



The Scottish Parliament  
Pàrlamaid na h-Alba

## Official Report

# MEETING OF THE COMMISSION

Wednesday 19 May 2010

Session 3

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**Wednesday 19 May 2010**

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**MEETING OF THE COMMISSION**

**2<sup>nd</sup> Meeting 2010, Session 3**

**CONVENER**

\*Angela Constance (Livingston) (SNP)

**COMMITTEE 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:**

John Baillie (Audit Scotland and Accounts Commission)

Mr Robert Black (Auditor General for Scotland)

Russell Frith (Audit Scotland)

David Hanlon (Audit Scotland)

**CLERK TO THE COMMITTEE**

Terry Shevlin

**LOCATION**

Committee Room 6



## Scottish Parliament

### Meeting of the Commission

*Wednesday 19 May 2010*

[The Convener *opened the meeting at 10:06*]

### Decision on Taking Business in Private

**The Convener (Angela Constance):** Good morning, colleagues. We will get the show on the road. I apologise for the delayed start to the meeting—we are already six minutes behind.

I welcome members and witnesses to the Scottish Commission for Public Audit's second meeting in 2010 and I remind colleagues to switch off mobile phones. We have apologies from George Foulkes; otherwise, we are all present.

The first item of business is to ask the commission to consider taking in private item 3, which is consideration of issues that relate to the Public Services Reform (Scotland) Act 2010. Do we agree to take that in private?

**Members** *indicated agreement.*

## Budget Proposals for 2010-11 (Audit Scotland Response)

10:07

**The Convener:** Before us are Audit Scotland's response to the recommendations in our report on Audit Scotland's 2010-11 budget and Audit Scotland's provisional budget proposal for 2011-12—the financial year that is ahead of us. We will hear from Audit Scotland representatives on both those issues, which we will wrap up together, as they overlap.

I warmly welcome Mr Robert Black, who is the Auditor General for Scotland; Mr John Baillie, who is the chair of Audit Scotland's board and of the Accounts Commission; Russell Frith, who is Audit Scotland's director of audit strategy; and David Hanlon, who is Audit Scotland's corporate finance manager. I invite Mr Black to make a short opening statement.

**Mr Robert Black (Auditor General for Scotland):** We do not require to make an opening statement. As ever, we are here to help members and to answer their questions.

**The Convener:** That is helpful. As convener, I will take the opportunity to share my reflection on Audit Scotland's response to the commission's recommendations. Audit Scotland makes many positive responses, which are of course welcome. To say that I am anxious would be an overstatement, but I note that, although Audit Scotland has the experts and we as politicians are laypersons, you say at various points in your response that you want to discuss with the commission the further information that we would like. To be bold, I put the ball back in your court: I hope that Audit Scotland will make suggestions to the commission on the issues that have been raised.

I am happy to go into questions now, if colleagues want to kick off.

**Mr Black:** I will respond to that, convener. If the officials who advise you could indicate the ways in which the commission requires us to change our presentation of information, we would be happy to conform to that in any way that we possibly can.

**The Convener:** I have no issue with the presentation, or anything like that; I am thinking of the substance. As politicians, we are lay people. To be bold, if we knew the answers, we would have set them out in our report. We are looking to you, the experts, to be more specific.

**Mr Black:** Thank you.

**Robert Brown (Glasgow) (LD):** In our previous discussion on the subject, you may recall the point

that was raised on the straightforward issue of the payment of invoices. The number of invoices that Audit Scotland pays is reasonably significant—it looks as if it is 10 or 12 a day—but not for the size of the organisation. There should be no problem with paying them within the 10-day target period. Why does that not happen? Surely 10 or 12 invoices a day is not an impossible bureaucratic challenge? Audit Scotland should be able to ensure that the process happens in the way in which it is set out.

**Mr Black:** We fully agree with the commission that that is an area in which Audit Scotland requires to continue to improve its performance. The target to which we were operating until recently was payment within 30 days. In the last financial year, we paid 93 per cent within that target. Of course, the target has now moved to payment within 10 days. The Audit Scotland team is working towards that. We fully agree that we require to make further improvement in the area.

**Robert Brown:** I cannot quite see what the difficulty is. Surely you should not be making progress towards meeting the target but simply meeting it. In bureaucratic terms, 10 days is not a hugely challenging timeframe within which to process invoices. Indeed, you might make that same observation from time to time to the bodies that you audit. I accept that there are issues such as staff holidays and so forth. Why do you not just meet it?

**Mr Black:** I will bring in David Hanlon, our corporate finance manager, to give you the detail on that.

**David Hanlon (Audit Scotland):** The main challenge for us is the authorisation of invoices. The system that we have run up until now is effectively a manual system. Budget holders requisition goods and services, the invoices for which come into my department and are sent to the appropriate budget holder to sign off. The paper process for that takes time. Quite often, we find that invoices are incorrect and we have to put them into dispute.

We are looking to try to avoid the paper process by introducing an electronic system to speed up the system. The difficulty for us is getting authorisation from budget holders. We are actively working to pursue that to get them to treat it as a matter of urgency.

**Robert Brown:** I do not want to make too much of the issue. If invoices are in dispute, they are returned to the supplier who issued them and you argue the toss. That is not quite the same as the routine payment of invoices that are not in dispute, which I imagine involves most of them. The issue is not that the system is paper based. I appreciate that you have more than one office, which may be

an issue, but email exists, as do scanners. None of this seems an impossibility to take forward. The explanation that we have been given is an example of the things that the convener suggested might seem a little unsatisfactory to us politicians.

**David Hanlon:** We are actively looking to make progress. The issue is the paper transfer and getting budget holders to take the time to authorise invoices and send them back to us.

**Robert Brown:** What is the situation with regard to the electronic system?

**David Hanlon:** The system is operational and we are training staff on it as we roll it out across the organisation. We hope that it will make a contribution to the results for 2010-11.

10:15

**Robert Brown:** The next time that you have to report to the commission, is your interest in being able to say, “Yes, that is done; there is a tick against it”? I think that that is the ultimate issue.

**David Hanlon:** Yes, that will happen.

**Robert Brown:** This is a small point. On end-year flexibility, in paragraph 35 of our report we asked for a

“full explanation of exactly how proposed EYF funds will be spent”.

In response to that recommendation, Audit Scotland said:

“Audit Scotland will be happy to provide fuller details of how proposed EYF will be spent.”

There is perhaps a slight nuance in meaning. Does “fuller” mean “full” in that context?

**Russell Frith (Audit Scotland):** Yes it does.

**Robert Brown:** It is the same thing. Thank you.

**The Convener:** Can you provide the commission with more detail on your property rationalisation strategy? We have discussed the issue in the past.

**Mr Black:** We will come back to the matter when we present the fuller budget to you in the autumn. I will give a brief outline. David Hanlon is very much involved in the detail of where we are with the strategy.

We have started work in earnest to plan towards 2012, when a lease comes to an end, which is the earliest point at which we can achieve rationalisation. At that time we plan to come out of an office in Edinburgh by consolidating into other premises. We estimate that that should take about £250,000 out of our costs from 2013-14, but I do not think that we can be held to that number at this stage. The move requires careful planning, because in effect we will move to a situation in

which there is shared use of desks and so on. There will be changes in the way in which the organisation works, so that is quite a big project for us. We will look to further, longer-term rationalisation as other leases come to an end.

**David Hanlon:** As Mr Black said, the first opportunity for us to rationalise our property in Edinburgh will come in 2012. We have made the decision and are moving forward on it. We must consider how to make best use of the property that we are left with, in George Street, and we have commissioned space planning experts to help us to do some drawings. Mr Black and the management team will discuss the results of that work next week. We are actively moving towards implementation of the first stage of the plan.

**The Convener:** In the past we have discussed the staffing efficiencies that can be made as a result of changes in the skill mix, scrutiny reform, public sector simplification and all the rest of it. Do you have more thoughts on the matter?

**Mr Black:** As I said, we will be able to come back with much more detail on such matters when we present the full budget to you in the autumn. At this stage it is not possible for us to say anything terribly explicit in public about our plans in that area.

In round terms, about 75 per cent of our costs are staff costs, if we include the firms. If Audit Scotland wants to reduce its budget significantly, it must look at staffing levels. Although we can certainly look seriously at ways in which we can streamline and improve the audit work—and are doing so—there will come a point at which we need to think carefully about the range of work that we undertake. That will require discussions with the Public Audit Committee and others.

We have taken the decision to freeze our pay for 2010-11. There will be no increase in salaries in 2010-11 other than through people's entitlement to progress through grades, which is normal. Beyond that, we will look at staff numbers, but we are not sufficiently able to talk about that at this early stage.

**The Convener:** We appreciate the sensitivities around such issues.

**Hugh Henry (Paisley South) (Lab):** I want to pursue some of the implications of what you have just said, Mr Black. I will not touch on the budget at this stage, although we might return to that.

How significantly has the work of your organisation changed in the past five years?

**Mr Black:** First, we should not tie the time period down to five years exactly, but should look at the rough period of five years or so that takes us back to 2004-05.

The first thing that changed around that point was the new duty of best value on local authorities and the new power and duties of the Accounts Commission to oversee best value and report on it, which involved a significant additional responsibility coming to Audit Scotland.

The second element that changed was the devolving of significant responsibilities for transport policy and delivery to Scotland, with the creation of the new Transport Scotland framework, which brought another £500 million or so into the audit regime.

The third element that changed involved the request from the Scottish Government that Audit Scotland, on behalf of the Accounts Commission and with the active involvement of John Baillie as chair of the Accounts Commission, should be the lead body in the integrated scrutiny of all public bodies. We are involved in devising a new framework of scrutiny planning and in working with all the inspectorates on a risk-based approach to bringing the necessary focus to the scrutiny work that is going to be undertaken in local government. More will be said about that once the Accounts Commission has evaluated the work that has been done in that regard. All the indications suggest that it will bring about a significant reduction in the scrutiny burden on audited bodies, but there will not be a commensurate reduction in the audit scrutiny resource, because a lot of work is associated with leading that co-ordination and developing the scrutiny plans.

Finally, the expectations of what Audit Scotland should be delivering have continued to increase significantly in two main ways. First, and most evidently, various people, including members of the Scottish Parliament, come to us with issues that they would like us to investigate and report on. We consider all those requests carefully, but that adds to the volume of work that we have to undertake. Secondly, in terms of the performance audit work that we do and bring to Parliament, there has been a great appetite for us to support improvement in public bodies by taking those studies further than we used to. It used to be the case that, by and large, once the report was made, that was seen as the milestone beyond which there was perhaps not much of the journey left, apart from a possible revisit a few years down the road. However, we are now committed to ensuring that the performance audit reports are supported by things such as the self-assessment checklists that bodies can use. As we will describe in the annual report, there is a lot of activity around organising workshops and sessions with relevant managers to help them to develop their thinking, and a lot more work is involved in explaining our key findings and recommendations to boards of public bodies and helping them to come to terms with all of that.

That is a rather long and full answer, for which I apologise. There is no doubt, however, that the work has changed and developed significantly in the past few years.

**The Convener:** We accept that full answers are sometimes required.

**Hugh Henry:** The reason why I ask is that there is an apparent tension here, which is influenced by a number of factors. We are going to have increasing budgetary pressures—you have already indicated that your salary budgets will be frozen, and we know that the Scottish Parliamentary Corporate Body is considering significant reductions in expenditure. We can conclude that many of the public organisations that you deal with will have their budgets squeezed, which means that there will be increasing pressure with regard to fee charging and fee recovery. At the same time, however, there will be more public demand to ensure that the money that those organisations have is being properly used and that there is no waste, which will put pressure on your organisation. Are you equipped to deal with that, in a context in which budgets are being squeezed?

The other point that I am struggling with involves your response to paragraph 57 of our report, which deals with the increase in demand. I asked you how much the work of your organisation has changed because we now live in an era in which we are moving beyond what has historically been regarded as being the function of an audit, which has involved examining the balance sheet and the profit-and-loss account, seeing whether income and expenditure reconcile and so on. Quite rightly, we are now beginning to become increasingly concerned with quality, impact assessment and improvement. Although we are concerned with Audit Scotland, some of the things that we hint at in our report go beyond the strictures of the audit function and encompass things such as quality control, service delivery and service improvement. It would be wrong if we lost the ability to consider those areas.

Will you be able to deliver our aspiration for more effective commentary on where there is room for improvement? How will squeezed budgets impact on your ability to do that?

**Mr Black:** The short answer to the first question is yes. I have confidence that we will be able to continue on this journey of ensuring that our work has a greater impact, through the approaches that I outlined a few moments ago. We are getting more skilled at doing that. Each major piece of work that we now do has an impact report that follows up and indicates clearly whether we are having the desired effect. That discipline has a good effect on the organisation.

I agree with what you say about the risk that, as resources are cut, issues of quality and service delivery will come under greater pressure. There will need to be more vigilance on the part of Audit Scotland if we are to be able to assess independently what is happening and report it to the Public Audit Committee. The other element that is worth placing on the record is that we think that, with the likely reductions in real resources, the intrinsic risks to financial management will increase. We are not saying that those risks will crystallise, but they will definitely be there.

We have reported to the Public Audit Committee on many occasions about certain pressures, such as pressures in the national health service. The NHS is just barely balancing the books at the moment, but doing so will become increasingly challenging. It will be extremely important that we maintain the audit vigilance around what is going on there and highlight in our reports to Parliament, through the Public Audit Committee, the risks that we see emerging in that regard. There will be risks not only in terms of financial management but to the sustainability of high-quality and safe services.

On the other part of your question, we simply have to keep working hard at trying to deliver what we can. I do not think that I could promise you significant cost reductions in Audit Scotland, but we are determined to do our best to try to release cash savings in the years that lie ahead. Again, we will be able to come forward with some scenarios for that when we talk more fully with you about our budget in the autumn.

10:30

**Hugh Henry:** You talk about the potential for financial difficulties. I suppose that the first requirement of any audit function is to ensure that money is being properly spent. We know, if we look at local government, Mr Baillie, that over the past five or 10 years the accounts of a number of authorities have not been signed off because of concerns about those authorities. We all understand that, from an audit perspective, that is something that needs to be done.

However, it almost seems as if you have evolved into doing some of the other work that you talk about, Mr Black, partly because of the demands from within your own organisation and your own profession, but also because of external political demands. I am not sure that that has ever been formally recognised or rationalised, yet if we were to say that it should not happen, there would be uproar.

Do we need collectively to reflect on that issue? If we are going into a period of financial constraint and increasing challenges, do some of the issues that you have talked about, such as performance



improvement, effectiveness and value for money, in effect change the nature of Audit Scotland's work? Should that be recognised and agreed and should we then discuss its consequences, or is it something that we should leave to an evolutionary process, as has happened until now?

**Mr Black:** There are practical ways in which I think we can achieve what is implied in your question, which is to ensure that there is clarity and transparency around what Audit Scotland is expected to do and what the Auditor General thinks needs to be done.

That will happen over the coming weeks and months in a number of ways. First, we will come to the Public Audit Committee on 26 May with an update of the forward programme of performance audit studies that we intend to undertake over the next couple of years. We have tried, in producing the programme, to recognise the changing and challenging financial environment that lies ahead for the public sector and we are theming those studies. The Public Audit Committee will have the opportunity to hear about that from colleagues and me on 26 May. We will take the views of the Public Audit Committee very seriously in developing and refining the programme. Over the summer that dialogue will continue with our major stakeholders and after the summer recess we will come back to the Public Audit Committee with a proposed programme of performance audits, which will take into account the views of Parliament as expressed by the Public Audit Committee itself and through the Public Audit Committee as a gatekeeper for the rest of Parliament.

Secondly, we are updating our audit strategy. Russell Frith is working on a review of our code of audit practice, which will also go to the Public Audit Committee after the recess. The code of audit practice captures the statutory duties on all of us, which must be observed, and it gives what one might call operational meaning and guidance for all auditors as to what exactly they are expected to do under the headings of best value, supporting performance audit and contributing to the scrutiny review. It is an operational document that guides auditors; it is also the principal means by which Parliament, through the Public Audit Committee, can understand and, I hope, support the work that auditors do.

It is certainly true to say that, at the end of that process, there will be a clear framework for going forward. Although we will continue to do our best to generate efficiencies out of how we do our work, the opportunities to take out significant resources will be pretty limited beyond that. Some policy judgments will then be needed.

**Robert Brown:** The issue is hugely important. Hugh Henry asked interesting questions. From my amateur viewpoint, I would like to discuss the drug

and alcohol services in Scotland impact assessment that is annexed to your report, which is one of a number of examples of the work that you are doing. I would like to develop matters a little further.

I suppose that it is not our function to consider the merits of services, but you make the point that there are no national minimum standards for drug and alcohol services, including for their range, quality and accessibility. A number of points are made about the delivery of those services, value for money and so on, but the references to their effectiveness are almost incidental. What I am getting at—my point applies across the board—is that we can have the most efficient drug and alcohol interventions, but they may be no use. The issue is their effectiveness.

That issue arises because I have corresponded with ministers on the use of the private residential facility at Castle Craig. I wonder how great an issue the effectiveness of services is to the Auditor General and Audit Scotland. They cannot be experts on everything; perhaps some things should be left to the department's expertise. Responses such as

"Local work required to assess improvement"

are given, which is understandable, but the important issue of effectiveness seems to be put back into a mish-mash at the local level, whereas perhaps there are issues across the board.

A linked point is that your audit function is specifically related to public service bodies. Of course, the function also encompasses voluntary sector organisations that deliver services, and you may contact private sector organisations that deliver services as well. The issue is sometimes where services are best, most flexibly and most effectively provided. That is a tricky and contentious area—we have seen that with care homes, for example. How far can we expect the audit function—which, as Hugh Henry rightly said, begins with financial scrutiny; we will not lose our focus on that—to consider such matters? In short, if we widen our consideration, as you are rightly doing under best value and so on, is there a risk of losing focus on the key issues, which must, I presume, be financial, but might also include the effectiveness of the service that is provided? That is a bit of a rambling question, but you get the general direction of what I am asking.

**Mr Black:** The issue is extremely important and there are no easy or short answers, but I will try to help members to understand how we approach matters.

I think that "Drug and alcohol services in Scotland" has been a pretty high-impact report. We have carried out an assessment after only three months, but we know that the

recommendations were taken seriously in the Government, and the new framework for delivering drug and alcohol services takes into account several of our recommendations.

We have two difficulties in evaluating the effectiveness of drug and alcohol services, which result from the complex nature of problems relating to drug and alcohol abuse. One difficulty is attribution—that is, getting the relationship between changes in policy and changes in outcomes, if there are such changes. The second difficulty is timing. It will be some time before we can revisit some of the issues. That is the context. However, there is no doubt that the recommendations have had a fairly high impact.

When we come forward with a fresh programme of work, we will put quite a lot of emphasis on the auditing of partnerships, as it seems to us that the solutions to many, if not most, of the really challenging issues in Scottish public life—whether in public health, drug and alcohol abuse, or crime and community safety—in so far as they exist at all will be arrived at through effective partnership working. We have done pieces of work on that in the past, the results of which have been pretty challenging for people who have been involved in partnerships.

I go back to a point that Mr Henry made. Partnership working will come under increasing pressure as resources decline. The media are reporting evidence of the very good foundation work that has been done in Glasgow involving the health board and council perhaps unravelling. I do not want to prejudge what will happen, but issues relating to resource pressures and accountability for funds must be in there somewhere.

I will give one practical example of what I mean by that. At the moment, we are undertaking a performance audit of community health partnerships, which is already throwing up some interesting and important issues for the future regarding the effectiveness of partnership working. In considering the effectiveness of all partnerships, my personal view is that we must be more proactive in identifying some of the core themes that should be present in all partnerships, for example, drug and alcohol services, services for people with mental health problems and community safety partnerships. We should use our evaluation of partnerships to get a handle on what is happening in different parts of Scotland in those areas. If we do that, we will make a significant contribution, as no other body is independent of Government and able to look across all the agencies to bring that together.

**Robert Brown:** We have touched on the change in the budgetary background from a time when change could be funded by a bit of up-front funding for a period to a time of declining budgets.

For what it is worth, my impression is that public bodies struggle because they have to make their budget demands within a short period, once they hear from the Scottish Government the ins and outs of the whole thing. The Scottish Government has a similar problem at another level. Quite often, there is a risk of public bodies making short-term decisions that do not give internal departments or external services the time to make adjustments, look for alternative funding, do things differently, have a transition period or whatever. Is Audit Scotland in a position to give better guidance on the process for such things, which would allow us to retain more of the public services that we want to retain than is currently the case because of short-term decision making? That is an important area to explore. Does Audit Scotland have a role in it?

**Mr Black:** That is a fair and important point, and we must bear it in mind.

**The Convener:** Like others, I was interested to read the example impact reports that you included in your response to our report. As a former social worker, when I read the reports I felt that they were more focused on process than on outcomes; however, I wondered whether I was being unfair to the auditors. I perhaps expected you to do something that went beyond the audit process, which is an issue that Hugh Henry touched on earlier.

I was intrigued to hear of the future work that you say that you may do on partnership working. You are absolutely correct in saying that partnership working is at the core of good public services. However, partnership working is about relationships and practice as well as money and shared budgets. I have gone full circle and I am now back where I was earlier, wondering how that could be reflected in impact reports. Notwithstanding what you have said about time—we cannot expect you to produce glossy impact reports three months or, in some cases, a year later—how does that square with the audit function, which starts by focusing on financial scrutiny and then rolls out into something much broader? It is not just about money, is it?

**Mr Black:** No, it is not just about money, but the issue of resources and how they are used is always pretty central. There are many occasions on which we comment, in our studies, on the way in which services are delivered as well as on resource issues.

On partnership working, I encourage you to look at the project spec for the community health partnership work, which will be on our website. You will see that it transcends the whole range of interests from the ways in which resources are used to how effectively the partnerships are working and what added value they are bringing to

what we might expect to be happening in any case when good professionals work together.

10:45

**The Convener:** I will finish up by asking a few specific questions about money, which has never been my forte, Mr Black. My attitude to personal fiscal responsibility is somewhat wanting, according to my husband.

You will be well aware that the Scottish Parliamentary Corporate Body has an indicative target and proposes to reduce its budget in real terms by 15 per cent. Obviously, I accept your report with the provisional budget estimate, which says that the worst-case scenario is that you will not ask for any more money than you got the year before, which means a real-terms reduction. What percentage is that reduction? Do you also have an indicative target at the back of your mind?

**Mr Black:** It is really difficult to be at all specific at this stage. I am sorry, but I keep coming back to the issue that so much of our costs are staff costs. To generate significant cash-releasing savings, we have to look at staff. We have a lot more work to do over the summer before we can give you an indication of scenarios. It is challenging for us to manage a freeze in our pay bill at this point in time, but we felt that we had to do that, because pay looms so large in our budget. We have to start early with that type of initiative if we are going to be able to take out more cost in the future.

Russell, would you like to offer anything on that, particularly on the issue of what a cash standstill will mean in real terms?

**Russell Frith:** The inflation figures that were published yesterday suggest that there will be a 3.7 per cent real-terms reduction. For the purposes of longer-term budgeting, Governments both here and further south have used the slightly lower figure of 2 point something as their gross domestic product deflator. Somewhere in that range is the real-terms reduction that will be inherent in freezing the budget.

On what we are actually doing, we are undertaking a number of pieces of work internally to look at how we can reduce the total costs of our activities. One reason why we have been quite cautious in what we have said in our provisional budget estimate is that we do not yet know the outcomes of those pieces of work. We will work on them over the summer before we present our budget. Although we are reasonably confident that we will be able to reduce our total costs, until we have identified where the reductions will be, we will not know how they will split between the money that we need to raise through fees and charges and the money that comes through the commission. In particular, and taking account of

the discussion that we have just had around the volume and nature of the performance audits that we do, the reductions might not fall equally between the two parts of our funding.

**The Convener:** I just want to make sure that I have understood you correctly on the point about Audit Scotland freezing its pay budget. Are you saying that you are not yet able to say in detail how you will do that because you have to work it out?

**Russell Frith:** So far, for operational budgeting purposes, we have frozen the pay bill for the current financial year at last year's level. Operationally, that means that we have not given an inflation increase, but those staff who are still entitled to what under an old-fashioned system would be called incremental increases will still be entitled to those. We are now looking at how we can sustain that sort of level of reduction into the future, and we have not finished the work on that yet.

**Mr Black:** To reinforce the point about the sensitivity of the issue, I note that all vacancies are currently frozen and that any proposal to fill a vacancy must come to the top of the organisation. I engage actively with that process. We have removed the discretion that would normally be available to senior management to fill posts routinely. We may face the prospect of going beyond that, if we freeze the pay bill. It will be more appropriate to discuss those matters when we come back after the summer.

**Hugh Henry:** Have you started to give any thought to the implications of a real-terms budget reduction of 15 per cent that must be achieved between the 2010-11 budget and the 2013-14 budget, in line with the SPCB's proposals?

**Mr Black:** The short answer is no, we have not looked at the implications of a reduction at that level. My sense is that, given the statutory nature of what we do and the heavy reliance on staff in our budget, we could move in that direction only after a quite fundamental policy discussion between the Parliament, the Auditor General, the Accounts Commission and, probably, the Scottish Government about areas of work that we would have to stop doing.

**Hugh Henry:** Has the SPCB made any approach to you about the budgetary situation?

**Mr Black:** No.

**The Convener:** There are no further questions. I put on record my thanks to Mr Black and his team for their thoughtful and erudite evidence. Every time they appear before us, I learn something new. I hope that they were able to take our questions in the vein in which they were

intended. We appreciate the work that Audit Scotland does.

We will receive a final budget from Audit Scotland in September. At that point, we will have further discussions and take further evidence on the matter, before reporting to Parliament in due course.

10:52

*Meeting continued in private until 11:38.*

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