

# **MEETING OF THE COMMISSION**

Wednesday 5 November 2008

Session 3

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## SCOTTISH COMMISSION FOR PUBLIC AUDIT

### † 8<sup>th</sup> Meeting 2008, 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)

Richard Gibson (HW Chartered Accountants)

Diane McGiffen (Audit Scotland)

#### SECRETARY TO THE COMMISSION

Mark Brough

#### LOCATION

Committee Room 5

† 7<sup>th</sup> Meeting 2008, Session 3—held in private.



## Scottish Parliament

### Meeting of the Commission

*Wednesday 5 November 2008*

[THE CONVENER *opened the meeting at 10:07*]

### Decision on Taking Business in Private

**The Convener (Angela Constance):** Good morning, colleagues—sorry to have kept you waiting. I give a warm welcome to members and our witnesses. We have received apologies from George Foulkes and Hugh Henry.

I respectfully remind everyone to switch off mobile phones and any other electronic devices that may cause disruption.

The first agenda item is to decide whether to take business in private. Under agenda item 5, the commission would like to reflect on the evidence that we will hear today. We would like to do that in private, so that we can reflect on any forthcoming report. Do members agree to take item 5 in private?

**Members** *indicated agreement.*

## Annual Report and Accounts 2007-08 and Auditor's Report

10:08

**The Convener:** We move swiftly on to agenda item 2, which is Audit Scotland's annual report and accounts for the year to 31 March 2008 and the auditor's report on the accounts. As we know, the commission is responsible for securing the audit of Audit Scotland's accounts, and has contracted Haines Watts the chartered accountants to undertake that. We now have the auditor's report for 2007-08. Later, we will have an opportunity to take evidence from HW.

I must apologise—we are all a little weary this morning, having stayed up most of the night watching the very exciting American elections.

Without further ado, I welcome Robert Black, the Auditor General for Scotland and the accountable officer for Audit Scotland; his colleague Russell Frith, the director of audit strategy with Audit Scotland; and Diane McGiffen, the director of corporate services with Audit Scotland. I invite Mr Black to make a short opening statement.

**Mr Robert Black (Auditor General for Scotland):** For the record, let me state that I have no advantage over you, as I am also feeling slightly weary. I could not resist staying up last night.

A brief word from me on the annual report and accounts might be appropriate. As ever, Diane McGiffen, Russell Frith and I will do our best to answer any questions on that and any other relevant matters.

In the annual report and accounts, we set out the full range of work that we have delivered, and we also include some case studies. The report that you have before you does not give quite that level of detail. Although there are, therefore, two versions of the report, the core information is in both.

From our point of view, the highlight of 2007-08 was the production of 201 final audit reports on all the audited bodies in Scotland as part of more than 300 separate reports that Audit Scotland produced for the bodies that we audit. That work is not above the horizon terribly often in Parliament, but it is a cornerstone of our work, together with our performance reports, which come to Parliament. A huge volume of activity goes on at that level.

In the last financial year, we produced 18 public performance reports. All the audits that Audit Scotland did were completed on time. We ran the national fraud initiative again, which identified

overpayments and savings in the year of about £9.7 million. The cumulative amount that that project has identified in recent years is now in the order of £37 million.

The past year saw major developments in the review of scrutiny, which was designed to achieve a more integrated and streamlined approach. That is closely linked to developing the framework for best value. Audit Scotland staff and I have been involved in that quite closely.

We have made quite significant progress on the helping improvement agenda by engaging more effectively with our stakeholders and the audited bodies. I do not mind the word “client” being used, as it encourages the auditors to recognise that they have a duty of care and reporting to public bodies, which does not in any way compromise their independence. We engage with them effectively, and have taken part in many meetings, conferences, seminars and working groups to try to spread the understanding and impact of our work.

It is important that we communicate well about our work, so we work quite hard to distribute the annual report. We recently undertook a survey of our stakeholders on a range of issues, and we found that about two thirds of them had read our annual report, which is a surprising and encouraging percentage for that sort of document. The same percentage thought that it was very satisfactory and required no improvement. Given that it is a worthy—if, I think, reasonably interesting—document, we are reasonably satisfied with that outcome.

I am happy to answer any questions.

**The Convener:** Before we get on to the meat of our questions about the annual accounts, I would like to ask you about a matter that is not directly related, involving coverage in the *Sunday Herald* on 19 October about Audit Scotland’s budget and international development work.

I know that, last year, my colleagues on the commission discussed Audit Scotland’s international work and the ways in which it was prioritised and decided on, and how much it cost. I also know that you helpfully sent a detailed letter to the commission following the appearance of the *Sunday Herald* article. Would you like to put anything on the public record regarding the recent media coverage?

10:15

**Mr Black:** I am grateful for the opportunity to do so. I am conscious of the time, so I will not take more than a moment or two.

The article in the *Sunday Herald* was seriously misleading. My colleagues and I took it very

seriously, because bodies such as Audit Scotland and the office of the Auditor General for Scotland can function only if the public and Parliament are confident that we observe high standards in our own work.

I was extremely concerned about the article, which talked about a “junket culture” in Audit Scotland. That is most unfortunate, because my colleagues in Audit Scotland worked hard to explain the context and content of our international work to the journalist from the *Sunday Herald*.

In my letter, I attempted to summarise the information that appears in the annual report about the range of work that we do. Most of our work is carried out within the European Union, in the accession countries in the Balkans and the Baltic states. We also work with the National Audit Office and the Swedish National Audit Office. A lot of that work is extremely demanding, and it takes place in parts of the world where the staff often have to experience some personal discomfort. I will not name individual places, but it is clear that it is not always easy in a personal sense to work in developing countries, and the staff do it for no extra reward.

We have developed an international strategy, of which the Scottish Commission for Public Audit is aware, and we ensure that it is proportionate and limited. We try to ensure as far as possible that there is no significant burden on taxpayers in Scotland. As I outlined in the letter, we estimate that over the past three years the cost has been something under £1,700 per year. The bulk of that cost has been recovered from other agencies such as the European Union and the World Bank, and through bilateral aid programmes that are funded by the European Union. I assure you that we get an extremely positive response from people who have the benefit of Audit Scotland input and, as I said in the letter, we are rather proud of what we have achieved as a relatively new organisation.

I will make one final comment, as I am personally rather enthusiastic about our international work. Many of the accession countries and the developing countries have come relatively recently to modern structures of government, and their size means that they can identify more closely with the Audit Scotland scale of activity than with audit organisations in big nation states. For those two reasons—we are a comparatively new organisation, which has thought through some first principles in the context of a new Parliament, and our nation is a certain size—we can often offer particularly relevant thoughts, advice and support to those countries.

I will stop there. I am glad to have the opportunity to offer those comments. We are always vigilant to ensure that those activities are proportionate and do not get in the way of the

main work that we do, and we will always be transparent about reporting such work through our annual report.

**The Convener:** Thank you, Mr Black. Modern structures of government and emergent democracies certainly require good governance and robust audit arrangements. I am happy to move on, unless members have any questions.

**Robert Brown (Glasgow) (LD):** I welcome all the work that Audit Scotland has done, not least the work in the international sphere that you mention.

I have a couple of points. One is on the balance between private firms and Audit Scotland. The report indicates that about one third of the public body audits are carried out by private sector accountancy firms, and 94 are done by Audit Scotland staff, but the private firms get only 23 per cent of the total expenditure. There may be all sorts of reasons for that, but can you give us the background?

**Mr Black:** Yes, there are reasons. I invite Russell Frith to give you the definitive explanation.

**Russell Frith (Audit Scotland):** The figure of one third refers to the value of financial audit work, so it does not represent the full scope of the audit work: it is the audits of the annual accounts, rather than, for example, the performance audit studies that come before the Audit Committee. It is one third by value, but it is more like half by number of bodies. That is because, for example, all 39 relatively small further education colleges are audited by firms; none is audited by Audit Scotland teams. The balance in the size of audits is that the Audit Scotland team does relatively more larger audits and that firms do relatively more smaller audits, particularly of further education colleges.

**Robert Brown:** The accounts show that you spent £1.362 million on purchasing fixed assets against an original information technology budget of £451,000. Will you give the background to what appears to be a significant discrepancy?

**Russell Frith:** The biggest element of the fixed-asset expenditure was completion of the refurbishment of 18 George Street. That was not in the original budget for 2007-08, as it had been in the budget for 2006-07, when we had expected to do the work. We did not do the work then, so we carried forward the expenditure through end-year flexibility in the autumn budget revision last year. In effect, that was added to the budget of £500,000 or so for IT stuff.

**Robert Brown:** My final question might not really arise from the annual accounts. In a sense, the pension provision is historic. I am conscious that a large part of the assets that make up that

provision are equities. What might happen with that, given the current financial background?

**Russell Frith:** As you can see from the balance sheet, the net pension position moved substantially during 2007-08, from a net deficit of £2.6 million to a net surplus of £3.3 million, which reflected the significant increase in stock market values over that period. It is obvious that if market values stay as they are, I expect that number to reverse again by the end of this year, but this year's position will be complicated by the fact that a full actuarial evaluation is taking place.

**Robert Brown:** For our purposes, I am interested in whether that is likely to produce a significant call on public funds to balance out the position.

**Russell Frith:** If a deficit arises, it is typical for the actuary to assess it every three years and to recommend a contribution rate to recover it, usually over a fairly long period. The period that the Lothian pension scheme uses is 20 years, so any deficit is unlikely to lead to a significant short-term additional call.

**The Convener:** I will ask general questions. I am aware that Audit Scotland's income depends on how far advanced audits are at the end of each financial year. Audit Scotland has said that its billing timetable might mean that significantly more fee income is received in one financial year than in another. In its continuing dialogue with Audit Scotland, the commission has discussed how that situation could be improved. Pages 35 and 46 of the annual report and accounts show that operating income rose by 6.8 per cent, largely as a result of fees that local authorities paid. Will our guests explain further that increase and the extent of the year-on-year fluctuation? I understand that the figure in 2006-07 was substantially reduced from that in 2005-06, even after the restatement to cover VAT issues.

**Russell Frith:** Between 2007 and 2008, the volume change in the position that was reached at the end of March did not, on average, alter significantly. Most of the difference in the income relates to the inflationary increase in fees of about 3 per cent, plus the slight increase in the fee income that was earned above the indicative levels. Some auditors undertook additional work, for which they charged, which raised the total income by another 1 or 2 per cent. The difference in the two completion rates at 31 March was only 1 or 2 per cent.

**The Convener:** On a positive note, I am aware that 90 per cent of audit fees were agreed within a specified timescale, which is an improvement on the previous year's rate of 56 per cent. What measures were taken to make that improvement?

Is that improved rate expected to be maintained in future years?

**Russell Frith:** The improvement was caused largely by stressing to all auditors the importance of agreeing fees as soon as practicable. It is also fair to say that the audit fees that were agreed during the year were relatively straightforward, in that there were only small changes in the audit scope or number of audits. It was a fairly stable year. We hope to maintain the level, although one or two changes that are coming through may delay some agreements this year. One example is the scope of work on international financial reporting standards.

**The Convener:** Audit Scotland states on page 13 of the annual report that it has reduced staff numbers by 2.5 whole-time equivalents, generating savings of £54,000. However, note 2 to the accounts on page 41 states that the average number of staff directly employed during 2007-08 increased by 11 from the previous year and agency staff increased by three. Page 41 shows salary costs increased by 4.8 per cent over the year. How can those statements be reconciled? Have additional posts been created or have vacant posts been filled?

**Diane McGiffen (Audit Scotland):** The measure of the average number of whole-time equivalents that is used in the annual report refers to the average number of people who we have in post during the year. We have published that figure in previous annual reports, and it is different from the number of posts in our establishment in any year, which is higher. In the current year, the number of posts in our establishment is 293 whole-time equivalents, but the average number of people who are employed in the year, as noted in the annual accounts, will be lower because of turnover, vacancies and so on.

It is possible to reduce the number of posts in the establishment while seeing a higher number of average employees during the year. The establishment figure will have shifted down, but because of faster recruitment or lower turnover we will have more people in post for more of the year than previously. We reduced two posts in the establishment but had more people in post for more of the year than previously.

**The Convener:** Let us move on to staff turnover. I notice that staff turnover was significantly higher in 2006-07 than in 2005-06: 8.5 per cent compared with 2.2 per cent. No figure appears to have been provided for 2007-08. Why is that?

**Diane McGiffen:** The figure for 2007-08 calculated on the same basis as previous years is 7 per cent. I would need to flick through the paperwork to see why it has not been given.

The figure that we quoted was 8.5 per cent in our 2006-07 annual report and 7 per cent in 2007-08. We have moved internally to refine the measure of turnover that we use following some work during a study on benchmarking. We now use the Chartered Institute of Personnel and Development calculation as an indicator for consistency with previous years, but we also have another measure, which is a value-for-money indicator on turnover. We consider the issue closely.

10:30

**The Convener:** I am always interested in sickness levels. Audit Scotland's sickness rate of 8.11 days per employee is below the national average for public sector bodies, but it is an increase on previous years—it was 5.3 days in 2006-07 and four days in 2005-06. Is there any explanation for that increase? I know that you have an absence management strategy.

**Diane McGiffen:** The increase is due to a combination of things. There has been a greater focus on reporting sickness absence. Our staff are dispersed over a range of working locations. During the year, we fully introduced an electronic time-recording system for all staff. Part of the shift that you mentioned is accounted for by the more accurate capturing of sickness absence data as well as by slight peaks in sickness absences in the winter and spring periods, when we seem to be susceptible to catching colds and the flu. We have focused our attention for some time on ensuring that we capture data quickly, and our new time-recording system ensures 100 per cent coverage of everyone and a way of matching up sickness absence records with time-recording records. We now cross-reference and analyse that information.

**Derek Brownlee (South of Scotland) (Con):** I want to stay on the subject of staffing. On the general strategy, we have covered the increase in staff numbers and the use of temporary staff, and have touched on the use of private firms. You have some discretion on what work you put out to private firms and when you might use temporary staff as opposed to recruiting permanent staff, but what is the strategy? When would you use temporary staff in your organisation and when would you recruit permanent staff? When would you use an external firm to do work? What drives the underlying trends in numbers?

**Mr Black:** The temporary staff tend to be mainly agency staff who work on audits. Perhaps Russell Frith will comment on that.

**Russell Frith:** Short-term temporary staff tend to be used in two areas. They are mainly used to deal with peaks of work on final audits over the summer months. We are careful to ensure that we



use such staff only when we cannot use our own staff, because there are risks in using temporary staff, as they need to be managed to ensure that we get the quality work that we need. Short-term temporary staff also tend to be used in corporate services—we have had short-term staff on reception, for example.

The balance between the use of firms and the use of in-house teams is set once every five years, because we offer audit appointments for five years in order to give firms the critical mass that they require. The Auditor General and the Accounts Commission set the volumes last time. However, we will review matters whenever we go through a procurement exercise.

**Derek Brownlee:** I would like to return to the issue of the discrepancy between the number of posts in the establishment and the average number of people in post, which was raised earlier. I understand what you said. You mentioned a faster recruitment rate. Given staff turnover, recruitment costs seem to have tailed down at a faster rate than might have been expected. In light of what you said, it is difficult to see that a reduction in the number of posts in the establishment can really be classed as an efficiency saving. Surely the real measure is not what you could have spent but what you actually spend. Have I misunderstood your explanation?

**Diane McGiffen:** Taking permanent posts out of the establishment means that we are saying either that we are not doing that work any more or that we have found another, more efficient way of doing it. I think that it would count as an efficiency saving. That is a slightly different point from the turnover issues and the movement within our workforce over the course of the year. We would not be using temporary staff to replace the posts that we have deleted, if that is what you are asking.

The business groups, particularly the audit services group, have workforce planning programmes and workforce plans that take a longer-term view of their likely need for resources over time, and consider the skills mix that will be needed, how they deploy staff, when agency staff will be required and what alternatives to agency staff there might be. We expect that those plans will, over the next few years, help us to deliver greater efficiency and further reorganisation of our core work to enable us to do things such as delivering the new international financial reporting standards.

**Derek Brownlee:** The £54,000 that is mentioned on page 13 is therefore a saving resulting from the reduction in staff by 2.5 posts that were filled but which no longer exist. Is that correct? Is it a cash saving, as opposed to simply the deletion from the establishment of 2.5 posts that were not filled?

**Diane McGiffen:** The posts were deleted from the establishment. The posts were not filled at that point, but they had been in the past.

**Derek Brownlee:** It strikes me that, if it is to be counted as a real efficiency, that £54,000 should be a real reduction in costs, rather than a reduction in what the costs would have been if the posts had been filled. To suggest that the deletion of those posts is a saving is, perhaps, putting it too strongly. It might be better to consider that to be a potential saving. If another organisation were to suggest that that was a real efficiency saving, would you accept that?

**Russell Frith:** In the public sector, yes, we would, provided that the organisation was being consistent. Our benchmark for efficiencies over the long term is movements in budgets from one year to the next. Provided that the organisation is consistent in that approach and starts from an agreed baseline, it is a fair way of proceeding.

**Derek Brownlee:** So your assessment would be of a movement in budgets rather than a movement in actual expenditure.

**Russell Frith:** Yes, provided that that is the consistent base over a period of years.

**Mr Black:** The point that we are trying to make is that the actual spend in year will vary with turnover, so that cannot be seen as an efficiency measure. What matters is the movement in the budgeted establishment.

The other feature of this issue, which is difficult to capture in an analysis of efficiency and effectiveness, is the work rate of corporate services staff. I recall that, in previous years, we have mentioned that issue. For example, in the human resources function, as the organisation has grown and the expectations of human resources support have grown in terms of staff development and training as we have moved towards being a best-practice employer and so on, the volume of work that the HR team has had to do has increased enormously. We must take into account that side of the issue, which is more difficult to capture.

I invite Diane McGiffen to say something about the workload in some of the corporate services.

**Diane McGiffen:** I said earlier that we now have an establishment of about 290 staff. When we began, we had an establishment of around 220 staff. Although the staff numbers have grown, the support services have not grown at the same pace, so the ratio of HR staff, for example, to the people whom they support has grown over time—we have provided the relevant figures to the commission previously. We have found different ways of managing the workload and delivering services and support so that the costs of

supporting staff have not grown at the same pace as the numbers of staff. We monitor over time the ratios of support staff to our core business staff, and benchmark accordingly.

**Derek Brownlee:** My question might stray a little bit from the annual report, but it concerns a matter that is mentioned in it.

You mention the adherence of Audit Scotland to the Confederation of British Industry's prompt payment code of practice. At a governmental level, in the United Kingdom and in Scotland, there have been announcements that there should be a 10-day period for payments to small firms. Is that acceptable to you? Audit Scotland need not follow the direction of either Government but, given the improvement in your payments based on the existing criteria, have you given any consideration to whether you might be able to move towards that sort of target?

**Diane McGiffen:** We have not yet formally considered that, but we are doing on-going work around our internal financial systems, and are looking to continue to improve the rate at which we process payments. We are on an improvement journey in that area.

**The Convener:** I thank our witnesses for giving lucid and coherent evidence this morning, despite the late night that Mr Black has confessed to having had.

I invite Richard Gibson to take a seat at the table, which I admit slightly resembles a piece of furniture that might be used by the politburo. It sometimes seems as if these committee room tables are getting longer and longer.

As I intimated earlier, the commission is responsible for securing the audit of Audit Scotland. To help us to do that job, we have contracted the services of HW Chartered Accountants. Before us we have, as well as Audit Scotland's report and accounts, the report from our auditor. Mr Gibson is our lead contact in the external audit of Audit Scotland.

Mr Gibson, for the record, I ask you to confirm that HW Chartered Accountants has received all the information and explanations that were necessary to enable you to form an opinion of the accounts and to give us an overview of observations that were made during your work.

**Richard Gibson (HW Chartered Accountants):** I confirm that that is the case.

**The Convener:** I invite you to make an opening statement.

**Richard Gibson:** I am the responsible individual at HW Chartered Accountants for the audit of Audit Scotland, which means that it is my ultimate responsibility to ensure that we have complied

with all the professional standards that have been set out by our institute. We are a firm of registered auditors and chartered accountants and we have, for the past three years, acted on your behalf in the auditing of Audit Scotland, following our appointment as a result of a competitive tendering process.

Our work was undertaken from February to May 2008, and our audit report was signed on 24 June, following a presentation to the board of Audit Scotland. The documents that have been submitted to your commission are our audit report, which forms part of the annual report and accounts that you have before you, and a report to management, which is a letter identifying what weaknesses, if any, were found in the systems and procedures of Audit Scotland, and recommendations for improvement, if appropriate.

I can confirm, following our review, that I am happy to sign off our audit report, based on the fact that the information that was provided to us allowed us to believe that the accounts provide a true and fair view of Audit Scotland's performance during the year to 31 March 2008, and that the accounts comply with all the relevant legislation. I am happy to report, also, that there were no issues that we felt need to be brought to your attention, or, indeed, the attention of the management of Audit Scotland, as part of our report to management.

I can further confirm that the points that were raised in 2007, which the commission has considered, were discussed with Audit Scotland and have been adequately addressed during 2008. Although those issues were not a matter of significant concern, we are happy that they have been addressed and the necessary improvements have been made.

I am happy to recommend to the commission the adoption or acceptance of the accounts.

**The Convener:** That is helpful. Neither of my colleagues has any questions, so you are getting off lightly, as I have no questions, either. Thank you very much. We appreciate that you had a long journey to get here.

**Richard Gibson:** Not at all—it was a pleasure.

## Autumn Budget Revision

10:46

**The Convener:** For item 3, I welcome back the Audit Scotland team, although they did not physically remove themselves from the table. We have before us Audit Scotland's proposals for the 2008-09 autumn budget revision. I invite Mr Black to make a short opening statement.

**Mr Black:** We were aware of the wishes that the Scottish Commission for Public Audit has expressed in the past regarding how we handle such revisions. We have undertaken to address those concerns in the present budget cycle. The commission asked us to consider whether we could reduce the on-going use of end-year flexibility and the cumulative EYF position, possibly by way of a rebate to audited bodies and perhaps by trying to include some development capacity in our core budget, so that it does not feature recurrently in EYF. You also asked us to provide more details on the sources and proposed use of EYF. This year, we have done our best to address those concerns. We indicated to you that we would not be able to resolve all the issues in one year by virtue of the nature of EYF, which tends to be something that is considered over one year. However, we suggest that our proposals this year make considerable progress under all those headings and that our reliance on EYF will come down significantly.

We propose rebates to the audited bodies and to the Scottish consolidated fund. We will conclude the first round of best-value audits and plan for best-value improvement without the need to increase the fees that are charged to audited bodies. We will use EYF to help us to meet unanticipated properties costs. Page 2 of our budget revision proposal details all the elements in the potentially available EYF, and pages 4 and 5 detail the proposed use of EYF. We have done that in some detail, because that is what the commission requested. There are some fairly full notes explaining each element of EYF. Taking that document along with our budget proposal, which the commission will consider shortly, and the documents that we have submitted on the fees strategy, I hope that you will be comfortable that we have tried to respond to your desire for more information and greater transparency on the issue.

As I say, it is not possible for us to eliminate all the elements of EYF in one year, but our document attempts to take us quite a way along the road towards that.

**The Convener:** It is fair to say that Audit Scotland's reliance on EYF has been a focus of

our past attention and discussions. Robert Brown, our EYF specialist, has some questions.

**Robert Brown:** I thank the Auditor General for the budget revision paper, which lays out clearly several of the issues and gives a breakdown, which is helpful to our consideration. I have a general question. As I understand it, the revenue bit of EYF that Audit Scotland requests has increased from £1.541 million in 2007-08 to £2.483 million in 2008-09. You then knock off £1 million for the rebate to the audited bodies, which takes the figure back down to £1.483 million, which, dare I say it, is virtually the same as the figure for last year. That is against the background of what you describe as a reduced reliance on EYF. Against that general background, can you clarify how that is a reduced reliance on EYF? What steps are likely to impact on the amount of EYF that Audit Scotland will request in future? Obviously, you touched on the trend in that respect.

**Mr Black:** You are absolutely correct in saying that, in the 2007-08 autumn revision, we requested £1.5 million in revenue and just over £1 million in capital. The total requested was just over £2.5 million. This year, we are looking for a rebate of about £1 million to clients. In effect, we are asking for £1.483 million on revenue and a small amount of capital. Russell Frith will say more on the pattern of movement over the years.

**Russell Frith:** By the time that we were able to consider the points that the SCPA made last year, we were almost too far through 2007-08 to do an awful lot within that year—in fact, we could not do anything in the year. To some extent, we are now seeing a finishing off of the existing position. For example, in essence, all the elements around best-value audit and development of the business are a continuation of the things that we asked for last year and which are working their way through.

I turn to what we expect to happen in future years. We have tightened some aspects of our budgeting for 2008-09; we did that in the original budget proposal for 2008-09. Our experience in the six months of the year thus far is that we are much closer to our expenditure budget than we have been in recent years. If we carry on as we are, the amount of EYF that is potentially available will start to come down significantly, particularly if we go through with the rebate proposal. In future years, the SCPA should expect to see the amount come down significantly.

**Robert Brown:** In essence, we have the original 2008-09 budget of £6.7 million and a revised total funding figure of £9.2 million. The figures are quite substantial in overall terms, are they not?

**Russell Frith:** They are indeed. However, in order to address the cumulative EYF position by

means of rebates to audited bodies, we have to bring the resources through the EYF mechanism. We have no alternative mechanism to legitimise that.

**Robert Brown:** In a sense, the policy issue is the proposed use of EYF. I have some questions on your paper. You say that the staff conference was deferred from the 2007-08 budget and have given us a figure of £80,000. Given the number of Audit Scotland staff, the proposed expenditure looks like a substantial amount per head. Why is the conference so expensive? What is it?

**Mr Black:** Audit Scotland hardly ever has the opportunity to get its staff together in one place. Clearly, we are required to do that to operate to good management standards. We therefore have a policy of not having an annual staff conference where everyone gets together but a conference once every three years for our people who are in Inverness, the west, Aberdeen, Edinburgh—everywhere. In the year in which the conference takes place, it is a noticeable item—in this case, £80,000. However, if one looks at the cost over a three-year period, it works out at around £90 per head per annum. That is a very small sum of money to get all our staff together to do some intensive work over a two-day period.

**Robert Brown:** The estimated cost of the correspondence-handling arrangements is £81,000, which is intended to accommodate 200-and-something letters. To put that into perspective, that is significantly less correspondence than most of my colleagues receive in their offices, yet the proposal is to spend £81,000 on a pilot project on that. That seems to be a lot of money. In the overall scheme of things, is that expenditure justified? Is it intended to be offset by redeployments? It is in the proposals as an additional outlay rather than a cost that is accommodated by savings elsewhere. One guy—who appears to be quite senior—does the work. Will that free up other staff, so that expenditure is not increased?

**Mr Black:** Diane McGiffen will be able to answer more fully and helpfully than I can, but I will give a general response. I am certain that the arrangements are right. In previous years, we received manageable volumes of correspondence, which went to the relevant individuals for responses. As the reach and complexity of our work have increased, and as Audit Scotland's profile has increased, not only has the volume of correspondence intensified but the significance of some issues has increased. Therefore, a significant amount of correspondence requires full and detailed consideration, because we must respond accurately to people.

As we reported in last year's annual report, we have found some evidence of our response times

slipping. Senior management and I were increasingly concerned to ensure that people receive a robust, high-quality and relevant response to their inquiries. For that reason, we reviewed our systems. We decided that to have a dedicated unit that could draw on the resources of the rest of the office and of the firms that work with us would be much more efficient and would manage the risks for us by ensuring that consistent and well-supported work was undertaken before replies were written.

**Diane McGiffen:** I will keep my comments brief. The correspondence to which the document refers is not all the correspondence that the office receives but the correspondence in which people raise concerns about bodies that we audit. In the past three or four years, the volume of that correspondence has risen significantly in relation to local and central Government. We must consider such correspondence seriously. It has resulted in some significant reporting on audited bodies and it has raised significant concerns that have been substantiated. Such work requires detailed consideration and co-ordination. Audit Scotland receives correspondence but, as we have said, external auditors and firms do some of the work, so we must liaise with local auditors. We must try to meet our correspondence-handling targets, consider the issues seriously and respond in detail to people's inquiries.

We have tried various ways of operating. Initially, such letters were simply given to the appointed auditors, who dealt with them however they wished. However, that did not meet the expectation of the people who wrote to us that Audit Scotland would respond. We also had no control over the time that was taken to respond.

Many issues that are raised in correspondence are dealt with in the course of audit work but, by keeping a central team focused on that, we know about our engagement with whoever corresponds with us. We know where we are in the investigation of a concern, we are clear about the follow-through and we can manage and deliver the level of service that we would like.

Dealing with correspondence has become complex over the years, partly because of the volume and partly because many correspondents raise technical and complex issues that take some working through. We need to find a way of resourcing it that enables us to consider everything seriously; to deliver on our commitment to respond appropriately; and to ensure that we can track and monitor responses and provide a consistency in our approach, which was a problem that we experienced in the ways in which we previously dealt with correspondence.

11:00

Early indications are that the correspondence in relation to local and central Government has gone up yet again this year. The volume increase for us is continuing, and correspondents' expectations that we will be able to process their concerns are higher than ever. Members of the public often feel very strongly about those concerns and expect us to be able to deal with them. We want to fund the scheme as a pilot to establish whether it is the best way to deal with correspondence, before we reorganise and consider which resources it might enable us to free up or adjust later on.

**Mr Black:** It is not appropriate to go into examples in great detail, but I have one example that might help your understanding of the challenges that we face in that area.

In recent years, we have received a lot of correspondence about common good funds in the local authority sector. If one examines the aggregates of local government finance, one finds that, generally speaking, the common good funds do not impact significantly on public spending, because they are separate. It is therefore quite difficult for auditors to respond, because they have very heavy workloads elsewhere. It is time consuming and difficult to trace the exact circumstances of common good funds, and it involves making a lot of judgment calls along the road about how far we can take the audit process.

That has generated quite a lot of work for Audit Scotland staff and, as Diane McGiffen mentioned, correspondence sometimes leads to what might be described as mainstream audit activity. In this case, it has led to the Accounts Commission asking for a piece of substantive work to be carried out on common good funds.

**Robert Brown:** That is very helpful by way of background. I suspect that I know one or two of the people who have sent you that correspondence over the years.

I would like clarification on a couple of points. First, is the pilot a one-off expenditure that, once it is scoped and worked through, will be reabsorbed without an increase in the overall staffing arrangements? Secondly, is any of the expenditure recoverable from local authorities, if some of the work relates to the incidentalia of your relationship with local authorities?

**Diane McGiffen:** Russell Frith will correct me if I am wrong, but I do not think that that expenditure falls into the recoverable category, other than in the broad sense of the amount of local authority fee that helps us to support our central charges. That fee resources other office functions, but it is not specifically recoverable from any individual local authority, regardless of the volume of work that might be generated.

The intention behind the pilot is to consider the implementation of a different way of managing the process. If it is successful in enabling us to respond to the volume increases and to meet our targets, we will seek to build it into our core budget. However, the decision on how much of the cost will be built into the core budget depends on the efficiencies that might be generated and on what other people might stop doing. In other words, that depends on our arrangements with all the appointed auditors with regard to the balance between the amount of investigatory work that we do centrally and the expectation of what they would do locally and so on. The pilot will give us the time to work through all that.

**Robert Brown:** My general point relates to all those things. In these times of public sector stringency and difficulty, one would hope that—in the long term, if not the short term—such a cost would certainly be absorbed and dealt with in your own budgetary arrangements, rather than lead to a staffing increase.

**Diane McGiffen:** The pilot will give us the opportunity to resource the area more effectively and to try out different ways of handling correspondence. The evaluation at the end of the scheme will examine how we can build that into our core work. It might lead to a marginal increase in cost, or something that would head towards the full cost, but we will be able to assess that at the end of the pilot.

**The Convener:** I have a few disparate questions on the uses of EYF. I notice that the 2009-10 budget includes money for development of the business in response to our recommendation that Audit Scotland should budget for that in the usual way rather than relying on EYF. However, the amount in the 2009-10 budget is not specified. Will you say a bit more about that and what you are likely to use the money for?

**Russell Frith:** In the 2009-10 budget, the two posts—

**The Convener:** I am sorry; I will be specific. I am looking for clarification of whether the amount in the 2009-10 budget is in addition to the £482,000 of EYF that has been requested for use in 2009-10.

**Russell Frith:** Yes, it is, although some of the activities may well be the same. The idea is to move the funding of those development activities from being entirely based on EYF—as it has been in the past—towards being entirely within our budgets but at a lower constant level than is implied by the current EYF, because we believe that we are at a peak at the moment in the development of best-value work and responses to the Crerar review.

**The Convener:** Will you say a little bit more about how the money for developing the business will be spent? Have you any idea what proportion will be used for responding to the Crerar review or implementing the IFRS regulations? Will it be used for other things?

**Diane McGiffen:** It will probably be the best use of our talents if I answer on scrutiny and Russell Frith answers on IFRS.

The development work for implementing the next round of best value overlaps in many ways with that for streamlining scrutiny, which is the objective that arises out of the Crerar report. We are developing the new models of best-value auditing in the context of the desire to reduce the perceived burden of audit on local authorities. With other inspectorates and agencies, we are examining opportunities for co-ordinating the timing of audits and inspections of local authorities and other bodies to make the process more manageable for audited bodies.

That constitutes an overall package of work. Some people will lead on specific pieces of work related to the Crerar review of scrutiny, and some have led our involvement in working groups and working parties to take forward issues such as how public bodies handle complaints. We are using a team of people to do different aspects of that work, but it is difficult to disentangle it because the development of best value is informed by our efforts to implement the expectations of the Crerar review. That team involves a number of posts and our ability to use other people to help us develop new tools and techniques. We have some people who have been seconded from local authorities, and some who are helping us to review different aspects of our toolkits and audit modelling, for example.

There is a range of work and it is difficult to disentangle the Crerar-related work and best-value development, as they are interconnected. However, once much of the work is done, the products will be developed and we will make the decisions about what the new models of audit will look like. The EYF requirement for the development end of that bit of work, which, as Russell Frith said, is at a peak, will disappear and it will become part of the mainstream maintenance and evolution of the work that we do. There will be no need to create things from scratch, on which a great deal of effort is focused at the moment.

IFRS is a matter that is well beyond my scope, so I will hand over to Russell Frith.

**Russell Frith:** Very little of the business bid that has been developed for the autumn budget revision relates to IFRS. When we get to 2009-10, the figure is in the low tens of thousands of pounds.

**The Convener:** Thank you very much.

Last year the commission reflected in its report our desire for Audit Scotland to examine the possibility of making savings by sharing backroom services with other organisations. I note that Audit Scotland proposes to use £80,000 of EYF for a replacement payroll/HR system. Has Audit Scotland had the opportunity to explore the possibility of sharing backroom services? Would the purchase of new systems be a barrier to the use of shared backroom services to reduce such costs?

**Mr Black:** Over the years, we have considered carefully the use of shared backroom services. A fundamental problem is that we must be independent of the bodies that we audit. The simple fact is that the bodies with which we might share services are often audited bodies.

We have taken some initiatives in that area. For example, the Sustainable Development Commission is located in one of our offices and shares some of our support services, because we did not think that that represented a conflict of interest, and we have occasionally assisted other bodies to develop their systems. However, I tend to be rather resistant to the principle that the auditors should share the services of the auditees, because of the perceived conflict of interest. I am not sure whether there would be an actual conflict of interest, but the perception would certainly be that such a relationship would be inappropriately close. My colleagues might wish to add to that.

**Diane McGiffen:** I have nothing to add on shared backroom services. Our approach has been to look for benefits through sharing development costs or initiatives with some of the other audit agencies. We shared the development of the work that we did collectively on benchmarking corporate services across public bodies, and we support the implementation of that project across the UK's audit agencies. We have sought other opportunities to obtain benefits from shared working that would not flag up for us some of the issues that Bob Black described.

**Robert Brown:** A range of bodies are involved in that process, but one direction of travel that a number of people have examined relates to the work of all the various commissioners and ombudsmen. I imagine that you fulfil an auditing role in relation to them as well, but if we are too strong on the issue of not sharing payroll services, for example, when reasonably significant savings could be made in that area, will we not find ourselves in a theoretical cul-de-sac? I do not know whether significant savings could be made on payroll services—it might be that although that is a totemic issue that we all go on about, it all amounts to much ado about not very much. I would like clarity on whether such opportunities have been explored.

In my view, there is no major conflict, perceived or otherwise, in endeavouring to share backroom services in those areas with the commissioners and ombudsmen. Although those bodies could not be said to perform similar roles to that of Audit Scotland, which in many ways is unique, they operate in an auditing/complaints handling environment and are not major providers of public services in the way that health boards and local authorities are. Is there really a problem with discussing the sharing of services with them?

**Mr Black:** I absolutely agree that we should be vigilant and look for opportunities in that area. As I understand it, the Scottish Government is soon to announce some of its findings from the independent review of scrutiny bodies. I do not know whether its approach will involve changing and streamlining structures, but it is possible that there might be a configuration of bodies with enough of a critical mass to allow us to revisit the issue of shared services. However, we must be vigilant in recognising the independence of the auditors from the audited bodies in such matters.

11:15

**Derek Brownlee:** You have said that the Accounts Commission has determined that the first round of best-value audits must be concluded by next April. When did the Accounts Commission take that decision?

**Mr Black:** I beg your pardon. Which decision are you referring to?

**Derek Brownlee:** The decision that the first round of best-value audits be concluded by April 2009.

**Mr Black:** When the Accounts Commission started out on its best-value programme a couple of years ago, its target was to conclude the first round by around now. There has been some slippage because of the size and complexity of the work, but its target for completing the work by the end of this financial year has been in place for some time.

**Derek Brownlee:** Your comment that you are on-track to conclude the field work for all this tends to add weight to the notion that that aspect has been relatively foreseeable, which raises the question of why it is necessary to set aside £321,000 of EYF for it.

**Russell Frith:** The main reason for using EYF for that purpose is that our original budget for collecting income from local authorities to cover the costs of the best-value audits was based on the assumption that the original target of completing the first round within three years would be met. That target has slipped, but we have still recovered the income for covering those costs. If

we were to stop collecting that money and do something else with it, we would not be spending it on the activity for which we had received it in the first place. We could give the money back to the local authorities by increasing the rebate and then simply charge them again this year. However, we feel that the fairest way of dealing with the income that we have received through local authorities is to retain it through the EYF mechanism and to spend it this year on completing the work.

**Derek Brownlee:** That was my follow-up question. How do you reconcile that approach with that proposed in your fee strategy to recharge public authorities for the costs of the best-value audits, particularly with regard to the proposed rebates to local authorities? Manipulation is the wrong word to use in this context, but there is scope for the numbers to be moved in a direction that has not been set out in the fee strategy. In effect, you are saying that all this expenditure from the local authorities will be expended on best-value projects.

**Russell Frith:** That is right. It will be spent on completing the first round of best-value audits by the end of April 2009.

**Derek Brownlee:** So the figure does not represent an increase in the expected cost of completing that work.

**Russell Frith:** No. It is a rephrasing.

**Mr Black:** This area shows why there is a possibility that EYF will always be necessary, because it is all about the pattern of work flow. When the statutory best-value regime was introduced for local government, the principal decision on its funding was that costs should be recovered from the local authorities. Related to that was the decision that costs would be recovered broadly in proportion to population. That element is built in every year. However, as Russell Frith says, it means that, if for any reason—many of which would be understandable—the work is postponed, we have the income but we have not yet undertaken the work. That is the nature of running any business, and we are no exception.

Like Russell Frith, I can give an absolute assurance that we are not operating inefficiently or seeking any additional funds from local government. It is a true EYF-type issue.

**Derek Brownlee:** To some extent, is that argument not a bit circular? You require to use EYF only because you have billed on a different cycle from that of the work that is being conducted, which is a result of the decision to phase over the whole timescale of the best-value regime, regardless of which councils are being examined at any time. You could reduce reliance on EYF if you changed your policy by saying, for example, "If we are going to undertake a best-

value audit the City of Edinburgh Council this year, we will bill the council this year.”

There seems to be a route other than that of using EYF, and the requirement to use EYF is fundamentally driven by your decision on the fees strategy. I accept that it might be necessary to use EYF in the case in question, but it is a circular argument to say that that is an example of why you need EYF. It seems that your policies lead you to needing EYF.

**Russell Frith:** To a degree, that is right.

**The Convener:** As we have no further questions on the proposed use of EYF, we will move on to the rebate of fees to audited bodies, which will be welcome news to many. Why has Audit Scotland chosen to reduce dependency on EYF by giving audited bodies a rebate of £1 million rather than taking other approaches, such as returning the money to the Scottish Government for it to be allocated according to other priorities?

**Russell Frith:** The proposal to rebate money to audited bodies arises from the simple fact that that is where we believe that the EYF has arisen from. The £1 million has arisen from work for which we have billed audited bodies over the years, and we therefore believe that it is appropriate for it to go back to the people who paid it.

There is another element—approximately £300,000—that, by not claiming EYF, we are effectively returning to the Scottish consolidated fund for use by the Scottish Government however it wishes. We estimate that that element arises from the work funded by the SCPA element of our overall budget. To the extent that it has arisen on, for example, non-chargeable audits, it is included in the £300,000 that we are not claiming and are therefore, in effect, returning to the Government.

**Robert Brown:** Why is that the other way round from the balance of fees, a third of which goes to private firms auditing local authorities and the rest to central Government?

**Russell Frith:** This is a question of our income, three quarters of which comes from fees from audited bodies.

**The Convener:** Audit Scotland states that just over £1.4 million of revenue EYF comes from chargeable audit work. Why is it proposing to rebate only £1 million of that to audited bodies?

**Russell Frith:** The table on page 6 of the autumn budget revision shows where all the potentially available EYF arises from. As we have proposals amounting to £1.483 million for using EYF, that eats into some of the balance that would otherwise be available for rebating. If we had come up with fewer specific proposals for the use of EYF, more would have been available to rebate to audited bodies. It may have come to more than

£1.4 million, depending on what the specific requests were.

**The Convener:** I am interested to know how and when Audit Scotland plans to provide the rebates to the audited bodies. How will you decide on the allocation for each audited body?

**Russell Frith:** We plan to make the rebates along with the first invoice for the 2008-09 audits, which we will issue in December. We propose to allocate the rebate in proportion to the size of the audit fees that the various bodies paid.

**The Convener:** There are no more questions on this item, so I thank Mr Frith.



## Budget Proposal 2009-10

11:26

**The Convener:** We move to agenda item 4 on Audit Scotland's budget proposal for 2009-10, which we have before us. I welcome the Audit Scotland team again. After today's meeting, the Scottish Commission for Public Audit will produce a report on the budget proposal, a copy of which will be forwarded to the Finance Committee so that it can consider it as part of its overall budget scrutiny. I invite Mr Black to make an opening statement.

**Mr Black:** The budget paper that the commission has starts with an outline of the business issues that require to be taken into account in building up our budget for the next year. We are, of course, very happy to answer questions on that.

We have, as the commission has requested in the past, attempted to present the information in a format that is aligned as closely as possible to the annual accounts. Essentially, the budget is to provide us with the following: the resources for our core functions, which are the audit of the 200 or so public bodies in Scotland; a programme of performance audit studies, best-value studies and overview reports; the capacity to prepare reports on issues of concern that arise during the year; and contributing to the development of public sector policies, practices and accounting standards.

We have widely consulted clients and stakeholders about our corporate priorities and will bring our corporate plan and forward work programme to the Audit Committee in January. On page 3 of the budget proposal, we set out our budget assumptions and details of how the budget breaks down for our planned efficiency savings. In essence, our budget would deliver a reduced reliance on end-year flexibility and would incorporate in the core budget a resource for future development work, out of EYF. I emphasise that the budget will achieve an efficiency target of 2.2 per cent on our 2008-09 expenditure. Fee increases of 3 per cent for the 2008-09 audit year and 2.5 per cent for the 2009-10 audit year, and the cost of international financial reporting standards are all included. That results in a resource requirement of £7.279 million from the Scottish consolidated fund, which is a 0.4 per cent increase from the approved 2008-09 budget.

The Audit Scotland board considered the budget in detail and approved it for the SCPA's consideration today. The Accounts Commission has approved the charges to be made on local authorities.

**The Convener:** The budget proposal states that basic pay increases from April 2008 are still under negotiation. When does Audit Scotland expect those negotiations to be concluded? What range of effects might the pay increases have on Audit Scotland's budget?

**Diane McGiffen:** In the current financial year, we budgeted for a 2.5 per cent pay increase. The offer on the table for local authorities is 3 per cent this year and 2.5 per cent the year after. The additional cost to us of moving from a 2.5 per cent settlement this year to a 3 per cent settlement would be around £60,000 to £70,000, which we believe we will, for this financial year, be able to manage within existing resources. We recognise, however, that the local government negotiations have yet not been voted on or settled—I think balloting is going on at the moment. We await the result with keen interest, as do our staff.

11:30

**The Convener:** With respect to age discrimination legislation, I note that Audit Scotland estimates a 0.5 per cent increase in fees for the audit year 2008-09. Will you further explain that increase and what impact it will have on the two financial years 2008-09 and 2009-10, which are covered by the 2008-09 audit year?

**Diane McGiffen:** The arrangements for moving to a new reward package with staff are the subject of negotiation with our trade union. We made a formal offer on Monday. The transition arrangements on age discrimination, too, are the subject of negotiation with the union. In the budget, we have provided for the uplift on fees as our estimate of the cost in the first year of that move, but we have not yet finalised negotiations.

**The Convener:** That is noted with thanks.

I notice that there is an additional increase in payments to the approved auditor firms from November 2008, to reflect the introduction of the international financial reporting standards, which is estimated at 6 per cent of the cost of national health service and central Government audits, and that Audit Scotland intends to apply that increase only to audit work that is outsourced. How was the estimated increase in costs arrived at?

**Russell Frith:** It is to some extent an estimate that will be borne out by experience. We have talked extensively to the other audit agencies, which are all facing the same issues. Our feeling is that the figure represents a reasonable estimate at this stage in the development of IFRS work to reflect the additional work that will be needed during the transition phase, when the shadow accounts and the opening balance sheet require to be reviewed. Once IFRS is fully in place, we

intend to review the estimate to see whether it is appropriate, or whether it is too low or too high.

We understand that in the private sector, fees rose by anything up to 20 per cent. We do not believe that some of the complexities that occurred in the listed companies translate into the public sector. For example, there are no complicated option arrangements and there are few acquisitions and disposals of businesses, which are major issues in the private sector.

A reasonable estimate at this stage is to come down somewhere below half of what was experienced in the private sector, although we believe that there will be considerable variation in that average figure, depending on the complexity of the public bodies that are subject to review. For example, those with complex private finance initiative schemes are likely to require more audit work in the transition period than those that have simple administrative functions and no complexities.

**The Convener:** Will the 6 per cent uplift be an annual increase in cost or is it likely to be a one-off?

**Russell Frith:** The 6 per cent will be applied to the 2008-09 audit year and will remain in place during the 2009-10 audit year. At the end of that year, we will review it to establish the extent to which the costs relating to IFRS audit are transitional and the extent to which they need to be embedded. At the moment, I do not know how that will pan out.

**The Convener:** We have discussed the Crerar review. At the last bullet point on page 3 of the budget proposal, Audit Scotland says that it has not sought additional resources in the 2009-10 budget for potential on-going costs that result from implementation of the Crerar review, as that is still at an early stage. However, on page 5 of the autumn budget revision, Audit Scotland requests substantial EYF for “development of the business” in 2009-10 and refers to

“an unusual peak of development work”

that has included

“responding to the Crerar review”.

Will you reconcile those statements, which appear to be contradictory?

**Russell Frith:** The amount that is included in the autumn budget revision relates to the work that we are doing to support the Scottish Government and the various work streams that it established following the Crerar review to consider how to implement the review’s recommendations. It will also support the development of our initial response to the additional functions that the Accounts Commission was given—its gate-

keeping role in relation to scrutiny of local authorities. It takes a fair degree of high-level effort to work through and develop proposals and get them to the implementation stage.

We do not yet know whether any additional on-going costs will arise from the Accounts Commission’s gate-keeping role. Until that is developed, we do not know whether it will require significant additional resources or whether, through efficient use of our resources in developing the second round of best-value audits and the relationships with other inspectorates that develop through that process, it will be able to be absorbed in current resources.

**The Convener:** The proposed use of EYF in the autumn budget revision shows that Audit Scotland has decided not to request to carry forward some of the previous underspend but to make a rebate to audited bodies, which reduces the current balance. What steps are evident in the 2009-10 budget proposal to ensure that less underspend is generated in the future?

**Russell Frith:** One measure in the 2008-09 budget that will continue into 2009-10 is that we have increased the vacancy factor that we use in staff budgets. Historically, we ran a 3 per cent vacancy factor, but our experience has been of a slightly higher figure so, for 2008-09, we moved that to 4 per cent and we are maintaining it at 4 per cent. That is one way in which we will tighten up on and reduce the amount of EYF that is requested at the end of this year and in 2009-10.

In 2008-09, we reduced some individual budgets and pooled an element—for consultancy, for example—so that instead of having several small budgets, all of which tended to be conservatively set, we reduced those budgets and brought an element into central management. We will continue with many such measures in 2009-10. As members can see from page 5 of the budget proposal, we also have several proposals for further efficiencies that we intend to make in 2009-10.

**The Convener:** I have no further questions.

**Robert Brown:** The operating cost statement on page 8 shows that legal and professional fees have risen from £784,000 in 2006-07 to a proposed £1.2 million in 2009-10. I think I am right in saying that, on top of that, there is a further £108,000 for the reward and competency strategies. I assume that those are, at least in part, for consultancy work. There seems to be a bit of a growth projectile in that area, so to speak. Will you give us a flavour of that?

**Russell Frith:** Yes. We have been conscious of this for a while. The figures in the 2006-07 and 2007-08 columns—£784,000 and £815,000 respectively—represent significant underspends

against the budgets that we had set for those years. If we had given you the four-year budgets, you would have seen a much straighter line.

The 2009-10 budget proposals include a significant element for the second round of best-value audits. That is one way to achieve a shorter timetable for completion of the second round. As we said earlier, the original three-year timetable slipped partly because we did not spend the full budgeted resource. A degree of additional consultancy or buying-in of resources from professional firms is included. That explains a fair amount of the increase.

I turn to whether that represents a long-term increase. When we first started out on the best-value audits three to four years ago, the total cost was £1.25 million. The total projected cost for 2009-10 is now £1.284 million. To a degree, you are seeing a restoring of budgets to original levels.

**Robert Brown:** Do you have an idea of the forecast outturn for 2008-09 under that heading? Will you reach budget or be below or above the forecast figure?

**Russell Frith:** We have only just started our forecasting. As of the end of September, we were fairly close to budget. However, it is a phased budget and, in terms of consultancy, it was expected that more would be spent in the second half of the year.

**Robert Brown:** Does your reliance on outside contractors reflect a lack of expertise in your organisation, a way of dealing with the peaks and flows of best-value audits, or some other thing?

**Russell Frith:** It reflects all those things.

**Robert Brown:** Do you anticipate a steady in that or will it continue to rise? I return to the trends that you have set out. I accept what you say on the underspend, but the expenditure is on a fairly straight upward line. A substantial amount has been spent over the recent past. Do you expect that to continue or flatten?

**Russell Frith:** We expect that it will flatten.

**The Convener:** I have two more questions, the first of which picks up on our earlier discussion on future development work. In the budget bid, you say that you are incorporating a resource for future development work into the core budget and you mention two posts. In the 2008-09 autumn budget revision, under the "Development of the business" heading, you are seeking £482,000 of EYF to be carried forward to 2009-10. How much money will be incorporated into the core 2009-10 budget for future development work?

**Russell Frith:** Given that it is for two relatively senior posts, the figure is approximately £160,000 to £170,000.

**The Convener:** Thank you.

Finally, on page 7, you say that a net resource requirement of just over £7.2 million from the Scottish consolidated fund represents a 0.4 per cent increase on that which was approved for the previous year. However, on page 4, you say that the net operating cost is rising by 3.9 per cent and that the 0.4 per cent figure is largely due to Audit Scotland requesting significantly less capital this year than previously. Why is that the case?

**Diane McGiffen:** On the capital side, 2009-10 will be a year of relatively lower expenditure for Audit Scotland. We will have completed a large number of major capital projects, particularly in this year, such as the replacement of our laptop and desktop hardware, which will then go on to a three-year to four-year cycle. In this year, the capital request is lower than has been the case in previous years. It will start to tip back up again when those capital items need to be replaced.

**The Convener:** Thank you for your time this morning. We appreciate the work of our colleagues in Audit Scotland. Thank you for giving such comprehensive evidence.

11:45

*Meeting continued in private until 12:18.*



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