

MEETING OF THE COMMISSION

Wednesday 12 December 2007

Session 3

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SCOTTISH COMMISSION FOR PUBLIC AUDIT **4th 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 ALSO ATTENDED:

Andy Munro (Scottish Parliament Directorate of Resources and Governance)

SECRETARY TO THE COMMISSION

Mark Brough

LOCATION

Committee Room 4

Scottish Parliament

Meeting of the Commission

Wednesday 12 December 2007

[THE CONVENER *opened the meeting at 11:09*]

The Convener (Angela Constance): Good morning. We have been a little delayed by the fire evacuation exercise. I welcome Hugh Henry, who is attending his first meeting of the commission.

Hugh Henry (Paisley South) (Lab): I am indeed.

The Convener: Welcome.

George Foulkes (Lothians) (Lab): Hear, hear.

The Convener: There are three items on the agenda. I aim to conclude business by about noon, but of course we will play it by ear, because item 3, on our draft report on Audit Scotland's budget proposal, is substantial.

Robert Brown (Glasgow) (LD): I have not had time to read the draft report. I did not see it until this morning.

George Foulkes: I was going to read it while the convener was talking.

The Convener: We will take item 3 in private and we can take as long as members need to consider the draft report.

Economy, Efficiency and Effectiveness Examination of Audit Scotland

11:10

The Convener: At our away day we discussed our approach to the three Es examination of Audit Scotland's fees and charges regime, which was conducted by the external auditors, Haines Watts Chartered Accountants. The three Es are economy, efficiency and—what is the other one?

Mark Brough (Secretary to the Commission): Effectiveness.

The Convener: Please excuse my sleep-deprived brain.

The commission agreed that there should be a limited follow-up study and that at a later date we would consider whether there should be another three Es study on a related—or unrelated—matter. Members have a paper, which sets out the scope of the proposed follow-up work. I invite comments and questions.

Derek Brownlee (South of Scotland) (Con): The proposal covers resources and mentions consultant and senior consultant time. What will that cost? We can agree the approach in principle, but there should be an assessment of the cost and whether it is proportionate, given what has been done in the past. I am not sure of the procedure.

The Convener: Can we get further information on the cost?

Mark Brough: Yes.

The Convener: Is Derek Brownlee saying that we should agree in principle to the follow-up study, but before we give the go-ahead he wants to know what it will cost?

Derek Brownlee: Yes. I have no problem with the principle of what is suggested, but we should not sign up to it without knowing what the cost will be.

George Foulkes: It is a bit strange that the work has not been costed.

Hugh Henry: There will be a considerable delay if we agree in principle to the follow-up work but ask to know the cost. When will we find out the cost and be able to reconvene and approve the work? When is the work intended to start?

The Convener: The commission's next meeting is pencilled in for March or April. We could meet earlier, if need be.

Derek Brownlee: We could agree by correspondence. It seems from the paper that

Haines Watts costed the work internally; it just did not tell us how that translates into pounds.

George Foulkes: I am always suspicious when that happens. I am reminded of houses that are advertised along with the phrase, “price on application”. We know that the price will be a hell of a lot more than it would have been if the agents had put a figure on the advert. I suspect that the price of the follow-up work will be an awful lot more than we might guess.

Hugh Henry: That is a fair point. The work is necessary, but if the cost is inordinate we must consider whether it is justifiable and whether there is another way of getting the work done.

The Convener: When we know how much the follow-up work will cost, it would be useful to compare the cost with, for example, the cost of the original study.

George Foulkes: How much was that?

Mark Brough: I cannot remember offhand.

11:15

Andy Munro (Scottish Parliament Directorate of Resources and Governance): The fee is in the region of £25,000 to £30,000, which is billed to Audit Scotland. Audit Scotland agreed that fee up front. Given that Haines Watts has done similar work with public bodies that was probably on a larger scale than its work for Audit Scotland, five days of partner time seems quite heavy. I would have thought that partner time would be very limited because Audit Scotland is not the most complex of organisations.

The only other point that would justify taking more time for the work came up in the previous meeting when it was suggested that there is an on-going issue around Audit Scotland’s management accounting and end-year flexibility. Although those matters are not linked too closely, if the commission were to say to Haines Watts, “Go with the time suggested”, it could dip its toe into them and give us a wee bit more for the fee than just a follow up. As I am sure that members know, five days of partner time and five days of senior consultant time will not be cheap.

Robert Brown: I question the need for any follow-up report at all. The original report identified a number of things that Audit Scotland should do and pointed it in a certain direction. As Audit Scotland was keen to tell us, it has high-level people in its organisation with expertise in the area. From a rough glance at the time involved, I would be surprised if such a follow-up report cost anything less than £20,000. That seems to be the level, judging by the time charges that might be made for such work. I cannot see that we will get £20,000 of value that will add anything to what Audit Scotland ought to be able to do itself.

The Convener: You feel that it would be a duplication of purpose and cost.

Robert Brown: I think so—to a degree. I am interested to hear Andy Munro’s comments on that.

Hugh Henry: What would be the added value of such a report?

Andy Munro: As I said, the proposed time involved looks heavy and I would look to take a lot out of that. In addition, it would be valuable to get assurance from Haines Watts—from its independent perspective—that Audit Scotland is actually doing what it said it would do. There has sometimes been a gap in terms of what we have seen from Audit Scotland and some of the explanations that we get. It would be good to get Haines Watts’s perspective on whether it has delivered as it said it would deliver.

The Convener: I suppose the question is whether members are confident in Audit Scotland’s evidence about whether it has met the recommendations and requirements.

Robert Brown: Is that what the follow-up report will do? Will it seek further information on such matters?

Hugh Henry: To be honest, given some of our concerns, I do not have a problem with delaying our decision until our next meeting. That would allow us to get the costs and have a further look at the purpose and scope of such a report, which would enable us to consider whether the report was necessary and whether we would get any value from it.

The Convener: Perhaps it would be useful for a representative from Haines Watts to come along to the next meeting so we could have that dialogue.

Hugh Henry: We could ask them to justify what it is that we will get. If we are to be responsible for spending a considerable amount of public money, what will Haines Watts provide for that?

Robert Brown: Is that the issue? Surely it is for us, at our level, to determine whether we want to instruct Haines Watts to do a follow-up report. In bringing them along, we incur costs anyway. The issue is the balance: will such a report give us added value, or is it work that Audit Scotland or, indeed, its normal external auditors could deal with? Why do we need consultant input when we have identified the direction of travel? We need those matters to be confirmed.

Andy Munro: Just for the avoidance of doubt, Haines Watts is the external auditor. The issue is to do with the public sector audit role, in which there is financial regularity work and a duty to demonstrate the best use of resources, and

Haines Watts is doing a bit of both. The situation is similar to that of KPMG going to a local authority and doing both value-for-money work and the financial statements. Haines Watts's role in this situation works on the same basis. The confusion has arisen probably because Haines Watts refers to some of its staff team as "consultants", but those guys are no different from regular auditors.

Derek Brownlee: At our previous meeting, Audit Scotland talked about how it had reduced the increase in fee expectations from 3 to 2 per cent. If we consider some of the original report's recommendations on Audit Scotland being more transparent in developing costing arrangements, we see that there is a link to what has been indicated. In the previous meeting, some of us were not clear—I certainly was not—on precisely how Audit Scotland determined how and when it issued fees and to what extent there was a clear internal view of the fees strategy that the witnesses talked about.

There would be some merit in a follow-up examination; the question is whether there is enough merit in doing it relative to the cost. We should perhaps ask Haines Watts for a more detailed analysis of what it thinks that the added value, extra assurance and cost would be. I would not normally expect a two-page proposal document for a significant piece of work.

The Convener: Therefore, the way forward is to get further information on added value and cost, and more input on how large the follow-up study will be—that will obviously affect the cost. We can ask for further information from Haines Watts and discuss it at our next meeting.

On timing, will March or April be okay?

Mark Brough: That is entirely up to members.

The Convener: That does not cause any difficulties.

Working Practices

11:21

The Convener: For the next item, a paper has been prepared by the secretary on an issue on which we reflected during our away day. We picked up from the legacy paper the fact that the commission does not have the protection of privilege in relation to defamation. As the paper says, we have some protection in relation to publications but not in relation to our proceedings.

I am interested to hear what the lawyer among us—there is just one—makes of the suggestions. At our previous meeting, we agreed that, although the issue was not high on our list of priorities, we needed to consider whether there was a relatively painless way of addressing it. Members felt that there was a discrepancy. Various potential courses of action are outlined in the paper—some are more straightforward than others.

Robert Brown: The matter is certainly not worth a committee bill on its own. On the suggestion of a change being tacked on to something else, the bill to tidy up the powers over ombudsmen and commissioners would seem the most likely. Without our knowing what is coming, however, it is perhaps premature to identify a precise bill.

This is a matter of agreeing the recommendations in the paper. We need to do something at some point. The changes should be tacked on to a bill, and we will look out for an appropriate opportunity to do that.

The Convener: Are there any other comments?

George Foulkes: The recommendations seem sensible. In the meantime, we should watch our language.

The Convener: Indeed. We agree to the recommendations in the paper.

11:23

Meeting continued in private until 11:56.

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