedded down so that we are better equipped to deal with problems. Alternatively, do you feel that the pressures of development in that early period were not a significant factor?

It is clear that a number of systems and practices have grown out of the Scottish Executive. That was inevitable in the early stages. However, those systems and practices are diverging as time goes by. Although I acknowledge the reasons why you had to move to SEAS, will you explain why the system appears to have been satisfactory for the Executive but not for the Parliament? You say that it was incorrectly configured for the Scottish Parliamentary Corporate Body's needs. Some of us wonder what the big difference is. Why was there a problem? You say that it was not possible to generate correct information until June 2002.

I also want to ask about financial management in general. You may have noted that I have raised this issue with the Auditor General before. As I understand it, no qualified finance professional was in post, in keeping with past Scottish Office and Executive practice of not necessarily having qualified finance or accounts professionals doing finance jobs. Was that the case? Has the threshold now been raised?

Paul Grice: The previous head of finance and our interim head of finance—and, indeed, Derek Croll, their boss—are qualified accountants. There is no lack of professionally qualified staff.

If you do not mind, Ms Deacon, I will answer your questions back to front. The Auditor General may be better placed to answer this, but my understanding is that the Executive itself had enormous problems with SEAS, even though the system was designed for it. Derek Croll may be able to give one or two examples of specific problems that arose because SEAS was not configured for us.

Derek Croll (Scottish Parliament Chief Executive's Group): A major problem was the set-up of the bank accounts in the ledger; the default bank accounts were set up incorrectly so that payments that should have come out of our Office of the Paymaster General account were coming out of the sundry account, and vice versa. That caused enormous difficulties in the accounting records, which we had to correct using manual journals.

In the early stages of the system, we also had to correct a number of batch payments in order physically to remove payment details and so prevent incorrect payments being made. The Auditor General's report highlights that the Executive made duplicate payments of around £11 million when the system was first implemented. We used a lot of manual controls to prevent that from happening but, in doing so, we complicated the accounting entries in our own system, which meant that the subsequent reconciliation was much more complicated.

Paul Grice: I hope members will forgive me if I make a wider cultural point. We were quite a new organisation and there is no doubt that the introduction of SEAS knocked us sideways. The finance team made immense efforts just to get things under control. In the early part of 2003-04, there was considerable relief that we had moved to monthly reconciliations.

There is a culture in the organisation, which I have sought to encourage, of people focusing on solving problems and not necessarily reporting them to others. The point that I would accept—and I have discussed this with the finance team—is that the team went a bit too far. I would never

encourage a culture in which people thought that the thing to do was always just to tell somebody else that they had a problem; I like the idea of people taking responsibility. However, they must recognise that, when doing so, they have to alert people up the line so that they are at least aware. That is a key lesson that we have learned.

However, I would not want us to swing in the other direction so that people felt that they should simply move the problem around. I would commend Derek Croll and Stuart Ainslie, our interim financial controller. Stuart, in particular, stabilised the finance functions so that our new financial controller inherits a much stronger position. She can help us move to the higher standard that the auditors have understandably set for us—which is not simply to be adequate but to be exemplary. I support that demand.

Our new head of finance has the opportunity to move us on so that we are not simply managing a crisis or a problem but moving beyond that. At the end of the day, the 2003-04 audit will tell us whether we have done that, but I feel much more confident than I have felt before.

As for any communication issues that there might have been with Audit Scotland, I would say, from my attendance at the two most recent meetings of the audit advisory board, that there has been a clear and good dialogue. People have not been taking any chances that messages have not been received. That has been extremely helpful. However, I would not want Audit Scotland to feel that every single problem had to be reported to me as the accountable officer. Audit Scotland is right to say that its principal line of communication should be to feed messages to the finance team. My only comment is that if there seems to be a big problem there comes a point at which it should be mentioned either to me or to the audit advisory board just to be absolutely sure. I know that that might seem like a belt-and-braces approach. However, Audit Scotland is fundamentally right to say that feeding messages into the finance team is the proper line of communication. I am confident that we have all learned from this matter and that communication appears to be a lot clearer now.

Susan Deacon: What has been done to reinforce the culture shift that you described? For example, what guidance have staff been given about the threshold beyond which they should report problems or send information up the line in a way that did not happen on this occasion?

10:30

Paul Grice: I have taken three specific measures to improve matters. First, I have stripped out a layer of management, which means

that there is a shorter line of communication. Secondly, every month Derek Croll presents me with a checklist of 10 items. It takes only 10 minutes for Derek to go through each of the items with me, but it satisfies me that everything is in hand.

Thirdly, we will produce our very comprehensive set of standing instructions, which is a massive exercise. Indeed, the auditor from the City of Edinburgh Council, who is helping us with that, said that it took the council two years to produce such instructions. We will produce those very detailed instructions in a shorter time and they will apply across the whole organisation. Moreover, they will be endorsed by the audit advisory board and signed off by the SPCB. As a result, we will all be working to the same set of rules.

The Convener: I want to return to George Lyon, who seeks clarification on your response to his question about write-offs. We are a little bit concerned that we might have been talking at cross-purposes. Margaret Jamieson will then ask about standing instructions.

George Lyon: In my last question, I asked you when concerns about the 2001-02 reconciliations were first drawn to your attention and pointed out that a letter about that matter was issued on 14 February 2003. In your response, you seemed to be talking about the 2002-03 accounts. Will you clarify when you first knew about the problem with the 2001-02 reconciliations and tell us the action that was taken?

Paul Grice: The letter that you mentioned was the management letter that emerged out of the 2001-02 accounts. As we had a clean audit certificate, we were in a sense not in the position in which we find ourselves now. The auditor said that there were reconciliation issues but, as far as I was concerned, the 2001-02 accounts received a clean certificate. As a result, we focused on putting things right. Indeed, that was the best that we could do for 2003-04, which was the year that lay immediately ahead of us. We also put effort into historically clearing the 2002-03 accounts.

I understand that the problem with the 2001-02 accounts is that we were slow in presenting them to Audit Scotland. I absolutely accept that point. The nature of the correspondence that I received from the organisation was, "Come on—get the accounts to us so that we can get on with things," and we responded to that call.

George Lyon: So it was the management letter in February 2003 that first made you aware that there had been reconciliation problems in 2001-02.

Paul Grice: Yes, I think so. I do not want to give the impression that this was not an issue for us. It was the scale—

George Lyon: I am just trying to ascertain when you were first made aware of the problem with reconciliations. You have already said that you considered the 2001-02 accounts as settled and closed and that no issues arose from them.

Paul Grice: Yes, but we had to deal with residual issues, one of which was the reconciliations. We certainly understood as early as February 2003 that we had to take action on reconciliations. There is no question about that. However, I have to say that I was surprised by the scale of the concerns. My finance team genuinely felt—and I therefore shared its feeling—that we had appropriate action in hand. However, that was clearly not the case because, in the auditors' minds, we had not done enough. The lesson that I learned is that we should have taken more steps to be absolutely certain of matters. I do not know whether Derek Croll wants to add anything to that.

As I have said, although we had certainly registered that there was a problem with reconciliations, we were clear that we had taken acceptable and appropriate action. In the final event, that action was not sufficient and it is ultimately our responsibility to ascertain such information.

George Lyon: So it is fair to say that you were first made aware of genuine concerns in the management letter of February 2003.

Paul Grice: That management letter is a clear action point, although there were passing references to the matter prior to that.

George Lyon: I think that that highlights the communication issue.

Margaret Jamieson: I seek clarification on standing financial instructions. Earlier, you indicated that many of the instructions on which the SPCB's operation was based came from the old Scottish Office and subsequently the Scottish Executive. What did the standing financial instructions look like at that time and how did they develop?

Paul Grice: I will have to take us right back to what is almost ancient history. The SPCB was set up very rapidly; although the original intention had been that it would have a shadow year, Scottish ministers at the time decided to take a big-bang approach. Although that had many advantages, the downside for people like me was that we had to get a proper, fully fledged organisation up and running very quickly. As a result, we largely adopted much of the then Scottish Office's practice and procedure, although I should point out that our head of finance at the time was not from that organisation. I felt that such a starting point was sensible and pragmatic, because the instructions covered the full range of matters. I

should ask Derek Croll to elaborate on what was and was not covered by those instructions.

Derek Croll: I should highlight a couple of areas. First, the SPCB adopted as its guiding light the public finance manual, which the Executive publishes for all its activities and non-departmental public bodies. As the manual gives only general guidance—for example, it refers to departments rather than to the corporate body's particular structure—it has to be interpreted to operate within the parliamentary context. Indeed, that is what we are largely doing with the financial instructions that we are setting up just now: we are, if you like, parliamentarifying the public finance manual to provide more detail and more specific guidance.

Margaret Jamieson: Are you saying that we are still operating with non-specific standing financial instructions?

Derek Croll: We are operating within a general framework that has been set by the public finance manual. Within that, we have more detailed instructions about, for example, the operation of the financial ledger, procurement and invoice payments. However, we do not have a consolidated set of instructions that people can simply take off a shelf and consult. We are committed to producing such a document and it is currently in progress.

Margaret Jamieson: What will the new set of instructions look like?

Derek Croll: In effect, it will be an umbrella framework containing a number of chapters and topics that set out the operation of our accounting arrangements, reporting, budgeting and forecasting, establishing creditors and making payments. It will cover the whole range of financial activities.

Paul Grice: We are still working on this document and I fully expect to let the committee see it when it is signed off in a couple of months' time. However, if it is any help, I can easily send the committee a list of chapters to give members an idea of the range that the instructions will cover.

I do not want members to think that we have been operating without any financial instructions. As with many aspects of a new organisation, it is simply a question of when we got round to adapting the instructions specifically to the SPCB's operation. We are carrying out that work at the moment. Indeed, we have received tremendous support from the City of Edinburgh Council, which has lent us a senior auditor who is experienced and has the necessary degree of detachment. At the moment, our staff are writing the instructions and he is providing assurance and an editing process.

The key point is that all of us from myself downwards will have no doubt that we are working to those instructions. That said, many of the instructions will confirm already existing arrangements.

Margaret Jamieson: I appreciate that an inherited system will evolve and that, as a result, it will have to be revisited within the first five years. However, surely that is one of the areas where you would measure the performance of any head of finance and where that individual would have longer-term objectives to meet once things had bedded down. Was that the case?

Paul Grice: I would agree with that. Indeed, there was an agreed action point to have the instructions finished by March 2004. The action point was agreed to following the last audit and we are pretty much on track to achieve it. In a sense, however, the action point was not new. Again, I think that it would be possible to track it back to the February 2003 management letter or thereabouts. We set out to do that work progressively throughout the year in order to complete it by March 2004. I expect to have a full draft by then although it will probably take until April to get it signed off by the advisory audit board and the corporate body.

The point that Margaret Jamieson made is a fair one. Things are always difficult, especially in a pressurised and difficult organisation, and they were not helped by SEAS. I am not looking always to make excuses, but there is a point at which things should be stable enough for us to move beyond adequacy towards having very good financial systems. The right position for this organisation is to have not just adequate systems but systems that the Auditor General can commend. That is the standard to which we aspire.

I accept that it has been a struggle to get to that position and that it has taken longer than I would have liked it to take, but that is because we have been busy firefighting. I believe that we are now very close to that point, in particular in relation to the financial instructions. I understand that we now have drafts of the vast majority of the instructions and that we are at the editing stage of the process. Having the instructions will give me, and the Audit Committee, an awful lot more comfort that we have a stable basis on which to move forward.

In addition, we have had to sort out staffing and performance-related issues. I think that putting in place a good interim financial controller in April last year stabilised matters. The appointment of a permanent person to take forward that work gives the opportunity for her to build on that and to move things to a higher level.

Margaret Jamieson: When the new system was introduced, was there nothing that suggested

that there was a problem with the detail of the financial instructions?

Paul Grice: I do not think that points were raised about the financial instructions. There is no doubt that SEAS caused us problems from day one and that it set us back. Again I can say with the benefit of hindsight that we ought to have had a better plan to manage the risks that were associated with SEAS. It was landed on us quite rapidly and the truth is that we struggled to cope with it.

George Lyon: I have two further questions, one of which is on the subject of the head of finance. Before I move on to that question, I would like you to address a further question. The SPCB experienced difficulties in completing the necessary reconciliations between its ledger and its fixed assets. There have also been problems with the payroll and MSP expense systems. I am sure that a number of members around the table have experienced the robustness of the financial reporting back to MSPs about what they have spent in the financial year. Why has that come about? Is that linked into the SEAS issue or is it the result of other problems?

Paul Grice: Three points are involved in the question. Most of our fixed asset is in the new building, which is still under construction. The auditors have been extremely helpful in assisting us to work through that process. We inherited a block posting system from the Scottish Office. The auditors made clear, however, that a better way is to post by invoice, which is the system that we have run since last April.

We listened to the auditors. Indeed, I hope that I am now rather better tuned in myself. They sent me a clear signal that it would be worth investing in the retrospective effort to go right back to day one and to repeat the exercise using the post-by-invoice system. That will mean that when the new building comes on line, there will be no doubt that all the historic figures add up and that we have the right starting position. My hope is that the interim financial controller will stay on for a period of months after the new financial controller starts to oversee the work.

George Lyon: I have a quick point of clarification. Will you explain for those of us who are not accountants what the difference is between the block posting system and the individual invoice posting system?

Paul Grice: I will have a go, although I am not an accountant either. If you see Derek Croll shifting uncomfortably in his seat beside me, you will know that I have got it wrong.

Basically, under the block posting system, a batch of payments is paid, say once a month. If payments are made on an individual invoice basis, the audit trail is clearer to see. Is that right, Derek?

Derek Croll: That was pretty good.

10:45

Paul Grice: It is very important to state that, as I think any member present will testify, the management of allowances—if you like, the money that goes out of the door—is very tight. I do not think that the auditors have got any complaints about the CASE system—the car allowance and subsistence expenses system. Understandably, and quite rightly, the auditors look at the reconciliation between that system and the ledger. They want to be absolutely sure, as I do ultimately, that payments cannot be made on the back of the ledger that are not recorded in the CASE system. The CASE system and SEAS do not talk to each other electronically, so to speak. In the long term, subject to the corporate body's agreement to the necessary investment, we will move to a single system. Given the time that it would take for it to be specced, procured and implemented, that will not happen in the short term. I would not want to rush the exercise, as I do not want to repeat the system mistakes of SEAS. The exercise would take a number of years.

The auditors have helpfully done a piece of work on our allowances system to identify about four or five key operational points as well as one or two policy points. I have had the internal auditors in to look at it and they are about 90 per cent of the way through the work. A project board, which Derek Croll sits on together with the City of Edinburgh Council auditor, is considering any improvements that we could make in the meantime to improve the reconciliation between the CASE system and the ledger system.

Ideally, we want the two systems to be perfectly in line. As members know, the allowances system is complex. Timing issues are also involved. It is a tall order, but I think that there will be scope for improvements. Again, when the review process is finished, I will be happy to report to the committee on the specific changes that the corporate body decides to make. I am sure that there will be some things that we can do in the interim.

Payroll is a different issue; I do not think that it is of the same order. If I may say so, auditors always look at payroll as an obvious point of potential concern. I do not think that the auditors identified any specific concerns about our payroll. Again, we are undertaking a mini review just to be sure that, for example, there is a minimal risk of our having ghost employees and so forth. The auditors highlighted one or two specific areas to do with payments to staff. If payments have been made by mistake, they want to know what our process is for ensuring that we recover moneys and how we would reduce the risk of that happening. Again, although the risk is largely theoretical, the auditors

are right to encourage us to look at the area. Indeed, we are in the process of undertaking that review as well.

I think that the allowances issue is more substantial. The auditors have helpfully produced a checklist of actions for us. I expect to respond positively to all their recommendations. In due course, I would be happy to let the committee have a note of any actions that we agree.

George Lyon: My final question concerns the head of finance who departed in April 2003. Clearly, there seem to have been problems in the information that was being reported up the line to you as the accountable officer. Was the problem that the individual in post was unwilling to report upwards? What were the reasons that lay behind his leaving the job?

Paul Grice: I hope that the committee will understand if I do not comment too much on what is a personal matter. The member of staff concerned has left the organisation. It is clear that the team was struggling at the time; not only was it struggling to cope but, as is often the case when people struggle to cope, its members did not always tell people up the line that they were struggling.

There is no doubt that I and my senior managers, including Derek Croll, were aware of the performance issues and that people focused very hard on managing them. It is important to make clear that, ultimately, the member of staff left by mutual agreement. With the committee's permission, I would prefer not to go too far into the matter other than to assure the committee that we are talking about somebody who was struggling to cope with the pressures of the job and not about something more sinister than that.

One of the issues that Derek Croll would accept is that my senior managers focused so clearly on the management of the team that they, in turn, did not report up the line to me as much as they should have done. Again, that is another lesson learned.

Susan Deacon: Following on from your previous answer, will you give us a sense of what the current state of morale is in the Parliament's finance staff, not least in the light of the various investigations and so on that have taken place? Are things moving on following what has clearly been a difficult period? You have told us a great deal about the various actions that have been taken—and which are continuing to be taken—to improve financial procedures. Are you comfortable that the on-going work is proportionate both to the potential level of expenditure involved and to the degree of risk that you mentioned?

Paul Grice: There is no point in hiding the fact that it has been a difficult year, but I think that

morale is quite good because we have a set of actions to deal with the situation. People like to see matters being improved. That has required leadership by me and Derek Croll, because such difficulties are a blow to people. The same people have to help us to turn things round—it is not possible to turn things round in spite of them. Nevertheless, by the time the qualification came in, I think people felt that they were already a long way down the track to responding. They were able to consider many of the auditors' comments and to say, "That is a fair point, but we are well on from that."

At a senior level, the issue has obviously taken up a lot of my time and attention. The new financial controller is coming into a much happier position than that of her predecessor, who has done a very good job. She represents a new injection of leadership. She will have a lot of support from Derek Croll and me. I recently met all the finance team and felt that morale was quite positive. There is a real determination to get things right, as well as a real pride in the job.

You asked whether our response was proportionate. In my job, it is difficult not to be risk averse, because we work in a goldfish bowl. The Parliament is an exemplar and we should set ourselves high standards. I believe that our response is proportionate. Looking at the value-for-money side, I am probably being cautious in one or two areas, but the risk to the Parliament's reputation is significant and we must do everything reasonable within our power—I think that we have done that—to rebuild that reputation. We must do so with support from the advisory audit board and the auditors themselves. Although I am probably being cautious, I still think that our response is proportionate. As a result, I hope that at this time next year we will be able to report an outlook that is not simply adequate but much more positive.

Rhona Brankin (Midlothian) (Lab): I have a wrap-up question on communication. It is clear that there have been communication issues within your organisation, but communication issues have also been identified between the SPCB and the Auditor General's office. Are you completely satisfied that, in future, you will have a mutual understanding with the Auditor General about messages that are being given and their implications?

Paul Grice: I think so. I am convinced that the auditors were completely clear and sincere in their belief that they were supporting my staff through a difficult time and sending clear signals. I have no doubt about that. My staff are equally sure that they were not receiving all the messages that they could have been receiving.

I am now much more alert to the issue. As with all such matters, it is not just a question of what

one is being told; it is about what one is looking for. One benefit has been to flag that up. I feel that my team has an extremely positive relationship with Audit Scotland; indeed, that has been the case throughout the process. Although the situation has not been easy for any of us, there has been a positive relationship. I have a great deal of time for our chief auditor and I work with the Auditor General on a range of matters, so there is good communication. I hope that all of us are a little sharper.

I would not want to reach a position in which the auditors felt that every single problem had to be drawn to my attention; I think that they would make that point, too. They were right in thinking that it was right to feed in those messages, but something went wrong. Given the severity of the situation, I feel that there might have been opportunities to have escalated the issue a little sooner. Fundamentally, the auditors are right to deal with our finance team. I would not want them to feel that they had to do the monthly accounts with me, as that would be an impossible position.

I have learned and I have made those points directly to the auditors. As things stand, I am satisfied that there is a clear line of communication. The fact that we are not taking any chances about messages not being received in either direction augurs well for the future.

The Convener: We have considered how things may or may not have been happening in the past, but I will finish by examining an issue for the future. You have a target of clearing up all the bank reconciliations by 31 March—the end of this month. You started off from a position in which there were some 290 items, of which 235 have been cleared up, which leaves you with 55 outstanding items. The initial gross value of the items that you were trying to reconcile was £5.3 million, which you have reduced to £81,000. When the items in question are set off against each other, the figure is narrowed down to £3,000. I am just putting on the record where you were and where you have got to. Will you be able to meet the target of the end of the month to clarify everything?

Paul Grice: I expect to have made further progress. At present, there are just fewer than 50 items still to be reconciled. I expect to be much further on by the end of the month, but I cannot give you a guarantee that we will be able to get the figure down to zero by then; we are down to the last few items. I must always balance the resource that I allocate to that against ensuring that we do not slip back from a much happier position now. There has always been such a trade-off.

Although we will be much closer to our target, my feeling is that we will probably not quite have

got the figure down to zero by the end of the month. I felt that it was right to set a challenging target. For the record, I believe that we must clear up those items, even if it takes a little longer than intended; we have a dedicated resource attached to that. I would be disappointed if we were not pretty close to zero, although my feeling is that it will probably take a little time—but not too much—beyond the end of the month to reach that target.

We have made steady progress. Tying up such matters is a tortuous process to have to go through. As you might expect, we began with the high-value and sensitive items and now we are down to the rump. Having begun the process, we should take it through to completion so that we can draw a line under the matter. When I report to the committee further down the road, I hope that I will be able to confirm that that has been the case.

Margaret Jamieson: I seek some clarification. Were you or your staff involved in drawing up the specification for the Scottish Executive accounting system or were you able to indicate to the Executive, which was procuring the system for itself and the SPCB, exactly what you required of that system?

Paul Grice: Do you mind if I ask Derek Croll to answer that, as he was much more closely involved?

Margaret Jamieson: No problem.

Derek Croll: We were certainly invited to specify our requirements, although I would have to say that they were not always met. It is clear that, in comparison with the Executive, we form a small proportion of the system's users. Basically, the system was being delivered to meet the Executive's needs. There was an add-on for us, but we could specify only so much.

Margaret Jamieson: Are you saying that you asked for A-Z and the Executive said, "No, you can only get A-M"?

Derek Croll: Yes, although it was probably more the case that we could get up to only F or G.

Margaret Jamieson: So you got a system that did not even consider your needs, never mind meet them.

Derek Croll: Now that the system is up and running fully, it is meeting our needs. It is not an exceptional system and I do not think that we would want to stay with it in the longer term, but it does meet our basic financial needs. During its early implementation, it was not even meeting those basic needs—that is where the key problems arose.

Margaret Jamieson: Thanks.

The Convener: As members have no further questions, I thank Paul Grice and Derek Croll for providing us with evidence.

Given the nature of the questions that we have asked and the material that we have received, which I will discuss with committee members later, we may want to furnish ourselves with the various letters that passed between Audit Scotland and you at various stages.

11:00

Paul Grice: As you might expect, I have asked for a full set of those letters. I have no problem with furnishing the committee with those so that you can look through the detail. I would be more than happy to supply you with any other material that you require.

The Convener: Thank you. You mentioned your work on the standing instructions for the future and kindly offered to make those available to the committee. Again, we may take up that offer and we will inform you if we decide to do so.

Paul Grice: Of course.

The Convener: Thanks very much for your time.

Our next item is consideration of the evidence that we have just gathered. In the past, we have often discussed such matters in private; however, it has been our approach in this inquiry to take the committee's views in public, for the benefit of people understanding our keen interest in the procedures that we are going through. Initially, I will take comments from members. I will then try to round things off with some comments about how we might proceed. Members may wish to seek some clarification on points from the Auditor General and his team. I am sure that that will be possible.

Rhona Brankin: I have to keep reminding myself of the scale of the problem. The problem is not large and the amounts of money that are involved were not large. There is absolutely no suggestion that there have been inappropriate actions that require more positive intervention than has been taken. We must bear in mind the scale of the issue. However, concerns have emerged, many of them retrospectively, such as the issue that Margaret Jamieson raised regarding the appropriateness of the system that was introduced. I was interested in the issue of communication. There seemed to be major issues both within the department and between the department and the Auditor General's office. I would be interested to hear more about that from the Auditor General's office.

It is important that we look forward and the evidence that we heard from Paul Grice indicates that the corporate body now seems to have got a grip on things and is moving forward. I do not know the extent to which it would be useful for someone to say, "You got a letter on such and

such a date in which we implied something,” and then for somebody to say, “I wasn’t sure of the implication.” I simply seek reassurance from the Auditor General’s side that, following some of the failures, it is satisfied that the lines of communication are now robust.

The Convener: Thanks. Before I ask Kenny MacAskill and George Lyon to speak, it might be helpful if I put to the committee the three options that I see for us. That might help to shape the discussion that Rhona Brankin has started.

Our first option is to have a discussion on the record, so that people can note what we say, and then take no further action. Our second option is to have such a discussion then write to Paul Grice, outlining our concerns and, if necessary, suggesting actions that may be taken. Our third option is to note our views in a report to the Parliament. Often when we prepare reports, we think that we need to comment on quite a lot of items on which we have taken evidence; however, in this instance, the process might be slightly different. Even if members do not have a great deal of concern, having taken evidence and, to some extent, having been reassured, we might still want to issue a report to show that we are taking the matter seriously.

I put to the committee those options for structuring our response, which I hope is helpful. If any other options occur to members, we can put them on the table.

Mr Kenny MacAskill (Lothians) (SNP): It was correct to carry out this investigation. The matter was correctly flagged up by the Auditor General’s office and having the investigation and seeking evidence from the witnesses were essential and appropriate. That said, subject to any views that the Auditor General’s office may add, I do not think that the issues have been fleshed out. It seems that the issues are much more sins of omission than sins of commission. That does not necessarily mean that we should not take action or take cognisance of them; however, we have at least been satisfied that there is no fraud or malfeasance going on. As Rhona Brankin commented, matters are much more down to poor communications allied with difficulties in implementation. Matters should have been addressed further up the line. The accountable officer should have been told or been in charge and, more important, should have advised both the corporate body and—broadening it out—the rest of Parliament. Lessons must be learned from that.

Beyond that, I am fairly relaxed about what action we should take. I could have seen an argument for option 3 were it not for the fact that the general discussion that we are having—whether or not our musings result in consensus—

will be a matter of public record. There appears to be no need to go beyond the three options, subject to any comments that the Auditor General’s office may make.

The investigation was essential and I am satisfied that matters were sins of omission rather than sins of commission. We need to ensure that the lessons that we are told have been learnt and are being implemented are adhered to so that, in future years, we can check against delivery to ensure that matters have been addressed.

George Lyon: I agree with Kenny MacAskill that the problem is definitely down to omission. First, SEAS and the difficulties of implementing the new system clearly played a big role. Secondly, there was an issue of communication—the lack of importance that the Auditor General placed on communicating some of the issues up the line to the accountable officer and the corporate body. That might well be down to the finance department and the weaknesses that were identified there. There were obviously on-going discussions about the issues between the Auditor General’s office and the finance department, but it seems clear from the evidence that nothing in those discussions was percolating its way up to the top. That poses a fundamental question and, as far as I can see, there have been major reporting failures across the way and up the way. It may be that the finance department is where the problem lies, and we should flag that up. Some of this is linked to the Parliament building, which is the elephant sitting in the room. The focus has been on that and not so much on the internal running of the Parliament and its financial affairs.

On balance, it would probably be right to discuss the matter in private session at some stage. The committee needs to produce some sort of document. Perhaps we could sign a written letter stating that we have identified the issues and that the committee is comfortable with Paul Grice’s assurances that the corporate body will take action to resolve the apparent failures. We have got to do that—I do not think we can leave it hanging on the *Official Report*.

The Convener: That is useful. I mentioned the option of writing to the chief executive to explain the points that we have received. It strikes me, after listening to George Lyon and Kenny MacAskill, that as members of the Parliament—not just of the committee—we should communicate our concerns to other members. They would be most interested to learn of our deliberations, although there will quite rightly be reports in the newspapers. If we write to the chief executive, we should send a copy of the letter to members. However, it occurs to me that if we pursue such an option, it will almost become a report. The difference between the two is not great.

Margaret Jamieson: I seek clarification of a couple of issues, including SEAS. I did not expect Derek Croll to say what he said. It is quite clear that customers' views on the design of the system bore no relation to those of the Scottish Executive procurement team. When the Executive was examining the procurement of such a system, I would have hoped that the views of other customers would have been taken into account. I would like to be assured that the specification of the system was discussed with Audit Scotland, or that it had an input. It is obvious that Audit Scotland audits the Scottish Executive as well as the corporate body. I would like to see some sort of tie-up in that regard.

I have concerns about communication and how both sides view its importance. We have heard this morning that letters were sent between Audit Scotland and the head of finance or the chief executive—the letter that we have received from the Auditor General indicates that high-level letters were sent here and there, containing various details—but that is not reflected in Paul Grice's evidence. As I have concerns, I would like to see the letters to ensure that they state, rather than imply, what the Auditor General has said to us. I am not saying that he is saying one thing in the letters and another thing in this forum, but I would like to ensure that what he is saying is correct. There seems to be a bit of a muddle—I use the term advisedly—between 2001-02 and 2002-03. Paul Grice was getting muddled as he responded. Some letters related to the final quarter, but others related to the accounts for the full year. I need clarification of that.

I agree with my colleagues who have stated that we need to compile a report, but I do not think it needs to be a lengthy report. It is important for the standing of the committee, not only within the Parliament but in the rest of Scotland, that we are seen to have something to say about this matter. We need to revisit the issue when we receive copies of the correspondence to which the Auditor General referred in the letter I mentioned, as well as the correspondence sent in response by the chief executive.

11:15

The Convener: I have intimated that we need to read the correspondence before we put anything on paper.

Margaret Jamieson mentioned the procurement process for SEAS. Perhaps the Auditor General will clarify today, or in writing at a later stage, whether his office had any input. I certainly think that that aspect is worth exploring so that, in reaching closure, we can state in writing where the situation has got to and what did or did not happen.

Susan Deacon: It is important to remind ourselves of some of the fundamental aspects of the issue. When the committee considered the matter before, the Auditor General said:

"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."

He also made it clear at that meeting, on more than one occasion, that

"no financial loss has been discovered and neither is there any indication that expenditure has been made inappropriately."—[*Official Report, Audit Committee*, 6 January 2004; c 271 and 273.]

We should remember that fact to maintain a sense of perspective on the issue. However, it is absolutely right that the matter is being investigated and reported on. It is important for the general public and the Parliament that the committee has opened up the issue to public scrutiny.

It is important to seek to move on. I have been further reassured by what we have heard from the Auditor General and Paul Grice about the fact that significant and substantial action has been taken to address certain problems.

One or two historic issues are worth noting and one or two lessons should be learned. Colleagues have raised other points, but I would like to speak about a specific point of process. How do we capture these things? We do not need to compile a report on the subject, as we have a big work programme and there has been a great deal of examination today. I think Kenny MacAskill or the convener suggested that we send a letter. I agree that we cannot rest on the *Official Report*. Perhaps the convener could construct a letter, which would be a matter of public record and wider distribution, to capture the views and concerns of the committee. I think that would be an appropriate means of recording the committee's views.

I think that Margaret Jamieson's points about the procurement system are worth noting. The relationship between the Parliament and the Executive is historic, as the umbilical cord has been cut, to a large extent. We heard that again when we heard the thinking within the Parliament about future financial systems. I do not have a problem with our recording such points, as long as it is done in the spirit of recognising that they are largely historic.

Certain lessons should be learned. Like other members, I would be interested to read some of the correspondence, not least the letter of 1 October 2002. Based on everything I have read and heard on the issue, I feel that there are differences between the interpretation of the letter and other discussions and correspondence at the time. My experience is that these things happen,

but I hope that all concerned will examine the verbal and written communications that take place in such processes to ensure that differences of interpretation can be minimised in future. I do not think that we need to go much further in that regard.

Something else in writing is required—from my perspective, a letter would be sufficient. We need something that enables us to record the concerns that we have identified and to move on to other things.

Robin Harper (Lothians) (Green): I agree with Susan Deacon and Kenny MacAskill that, in whatever document we produce, it is important for us to stress that there is no indication of malfeasance but there has been something of a guddle in communications.

I lean towards the convener's third option of a report, but it would not have to be a particularly long and detailed report. I am not disagreeing too much with what Susan Deacon said: the letter could be in the form of a short report that ticks off all the points that we have covered.

The only thing that is still nagging at the back of my mind is that I would like to ask the Auditor General whether he wants to say anything further about the writing-off of debts and reconciliation variances. I would ask him whether he feels that any other observations need to be made on the matter.

Rhona Brankin: We can get letters with dates, but I do not know whether that will take us much further forward. It has been a matter of interpretation. The committee must produce a document that indicates that there has been a proper examination of the issues and that they have not been ducked, but our response must be proportionate. I would be happy for us to write a letter that sets out our views.

The Convener: I thank members for those points. The comments that have been made indicate that there is a general consensus on several points. First, it is important that we put something down in response and do not rely on the *Official Report*. The consensus is that we must recognise the importance of having examined the matter and that, although we have received clarification of what was said in the letters, a misinterpretation clearly occurred with regard to one if not two letters in 2002. Some points that have come up remain to be clarified, such as the SEAS issue and how that system was procured. However, members are satisfied that there is no issue of fraud or malfeasance, that appropriate measures have been taken and that resources have been put in to ensure that the retrospective problems are dealt with—in the main, they have been dealt with or they are likely to meet the target

for being dealt with. The operations in financial years since then have been far more harmonious, prudent and to the satisfaction of the auditors.

We need to make those comments in writing. When we see the draft, we will be able to see whether they can be made in two or three pages, which might form a letter, or whether it takes us longer to make them so the document would look clumsy as a letter and we could call it a report. We are not falling out over that; it is a presentational issue. It is clear that the committee's view is that, for the sake of people's confidence in the committee, the Parliament, the auditors, the finance team and the chief executive, we need to put something on the record. We can do that.

I invite the clerk to obtain the letters that we have talked about and to make them available to members. We can construct two letters, so that we have official responses in writing on the procedures for the SEAS procurement and we bring forward a draft document.

Every stage of our proceedings so far has been in public, but we need to consider our approach to the preparation of any written document. Members may recall that, at a previous meeting of the committee, I indicated that, if drafts are discussed openly in the public domain, they must start in the public domain and not be brought in later. When we write our draft reports, the clerks need to know whether they will be discussed in public. Despite the departure of the head of finance, in my view there is nothing in this case that precludes us from discussing a draft in public. Do members have a view on that?

Margaret Jamieson: We have not taken such a decision. When we discussed the issue, we were quite clear that the draft report—

The Convener: I am not saying that we have taken a decision. I am outlining the approach that we might take if we make a decision now. We have not yet taken a decision; I am asking that we do so now.

Margaret Jamieson: In the first instance, any draft report must be discussed in private. In other committees, matters have changed significantly because draft reports were discussed in public and there was a lobbying process. I am not saying that that would happen in this committee, but discussing the draft in public would leave us open to that.

The Convener: I am easy either way. However, it is proper that we pin down the approach that we want to take. Until now, everything relating to this issue has been dealt with in public. I would like the committee to agree to discuss our draft report either in private or in public, so that the clerks are clear about what is happening.

Mr MacAskill: I understand where Margaret Jamieson is coming from. It does not matter whether we write a letter or a report—I am for keeping the nomenclature as straightforward as possible. However, if such a document is prepared, it will be issued to us. We will not decide whether to discuss it in private or in public until the meeting in question, when the matter will be dealt with as item 1 or item 2 on the agenda. I am more than happy to discuss the draft in public. To date, we have dealt with this matter entirely in public. Going into private at a very late date would send out the wrong signals. However, if an issue arises that worries Margaret Jamieson, we can take a decision similar to the one we took this morning. Given that we decided to have this discussion in public, we should also consider the draft in public unless there is a good reason for not doing so.

The Convener: I have had a chance to speak to the clerk and can clarify why it is useful for us to know in advance whether the draft will be discussed in private. It is always possible at a meeting to decide to make a paper public. The difficulty is that papers in the public domain are posted on the web and become available before the meeting. This is simply a point of procedure. If we are to have an open discussion of a draft letter or paper that we write, we need to know whether that discussion will take place in the public domain before we start. Members can decide to make it available on the day, having seen the draft, but that would then happen after the event.

George Lyon: I thought that we discussed this issue at a previous meeting, in response to a paper that the convener circulated, and that we agreed to continue as normal and to discuss drafts in private. There is an individual involved in this case whom we may want to discuss in detail. This morning's meeting showed that we cannot do that in public session. The issue that I raise will have to be taken into consideration. For the sake of everyone involved, in this case our first discussion of the draft should take place in private session.

11:30

Susan Deacon: This discussion illustrates some of the concerns that have been expressed externally about committees' meeting in private. The discussion that we have just had was good, informed and open. That demonstrates that we are able to discuss the matter in public session. If I were listening to this exchange, questions would arise in my mind about what other matters were suddenly going to be raised behind closed doors. Of course I am sensitive to issues relating to individuals, but if we were specifically to discuss such matters, I think that our procedures would allow us to respect the individual's privacy. Indeed, when the Procedures Committee considered the

issue and urged committees to conduct more business in public session, it emphasised the importance of ensuring that the privacy of individuals was respected, so I am sure that we can do that. However, I think that we have raised all the matters that we would want to be reflected in the report or letter that comes out of our discussions and all of them could be addressed in public session.

Rhona Brankin: To be honest, I see no reason to change the way in which we have done things in the past. Some of the issues are a little sensitive and difficult and it would be more appropriate to have the discussion in private.

Robin Harper: I find the issue very difficult. The public might expect us to take at least part of the discussion in public. I lean towards Susan Deacon's suggestion that we could go into private session if we wanted to discuss individuals at some point. I would rather discuss as much of the matter as possible in open session. In other words, we could discuss the report in open session, but we could decide to go into private session before commenting on a particular part of the draft report, if that were needed. I know that that sounds a bit awkward, but my leaning is very much towards adhering to the idea that we should discuss matters in public as much as possible—and this matter in particular, because it is about the Parliament.

Mr MacAskill: Members' concerns about the individual are a red herring. We can write a report or a letter only on the basis of the evidence that we have heard. Paul Grice offered us the opportunity to push the matter further and we all—having heard allusions about where the discussion was going—chose not to go there. If we were to seek to investigate the matter further, we would therefore have to recall Paul Grice and/or any other representative of the Parliament. I do not understand the concerns about individual confidentiality. We have not even named the individual and I am not aware of his name or of anything apart from the fact that difficulties were alluded to and we decided not to pursue the matter.

On that basis, I cannot envisage what we might consider putting in the report that had not already been the subject of questions and discussion in the public domain and that was not predicated on information in written communications that are already in the public domain. We should discuss the report in public unless something comes up during that discussion that should be considered in private, although I cannot envisage that happening.

Rhona Brankin: I did not suggest that we discuss the matter in private for that reason—it was certainly not my main reason for making the

suggestion, although it might represent a small part of it. I do not want to spend time revisiting the issue. There are particular reasons for the Audit Committee to have such discussions in private—this committee is not the same as other committees. It would seem a bit odd if we were suddenly to change our practice in relation to a particular discussion. I do not think that there is any pressing reason to have the discussion in public. We must ensure that the document, report or letter—or whatever the committee produces—clearly sets out what we have done and our findings. I would have no problem with having the discussion in private. There are one or two issues that I would like to raise with Audit Scotland that are slightly sensitive due to the nature of the investigation.

The Convener: I will draw this discussion to a close, as members have had ample opportunity to make various points. I have listened intently to those points, which have swayed me one way or another. They have all been valid but, having heard them all, I must say that I do not think that we have a set procedure other than an assumption that we will treat each item on a case-by-case basis. The reason why we keep revisiting the issue is because we want to deal with as much business as possible in the public domain but are all conscious that the Audit Committee is one of the committees that take a larger amount of items in private than other committees do.

I think that the balance of the argument must be that, if members have sufficient concerns about certain matters—not just matters relating to individuals, about which members might feel limited in what can say—and believe that they could ask questions of Audit Scotland more appropriately in private, that is the approach that we should take. For the sake of getting some closure on the issue, I put it to members that we agree that we will ask the clerk to prepare a draft report for us on the basis of the points that were made earlier relating to obtaining letters and information and that, in the first instance at least, we will discuss that report in private. Do we agree to take that approach?

Members indicated agreement.

11:37

Meeting suspended.

11:50

On resuming—

“Performance management in Historic Scotland”

The Convener: Agenda item 5 relates to Audit Scotland’s report “Performance management in Historic Scotland”. I invite the Auditor General to brief the committee on the report.

Mr Robert Black (Auditor General for Scotland): My briefing will be brief. We have published a report on performance management in Historic Scotland because the matter has been in our work programme for some time. Our report was intended to examine how Historic Scotland approached measuring, managing and reporting its performance.

The general picture that emerges from the study is of an organisation that is achieving its targets and delivering services that meet its objectives in broad terms. In 2002-03, seven of the nine key targets were met or exceeded and the other two were narrowly missed. Those targets cover key features of Historic Scotland’s performance in relation to conserving buildings and promoting interest in them. In the longer term, over the past seven years, the great majority of the targets—90 per cent—have been met or exceeded.

A key finding of the report is that, in recent years, not all the key areas of work were covered by performance targets. For example, targets relating to the grant scheme were discontinued three years ago and the target for visitor numbers was replaced with a target for market share compared with other visitor attractions. We have suggested that Historic Scotland should consider reintroducing performance targets for those matters and that more information could be provided on the cost and quality of services.

Another key finding is the considerable success that Historic Scotland has had in increasing its revenue, largely from admission charges and retail sales. Our report records that, in 10 years, generated income grew from £6 million to just over £19 million, which is a growth of 220 per cent. The percentage of the organisation’s budget derived from income has doubled from 18 per cent in 1982 to 36 per cent in 2002. There is quite a change in the balance between income and Government grant. In effect, spending increases have been largely supported by increases in income. Historic Scotland’s budget has risen from £40 million in 1993-94 to £53 million in 2002-03 and is planned to rise further over the next three years.

It is probably worth noting the volume of activity that Historic Scotland undertakes. For example, it handled some 25,000 listed building consent applications over 10 years as well as many thousands of other types of applications. In most cases, those are dealt with without any controversy or difficulty. However, it is fair to say, as the report does, that Historic Scotland's decisions can be controversial and occasionally attract complaints about fairness and consistency. Historic Scotland pointed out to us that none of those complaints has led to a successful application for judicial review or an unfavourable report by the ombudsman.

Generally speaking, the picture of the performance of the agency is positive. As members will be aware, in parallel with our study, the Scottish Executive has conducted a review of Historic Scotland, which concluded that Historic Scotland should remain an executive agency in the Scottish Executive Education Department and that it should continue to deliver all the functions that it currently delivers. The review identified a clear need for a cultural change in the organisation, although I should point out that our study did not consider that feature. The Minister for Tourism, Culture and Sport has announced that he is to ask the chief executive of Historic Scotland to implement an organisational change programme soon.

David Pia, who directed the study, is with me and we would be happy to answer any questions that you may have for us.

The Convener: The committee will have the opportunity to decide what, if any, action we wish to take with respect to the Auditor General's report at a later stage in our deliberations, but members are welcome at this stage to seek clarification from the Auditor General and his team on any particular points arising from the report.

Margaret Jamieson: Auditor General, you identified the fact that you did not consider repair grants and their contribution to the social, economic and environmental objectives of ministers. Do you have any plans to revisit Historic Scotland and examine that matter? The issue of repair grants has caused me and other members some problems over the past five years and I have noticed an increasing number of public petitions about the level of grant and the way in which grants are approved or otherwise by Historic Scotland.

Mr Black: The short answer is that I have no plans to do further work on Historic Scotland for the foreseeable future. However, that does not mean that the matters that have been raised in the report will not be addressed. David Pia, along with the external auditor from Audit Scotland, Fiona Kordiak, attended the Historic Scotland audit

committee the other day. They received a commitment there that all the issues that have been raised in the Audit Scotland report will be addressed and taken forward within Historic Scotland and will be overseen by Historic Scotland's audit committee.

It would be perfectly possible for this committee, on behalf of the Parliament, to invite Historic Scotland to report in future annual reports on any matters that may be of concern to members. Through the normal audit process, we will be keeping under review the progress made against the suggestions in the report. The option exists for members to receive reports-back if required.

David Pia (Audit Scotland): The external auditor intends to examine the administration of the repair grants scheme over the next year. That is included in the auditor's plan.

Susan Deacon: I note in passing that, although this committee is often quick—by necessity—to identify failings and shortcomings in organisations, we have before us some very positive measures of performance and we might wish to explore that further in future.

I wish to ask about the mystery visitor programme. Paragraph 2.29 of the report states:

"the 'mystery visitor' programme replaced the 'percentage of satisfied visitors' targets as a measure of customer satisfaction and the quality of the service."

I am interested in that particularly as somebody who feels strongly that we need to find ways of assessing people's experiences of public services generally in a more qualitative way. Some of the traditional measures, such as percentages of satisfied visitors, have limitations. Could you comment on that point, Auditor General?

Mr Black: I will invite David Pia to come in on that in a moment, but I will offer a preliminary point first. The response that we received from Historic Scotland on the matter was that the organisation was performing extremely well against the simple measure of the percentage of visitors who are satisfied or very satisfied. Historic Scotland therefore decided to introduce a new measure, the mystery visitor survey, which it thought would be a more sensitive system. However, it is arguable that, to the general public, the percentage of satisfied visitors is a useful statistic to have available.

David Pia: I am not sure that I can add much to that. The mystery visitor programme is commissioned to be run by an independent company. Historic Scotland argues that it finds that measure more helpful and reports a satisfaction level of 87 per cent according to that system, as compared with a level of 97 to 98 per cent, which was steadily reported with the customer satisfaction survey. We have drawn the

attention of Historic Scotland to the issue of targets and how it measures visitor satisfaction and the organisation will review that system.

12:00

Susan Deacon: I presume that Historic Scotland does not need to choose between the two systems, as an organisation could use both systems, in theory. To my knowledge, it is relatively unusual, although perhaps not unique, for a public body to have pursued such a project in such a specific way, by making it one of its major targets. I wonder whether Audit Scotland has explored the potential of building such a system into the targets of other public bodies. Do you consider that the various organisations should liaise with and learn from one another?

David Pia: In our reports of this kind, we draw attention to the systems that an organisation uses to measure customer satisfaction. That is central to the right approaches to performance management.

Rhona Brankin: I would like some clarification of why Audit Scotland wants Historic Scotland to restore the information about the number and value of repair grants, as well as of other issues relating to its explicit targets.

David Pia: We are concerned that although a substantial proportion—approximately 20 per cent—of Historic Scotland's annual expenditure of £11 million or £12 million relates to the grant scheme, none of its key performance targets relates to that scheme. However, as the report acknowledges, that is not a straightforward matter, because the number and value of grants do not tell the full story of what is done with the money and the outcomes of the expenditure. Nonetheless, we feel that Historic Scotland's failure to provide the information means that there is a gap in the suite of performance data that it publishes. We would like some more basic data about, for example, the numbers of applications to be reported. Those data might not be reported as a key performance target, but we would like more information about such activity to be reported in Historic Scotland's annual report.

Rhona Brankin: The matter is clearly difficult, as you mentioned. In a sense, the performance is what the money delivers. Audit Scotland wants more information about the performance and the way in which it is administered.

David Pia: We recommend that Historic Scotland should provide more information about grants and consider its means of identifying an appropriate target that relates to such a major sphere of activity.

Rhona Brankin: It is useful to have had this work done. We note that the Executive has conducted a review as well. I welcome the minister's recognition of the need for a cultural change. Part of the value of the report is that it shows that the organisation is functioning well. Other reports have drawn attention to the need for some sort of cultural change, but that is not really within the remit of this committee. Audit Scotland recognises that, within the scope of its report, Historic Scotland is performing well.

The Convener: We will discuss how to proceed at a later stage. I thank the Auditor General and his team for the briefing.

Financial Scrutiny Inquiry

12:04

The Convener: Item 6 concerns our financial scrutiny inquiry. I remind members that the clerks have provided a paper, to which I will speak briefly before inviting comments from members.

The paper was drawn up following a meeting that I had with the convener of the Procedures Committee. Members will recall that the committee asked me to seek further clarification from him following the Procedures Committee's decision to hold a review of various matters that might overlap with our interest—arising from the Audit Scotland report "Moving to mainstream"—in the financial impact of amendments to bills.

Our discussion on this agenda item can be brief, because it is clear that, in drawing up a remit, the Procedures Committee decided to focus on the issue of timing rather than on the financial impact of amendments. It will not consider the matters that we intend to examine; its inquiry will involve a broader sweep and will deal with many other issues. However, the remit says that the Procedures Committee will examine

"whether committees involved in considering a Bill after it is first introduced have sufficient opportunity at later Stages to consider the impact of amendments".

As I interpret those words, they include sufficient opportunity to consider the financial implications of a bill.

Following my discussion with the Procedures Committee convener, it became self-evident that we have three options, which are outlined in the clerk's note. First, we could write to the Procedures Committee about the issues that were raised in the Auditor General's report and bring them formally to that committee's attention, requesting that it address those matters under the remit to its current inquiry. Secondly, we could consider sending a submission to the Procedures Committee's inquiry. My view is that that is problematic because of timing and evidence taking—it would almost be like preparing a report ourselves. Finally, we could wait and see what recommendations emerge from the Procedures Committee's inquiry.

Option 3 is not ruled out if we go down the road of option 1. We could write to the Procedures Committee explaining our initial concern and saying that that committee should be able to take into account the matters in which we are interested in its consideration of the term "sufficient opportunity" in relation to the financial impact of amendments. If we flag that up with a formal letter, we would be left with the opportunity

to consider the outcome of the committee's deliberations at a later date. That would lessen considerably the amount of work that we have to do and would avoid duplication of another committee's work. I am happy to take members' views.

Margaret Jamieson: Under the Procedures Committee's remit, the call for evidence

"invited from any MSP, person or organisation"

covers the points that the Auditor General made to us. Comments can be made directly to the Procedures Committee. There is now no need for us to conduct the inquiry that we had anticipated doing.

The Convener: I see nods of agreement. Do I have the committee's agreement to draft a letter, which I will put before members, raising our concerns formally with the Procedures Committee, asking that committee to consider those points in its inquiry and drawing the Auditor General's report to its attention?

Members indicated agreement.

12:10

Meeting continued in private until 12:38.

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