

# **MEETING OF THE COMMISSION**

Wednesday 28 November 2007

Session 3

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## **SCOTTISH COMMISSION FOR PUBLIC AUDIT** **3<sup>rd</sup> Meeting 2007, Session 3**

### **CONVENER**

Angela Constance (Livingston) (SNP)

### **COMMISSION MEMBERS**

\*Robert Brown (Glasgow) (LD)

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

\*George Foulkes (Lothians) (Lab)

Hugh Henry (Paisley South) (Lab)

\*attended

### **THE FOLLOWING GAVE EVIDENCE:**

Mr Robert Black (Auditor General for Scotland)

Russell Frith (Audit Scotland)

Diane McGiffen (Audit Scotland)

### **SECRETARY TO THE COMMISSION**

Mark Brough

### **LOCATION**

Committee Room 6



## Scottish Parliament

### Meeting of the Commission

*Wednesday 28 November 2007*

[THE SECRETARY *opened the meeting at 10:32*]

#### Convener

**Mark Brough (Secretary to the Commission):** Good morning. I welcome members, witnesses and the public to the commission's third meeting of this session. I remind members and others to switch off mobile phones and other electronic devices.

We have apologies from Angela Constance, the convener, and from Hugh Henry. The commission has no deputy convener, but it can decide its own procedures, so I invite members to consider whether they wish to nominate someone to take the chair for this meeting only.

**George Foulkes (Lothians) (Lab):** I move that Derek Brownlee take the chair for this meeting.

**Robert Brown (Glasgow) (LD):** I second that.

**Mark Brough:** As that is agreeable to the commission, I will hand over to Derek Brownlee.

#### Decision on Taking Business in Private

10:33

**Derek Brownlee (South of Scotland) (Con):** Agenda item 1 is to ask whether the commission wishes to take in private item 3, which is consideration of our draft report on Audit Scotland's budget proposal for 2008-09, and to consider that draft report in private at all subsequent meetings. Is that agreed?

**Members** *indicated agreement.*

## Budget Proposal 2008-09 and Autumn Budget Revision

10:33

**Derek Brownlee:** Item 2 is Audit Scotland's budget proposal for 2008-09 and the autumn budget revision for 2007-08. The commission is responsible for considering and reporting to Parliament on Audit Scotland's expenditure proposals. In accordance with the written agreement on the annual budget process, the commission has sent a copy of the expenditure plans to the Cabinet Secretary for Finance and Sustainable Growth, John Swinney MSP, and to the Finance Committee.

Before us today is Robert Black, who is the Auditor General for Scotland, and from Audit Scotland we have Russell Frith, who is the director of audit strategy, and Diane McGiffen, who is the director of corporate services. I welcome them to the meeting and I invite Robert Black to make a short opening statement.

**Mr Robert Black (Auditor General for Scotland):** If I may, I would like to remind the committee of the work that we do and how we will use the resources that are requested in our budget proposal. First and foremost, our role is to provide assurance that public money is well spent in Scotland, in accordance with regulation law, and to reach opinions on the accounts of audited bodies in Scotland. Secondly, it is to support the improvement agenda, not least through the work that we do in the performance audit of the public sector in Scotland.

I anticipate that over the financial year in question, we will produce not far short of 200 audit opinions on the accounts of public bodies in Scotland and 200 final audit reports highlighting issues that are of importance to the management of those bodies. We anticipate producing 12 national performance reports and about nine best value reports on local authorities. Over the past year, we have produced nine reports to accompany the accounts of the Scottish Parliament. That is an indication of the volume of activity that we engage in. As you might expect, the number of reports that we produce varies from year to year, but not by a huge amount. In addition to that activity, I would expect Audit Scotland to respond quickly and effectively to any requests that I make for it to do urgent work as a result of expressions of concern from Parliament or elsewhere. Essentially, that is what we will do with the resources.

On efficient government, our budget paper refers to our continuing endeavours to deliver efficiency. I simply remind the committee that our

work is delivered for less than one tenth of 1 per cent of the moneys that are spent by the bodies that we audit. We are a comparatively small organisation, but that does not mean that we do not take efficiency and effectiveness seriously. Over recent years, our costs as a percentage of audit expenditure have steadily come down, with the exception of one year, when there was the VAT adjustment. We are committed to controlling our costs and we have outlined our commitment to efficient government in our budget submission.

All of that means that, in general terms, our 2008-09 budget proposal restricts the increases in income that we are requesting from audited bodies to an average of 2.1 per cent. Given that it is estimated that our underlying costs will increase by 3.5 per cent per annum, one might say that we anticipate generating cash-releasing efficiency savings of 1.4 per cent, which is about £360,000. That is not easy for us, given the preponderance of staff costs in our budget.

I know that, in the past, the commission has expressed an interest in our staff numbers. Broadly speaking, our staff numbers will remain constant. Decreases of one in the complement of permanent staff and of three in the number of core staff have been budgeted for, but we will take on two staff from the Department for Work and Pensions to work on local government benefits, responsibility for which has newly transferred to Audit Scotland. We have a resource allowance for dealing with the increased work that that will produce.

**Derek Brownlee:** Before we move on to questions on the 2008-09 budget, it might be sensible to deal first with the autumn budget revision. End-year flexibility revenue accounts for quite a significant sum of money and quite a significant proportion of the budget. Will you explain in detail where the underspends have arisen that have led to the generation of such a significant sum?

**Mr Black:** I ask Russell Frith to answer that question.

**Russell Frith (Audit Scotland):** The net underspend has arisen from a combination of overrecovery of income and underspending on expenditure. Our income was in excess of our original budget estimate because, as at 31 March 2007, the audits were slightly further progressed than we had anticipated and because the audit fees for some audits were agreed at above the indicative level.

Our budgets are all constructed on the basis that auditors will agree, on average, the indicative, or mid-point of the range, audit fees with audited bodies. That never pans out exactly as we predict, and this year, variations from our predictions have

been particularly likely, as it is the first year of new audit appointments. The audit fees have been agreed, on average, further up the range. That is the income side.

On the expenditure side, some budget heads have underspent, for example those relating to the amount of external consultancy support that we have brought in to help with national studies, and our estimates of legal fees costs. You will see from our comments about our budget for 2008-09 that we have tried to address the issue by reducing some of those budgets.

**Mr Black:** Would Diane McGiffen like to add some comments?

**Diane McGiffen (Audit Scotland):** A significant part of the EYF has been generated through the vacancy factor and the provision that we made for superannuation payroll assumptions at the start of the year compared with where we have ended up at the end of the year. In total, that has generated about £420,000.

**Derek Brownlee:** Would it be fair to say that some of the factors that have arisen over the course of the year are likely to recur? Given that some of them seem to be addressed in the 2008-09 budget, I assume that that is the case. To what extent have you considered whether some of the trends, such as overrecovery, might not be one-offs this year, but are part of a broader trend that might persist?

**Mr Black:** I am sure that Russell Frith and Diane McGiffen will want to add to my comments, but the general picture is that as Audit Scotland must not have an overspend, there will always be an element of underspend each year. As members of the commission will recall and appreciate from our previous conversations, we have difficulty in balancing income and expenditure and cash and commitments at 31 March, because that is part of the way through the audit year. We will always have an issue with an in-year underspend. I therefore guess that we will continue to request the use of EYF, as we have done every year since Audit Scotland was established.

We certainly predict that EYF will reduce in future, but I rely on colleagues to give us a more accurate indication of that.

**Russell Frith:** With regard to expenditure, as I explained, I hope that we have addressed some of the issues in our 2008-09 submission. We have also addressed the income side by estimating the amount over the indicative fees that will be recovered. We have attempted to address the issue, but only time will tell whether we have done so sufficiently.

**Derek Brownlee:** Would it be possible for us to get a more detailed breakdown of the individual

line items? External consulting costs and legal fees were mentioned in relation to expenditure. Would there be any difficulty in supplying a more detailed analysis of the make-up of the figures?

**Diane McGiffen:** No, I could run through the headline figures if that would help the committee.

**Derek Brownlee:** That would be helpful.

**Diane McGiffen:** The financial reporting standard 17 pension adjustment is £875,000; £400,000 is planned to flow through EYF into the fees strategy for next year; £80,000 is planned to carry through into support work for the Crerar review; the payroll and superannuation element that I discussed is £420,000; and the consultancy underspend is £411,000. That leaves a balance of various small amounts totalling £230,000, which takes us to £2.416 million. I can give you the breakdown in detail after the meeting.

**Derek Brownlee:** That would be helpful.

**George Foulkes:** If one of the bodies that you audit had this degree of EYF, what would you say to it?

**Mr Black:** This is not a very helpful answer to a general question: it would depend entirely on the prevailing circumstances in that audited body.

**George Foulkes:** Would you be concerned about it? Would you have any adverse comments to make or would you think that it was fairly normal?

**Mr Black:** I find it difficult to answer that question. What would Russell Frith's best professional judgment be on that issue?

10:45

**Russell Frith:** As the Auditor General said, it would depend on the circumstances. We would be interested in the EYF trend if it was continually growing and there were no apparent plans to utilise it. We might be concerned about that, but not necessarily about an individual level in a particular year.

**George Foulkes:** You are saying to us that we should keep an eye on the EYF trend and ensure that it does not continue to grow.

**Mr Black:** As Auditor General, I keep an eye on Audit Scotland, as my provider body, and its trend, as does the Accounts Commission, which is held accountable for the level of fees that is charged to local government. We all have a shared interest, and I am sure that my colleagues are well aware of that.

**Robert Brown:** As a lay person, I have considerable difficulty following the accounts. We discussed that at our previous meeting. For a relatively small organisation with such

transparency, it is really quite extraordinarily difficult to compare one year with another, to follow through what is happening, and to identify the cash effects of this, that and the other.

I want to query the use of EYF a bit further. You indicated where the money has come from and what you want to spend it on, but it is not all to do with the uneven flow of fees. I understand the issue—an invoice is issued in one year and the money is received in another, so there is a relatively significant carry-forward. I can also understand the issue with capital. For example, if you arrange to spend on refurbishing your property, and that refurbishment does not finish in the anticipated financial year, there is a carry-forward. However, I am not sure that the Crerar review or consultant development or the replacement of capital items, such as computers, should be dealt with through EYF. Do you agree that such activity should be budgeted for, or put in the form of a request for increased allowance, or done in some other way? However it is done, it is not really suitable for EYF. You would make quite stringent criticisms of other bodies that approached matters in that way.

**Mr Black:** I am satisfied that Audit Scotland is managing the arrangement pretty well. If we take out the items that Mr Brown mentioned, we are talking about relatively modest sums of money in the residual. I would welcome a response from Diane McGiffen and Russell Frith on that.

**Russell Frith:** I am not sure that I go along with what you say, Mr Brown. A possible alternative strategy would be to say, "We need more money for these things, so we'll charge the audited bodies more next year." It makes more sense for us to look forward continually and, where we have development needs, to look for the most effective funding source. Using net underspends from the previous year seems to be a perfectly sensible way of smoothing out volatility, such as development issues. In effect, we save for them first rather than charge for them later.

**Robert Brown:** But do you agree that the use of EYF makes following and comparing year-by-year accounts extraordinarily difficult, and arguably unnecessarily so?

**Russell Frith:** I agree that it makes it difficult.

**Robert Brown:** I want to pursue the point about replacing equipment. The last line of the "Capital EYF" paragraph in your EYF proposal document states:

"The remaining EYF will be used to support a number of equipment replacement projects including printers and copiers and videoconferencing."

However, your budget proposal refers to, for example, efficiencies made in earlier years, replacing computers after four years and

producing performance indicators in an electronic format. Is it not difficult working out where you are producing real cash-releasing efficiencies when some of your proposals seem to be linked together?

**Mr Black:** It is true that any one of us would have real difficulties in putting precise numbers into each of the individual lines over several years. However, some time ago, Audit Scotland took the principled decision to move to a four-year information technology cycle. That generated significant savings at the time, although I cannot recall the figure. Such issues are taken seriously. The external auditor is welcome to look at the detailed numbers. As you will recognise, it is difficult to present to the commission many comparatively small budget movements in a way that gives absolute clarity over the years.

**Diane McGiffen:** The reduced print costs following retendering that we have highlighted in the budget proposal relate to the print costs of our publications—the studies that the Audit Committee considers, for example—not to internal photocopying and printing costs. The retendering process delivered a more efficient service. The EYF proposal relates to our internal printing and copying facilities. That project was delayed, primarily because of staff turnover in key IT roles, but it is currently under way, and we plan to spend the money by the end of this financial year. We have just considered the final proposals, through the tendering process. I appreciate that the wording of the two items might not have helped the commission to distinguish between them, but they are slightly different.

**Derek Brownlee:** The difficulty that we face, from an external perspective, in tracing expenditure through the years and watching expenditure trends must also arise internally. Can you give us a flavour of the internal processes that you operate to manage your expenditure and income flow?

**Mr Black:** I invite Diane McGiffen to go through the Audit Scotland process.

**Diane McGiffen:** Following the process that we go through to set the budget at the start of the financial year, monthly budget monitoring reports are produced, given to all budget holders and considered on a monthly and quarterly basis by the management team. The board scrutinises trends and performance on both the financial side and the output side. It examines not just the money that we spend and collect, but the delivery that we must achieve against it. We have a package of internal performance reports that pulls all that information together for the management team and the board.

From around September or October, we begin to forecast and look at trends. The budget against which we monitor spending is phased for all the major budget headings, so we profile and track spending against patterns from previous years. The matter is discussed actively at all levels—at directorate level, in business groups and, subsequently, by the management team. We identify and discuss action that needs to be taken on budget headings that are behind on spend, and we work to understand the reasons for that. Typically, if one or two studies or audits take longer than anticipated, the start of other projects and spending in some areas might be delayed. We try to understand the issues in detail and seek opportunities to take remedial action. From the autumn, once the trends for spending in the year have been established and are available for review, we discuss actively the likely end-year position.

**Robert Brown:** Can you clarify the point about trends? The budget revision paper indicates that this year, end-year flexibility includes £1.5 million of revenue spending and £1.043 million of capital spending. Can you indicate roughly what the figures were in the past two or three years?

**Mr Black:** Can Audit Scotland help with that, or will you have to provide the information in a note?

**Russell Frith:** We will have to provide it in a note. I do not have the relevant figures with me.

**Robert Brown:** My point is whether a similar figure occurs each year. Is the amount that it is not necessary to retain within Audit Scotland's budget a one-off for this year? If not, are we recycling the same money that is always available as a sort of surplus or contingency funding?

**Russell Frith:** The amount of capital EYF has certainly risen over the past couple of years as the refurbishment process has progressed. We should expect capital EYF to fall this year with the completion of the refurbishment. Revenue EYF has been a bit more volatile, but we are happy to provide the figures.

**Mr Black:** As commission members will recall, the legislation provides that, taking one year with another, we should broadly break even. That works through the principle that is implied in having a three-year spending review. I encourage members to look properly at the amount of EYF in one year as compared with another, as Robert Brown has suggested. The board and I examine that figure carefully. We need to recognise that the nature of our business means that there will be fluctuations in individual years, but comparing one year with another is an important criterion.

**Derek Brownlee:** As members have no more questions on the budget revision, we will move on to questions on the 2008-09 budget bid.

First, can we get clarification on the extent to which there is a change in the balance of Audit Scotland's business between central Government work and other work? Is Audit Scotland subject to general trends?

**Mr Black:** As I outlined earlier, the broad volume of business that we intend to undertake next year is pretty consistent with what we have undertaken over the past couple of years. There have been occasional step changes in our activity, caused by, for example, the statutory duty on local government to secure best value and, more recently, the devolution of transport functions to Scotland. One issue is that we will take on two extra staff from the Department for Work and Pensions, but that is a comparatively small-scale matter.

Russell Frith, who is our director of audit strategy, will identify any other significant issues and expand on the DWP work that we will undertake.

**Russell Frith:** There are a few changes in the number of audits that will be completed for the first time during 2008-09, but they relate principally to relatively small bodies, such as the recently created community justice authorities, the new Scottish Police Services Authority and the Scottish Crime and Drug Enforcement Agency. The changes are not significant in terms of overall volume.

On the benefits audits, the DWP has decided to stop carrying out benefit fraud inspections from next April. Largely as a result of a decision in England to transfer that work to the Audit Commission, the Accounts Commission has been asked to assume responsibility for that work in Scotland and the Auditor General for Wales will assume responsibility in Wales. We will need to take on two new members of staff who were formerly with the DWP to deal with that work. The total cost of that entire function will be around £200,000, which will be funded through transfers from Whitehall into Scotland.

**Derek Brownlee:** On what might be termed Audit Scotland's fees strategy, the budget bid states that the fee increase will be lower than previously anticipated. How does the process work for deciding what the appropriate fee increase will be? How does the negotiation process work and how does Audit Scotland come to a corporate decision on what the appropriate level of fee increase should be?

11:00

**Russell Frith:** During August each year, we construct the expenditure budgets for the following financial year. At the same time, we look at what fee increases we think should apply from

November of the current year and we estimate what might apply from November of the following year. We consider those increases in conjunction with the cost increases, and we usually go through a few iterations to establish an appropriate level. That is subject to discussion first by the management team and then by the Audit Scotland board, which includes independent non-executives and representatives of the Accounts Commission. In relation to local government fees, the proposal is also considered separately by the Accounts Commission. At that point, it is incorporated into the proposals that come to the SCPA.

We try to indicate to most of the audited bodies a year in advance what we think the fee increase will be, but it is not confirmed until we have been through the process. Also, when we formulate the budget, we are aware of the net underspend from the previous year. We can take that into account and reduce the fee increases from what they would otherwise have been, if that is an appropriate use of the EYF at the time.

**Mr Black:** The only thing to add is that the fees that are notified to the audited bodies are indicative. The final charge to a body depends on the volume of work that is undertaken and local negotiations. That is an important part of incentivising the audit process to add as much value as possible. There is a degree of local discretion. At the margins—I do not want to exaggerate the significance of this—it also introduces an element of unpredictability to the final income that flows through. The countervailing benefit, which is significant, is that it encourages a good conversation between the audited body and the auditor about the cost of the auditor's work.

**Robert Brown:** I have a question about the use of EYF and the unpredictability of the business. I assume that you have no bad debts and a fixed number of clients, give or take a few on the edges. Broadly, you know that you will have the same amount of work each year. How does that compare with other businesses? To the layperson, it seems that you have a predictable business framework compared with many private businesses or other public sector bodies.

**Mr Black:** I agree that, compared with a private business, our income and volume of work are much more predictable. However, we have in common the need for what we might call working capital to see us through the business cycle. A lot of the discussion with the SCPA takes place because of the need to present you with as clear a picture as we can at the end of March. That is an issue, but I am sure that Russell Frith has other thoughts on the matter.

**Russell Frith:** Without wishing to overstate the comparison, a relatively similar business to ours is the Audit Commission in England. It is structured

as a non-departmental public body rather than as a Parliament-funded body, but like us it gets the majority of its income from fees that are charged to audited bodies. At the end of March, its revenue reserves, which we could take as being similar to the total EYF in Audit Scotland's case, were £22 million on a turnover of about £220 million. Its reserves were about 10 per cent of its income. That is not a perfect comparison, but it is probably as close as we can get.

**Robert Brown:** In the budget proposal, there is an increase of £47,000 in the figure for travel and subsistence, which seems to go against the broad trend in the other figures. What is the background to that? It seems odd.

**Diane McGiffen:** On travel and subsistence, the budget more accurately reflects the actual costs and patterns of expenditure. There is an element of the budget more accurately reflecting the likely costs that we anticipate.

**Robert Brown:** Are you saying that the increase in expenditure of—I think—5.6 per cent is part of an annual trend? It seems a substantial increase, so one would want to know the reason for that.

**Diane McGiffen:** I do not think that it is a trend that is likely to continue. It is more likely that there was an element of understating previously, and the budget is correcting that. Based on—

**Robert Brown:** How can there be an element of understating?

**Diane McGiffen:** Because we revisit the budget figures and look at actual spend against planned spend and so on. We have made an assessment of the likely travel and subsistence costs. We have more staff and more travelling to do to sustain the audits as we are in the early years of audit appointments, when contact with clients and visibility are at a premium. There is a range of factors.

The trend is not likely to continue at that level of increase. We also have a strategy, through our environmental targets, to try to manage and reduce unnecessary business mileage and unnecessary travel. A number of factors relate to travel and subsistence, which we look at closely in terms of our sustainability targets, as well.

**Robert Brown:** On staffing, I think that I am right in saying that the bid estimates a staffing complement of 293 full-time equivalents at April 2008, which was said to be a net reduction of one. However, the 2006-07 accounts say that there is an average of 267 staff, plus 11 agency staff. Can you give us some clarity on the staffing position?

**Diane McGiffen:** The annual accounts present the average number of full-time employees that we employed over the year, which will go up and down, depending on vacancies. The budget

presents our planned establishment. Our ability to sustain that level depends on our having every post filled all the time, so the turnover that we experience will be likely to reduce what that figure looks like in next year's accounts, when we come to present the average number of full-time employees again.

**Robert Brown:** Do you budget for a full complement of staff as opposed to what you actually experience?

**Diane McGiffen:** We budget for full complement but take into account the vacancy factor. This year, we have increased the vacancy factor that we work with to take account of the higher level of vacancies that we have experienced. Traditionally, Audit Scotland had an extremely low turnover. Last year's figures, however, show that the turnover reached a level that is much closer to what a business might be expected to have, while still remaining below the sector comparisons that are available through, for example, the Chartered Institute of Personnel and Development.

**Derek Brownlee:** Russell Frith might have touched on this earlier when he was speaking about the fee strategy, but what would you have to do if Parliament was not minded to authorise use of EYF?

**Russell Frith:** In this particular year, given the proposal that we have put forward in relation to EYF, we would be left £400,000 short in our budget for income over the next 18-month audit cycle.

**Derek Brownlee:** Could that be recovered in any other way?

**Russell Frith:** We would have either to cut costs further or to increase the charges to the audited bodies. One of the things that I remind you to bear in mind in relation to EYF is that, at least on the income side, a lot of that money has arisen from charges to public bodies in previous years and that, because it was used to keep the fees down in later years, it was, effectively, returned to those who provided it in the first place.

**Derek Brownlee:** But not necessarily to the same bodies.

**Russell Frith:** Not necessarily.

**Mr Black:** It is a very important smoothing mechanism to keep the business on course. It is really important for us to have that.

**Derek Brownlee:** I think that you mentioned the Crerar review in relation to EYF. I recognise that the recommendations of that report are under consideration and that we are nowhere near clarity about what is likely to happen. However, what consideration has Audit Scotland given to the possible impact of the review?

**Mr Black:** Because we are very knowledgeable about the public sector, we provided significant support to the analysis and evidence taking for the Crerar review. It is not entirely clear when and how the Scottish Government will respond to the review, but the indications are that it will produce something in the new year that will have significant consequences for this area of scrutiny. For that reason, we think it entirely appropriate to use a comparatively small amount of EYF as a contingency to allow us to respond to that. As I am sure that you will have gathered, we try to make best use of our specialist skills by being flexible with our staff, moving people around and giving short-term contracts. We cannot predict what form our response to Crerar will take until we understand better the Scottish Government's intentions.

**Derek Brownlee:** Roughly what proportion of your staff are on short-term rather than permanent contracts?

**Diane McGiffen:** The vast majority of our staff are on permanent contracts. We have a range of short-term contracts for fixed-life projects, and we tend to use consultants for their additional skills or expertise. Internally, we have some fixed-term promotion opportunities to give people experience in different areas. We will always use agency staff to resource and smooth out peaks of work that arise, particularly as a result of financial audits, but we would not need to have that full complement of staff for the rest of the year.

**George Foulkes:** What percentage of your staff are women and what percentage are disabled?

**Diane McGiffen:** I do not have those figures with me, but I can certainly supply them to the committee. We do very well on gender balance; indeed, as far as women in senior positions is concerned, you will probably find that our organisation does very well in comparison with the rest of the public sector. Of course, I say that without any personal interest.

**George Foulkes:** Excellent.

**Diane McGiffen:** I can also provide the figures on disability.

**George Foulkes:** I would be grateful.

**Diane McGiffen:** We monitor disability, gender, race and so on, but we do not necessarily publish the full range of information because the data could be attached to individuals in the organisation.

**George Foulkes:** On an entirely different matter, Mr Black, you have sent us a very helpful letter and memorandum about your international travel and work. After the publicity that has accrued to your opposite number in England, the letter shows that in comparison your travel has

been very modest. Has that information been made public and, if not, are you going to make it public to make it clear that the situation here is significantly different from that in England?

**Mr Black:** Diane McGiffen will be able to provide a fuller response to your question. However, I can say that after a request was received from the media, information about my personal involvement outside the United Kingdom was given to the newspaper in question and covered in an article some weeks ago. To all intents and purposes, the information is in the public domain and I have no particular problems with that.

**George Foulkes:** I am very impressed by the work that is being carried out with developing countries and I hope that you will consider extending it.

**Mr Black:** Thank you for that comment. It is an extremely important part of our work, provided that our resource commitment is kept comparatively small.

It is really quite remarkable how often people who visit us or who have had the benefit of Audit Scotland's involvement say to me afterwards how extremely valuable the contact has been. Particularly in the developing countries of eastern Europe and around the Baltic fringe, we can offer useful support not only in the professional development of auditing from a standing start that is comparatively underdeveloped but in building confidence about good governance and the importance of having rigorous, independent and non-political audit. Some of those basic issues require to be supported and nurtured in those countries.

It is interesting, and fair to say, that many such countries find the experience of Audit Scotland and the devolved Scottish Parliament more relevant than that of a long-established large organisation such as the National Audit Office. I would welcome the commission's continuing informal support on that. Through our annual report, we will continue to reflect the level of work that is done.

11:15

**George Foulkes:** My experience is that the importance to parliamentary democracy of a good auditing system and a good audit or public accounts committee is not fully recognised. Their importance is greatly underestimated, but I have seen how vital they are in my visits around the world. I am very encouraged.

**Derek Brownlee:** I will return to more mundane matters. I ask for more detail about the DWP staff transfer. Russell Frith said that the costs for that resource would be transferred. Will you outline

how the mechanism for that resource transfer will work in practice?

**Russell Frith:** I understand that the mechanism that has been agreed—at last—involves a transfer from the DWP's budget in Whitehall to the Scottish block of about £200,000. That will be distributed to local government in accordance with the formula that is used for distributing revenue support grant. We will then match that with an increase in charges to local authorities.

**Derek Brownlee:** Thank you—that is clear.

**Robert Brown:** You will gather that I have been churning in my mind the transparency of how the accounts are presented. Could their presentation be improved? You are the experts in the field. I presume that you could show actual expenditure against budgets, for example, so that we could see where underspending and contributions to EYF occur. That would give us more ability to make an estimate against outturn year by year. Could such changes be made so that the accounts were more transparent to us? Speaking personally, if I struggle with the accounts of an organisation of Audit Scotland's size, the challenges with bigger organisations will be more substantial. It helps if the Auditor General sets a benchmark for producing accounts, which I am not sure are as transparent as they might be.

**Mr Black:** I agree absolutely with the need to make the information as transparent as possible. How we present the information has developed significantly in the past few years. The format in which the budget and the audited accounts are presented reflects the previous commission's suggestions, with quite a bit of professional input and advice. We are conforming to the format that the commission previously requested, but if you would like some information to be presented differently, we will do our best to accommodate that in future years.

**Derek Brownlee:** I will return to points that were made about the efficient government agenda. The budget proposal refers to reductions in central budgets of £183,000. What are those budgets? Are we talking about a straightforward cut or could it be more properly described as an efficiency saving?

**Mr Black:** Can Diane McGiffen help with the detail?

**Diane McGiffen:** The efficiencies come from a range of measures that we have taken. For example, following a review exercise, we have generated a £50,000 saving on our insurance premiums through retendering. Earlier, we discussed the issue of publication print costs. Again, savings were made by way of a retendering exercise. There are further targets, amounting to £183,000, in relation to external consultancy, legal

and auditor expense budgets, which we will be tracking and monitoring. In some areas, the mechanisms are already in place to deliver savings through the new contracts that we have entered into, whereas others are for us to manage and deliver throughout the year.

**Derek Brownlee:** Has any consideration been given to other ways of improving efficiency? For example, could you share back-office services—if that would be compatible with Audit Scotland's unique status?

**Mr Black:** I will come in on the first part of the question before asking Diane McGiffen to answer the point on back-office services.

As we all recognise, efficient government is about outputs as well as inputs. I am satisfied that Audit Scotland is doing pretty well in containing the costs of audit to the public sector. In the past, we have provided information to the commission on that. We are doing reasonably well on that.

I ask the commission to bear in mind the volume end of the business. If we were to compare our volume output with what was happening at the point of devolution, we would find that it is now higher. There has been a steady ratcheting up of the volume and, I believe, quality of our work. Although it is always important to look at the cost side, it is also important to bear that balance in mind.

**Diane McGiffen:** We have a programme of internal best-value reviews. A large-scale review is being undertaken this year on resource use and audit services. As we touched on earlier, the largest part of our internal costing is our staff resource. How we use and deploy staff is therefore key to our ability to generate significant efficiencies.

From the benchmarking that we did in a previous value-for-money study on our fee structure, we know that we compare very competitively and favourably with other audit agencies whose work is similar to our work. My group, which is corporate services, has presented a budget to the board—we are also presenting it to the commission—in which the amount of indirect costs that we will require to meet has reduced since last year. We have done that through efficiency measures and savings. The proportion of direct to indirect costs is moving in the right direction. That was also found in the Haines Watt report on fees, which was undertaken for the commission in the previous session of the Parliament.

As I said, we have a programme of best-value reviews. Through a range of large-scale studies, and as we have done in the past, we will look at further efficiencies in general business running costs—gas and electricity consumption and so

on—and we have targets for reducing our use of gas, paper, taxis and public transport, for example. We have put in place actions and programmes across the spectrum so that we can look at how we can achieve efficiencies.

In corporate services, we benchmark our costs and the service quality that we provide to the business. In doing so, we use a model that was developed by all the UK audit agencies for use in all public bodies when looking at benchmarking the effectiveness and efficiency of corporate services. Our internal performance indicators are based on that work. We track and monitor our performance in that way. Again, we give active consideration to the comparisons that we have made in benchmarking our corporate services costs. For example, we found that our IT support services provide a good-quality service at an efficient cost.

The issue of sharing services is more complex for Audit Scotland, given the nature of our work, our structure and some of our ethical governance standards.

**Derek Brownlee:** I turn to one of the significant parts of the budget proposal, albeit that it is shrouded in uncertainty. I refer to the implementation of the international financial reporting standards. I appreciate the uncertainty for Audit Scotland in terms of implementing those standards. Nonetheless, a significant sum of money—£500,000—is given for the cost of untaken holidays. How did you arrive at such a specific and fairly dramatic figure for that cost and what steps have you considered to try to mitigate it?

**Russell Frith:** Dealing with the accrual of holiday pay is part of the changes that we have to implement in introducing the IFRS from 1 April next year. Mitigation is not necessarily the issue. Our holiday carry-forward policy will remain in place. The cost is a one-off cost in relation to changing the basis of recognition of staff costs. Once that one-off cost has been taken against a budget, managing it year on year is simply part of the normal budget exercise.

**Derek Brownlee:** I may have misunderstood what was said, so I will reframe the question. Is the £500,000 the cost to Audit Scotland of moving to reporting under the IFRS, rather than the cost of people being unable to take their usual holidays because they are training to audit to those standards?

**Russell Frith:** Yes.

**Derek Brownlee:** Right. That is a helpful clarification.

As no other member has a question, I thank the witnesses for their evidence today.

At our next meeting, we will consider a report on the expenditure plans. We expect to produce the report by mid-December and to forward it to the Finance Committee for its consideration prior to its own budget scrutiny.

11:26

*Meeting continued in private until 11:46.*



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