



OFFICIAL REPORT
AITHISG OIFIGEIL

Scottish Commission for Public Audit

Wednesday 28 September 2016

Session 5

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SCOTTISH COMMISSION FOR PUBLIC AUDIT

1st Meeting 2016, Session 5

COMMISSION MEMBERS

- *Colin Beattie (Midlothian North and Musselburgh) (Chair)
- *Alison Johnstone (Lothian) (Green)
- *John Lamont (Ettrick, Roxburgh and Berwickshire) (Con) (Deputy Chair)
- *Rona Mackay (Strathkelvin and Bearsden) (SNP)
- *Jenny Marra (North East Scotland) (Lab)

*attended

THE FOLLOWING ALSO PARTICIPATED:

- Russell Frith (Audit Scotland)
- Caroline Gardner (Auditor General for Scotland)
- Ian Leitch (Audit Scotland)
- Diane McGiffen (Audit Scotland)

LOCATION

The Adam Smith Room (CR5)

Scottish Commission for Public Audit

Meeting of the Commission

Wednesday 28 September 2016

[Colin Beattie opened the meeting at 13:00]

Decision on Taking Business in Private

Colin Beattie (Midlothian North and Musselburgh): Good afternoon and welcome to the first meeting this session of the Scottish Commission for Public Audit. I have the honour of chairing this meeting in my capacity as the oldest—and clearly the wisest—member of the commission until the chair has been elected. I remind members to turn off mobile phones and other electronic devices.

Agenda item 1 is a decision on taking business in private. Does the commission agree to take items 6 and 7 in private?

Members indicated agreement.

Interests

13:01

Colin Beattie: Under agenda item 2, members are invited to declare any relevant interests. I will start: I have nothing to add to the interests that I have declared in the register of members' interests.

John Lamont (Ettrick, Roxburgh and Berwickshire (Con): Similarly, I have nothing to declare other than what I have disclosed in the register of members' interests.

Alison Johnstone (Lothian) (Green): I have nothing additional to declare.

Rona Mackay (Strathkelvin and Bearsden) (SNP): I have nothing to declare.

Jenny Marra (North East Scotland) (Lab): I have nothing additional to declare.

Chair

13:01

Colin Beattie: Agenda item 3 is choice of chair of the SCPA. I seek nominations for the position.

John Lamont: I propose Colin Beattie.

Alison Johnstone: I second that.

Colin Beattie was chosen as chair.

Deputy Chair

13:01

The Chair (Colin Beattie): Agenda item 4 is choice of deputy chair of the SCPA. I propose John Lamont.

Jenny Marra: I second that.

John Lamont was chosen as deputy chair.

The Chair: Congratulations, John. You have taken on an onerous position.

I suspend the meeting for a couple of minutes to allow the witnesses to come in for agenda item 5.

13:02

Meeting suspended.

13:02

On resuming—

Audit Scotland Annual Report and Accounts and Auditor's Report on the Accounts

The Chair: Agenda item 5 is an evidence-taking session on Audit Scotland's "Annual report and accounts 2015/16". Members have a copy of the report in their meeting papers, along with the auditor's report on the accounts.

I welcome to the meeting Ian Leitch, chair of the Audit Scotland board. He is accompanied by Caroline Gardner, the Auditor General for Scotland and from Audit Scotland, Diane McGiffen, chief operating officer, and Russell Frith, assistant auditor general.

I invite Ian Leitch to make a short introductory statement. I should point out that we have a fairly tight schedule today because we have to finish the meeting in time to release members for the chamber at 2 o'clock. I therefore ask for responses to questions and so on to be fairly tight.

Ian Leitch (Audit Scotland): Thank you, chair, and congratulations on your re-election. I assume that it is appropriate to say that.

The Chair: Thank you.

Ian Leitch: Thank you for this opportunity to make a brief opening statement. I am pleased to be able to introduce the Audit Scotland annual report and accounts, my first as chair of the board, and I look forward to working with the new commission.

As the commission will know, the role of the Audit Scotland board is to support the work of not only the Auditor General but the Accounts Commission, which deals in particular with local government and other areas. We do that to help ensure that public money is being spent properly and effectively on the key public services on which we all rely.

I am also pleased to welcome to our board Professor Russel Griggs, who was appointed by the previous commission. The board and our audit committee have reviewed the current Audit Scotland accounts and considered reports from our internal auditors, which are mentioned on page 24 of the annual report.

The annual report makes reference to significant political and economic changes and challenges that public bodies have faced over the previous year and which reinforce the need for us to continue to keep a sharp focus and to be able to adapt. We are ensuring that we organise ourselves to be flexible enough to respond to the

challenges ahead. We already have a strong organisation to build on and I thank the Auditor General, Diane McGiffen, Russell Frith and all staff for the work that they have done and the commitment that they have shown throughout the year.

As we highlight on page 9 of our annual report, the Scottish Parliament is getting substantial new financial powers that will mean even greater policy choices over tax spending and additional responsibilities for us. We have been discussing the implications of all those new powers—and any additional work that they imply—for Audit Scotland. I am pleased to say that Audit Scotland has actively been considering the practical implications of the developments and we will be able to share our plans when we present our budget proposals to the commission in the next few weeks, depending on the commission's timetable.

Thank you, chair. I believe that Caroline Gardner has a brief comment or two to make.

Caroline Gardner (Auditor General for Scotland): Audit Scotland plays a vital role in helping me and the Accounts Commission to ensure proper scrutiny of public money. Like all public bodies, we recognise the need to continue to change, to improve and to demonstrate efficiencies. Our strategy in that respect is set out in a stream of projects under the becoming world class banner, and we are happy to talk more about how we are doing that.

A key part of our work is supporting the Scottish Parliament, especially the Public Audit Committee, to subject public bodies to effective scrutiny. At the same time as driving change in our own organisation, we have delivered our core work successfully over the past year, producing more than 300 annual audit reports, 17 performance audits and all the accompanying work needed to support the Parliament and its committees. Some of the themes highlighted in the report before you include the implementation of the Parliament's new financial powers, managing public sector reform and transforming public services.

I am grateful to my colleagues for all their hard work and commitment during a year that has been challenging and productive for all of us. We will do our best, chair, to answer the commission's questions.

The Chair: Thank you, Caroline. On page 6 of the annual report, you state that 96 per cent of central Government audit reports and 21 further education audit reports were completed by their respective due dates. Can you confirm the reasons for the delays in the 4 per cent of audits that were not completed on time?

Caroline Gardner: Two of those—the audit reports for the Scottish consolidated fund and Skills Development Scotland—were just three days late due to timing difficulties with the audit committees and the sign-off of the audits themselves, so the delays were really not significant in any way.

The third report was the audit report for the Scottish Police Authority. As a member of the Public Audit Committee, chair, you will be aware that I have expressed particular concern about the SPA's financial management systems and controls. The situation led to a much more significant delay in the completion of that audit and a significant increase in the audit fee that we had to charge for that work.

The Chair: How much extra was the audit fee?

Caroline Gardner: Can you help me with the additional fee, Russell?

Russell Frith (Audit Scotland): From memory, I think that it was £40,000.

The Chair: That is not insignificant.

Caroline Gardner: It is a significant amount of money.

The Chair: Probably the main thing that I am trying to get reassurance on is that the delays were not caused by lack of resources.

Caroline Gardner: No, that was not true of those cases. As I have said, two of the delays were very short and were down to timing and scheduling difficulties. With the SPA, the delay was due to problems within the police authority, not within the audit process, but I thank you for your concern about the resources that we have available.

The Chair: We were not promising you more.

Caroline Gardner: I know. [*Laughter.*]

Jenny Marra: On page 10 of the annual report, Audit Scotland advises that

“there were seven auditor opinions qualified this year—two in further education, one in central government and four in charities.”

Is that a normal number of qualified audit reports in any given year or is it untypically high? Are there any resource implications for Audit Scotland that may result from qualified audit reports?

Caroline Gardner: I will ask Russell Frith to come in with the detail for those seven bodies in a moment.

In broad terms, the figures are fairly typical. We have not yet seen an increase in the number of qualified or modified auditor opinions as a result of increased pressure on public bodies. However, it is a risk that we are conscious of, especially as we

head into the next Scottish parliamentary budget round and, for us, a new round of five-year audit appointments. Russell, can you amplify the reasons with regard to those particular bodies?

Russell Frith: I can indeed. First, none of the qualifications related to the true and fair view of the financial statements. Two colleges had qualified opinions on their remuneration reports due to certain pension information not being included, which was required to be included for the first time.

The modified opinion in relation to the Scottish Police Authority related to keeping or not keeping proper accounting records during the year on fixed assets. The issue was eventually resolved post the year end for the accounts, but there was an issue during the year.

The other four bodies were local authority charities. Their opinions were qualified because the governing documents could not be traced. To give members a bit of context, I should point out that some of those charities have been around for over 100 years and have been through many local government reorganisations, and they were only just being required under the charities legislation to be formally audited. Therefore, it is perhaps not too surprising that the records for some of those very old and small charities were not complete going right back to the beginning.

Jenny Marra: Thank you.

John Lamont: My question relates to the section on page 15 of your report entitled “Improving our performance”. There, you mention

“developing a new fees strategy, which will be implemented during 2016.”

Given the previous commission's interest in that area, will you give us an update on that work?

Ian Leitch: Yes. We have carried out a consultation with other client groups and looked at the overall feeing arrangements, and we are introducing transparency into the process. There will be no cross-sector subsidies. In other words, each sector—such as health and local government—will pay its own fees. Within that, there might be some adjustments between local government bodies. All the detail of that will be supplied to members in the budget submissions that we will make shortly for the next round. When we have your timetable, we will submit all the documents.

As the chair will recollect, I gave an undertaking before the commission last year that that work would be undertaken during this year, and it has been done.

John Lamont: I used to be a solicitor in private practice—

Ian Leitch: I still am.

John Lamont: Lucky you—I like to think that I am now a reformed character. When we charged clients fees, we had to justify the fee by giving a breakdown of the hours and the chargeable rate for each solicitor involved in the work. Before the changes, how have you worked out the fees that you have charged?

Ian Leitch: Russell Frith will deal with the detail of that.

Russell Frith: The fees that are paid by the audited bodies are an amalgam of several things, one of which is the direct cost of carrying out the annual financial audit. There is also a sharing out of some central costs, which are apportioned between the bodies, largely according to the size of the audit fee.

The fees for individual audits are worked out on the basis of what we think the risk profile is for a body of its size in the particular part of the public sector, so they are different for local government, health and central Government. We set an indicative or now expected fee for the audit, which is based on our overall central intelligence. The auditor and the audited body then agree the precise fee based on the individual circumstances. For example, if our expectations of a good level of internal control or good accounts preparation are not being met, the auditor may agree a final fee that is above the expected level.

John Lamont: Okay. Thank you.

Rona Mackay: Page 18 of the report relates to staff numbers. In particular, there is a rising number of staff departures annually. Can you confirm that business cases are in place to demonstrate value for money in the funding of staff departures, given that they are increasing year on year? Will you give us an idea of the forward planning that goes into those rising costs?

13:15

Diane McGiffen (Audit Scotland): I am very happy to do that. We have a voluntary early release agreement policy and practice that was approved by our remuneration committee, and we report annually on the savings that have been made from previous early releases. Each individual case has to have a business case and it has to generate savings over a three-year period. We report annually to the remuneration committee on each case to ensure that the savings are continuing to be made. The process is very tightly managed and we report clearly on it because we are keen to demonstrate that we are achieving good value for money.

Because we have a no compulsory redundancy policy, we have two possibilities available to us in

reshaping the organisation. One is to make clear choices when we have ordinary turnover and leavers from the organisation. We need to decide whether we should continue to fill the post or whether we want to restructure. Secondly, over the past few years, although not every year, we have run a voluntary early release scheme in which we seek agreement with colleagues over their departure. That has helped us to fundamentally reshape the organisation. Those are the two options that are available to us in that regard.

Rona Mackay: Are you confident that you are getting value for money from those voluntary redundancies?

Diane McGiffen: Very much so. The tariff that is in place for the voluntary early release agreement ensures that we manage the cost and benefits to the public purse very carefully.

Rona Mackay: Thank you.

John Lamont: My next question is on payments to suppliers. You mention on page 20 of the report that

“84 per cent ... of trade invoices were paid within ten days”,

which represents a slight fall from the previous year’s performance of 87 per cent. Are there any reasons for that marginal fall in payment rates?

Caroline Gardner: I do not think that there are any particular reasons for it. It is simply a result of the changing pattern of suppliers and invoices coming through. We monitor the matter carefully as part of the quarterly performance monitoring that goes to the Audit Scotland board for its attention. If the trend continues, we will drill further into it, but the evidence for last year suggests that it was just a normal business variation.

Alison Johnstone: Page 21 of the annual report reports an underspend by Audit Scotland of £834,000 during 2015-16, which equates to 8.4 per cent of the total resource requirement that was approved by Parliament. Does Audit Scotland have a target for underspends? The figure of 8.4 per cent seems relatively high.

Caroline Gardner: That is a very good question. The first thing to say is that we aim to underspend. If we overspend the budget that is approved by Parliament and the SCPA, our accounts are automatically qualified, which you will understand would be very bad news for me as Auditor General. We therefore go to some lengths to ensure that that does not happen.

Of the £834,000 that is mentioned in the report, £125,000 relates directly to our capital budget. That reflects the savings that we made on the contract for fitting out our new offices at West Port. That was a large capital contract last year, and we

made significant savings that will be returned to the consolidated fund unused.

In the revenue part of our budget, the underspend was about £700,000. We can give you a more detailed breakdown if that would be useful, but two big things contributed to that. The first was higher-than-budgeted fee income. The income was about £390,000 higher than expected because of extra work being required for things such as the Scottish Police Authority, new bodies coming in during the year and other movements at the margin.

The second thing was a reduction in our property running costs. You will see a reference in the annual report to the fact that the dilapidation costs that we had to pay to our landlord in George Street were lower than the provision that we had made. That released about £270,000 to our revenue account, which again we could not have budgeted for in advance.

We aim to keep our underspend lower than that in normal circumstances but, in particular, the property move last year made the underspend higher than we planned for.

The Chair: It would be helpful if you could give us a breakdown of that in writing, so that we can have a look at it.

Caroline Gardner: I am happy to do that.

Alison Johnstone: There were obviously unexpected savings and perhaps unexpected income. Is there an opportunity to recycle some of that underspend back into the public sector at a time of incredibly tight budgets?

Caroline Gardner: We do not have the ability to hold reserves so, if we underspend our budget, there are two broad options. If the underspend is significant and it relates to the audit work that we carry out directly, we can make a refund of fees to audited bodies, which we have done in the past. The other option is that the money is simply returned to the Scottish consolidated fund and is available for recycling. Because we cannot hold reserves, we aim to balance our budget each year on the nose of the total that is approved by Parliament.

Ian Leitch: The issue has exercised the board members and me because we are conscious that, when we ask for funding—as we will do in the next few weeks when we come before you for the next budget round—we are asking for something that top slices the consolidated fund and that, if we ask for too much, some other body will be denied a resource that year. It is all very well having an underspend at the end of the year—we need some margin there—but we are taking a very sharp pencil to this in order to ensure that the margin of underspend is reduced year on year so

that, as you rather validly said, other bodies are not denied the money up front.

Alison Johnstone: The annual report says that part of the aim of a world-class audit organisation is about identifying risks. With regard to improving the use of public money, the collapse of the Scottish Coal Company, for example, exposed a series of woefully inadequate insurance and bond schemes that had been set up with local authorities and which might have a significant impact on public finance. Is that the sort of risk that Audit Scotland might look at?

Caroline Gardner: It is certainly one of the sort of risks that we look at. You are right to say that the opencast mining claims that we saw, first in East Ayrshire, were a wake-up call for everybody about some of the longer-term liabilities that might be around but which people were not paying attention to. We have looked closely at related claims for opencast mining waste disposal sites, where there is a liability in the longer term that will have to be met with regard to ensuring that the risks are managed.

One of the things that I have been making a priority as Auditor General is ensuring that public bodies' financial reporting is as clear as it can be about what those risks are—this goes from local authorities through to the Scottish Government—because there is a need to ensure that there is transparency around long-term commitments and liabilities. We aim to do that from the bottom up, through our knowledge of individual public bodies, and from the top down, thinking about issues such as opencast coal mining and the parallels for other public bodies. We are always keen to hear from people with a specialist interest in or insight into things that might not be getting the attention that they deserve.

Jenny Marra: On page 31, the annual report states that a benefit in kind that is provided for the director of audit services has increased by 18 per cent, from £3,800 to £4,500. Can you explain the precise nature of that benefit in kind and explain the 18 per cent increase from 2014-15? Furthermore, can you explain the governance arrangements that are in place for granting such additional employee benefits?

Caroline Gardner: The benefit in kind that is referred to in that table relates to the provision of the leased car for the employee concerned. We have a leased car scheme that is available to a number of our staff who are required to travel for their work. You will understand that auditing 220 bodies across Scotland means that it is important that our staff are mobile and able to get to where they need to be.

Diane McGiffen can talk you through the detail of the governance of that and the reason for the

increase in relation to the individual whom you mention.

Diane McGiffen: I think that the increase relates to the routine replacement of the car. Cars are provided on a four-year lease period. Over the past few years, we have done a lot of work to reduce the overall cost of our car leasing arrangements, and that has contributed to some efficiencies that we have made. Currently, we have 105 leased cars in the scheme, and they are part of the terms and conditions of colleagues who are working on front-line audit work. Membership of the car scheme has shrunk over the past few years and, as you will see from our carbon reporting, we are consciously looking at effectively managing people's mileage.

The car scheme has been in existence for some time. We are currently looking at the wider pay terms and conditions of colleagues, and the scheme is in the mix of those discussions.

Jenny Marra: Please correct me if I am wrong, but I do not think that the other staff who have benefits in kind are detailed in the report. If they were, it would let us see the cost of the other cars and whether there had been such a large cost increase—18 per cent—for all of them. Can you give me any idea of how many cars we are talking about and whether the replacements all show an 18 per cent increase, so that we can see whether that is an average increase?

Diane McGiffen: I am very happy to come back to you later and supply you with the details that you have asked for.

The presentation of the benefit in kind in the table on page 31 is part of the accounting requirements and those requirements apply to the management team members of Audit Scotland and other public bodies. There is not an accounting requirement for us to present that information for all staff, but we would be happy to give that information to you.

As I mentioned, we have 105 cars at the moment; our lease commitments total about £970,000. I can break that down for you. Some people are at the beginning of leases and some are coming to the end of leases. Overall, we retendered our contract for the supply of the vehicles in the past 12 months and we are bringing down the cost, but we have not run off all our older contracts.

I can certainly provide you with more information, if that would help.

Jenny Marra: It would be useful if you could give us more information on the car scheme, because 18 per cent seems to be a huge year-on-year increase for a benefit in kind. What is the

decision-making process behind signing off that 18 per cent increase?

Diane McGiffen: The contribution that Audit Scotland makes towards any car is fixed. I cannot recall the current value of it—I think that it is fixed at about £3,000.

Russell Frith: Approximately that, yes.

Diane McGiffen: The cost to Audit Scotland is absolutely fixed. Individuals may request additional features on cars. We do not pay for those; the individual does. In accounting terms, Russell may have a better definition of a benefit in kind in relation to cars, which might help.

Russell Frith: The value that is recorded in the table on page 31 is HM Revenue and Customs benefit-in-kind value for the car. It is not necessarily the precise cash cost to Audit Scotland.

Jenny Marra: Okay. Thank you.

Diane McGiffen: The contribution that Audit Scotland makes is a flat rate regardless of who the employee is. There is one scheme for all employees and there is a flat-rate contribution from Audit Scotland.

The Chair: Will you to write to us and give us a bit of detail around that? Thank you.

Jenny Marra: I have another question. Page 48 of the annual accounts shows an increase of £451,000, which is a 68 per cent increase, in the "local government retirement benefit scheme costs".

Can you explain the background to those costs and the reason for the significant year-on-year increase?

Caroline Gardner: Certainly. Russell Frith is our expert in these very complicated pension accounting issues.

Russell Frith: First, Audit Scotland is a member of two public sector schemes. The vast majority of our staff are members of the local government scheme, which is a funded scheme. We happen to be in the Lothian pension scheme. A small number of staff remain in the principal civil service scheme.

There is a significant difference between the accounting for the two. For the civil service scheme, we simply record the employer contributions in our accounts as the cost of pensions, but for the local government scheme, we have to include the full actuarial value of the pension benefit in the year. That value goes up and down in a quite volatile way depending on movements in assumptions around discount rates and longevity—and salary increases, for that matter.

The cost of our pension scheme is quite volatile, and the volatility is non-cash cost. For 2016, you see a £1.1 million adjustment for retirement benefit scheme costs. That is the additional cost that the actuary believes is the full cost of providing pension contributions in the year above the amount that we pay into the scheme.

Over the scheme's life, that number evens out to zero; in some years, the number has even been negative. As I say, it is a non-cash cost, and it is to do with the accounting requirements for funded schemes, which we are required to follow.

13:30

The Chair: Page 54 of the report shows a significant underspend on accommodation and on travel and subsistence costs. Were there reasons for that? Was it just the result of efficient budgeting? The number of audits that have been done has not reduced.

Russell Frith: On accommodation, we are starting to see the benefits of last November's move from two offices to one office. The figures also reflect the benefit of agreeing lower dilapidations on our previous buildings than we had originally provided for.

The Chair: However, rent and rates took quite a jump. Is that because you were paying duplicate rent?

Russell Frith: We were double running costs for part of 2015-16.

The Chair: Did you not know about that when you budgeted in 2015? No—scrub that; that does not make sense.

Information technology costs have moved from £335,000 in 2015 to £461,000 in 2016. That is quite a substantial increase.

Russell Frith: That relates partly to the move and to the installation of new equipment and cabling in the new office. We have also improved and increased the resilience and back-up facilities for our IT equipment. We used to keep that in our George Street offices but, now that we have moved to one office, that is no longer a sensible arrangement, so we have in place off-site back-up facilities. In the same year, the cost of some of our software licences that we need to operate the core systems also increased.

The Chair: I am rather curious about the section on audit quality on page 14. You say:

"Audit quality is also independently reviewed by other UK audit agencies".

How does that work?

Caroline Gardner: We have a couple of approaches to ensuring the quality of audit work,

given its fundamental importance to what we do. First, each audit group in Audit Scotland is required to have in place its own internal peer-review process. We also have external peer-review arrangements with our colleagues in the National Audit Office, the Wales Audit Office and the Northern Ireland Audit Office. They do cold reviews, particularly of performance audits after the event, to ensure that we are meeting professional standards and to make suggestions for improvement.

Alongside all that, Russell Frith's team has responsibility for providing assurances to me, the Accounts Commission and the board about the quality of all the audit work that is carried out on our behalf. The firms that we appoint are subject to regulation either by the Institute of Chartered Accountants of Scotland or the Institute of Chartered Accountants in England and Wales.

For the in-house team that carries out annual audits, we have for the past four years had in place a contract with ICAS to review a sample of audits, to provide us with the assurance that they are complying with the international standards on auditing and the ethical standards that we must comply with.

The Chair: What tools do the other agencies use to assess you?

Caroline Gardner: We all have our own audit management and performance audit management frameworks, and those frameworks learn from each other to make sure that we are applying best practice.

The Chair: So that is more a process assessment.

Caroline Gardner: Absolutely. The other bodies will give feedback if they think that our conclusions could have gone further or that we could have benefited from a different approach to analysing data but, really, they make sure that we have complied with the project management and audit frameworks that we have in place.

The Chair: On page 15, at the first bullet point under the heading "Securing world class audit", you say that you are

"developing a new Code of audit practice for public audit in Scotland."

That sounds like quite a big undertaking. I presume that you are not doing that in isolation and that you are taking ideas from elsewhere. How are you approaching that?

Russell Frith: The new code has been issued, as it applies from the start of the new audit appointments, which will kick off next week. We have had a code in place for many years, and we

revise it every five years. The idea is to have a public statement of our expectations of audit.

In revising the code, we look at similar codes that are in place in the rest of the United Kingdom. We consider what we are trying to achieve from audit and where we are trying to lead the way and go further than might be required for, say, an audit under companies legislation. We go beyond a pure financial statements audit into the wider scope of public audit around governance, financial sustainability and so on, and the code is the place where we set out our high-level expectations in those areas.

The Chair: Would it be possible to see a copy?

Russell Frith: Yes—certainly.

The Chair: Such a code is not something that people naturally browse in the course of their day, but it might interest members.

Page 21 sets out “Other finance income”. I am a little curious about that. The report says that it is

“the expected interest income from the local government pension scheme assets less the interest payable”.

Could we get a bit more information on that? It is unusual to see anything to do with pensions in that way. I am not sure whether that is positive.

Russell Frith: That is the place in a set of financial statements where we are now required to include the actuarial assessments of the interest that we would notionally receive on our share of the pension funds assets.

The Chair: Notwithstanding the fact that the pension fund assets are already invested elsewhere and have their own income.

Russell Frith: Yes.

The Chair: I am struggling with that.

Caroline Gardner: It is a required accounting treatment. We find it complicated, too, as you will know from working with us on the issue over a number of years. However, that is the way in which we are required to account for that in the annual report and accounts.

The Chair: Okay—there is not much to say about that. I suppose that it is what it is.

You are going to bring forward the fee strategy with the budget. The previous commission looked at governance and the current one might look at it. What are you doing to look at your governance?

Ian Leitch: We have reviewed our standing orders and looked at how our quorum is made up. The Auditor General and the chairman of the local authority Accounts Commission are by statute members of the board, as you are aware, chair. A provision in our standing orders stipulates that both have to be in attendance; otherwise, the

meeting is inquorate. The reason for that, which goes back some time, is that the primary function of the Audit Scotland board is to ensure the supply of the services and staff that are required by the Auditor General and the local authority Accounts Commission in order to discharge their statutory functions, so both those representatives should be in attendance when any material matter is considered.

That poses a potential difficulty in that, if one is unable to attend for whatever reason, we simply cannot deliberate any business. We have considered that. I told you some time ago, chair, that we would look at the question. We have had a long discussion on it and we are saying that each person has to commit to a specific date to ensure that we are quorate. That does not take away the potential for someone to be abducted and taken away for whatever reason or to fall under the proverbial number 22 bus, which would mean that we were inquorate.

Nevertheless, there is a balance of issues to consider and, having discussed the matter, we consider that the current arrangements should continue for the time being. There has not proved to be any difficulty, but we are aware of the potential for difficulty to arise.

We want the Auditor General and the chairman of the local authority Accounts Commission to be satisfied that their statutory interests are being protected by the way in which we operate. We undertook to look at the matter, we have done so and we have decided to stay with the existing arrangements for the foreseeable future. However, we will review that annually along with all our standing orders and, if there are any practical difficulties, we will try to deal with them. In any case, that is the reason for the position.

Caroline Gardner: More generally, the board has been paying a great deal of attention to the implications for Audit Scotland’s work and governance of the Parliament’s new financial powers and, more recently, of the result of the European Union referendum. In September, we spent a day looking specifically at the ways in which we work and at ensuring that we are equipped to do that work. We agreed that that is all fit for purpose at the moment and that we will continue to keep the matter under review. If we need to draw any matters that come out of that process to the commission’s attention, we will certainly do so.

The Chair: Thank you. Do members have any further questions?

Alison Johnstone: On that last point, do you have any particular views on Audit Scotland’s role in the new fiscal framework?

Caroline Gardner: Yes. We have done a lot of work on that over the past couple of years, initially in relation to the Scotland Act 2012, which is only now fully in place, and since then, in relation to the Scotland Act 2016 and any further changes that might come from the EU referendum. We have published a number of papers, including just yesterday a briefing paper on the new financial powers that sets out questions for all of us—the Government, the Parliament and Audit Scotland—about the way in which some of that will work.

We expect to have additional audit work to do, not least because of the establishment of things such as the new social security agency; because of the need to ensure that the Scottish Parliament has assurance on taxes that are collected on its behalf by HMRC at a UK level and on benefits that will continue to be administered by the Department for Work and Pensions and which will interact with the social security powers here; and because of the work of the new Scottish Fiscal Commission.

Equally, we have a role in developing the financial information that is available to the Scottish Parliament in making decisions about the new tax and spending powers. We will continue to play that role; indeed, I will meet the budget review group here tomorrow to help to shape some of the processes. We expect that to have an impact on our work. It is too soon to say what that impact will be, but the organisation and the board are closely focused on the implications for us and ensuring that we are properly equipped to respond.

Alison Johnstone: A more specific event that might have an impact on planning in the shorter term is the late budget. Westminster is going to be later and we are going to be later. Will that have an impact on your work or ability to plan?

Caroline Gardner: Not so much this year, given that most of our work at the moment focuses on the annual audit accounts at the end of a financial year. I have no doubt that the situation will cause difficulties for some of the bodies that we audit—some more than others—and we will have to look at how we work with them to minimise the impact of those difficulties.

Our bigger interest is in ensuring that the Parliament can put in place a budget process that really gives members time to scrutinise tax and spending proposals, to understand the choices that are implicit in them and to involve the wider public in that discussion. We are keen to play our part in helping the development of that process.

The Chair: As members have no further questions, I ask Ian Leitch and Caroline Gardner whether they have anything to add.

Ian Leitch: No, chair.

Caroline Gardner: No—I am fine.

The Chair: In that case, thank you very much for your evidence and attendance. We look forward to working together over the session.

As agreed at the beginning of the meeting, we now move into private session.

13:43

Meeting continued in private until 13:47.

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