

# **MEETING OF THE COMMISSION**

Wednesday 13 May 2009

Session 3

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## **SCOTTISH COMMISSION FOR PUBLIC AUDIT 1<sup>st</sup> Meeting 2009, 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)

Barbara Hurst (Audit Scotland)

Diane McGiffen (Audit Scotland)

### **SECRETARY TO THE COMMISSION**

Mark Brough

### **LOCATION**

Committee Room 3



## Scottish Parliament

### Meeting of the Commission

*Wednesday 13 May 2009*

[THE CONVENER *opened the meeting at 10:03*]

#### **Expenditure Proposals 2009-10 (Audit Scotland Response) and Budget Estimate 2010-11**

**The Convener (Angela Constance):** Good morning, colleagues. I warmly welcome everybody to the Scottish Commission for Public Audit's first meeting in 2009. It is a few months since the commission last met.

We have no received apologies. Hugh Henry has been caught in the traffic problems that people have probably heard about on the radio, but he will join us when he can. I remind members and other colleagues to switch off mobile phones.

Agenda item 1 is evidence on Audit Scotland's response to the commission's report on its 2009-10 budget and correspondence about its provisional budget proposal for 2010-11. Before us again are Mr Robert Black and Audit Scotland representatives Diane McGiffen and Russell Frith. We welcome Barbara Hurst to the commission for the first time—we hope that we make the process painless for her.

**Barbara Hurst (Audit Scotland):** I hope so.

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

**Mr Robert Black (Auditor General for Scotland):** I appreciate the opportunity briefly to update members on the latest position on some of the issues that might arise this morning. The papers that the commission has provide a snapshot—all the issues that the commission is concerned about keep developing.

A lot of work has taken place in Audit Scotland before, during and after the period to which the papers relate. Since writing to the commission, we have published six impact reports on Audit Scotland studies on a range of topics.

The commission was concerned about end-year flexibility. We are not yet in a position to provide a precise figure on where we are—it is a bit early to do that—but we can say that EYF requirements will be down considerably this year. In the past two years, I have given the commission an undertaking to reduce progressively our reliance on EYF, and we are on track for a significant reduction.

On shared services, Diane McGiffen in particular has done a fair bit of work with colleagues in other agencies to check out whether our position chimes with their view of the world. Perhaps we could return at a later meeting to that issue, which is in hand.

The commission was concerned about the budget revision deadline. I confirm that, as our letter says, we are happy to reach agreement on that in any way that helps the commission.

When we last met, the commission asked about pay modernisation. That project is at an advanced but sensitive stage, as a series of proposals is just about to go to ballot. We would be happy to come back to the commission about that and to explain further where we are once we have a response from our staff.

Efficiency savings are—properly—a concern of the commission. I am confident that our annual report, which will be published in June, will describe fully the efficiency savings that are being delivered and, to an extent, our future targets. That will be reflected in our full budget submission in the autumn.

Questions were asked about legal and professional fees. Although we are still finalising the results for 2009-10, the early indications are that expenditure has levelled off at about the figure in the 2009-10 budget, as promised.

**The Convener:** Thank you for your useful update. Will you say a bit more about the six impact reports?

**Mr Black:** I ask Diane McGiffen to advise the commission on those reports.

**Diane McGiffen (Audit Scotland):** In the past year, we have finalised a framework for assessing the impact of our work. Last summer, we consulted our clients and stakeholders on the framework, which we have since implemented and now use to plan for the impacts that we want our work to have and to record the impacts that our work actually has.

The framework has four categories and is intended to capture information on the impact on assurance and accountability, economy and efficiency, planning and management, and quality and effectiveness. We have six reports that follow up work from previous years or the current year. After a study is published, we produce an impact report after three months and—depending on the initial impacts—after nine or 12 months. We have published impact reports, which are available on our website, on “Improving energy efficiency”, “A performance overview of sport in Scotland”, “Primary care out-of-hours services”, “Review of palliative care services in Scotland” and “Managing long-term conditions”. We have also

published an initial impact report on “The First ScotRail passenger rail franchise”.

That work is now built into our systems. We will be able to report in our annual report on the ongoing impact of work that we have done in previous years, and we can now collect information and report back quickly on the initial response to our work so that we can consider whether it is having the intended impact, whether there are gaps, and whether things are progressing quickly enough. We can track all of that information much better. We have done a lot of work in the area and would be happy to share with the commission information that goes into as much detail as it would like on the background to it, the thinking about it and the consultation on it. We can provide examples of the reports if that helps.

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

**Derek Brownlee (South of Scotland) (Con):** Obviously, one element of your work is consistent year on year while another varies routinely. We are in a severe economic downturn and, as we look ahead, we expect a squeeze on, and perhaps significant real-term reductions in, overall public spending in Scotland—that is a political point that I do not expect you to comment on. The downturn will change the environment in which the bodies that Audit Scotland audits operate. How will the new circumstances change—if at all—the work that Audit Scotland has to do as an organisation and how it approaches its functions?

**Mr Black:** There are two aspects to the matter. First, we need to demonstrate a commitment to efficiency savings within Audit Scotland. Perhaps we can talk more about that when we present our annual report and the forward look in the autumn. We are seriously considering issues in that area. As the commission might have gathered, we have built in a 2 per cent efficiency target to reduce our resource needs for the next year—we are applying that to our budget.

Secondly, what I have said means that we need to think hard about the balance of our work in considering efficiency-related issues as opposed to performance-related issues. As Derek Brownlee correctly says, the situation is changing quite markedly. I look forward to a continuing dialogue with the Public Audit Committee on where we should deploy our resources, but we are not standing still. In the audits of all the public bodies with which we have a relationship, we are putting increasing emphasis on their approach to the use of resources. We are developing toolkits that we think we can use not only to support improvement but to challenge public bodies in the drive for improved efficiency. The early signs are that the use of the resources toolkits is going down quite well. They are part of a suite of toolkits that we are

openly developing for auditing purposes with the audited bodies. We see that approach as offering significant potential for the future.

Much of the work that I have described is below the Parliament’s radar because it involves our interaction with the audited bodies. Diane McGiffen has described our work on impacts. We need to find a way of explaining clearly at a higher level the extent to which the use of resources work is helping in audited bodies.

**Derek Brownlee:** I understand your comments on the possible difficulties of quantifying some of the benefits that Audit Scotland brings. However, Audit Scotland’s budget is top-sliced—although I admit that its budget is a very small slice compared with what is left—and the ability of auditing work to influence the effective use of the bit that is not top-sliced is crucial.

It seems to me that much more could be done to highlight the areas in which there is scope to drive better performance. That is not a criticism of Audit Scotland’s work—indeed, most reports from Audit Scotland that I see are of a high standard—but in the new environment in which we will operate for probably the next decade or perhaps even longer, such benefits will become much more important to those of us who deal with day-to-day politics and to the people who run services. It would be helpful if Audit Scotland applied more effort on the focusing of resources to the extent that it can without prejudicing its broader aims.

10:15

**Mr Black:** I very much agree with that, and we are thinking seriously about how we can continue to modify our programme to reflect some of those issues. That opens up quite an agenda for discussion, and we might not have the time to go into it today, but I certainly look forward to engaging with the Public Audit Committee on it in future.

**George Foulkes (Lothians) (Lab):** I will follow up on what Derek Brownlee said with a specific instance. I have the advantage of being a member of the Public Audit Committee. Mr Black and his colleagues will remember that we discussed the use of medicines in the national health service last week. The expenditure is about £222 million a year—a huge amount of money—and two issues came up. One was about generic versus branded medicines; the other was about the pilot scheme in Ayrshire and Arran for dispensing special—what is it called?

**Mr Black:** It was about prescribing and dispensing medicines in hospitals.

**George Foulkes:** By chance, I had a meeting with representatives of NHS Lothian on Friday. I

raised the matter with them, and I went through both of the issues. That was a coincidence, but it occurred to me that it might be useful for Audit Scotland to have some process, once a report is produced, for holding meetings with each of the boards concerned, perhaps a few months later, and interrogating them about what they have done and followed up on. The answers that I got from NHS Lothian indicated that the board is doing that follow-up. More than 80 per cent—nearly 90 per cent—of the medicines that it uses are generic rather than branded, and the board has a similar system to that of NHS Ayrshire and Arran.

Have you thought of setting up some systematic procedure for doing that with every board and incorporating that into your procedures?

**Mr Black:** The short answer is yes, we are thinking about that. We are implementing some systems and procedures as we speak, which will take us a significant way in that direction.

We have considered the management of medical prescribing in hospitals a couple of times now; we have also looked into prescribing by general practitioners a couple of times. The Public Audit Committee is well aware of that. Over the years, that has been one theme of work in which we have generally been able to identify achievable but challenging targets for the NHS, for example in moving from branded to generic drugs. We thought that tens of millions of pounds could be released for redeployment in the NHS, and that has been achieved—it has been one of our success stories. We are trying to learn from that experience.

We have decided—and we have been operating this for a little while now—that, for each major report that we do, we should attempt to include what we call self-assessment checklists for the bodies concerned. For example, as Lord Foulkes might recall, we had a discussion relating to the study into drugs and alcohol, which involved partnership working. At the back of that study is quite a full self-assessment checklist, and it would be reasonable to expect boards and their local authority and other partners to work through it. Issues are highlighted around people knowing the costs and impact of what they are doing.

The model that we have in mind involves being more specific than has perhaps been the case in the past about pulling out clear points for consideration and possible action by the audited bodies. That will allow the appointed auditors of each body to return after a certain period of time and check whether the issues have been dealt with seriously.

The next stage is to quantify some of the targets. The extent to which that is possible really depends on the subject that is under review.

**Barbara Hurst:** Why am I not surprised that Lord Foulkes has raised the use of medicines? In a sense—I am not just saying this because I am sitting before the commission—the impact and the follow-through from some of our reports has increased immeasurably since we have been bringing them before the Public Audit Committee. It has raised their profile in a way that did not apply before.

Following our report on the use of medicines, I was disappointed that there had not been more progress in some areas, but I was pleased with progress in other areas. As the Auditor General said, we have done a lot of thinking about how to raise the profile of such reports. My health team has talked to the audit committee of every health board about them and has tried to engage non-executive board members in what the reports mean for improving services on the ground. We will continue to do that.

We have just completed a survey of all boards on the use that they make of our reports. Probably two thirds make very good use of them—they consider the action plans and carry out work on the back of that. We must now target the third of boards that do not make such good use of our reports. I hope that that will help. If we can connect with the local audit teams to ensure that they follow through, we have quite a prize to win.

**George Foulkes:** I am encouraged by that. As you know, I am aware of the follow-up reports, but Barbara Hurst's point about the meetings with boards is new to me. The boards are very variable. NHS Lothian seems to be good—although perhaps I am biased—but our experience with Tayside NHS Board and the Western Isles NHS Board has not been quite so good in several areas. It would be useful if you could produce a note about how you follow up, not just in general or with health boards but individually and systematically with all public bodies. Mr Black said that you are considering that. I am not sure whether the convener agrees, but I think that it would be helpful to have a note about how that will work in practice.

**The Convener:** Anything that illuminates practical examples of the follow-up work would be helpful. It would certainly be interesting to hear how your work applies to other organisations, and the specific example of the prescribing of medicines in the NHS is useful in illuminating that.

**Mr Black:** We are happy to assist the commission by providing information on that.

**Robert Brown (Glasgow) (LD):** My question goes a little beyond the commission's remit and is stimulated by the thought about wider effects on public services. There will be several pressure points in the next few years. In my realm of justice,

one issue will be the effectiveness of community service orders in reducing reoffending rates. By way of by-blow, I want to inquire whether Audit Scotland is considering that. Obviously, the details of the issue are more to do with local government than with central Government.

**Mr Black:** I ask Barbara Hurst to advise the commission on our work on justice.

**Barbara Hurst:** I am happy to do so. We touched on community sentences in a review of the Scottish Prison Service, as those are the other side of the coin. Our system is that we have individuals who are responsible for monitoring particular policy areas and who make suggestions on what we should do. We are keeping a watching brief on community sentences. It is not currently in the programme but, if something blew up, we would respond—we try to build in enough flexibility to allow us to do that. We are keen to return to the matter because there is an issue about how partnerships function to make those sentences work in practice. The short answer is that we are not examining the issue at present, but it is on our radar.

**Robert Brown:** I raise the issue against the background of the Criminal Justice and Licensing (Scotland) Bill and the replacement of short-term prison sentences. In a tight financial climate, the effectiveness of such orders will be crucial to our progress in that direction. I will leave that thought with you, without pressing you on it.

**Barbara Hurst:** We have a study in the work programme on the summary justice and court system. We might be able to consider how to build into that study the issue that Robert Brown raises.

**Robert Brown:** That would be helpful.

I have one or two detailed questions on the general trend in the budget. Mr Black has set out the net outlay required from the consolidated fund, but what are the gross figures for the changes in your spending?

**Mr Black:** Russell Frith will be able to help you with the detailed numbers. Forgive me, but I make the obvious point that the figure that is before the commission is an indicative planning figure, because we have only now started the budget exercise for the 2010-11 year. It is a planning figure that we will adjust, although it gives the commission a general indication of the order of magnitude that we are heading towards.

**Russell Frith (Audit Scotland):** On where we are for the previous financial year, I know that one of the commission's concerns is about the levels of underspend that we have had in the past few years. I can confirm what the Auditor General said about the trend being such that our outturn for the year ending March 2009 will be a lot closer to our

budget for the year than it has been in past years. If we strip out the amounts that are carried through from one year to another and the pensions effects, the in-year underspend in 2007-08 was about £1.8 million. Our management accounts, which are still subject to audit at the moment, indicate that the equivalent figure for this year is likely to be about £800,000.

**Robert Brown:** That is not quite what I was after. I sought to find, against the background of our role to scrutinise the whole of Audit Scotland's expenditure, what you think the gross expenditure figure for the forthcoming year is likely to be, whether the percentage changes in that are similar to, or bigger or smaller than, the bit that we have to fund and what the reasons for that might be.

**Russell Frith:** The answer to that is yes: the gross and net figures are moving pretty much in line with one another.

**Robert Brown:** Have you found any particular areas that show significant variance from the norm in terms of what you expect to spend next year? Are there areas that we should look at in that respect?

**Mr Black:** I guess that the big unknown is still what we have to provide for pension costs. However, there are perhaps other issues, which Russell Frith might want to mention.

**Russell Frith:** The pensions figure is becoming a bit clearer. We now have the actuary's formal valuation as at 31 March 2008, which is the triennial valuation. Based on the actuary's recommendations, we think that our total pension costs will go up by about £130,000 for 2010-11 compared with 2009-10.

**Robert Brown:** Do any other areas indicate major variations from past trends?

**Russell Frith:** I do not think so.

**Diane McGiffen:** Currently, there are reduced interest rates, which we flagged up to the commission in the letter with our provisional budget estimate, and there is uncertainty about the direction of travel for public sector pay rates and so on. We are working through the impact of the inflation that we experience, because it occurs in different costs. Energy costs and fuel costs have gone up, costs for some things have gone down, and some things have no effect whatsoever because we have long-term arrangements and so on. I would say that the uncertainty at the moment over the direction of travel for public sector pay would be a variance, as would income from interest.

**Robert Brown:** In terms of trend, but not for the forthcoming year, is it expected that there will be a reduction in the number of public sector bodies to be audited if the Government's programme for that



goes through, and that there will be a move to a more risk-based approach to audit? Will those factors have an effect on the level of your budget requirement—its ups or downs?

**Diane McGiffen:** I will pass over to Russell Frith for that.

**Russell Frith:** The effects of the change in the number of public bodies are relatively marginal for us because many of the bodies that have so far been abolished, merged or whatever did not have separate accounts prepared and audited. However, some bodies—Communities Scotland, the Fisheries Research Services and the Scottish Fisheries Protection Agency—have been merged back into the Scottish Government, so we would expect to see a marginal reduction in the total from that.

**Robert Brown:** It is pretty marginal in the overall scheme of things, though.

**Russell Frith:** Yes.

**Robert Brown:** My final point is on the capital figure, which I think you indicated as £306,000. What are its elements?

10:30

**Diane McGiffen:** Most of that is planned information technology spend. On variation, we have found that IT costs have not fallen. Because of the exchange rate, some IT costs are either the same or increasing, which is against what one might expect in the market. The capital expenditure is part of our on-going IT refurbishment programme and will peak and trough. The total is coming down and should get lower, but it will then increase again when we hit the need to replace major systems such as laptops and desktop computers.

**Robert Brown:** It sounds like capital spend is less than it has been in the past two or three years.

**Diane McGiffen:** It is. We expect that capital spend will be less again in the following year, but it will then start to climb back up as our assets need to be replaced.

**The Convener:** If there are no other questions, let me ask finally about the correspondence-handling pilot. Has that been completed and evaluated?

**Mr Black:** The correspondence work is a significant burden on us. As I have mentioned on previous occasions, it is not uncommon that complex, high-profile and sensitive issues emerge from correspondence—in fact, we are currently dealing with one such issue that has been in the media—but I have an assurance from Audit Scotland that we will be able to accommodate the

cost of correspondence handling within our existing resources. Therefore, there will be no bid for new resources in that regard.

**The Convener:** Thank you for all the evidence on agenda item 1. I suppose that I should acknowledge that Audit Scotland's work programme is a matter for the Public Audit Committee, so let me stress that commission members do not wish to stray into that committee's remit. However, as George Foulkes highlighted, any examples of Audit Scotland's work that illuminate the broader issues that we raise in our budget scrutiny are useful. We are interested more in information that illuminates those issues, so I stress that we do not wish to encroach on the remit of another committee.

**Hugh Henry (Paisley South) (Lab):** Let me ask a question that has just struck me. When we approve the budget for Audit Scotland, where does the budget for the Accounts Commission come in? Where is that considered?

**Mr Black:** Let me ask Russell Frith to explain.

**Russell Frith:** As members will know, the Accounts Commission is a non-departmental public body that is appointed by ministers. There is no direct parliamentary funding of the Accounts Commission. Formally, the Accounts Commission has no accounts at all, as it has no income and expenditure. All of its costs are contained within Audit Scotland's figures, which is why Audit Scotland's gross budget includes, for example, the costs of the commissioners.

**Mr Black:** The money for the Accounts Commission is taken from the charges on local authorities that are levied by Audit Scotland on the Accounts Commission's behalf. The Accounts Commission determines what the indicative audit charge on every council should be, which includes an overhead element for the Accounts Commission's costs. Audit Scotland receives that instruction from the Accounts Commission, levies the charge and takes the income into the Audit Scotland budget. In running the business, we are as careful as we can be to apportion costs related to local government work to the fees that are taken from local authorities and to relate the costs for everything else to the fees that are taken from NHS bodies, further education colleges and one or two other large public bodies. Of course, we also have the net resource requirement.

**Hugh Henry:** In a perfect world, every penny of what the Accounts Commission spends would be recovered from the fees that are charged to local authorities, but sometimes things do not work perfectly. Potentially, the accounts that we approve could indirectly contribute to the work of the Accounts Commission, whether through support from people in senior management or whatever.

An issue that has come up at the Public Audit Committee and has been touched on by this commission in some of our deliberations on the possible future structure of the audit function is that, when significant amounts of public money—that sometimes have a national implication—are spent by local government, there is no ability to have any external scrutiny of any significant failure that might occur other than by the local authority itself. I continue to worry that a gap in accountability exists because of that. We have had a number of serious problems in certain areas over the years and, although either the audit committee or this commission might be able to comment on matters of significant failure in health, further education colleges or wherever, when it comes to the delivery of major services such as education or transport there is nothing that anyone outside that local authority can say or do. I worry about that.

**The Convener:** I imagine it will be open to members to try to influence the forthcoming public sector reform bill if they think that that is appropriate.

The commission will receive the final budget from Audit Scotland in September. We will give that full consideration before we report to Parliament, and it will also be considered at the Finance Committee.

## Economy, Efficiency and Effectiveness Examination of Audit Scotland

10:36

**The Convener:** Agenda item 2 is Audit Scotland's response to the follow-up three Es—economy, efficiency and effectiveness—report on fees and charges. Colleagues will recall that in our previous meeting in December last year, the commission received a report and took evidence from Jubayeth Hussain of HW Chartered Accountants on his follow-up economy, efficiency and effectiveness study of Audit Scotland's fees and charges. Following the meeting, the commission wrote to Audit Scotland asking for its comments and a response is included in the meeting papers. Once again, I invite Mr Black to make an opening statement.

**Mr Black:** I do not want to say anything much about this. It is of concern to my colleagues and me if the commission does not have confidence in any aspect of how we are running our business, and it is for that reason that Barbara Hurst is with us. The issues seem to relate primarily to an exchange about the operation of the time recording system in the public reporting group. There must be a misunderstanding somewhere in that regard, because it was my clear view that the time recording system was being applied across the whole of the organisation although, as ever with such things, it was a business in progress at the time that the audit was undertaken.

If you have questions please feel free to ask them of me, but I will have to rely quite extensively on Barbara Hurst, who is directly managing this, to provide you with fuller and better-informed answers than I could manage.

**Hugh Henry:** I seek clarification on that point: is the system now being used comprehensively across the organisation?

**Barbara Hurst:** I was very keen to come here today to clarify what we are doing. The time recording system, which was introduced in 2007, has always been used in the PRG: I want to make that absolutely clear. At the time of the follow-up audit, we were in the process of developing a more sophisticated management information system. Everybody uses the time recording system; it gives real-time information about the time that is spent on a project and the cost of that project to that point.

Our management information system, which went live last month but which has been in development since autumn last year, builds on the time recording system but also monitors the

progress of a project against indicative time and cost budgets. We have always measured time and set indicative time budgets—we could not manage a programme of work without doing that. However, we have not been so good at putting a pound sign to it, and we have now done that. I am keen to convince you that we have always been measuring the time, and that we are getting better at the costing side.

I read the *Official Report* and my initial reaction was—to be honest—annoyance, but then I thought that I was perhaps partly at fault. I had had the conversation with the auditor, and we must have been talking at cross-purposes. I was in very enthusiastic mode, talking about what we could get from the management information system that we were introducing, but Mr Hussain perhaps thought that I was talking about the time recording system. For me, however, time recording is just a basic thing that we have always done; I was moving to the next level, if you like.

**Robert Brown:** You are right: the matter was discussed in the three Es report. I do not know anything about time recording in particular, but it was clear that the view that Mr Hussain was putting across—which related to the three Es report—was that the time recording system could be

“better and more fully utilised”

and that

“Full use of the time system would support the development of cost measures”.

If I recall correctly, he distinguished between different parts of your operation in that regard.

That was the basis of the questions that we put forward at the previous meeting on that subject. I think that Mr Hussain went back to saying that

“Formal recognition ... of a need to develop a risk assessment framework to underpin fee setting in the future”

was the nub of the matter. Can you tell us a bit more about that? You might be right in saying that it is a misunderstanding, but the view was undoubtedly based on the three Es report. One would have hoped that if that information was incorrect, it might have been sorted out between you at the time.

**Barbara Hurst:** The report was fair, in a sense, because we are using the time recording system. However, at the time of the follow-up audit, we had not gone as far as we had hoped to around the costings. We have—stop me if I am getting too boring, because I could bore for Scotland on this—a very detailed quality project management framework. Every project goes through six key stages. We set indicative time budgets for each of those stages, and we are now setting indicative cost budgets. I am hoping—because I get

drowned in the detail—that red flags will be raised if there are any problems.

We know, with regard to the extensive work that we have done on that, that there are two key stages at which there is the biggest risk of going over budget. Those are the scoping stage—at which we home in on what the study will look at, what the big issues are, and where the biggest return for our work is—and the reporting stage. The reason for that is that we are often dealing with technical issues and there is a risk of getting drowned in the jargon, so we are running a big campaign to plain English our reports. To tell you the truth, that is a challenge for some people, because most of us have come through a system in which one writes not directly but in an academic way, and that is no good for the audiences that we want to hit.

Those are the two areas that my teams are focusing their attention on improving. The system is good in terms of the teams’ understanding; if we go over the time budget, there is a cost implication, which is flagged up. For me, that is a very powerful—

**Robert Brown:** Management tool.

10:45

**Barbara Hurst:** Absolutely.

We are doing a lot of work on that. We are trying to do that across the group so that we have a common platform and common standards, not just in the teams that I manage but in the local government team, and so that we are monitoring against that. My team covers health and central Government, so most of the funding for its work comes from the Parliament, with an element of fees from a health audit. However, that does not mean that we treat our work any differently from how we would treat it if it was all fees based; it is important that we demonstrate that we deliver value for money.

Now that we have the system in place, we want to link the costs with the impact reports that Diane McGiffen talked about. We are putting our money into the ones that will have the biggest influence and make the biggest difference.

**Robert Brown:** You talk about your team. Is that the team that does health board audits and special audits across functional issues?

**Barbara Hurst:** Yes.

**Robert Brown:** Is it a bit of both?

**Barbara Hurst:** Sorry. I am assuming a level of understanding; I bet that I did that with the auditor as well. The teams that I manage are the health and central Government performance audit teams. They are responsible for the national reports that

go to the Public Audit Committee—they do section 22 reports and cover a range of issues.

**Robert Brown:** As opposed to the routine audits on individual bodies, which is another team in your department.

**Barbara Hurst:** Exactly, but increasingly we are linking up. On follow-up, which has been mentioned, we want to work more closely with the local audit teams. We get a lot of information from them, which informs our study programme selection. On the development of the use of the resources toolkit that the Auditor General talked about, they are mixed teams, so we are doing a bit of matrix management as well.

**Robert Brown:** I have a question about the other parts of Audit Scotland, which do the routine reports. I think that I am right in saying that one of the issues that emerged previously was that it was not evident that the fees for local authorities—I am talking about estimates and so on—were based on time recording arrangements. Is that correct, or have I misunderstood entirely?

**Barbara Hurst:** I will hand that question over to Russell Frith, because that is not my area.

**Russell Frith:** To pick up on Hugh Henry's earlier points, the budget that is set for all the individual audits in local government is based on the premise that the full cost of each audit is recovered.

In any given year, there will be pluses and minuses in terms of the actual outturn—

**Robert Brown:** I am sorry if I am totally thick about all of this, but does that mean that you work out the time that is spent on the project, and then charge the local authority or other body accordingly?

**Russell Frith:** No. We estimate the time that will be spent in the forthcoming year, and the charges are levied on that basis, particularly in respect of the study programme. In respect of the local audit work, we set what we call an indicative figure. The local auditor and the audited body agree the final figure based on the estimated work for that particular audit.

**Robert Brown:** As required—

**Russell Frith:** As required, based on the risks for that audit. The outturn will be plus or minus that, so the body is charged what we estimate, based on the best available information at the time when the fee is set. It will rarely be changed.

**Robert Brown:** I am very sorry—I am sure that this is my fault. Effectively, you give an estimate, based on past practice and so on. Is the final fee adjusted according to the reality of the time spent?

**Russell Frith:** No. In most cases, the final fee will not be adjusted.

**Robert Brown:** To go back to the original point, am I right in saying that the way in which you charge the local authorities and other bodies is not influenced by the time recording machinery?

**Russell Frith:** The time recording machinery informs management of our overall resources, and that will inevitably involve overs and unders between different audits. If there is a significant change between the planned work and the final work, the fee may be adjusted, and the time recording system will be the basis for that change, so it is also important in that respect.

**Mr Black:** It might be helpful if I point out that the external auditor commented extensively on the use of the time recording system in what we call the audit services group.

There are two groups in Audit Scotland. One is the public reporting group, within which we have Barbara Hurst's team, which does the reports to the Parliament, and David Pia's team, which does the local government work. That group is the subject of a degree of misunderstanding around the application of time recording.

The other group is the audit services group, which is by far the larger group in terms of staff numbers. It is also divided into two broad teams: one that does health and local government, which parallels Barbara Hurst's team; and another that looks after all the local government work, including all the best-value reviews of local government.

As Russell Frith has explained, in relation to the audit services group, there is an indicative audit fee that is based on an indicative figure for the number of days that are required to conduct an audit of, for example, the City of Edinburgh Council or NHS Lothian. There is then a negotiation between the appointed auditor and the audited body about the number of days that are likely to be required to do the audit—that involves an opportunity to flex the fee up or down. As the audit is driven through, there are extremely robust systems—as the external auditor has confirmed—for applying time recording and costing to that work. That is an area in which we have moved forward tremendously in the past few years. A much more businesslike approach is being taken to that than was the case in the past.

**Robert Brown:** That is a helpful clarification of the various groups and so on.

**Hugh Henry:** I remain puzzled. If there is a robust time recording system, it must be able to identify how much time is spent on any particular project and, presumably, enable charges to be levied accordingly. If there is such detail on the actual time that is spent on each project, why do you continue to charge on an estimate basis?

**Mr Black:** This is a complex area of our work, and it feeds into some of the uncertainties around

our forward budget planning. For example, in the autumn of this year, the local auditors will start to think about planning the audit work for the 2009-10 financial year, which ends next spring. They will plan a lot of the work for 2009-10 before March next year, and the final accounts work and so on will be done after March next year. Clearly, they have to plan ahead, so they need to have an indicative number of days, as a sort of ballpark figure to work with. However, as they work through the audit plan, they apply the actual number of days that are allocated to particular pieces of work, which will determine the fee that is paid.

The whole system is pretty robust. The proof of that is that, at the end of the year, the fees that are paid are close to what was predicted, and they all tie up with the audit plan for the body in question.

**Russell Frith:** It is quite typical of the business model that works in the auditing profession generally for fees to be agreed at the beginning of the audit and adjusted at the end of the audit only if there is significant variance between what has taken place and what was estimated at the start.

**The Convener:** I will let Hugh Henry follow up his question, but I think that Diane McGiffen has something to say first.

**Diane McGiffen:** If your concern is about what happens to the difference between the estimate and what shows up on the time recording system, I should point out that, twice in the past year, we have rebated back to audited bodies money that has been generated by the fact that we have delivered the audits for less than we anticipated.

**Hugh Henry:** That explains what happens when there is an overcharge. However, what if there is an undercharge? I assume that the sum would not be significant, but if it happened a lot, it could mount up. Presumably the public purse has to bear that cost.

**Mr Black:** If extra work needs to be done in an audited body that is subject to this fee regime, it will pick up the cost.

**Russell Frith:** Under the Public Finance and Accountability (Scotland) Act 2000, we are under a statutory obligation to break even, broadly, taking one year with another, on either individual audits or groups of audits. We consider the matter on a groups-of-audits basis, with local government as one group, health as another group and so on. To the extent that any of our estimation is not accurate, it will be adjusted as soon as it can be—

**Hugh Henry:** Within the group.

**Russell Frith:** From one year to another.

**Hugh Henry:** So there is a degree of cross subsidy.

**Russell Frith:** Between individual audits, on a minor basis, in a given year, there will be unders and overs between different audits, yes.

**Mr Black:** But not taking one year with another.

**George Foulkes:** Most of this is going over my head, so I will bring it down to a practical level. Do any of your staff clock in and clock out?

**Barbara Hurst:** We operate a flexi system. People keep flexi sheets that record their hours; we do not have a factory-like clocking-in and clocking-out system.

**George Foulkes:** But you know when they come in and when they leave.

**Barbara Hurst:** Yes.

**George Foulkes:** Do they keep time sheets for each day that say, to the quarter hour, how much time they spent on each particular job?

**Barbara Hurst:** Yes. Some might not do it down to that level, but they could do if they wanted.

**The Convener:** Like George Foulkes, I am all for plain English. I get the feeling that the committee would like to have a continuing dialogue with you as regards how the situation is developing. Obviously, the issue has implications for parts of your business—fees, charges and so on—that we have a responsibility for scrutinising.

**Mr Black:** I fully understand your concern, as, in theory, it is the biggest area of risk in our business. However, I remind you that you have the assurance of two external audit reports that have considered the matter in some detail. The first one, which came out some time ago, provided a lot of assurance about the nature of the system but indicated that we should do work on development; and the latest update, with which we are comfortable, provides an accurate picture of the systems that we are now running. I have found it useful to have had the opportunity to explain to you that there might have been a misunderstanding about the application of time recording in one comparatively small part of our business: the team that is led by Barbara Hurst and, to some extent, the team that is led by David Pia.

**The Convener:** The committee agrees that the follow-up report by HW Chartered Accountants says that Audit Scotland has made good progress against the recommendations in the 2006 report. I note that Barbara Hurst said that you accept the auditor's report as fair. I was merely flagging up that you should not be surprised if, at future meetings, you are asked about the time recording system.

**Mr Black:** Absolutely. If we are, we will do our best to answer in plain English.

**The Convener:** Are there any more questions?

*Meeting closed at 11:00.*

**George Foulkes:** What are you going to charge this hour to?

**Barbara Hurst:** Parliamentary support.  
[*Laughter.*]

**The Convener:** I thank Ms Hurst, Ms McGiffen, Mr Black and Mr Frith for once again coming to a meeting of the commission and for giving us the benefit of their time and expertise. To repeat what George Foulkes said, which I do not do often, we appreciate the good work that Audit Scotland does.

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