The Committee will meet at 10.00 am in Committee Room 2 to consider the following agenda items:

1. **Budget Process 2006-07:** The Committee will take evidence from –

   Nora Radcliffe MSP, Member of the Scottish Parliamentary Corporate Body; Paul Grice, Chief Executive; and Derek Croll, Head of Financial Resources, Scottish Parliament.

2. **Budget Process 2006-07:** The Committee will consider the Scottish Commission for Public Audit’s report on Audit Scotland’s expenditure proposals for 2006-07.

3. **Police, Public Order and Criminal Justice (Scotland) Bill:** The Committee will take evidence on the Financial Memorandum from –

   Bill Barron, Head of Police Bill Team; Dave Bell, Marches and Parades Review Implementation Team; and Colin Miller, Head of Police Common Services Team, Scottish Executive.

4. **External Research:** The Committee will consider a paper on commissioning external research.

5. **Item in Private:** The Committee will decide whether to consider its draft report on the Financial Memorandum of the Abolition of NHS Prescription Charges (Scotland) Bill in private at its next meeting.
The papers for this meeting are:

**Agenda Item 1**

Budget Submission from the Scottish Parliamentary Corporate Body

PRIVATE PAPER

**Agenda Item 2**

Paper from the Clerk

Report from the Scottish Commission for Public Audit

**Agenda Item 3**

Additional submission from COSLA on the Police, Public Order and Criminal Justice (Scotland) Bill

Written submissions on the Police, Public Order and Criminal Justice (Scotland) Bill (previously circulated to members; electronic versions available via Parliament website)

[Police, Public Order and Criminal Justice](Scotland) Bill and associated documents available online (previously circulated to members; electronic versions available via Parliament website)

[SPICE briefing](on the Police, Public Order and Criminal Justice (Scotland) Bill available online

PRIVATE PAPER

**Agenda Item 4**

Paper on commissioning external research
Finance Committee

26th meeting 2005, Tuesday 15 November 2005

Budget Process 2006-07: Budget Submission from the Scottish Parliamentary Corporate Body (SPCB)

1. In line with the Agreement on the Budget Process between the Finance Committee and the SPCB, the SPCB has submitted its budget bid for the financial year 2006-07. The bid is attached.

2. At its away day, the Committee agreed to write to the SPCB with regard to financial and policy controls over the various Parliamentary commissioners as the budget for these bodies are included in the SPCB’s budget. This letter is attached for information.

3. Members are invited to consider the SPCB’s budget submission.

Susan Duffy
Clerk to the Committee
SPCB Budget Submission for 2006-07

I am pleased to submit the SPCB’s budget bid for the financial year 2006-07.

The SPCB has identified a total budget requirement of £95.4m for 2006-07, as shown on the attached schedule 1. This compares to the current year budget of £97.0m and the indicative forecast of £98.5m for the 2006-07 financial year provided to the Finance Committee in October 2004.

Within this overall total funding requirement, the net revenue component of the budget proposal of £66.0m is £3.0m (4.8%) higher than the budget for the current financial year and is £1.1m (1.7%) higher than the indicative forecast provided to the Finance Committee in October 2004. The capital expenditure proposal of £3.0m is unchanged from the current year and indicative forecast. Capital charges, for depreciation and notional interest, at £26.4m, are £4.6m lower than current year budget and £4.2m lower than previously forecast.

Schedule 1 also sets out indicative estimates for the 2007-08 financial year.

Revenue Expenditure

The proposed net revenue expenditure for 2006-07 of £66.0m covers the first full year of operation at Holyrood following the initial warranty period for the building. I attach an analysis of our budget bid (schedule 2) together with a briefing paper on the SPCB’s revenue budget (schedule 3) to assist the Finance Committee in its scrutiny of our budget bid.

The SPCB’s budget proposal follows a rigorous scrutiny process by officials and Corporate Body members, in which all bids have been prepared as “zero-based” budgets. The SPCB is firmly committed to the principles of Efficient Government and we already share a number of services with other public bodies including the Scottish Executive. As part of our drive for continuous improvement and development we have a planned programme of efficiency reviews. An example of this is the recent review of working patterns in the security office, which will be implemented early next year and which will significantly reduce the incidence of overtime working. A review of the services provided to visitors is underway.

The SPCB’s submission identifies the resources to fund Commissioners and Ombudsmen separately and at £6.4m this now accounts for almost 10% of net revenue expenditure. In your letter of 26 August, the Finance Committee invited the SPCB to scrutinise the budget submissions from the Commissioners and Ombudsman. As you requested we raised the particular issues of office location and value for money with each officeholder and the SPCB met with them on 2 November to examine their responses as part of the scrutiny of their budget submissions.

We have concluded that it would be beneficial to undertake an independent review of the opportunities for the Commissioners and Ombudsman to share services and the associated issue of office location. The Auditor General for Scotland has intimated that he would be willing for Audit Scotland to undertake this review and in our budget meetings with the Commissioners and Ombudsman, all officeholders expressed a
willingness to participate in this. The prospective establishment of a Human Rights Commissioner adds impetus to this review. It should also be noted that the potential opportunities for shared services extend beyond the Commissioners which fall within the SPCB’s funding.

With the exception of the Scottish Information Commissioner (SIC), the budget bids for 2006-07 are all broadly in line with the 2005-06 approved budgets as set out in schedule 4 attached. The SIC bid is £0.2m higher as a result of 3 additional staff and the associated costs required to handle the significantly higher volumes of FOI appeals than had originally been forecast. Following scrutiny by the SPCB, we are content to endorse all the Commissioner and Ombudsman bids with the following note of caution.

- The budget proposal from the Commissioner for Children and Young People contains significant amounts for research (£100k), participation (£118k), and publicity & promotion (£157k). The SPCB considered that the programme might be over ambitious for a single financial year, but the Commissioner has reaffirmed that the planned expenditure in these areas is required to fulfil the statutory requirements of her post.

Capital Expenditure

As members will recall from my letter last year, the capital expenditure costs for completion of the Holyrood project were fully budgeted and accounted for in the 2004-05 financial year, in line with resource accounting rules (accruals accounting). However, although it is not part of our 2006-07 budget submission, I recognise that the Finance Committee has a continuing interest in the settlement of final accounts and accordingly I attach a table (Schedule 5) setting out the progress on these as at 31 October 2005. Progress has been reasonable, though slower than we had hoped, with 24 accounts submitted out of a total of 30 due. All accounts received so far have come in at or below the cost plan and we remain on target to complete the project within budget.

The SPCB’s capital expenditure budget bid of £3.0m for 2006-07 will largely be held as a capital contingency and, as in previous years, will only be committed on the basis of approved bids for specific projects, which are anticipated to cover potential system developments, improvements to IT infrastructure and building related capital expenditure.

Yours sincerely

George Reid
SPCB BUDGET SCHEDULE 1

SCOTTISH PARLIAMENTARY CORPORATE BODY

SPCB AIM: To provide the Parliament, or ensure the Parliament is provided with the property, staff and services required for the Parliament's purposes.

OPERATING BUDGET SHOWING RESOURCES ALLOCATED TO OBJECTIVES:
Scottish Parliamentary Corporate Body

OBJECTIVE: To enable the efficient and effective conduct of parliamentary business

<table>
<thead>
<tr>
<th></th>
<th>Approved Budget 2005-06 £'000</th>
<th>Budget Bid 2006-07 £'000</th>
<th>Indicative Forecast 2007-08 £'000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A) REVENUE</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Revenue Expenditure (Schedule 2)</td>
<td>63,002</td>
<td>66,015</td>
<td>68,950</td>
</tr>
<tr>
<td><strong>B) CAPITAL</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital Expenditure (Schedule 2)</td>
<td>3,000</td>
<td>3,000</td>
<td>3,000</td>
</tr>
<tr>
<td><strong>C) CAPITAL CHARGES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Capital Charges (Schedule 2)</td>
<td>30,969</td>
<td>26,403</td>
<td>27,887</td>
</tr>
<tr>
<td><strong>SUMMARY ( A + B + C)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Net Expenditure</td>
<td>96,971</td>
<td>95,418</td>
<td>99,837</td>
</tr>
</tbody>
</table>
### SPCB BUDGET SCHEDULE 2

<table>
<thead>
<tr>
<th></th>
<th>2005-06 Approved Budget £'000</th>
<th>2006-07 Budget Bid £'000</th>
<th>2007-08 Indicative Forecast £'000</th>
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</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Recurring Annual Costs</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Staff Pay</td>
<td>20,050</td>
<td>20,354</td>
<td>20,965</td>
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<tr>
<td>Staff Related and General Costs</td>
<td>1,763</td>
<td>1,785</td>
<td>1,839</td>
</tr>
<tr>
<td>Property Costs</td>
<td>6,106</td>
<td>6,727</td>
<td>6,929</td>
</tr>
<tr>
<td>Running Costs</td>
<td>9,845</td>
<td>9,573</td>
<td>9,860</td>
</tr>
<tr>
<td></td>
<td>37,763</td>
<td>38,439</td>
<td>39,592</td>
</tr>
<tr>
<td>Events</td>
<td>0</td>
<td>450</td>
<td>464</td>
</tr>
<tr>
<td><strong>Total Parliamentary Staff Organisation Costs</strong></td>
<td>37,763</td>
<td>38,889</td>
<td>40,056</td>
</tr>
<tr>
<td>MSP Pay</td>
<td>9,768</td>
<td>10,061</td>
<td>10,363</td>
</tr>
<tr>
<td>MSP Office, Staff and Accom. Costs etc.</td>
<td>9,599</td>
<td>9,887</td>
<td>10,184</td>
</tr>
<tr>
<td>Commissioners' &amp; Ombudsman Costs</td>
<td>6,028</td>
<td>6,400</td>
<td>6,592</td>
</tr>
<tr>
<td><strong>Total Including MSPs' &amp; Commissioners' Costs</strong></td>
<td>63,158</td>
<td>65,237</td>
<td>67,194</td>
</tr>
<tr>
<td><strong>Contingency</strong></td>
<td>639</td>
<td>1,500</td>
<td>2,500</td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td>63,797</td>
<td>66,737</td>
<td>69,694</td>
</tr>
<tr>
<td><strong>Less:- Income</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(795)</td>
<td>(722)</td>
<td>(744)</td>
<td></td>
</tr>
<tr>
<td><strong>Total Net Revenue</strong></td>
<td>63,002</td>
<td>66,015</td>
<td>68,950</td>
</tr>
</tbody>
</table>

**Capital Expenditure**

<table>
<thead>
<tr>
<th>Capital Expenditure</th>
<th>3,000</th>
<th>3,000</th>
<th>3,000</th>
</tr>
</thead>
</table>

**Capital Charges**

<table>
<thead>
<tr>
<th>Depreciation</th>
<th>16,320</th>
<th>13,717</th>
<th>14,403</th>
</tr>
</thead>
<tbody>
<tr>
<td>Notional Interest</td>
<td>14,574</td>
<td>12,611</td>
<td>13,404</td>
</tr>
<tr>
<td>Audit fee</td>
<td>75</td>
<td>75</td>
<td>80</td>
</tr>
<tr>
<td><strong>Total Capital Charges</strong></td>
<td>30,969</td>
<td>26,403</td>
<td>27,887</td>
</tr>
</tbody>
</table>
The net revenue expenditure of the SPCB is forecast to increase from £63.0m in 2005-06 to £66.0m in 2006-07, an increase of £3.0m (4.8%). The main elements of this are:-

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Staff Pay</strong></td>
<td>£0.3m</td>
<td>1.5%</td>
</tr>
<tr>
<td>The net increase in staff pay is below the rate of inflation as a result of a reduction in the number of fixed term posts. These have more than offset the impact of pay increments for permanent staff and within this overall figure we have also absorbed a c 1% increase in pension contribution rates (from an average of 19.8% to 20.9%).</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Staff Related Costs</strong></td>
<td>£0.0m</td>
<td>1.2%</td>
</tr>
<tr>
<td>Staff related costs are broadly in line with staff pay with the main increases as follows:- Corporate and job related staff training is budgeted at £546k (an increase of £28k on 2005-06) and Committee travel and expenses accounts for £135k (an increase of £64k).</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Property Costs</strong></td>
<td>£0.6m</td>
<td>10.2%</td>
</tr>
<tr>
<td>Property costs are forecast to increase in 2006-07 principally as a result of higher maintenance costs for the Holyrood building following the end of the defects liability (warranty) period. Planned and reactive maintenance costs for 2006-07 are estimated at £1.2m, an increase of £0.6m compared to the 2005-06 budget. The planned maintenance programme includes lime-washing of Queensberry House. In addition, the recent rises in electricity prices and a higher liability established for water rates result in significantly higher utility costs than previously forecast.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Running Costs</strong></td>
<td>(£0.3m)</td>
<td>(2.8%)</td>
</tr>
<tr>
<td>Reduction is partly explained by the separation of events costs as below. We are also targeting reductions in our printing and broadcasting contracts.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Events</strong></td>
<td>£0.4m</td>
<td>n/a</td>
</tr>
<tr>
<td>These costs were previously included within the above general running costs, including staff overtime and contractors’ costs. We have separated these out to provide greater visibility and control. The events programme for 2006-07 will be determined by the SPCB within this budget.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>MSP Pay and Allowances</strong></td>
<td>£0.6m</td>
<td>3.0%</td>
</tr>
<tr>
<td>Cost of living increases assumed at 3%. NB MSP pay is determined by analogy to Westminster salary levels.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Commissioners</strong></td>
<td>£0.4m</td>
<td>6.2%</td>
</tr>
<tr>
<td>As set out in the covering letter and schedules,</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
and Ombudsman

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>the main increase is in respect of the Scottish Information Commissioner. This is as a result of higher volumes of Freedom of Information appeals.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Contingency £0.9m 134.7%

The SPCB considers that a higher contingency of £1.5m is prudent to meet unexpected new cost pressures. This represents approximately 2.5% of the total revenue budget excluding commissioners. (NB the indicative figure of £2.5m for 2007-08 is higher to cover resettlement grant and winding up allowances following the general election)

Income £0.1m 9.2%

Income is slightly lower in 2006-07, principally as a result of showing equipment hire within the events budget line. The main income streams of the retail shop and guided tours are budgeted at the same level as 2005-06.

Total Net Revenue £3.0m 4.8%
<table>
<thead>
<tr>
<th>Office</th>
<th>2005-06 Budget £'000</th>
<th>2006-07 Budget Submission £'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scottish Public Services Ombudsman</td>
<td>2,727</td>
<td>2,882</td>
</tr>
<tr>
<td>Scottish Information Commissioner</td>
<td>1,125</td>
<td>1,337</td>
</tr>
<tr>
<td>Scottish Parliamentary Standards Commissioner</td>
<td>100</td>
<td>90</td>
</tr>
<tr>
<td>Commissioner for Children and Young People in Scotland</td>
<td>1,167</td>
<td>1,273</td>
</tr>
<tr>
<td>Commissioner for Public Appointments in Scotland</td>
<td>380</td>
<td>397</td>
</tr>
<tr>
<td><strong>Total for Commissioners and Ombudsman</strong></td>
<td>5,499</td>
<td>5,979</td>
</tr>
<tr>
<td>Central Contingency for legal action etc</td>
<td>529</td>
<td>421</td>
</tr>
<tr>
<td><strong>Total including central contingency</strong></td>
<td><strong>6,028</strong></td>
<td><strong>6,400</strong></td>
</tr>
</tbody>
</table>
SPCB BUDGET SCHEDULE 4B

Analysis of Commissioners’ and Ombudsman’s 2006-07 budget bids

<table>
<thead>
<tr>
<th></th>
<th>SPSO</th>
<th></th>
<th>SIC</th>
<th></th>
<th>SPSC</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Budget</td>
<td>Bid</td>
<td>Budget</td>
<td>Bid</td>
<td>Budget</td>
<td>Bid</td>
</tr>
<tr>
<td>Revenue</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Staff Costs</td>
<td>1,763</td>
<td>1,830</td>
<td>660</td>
<td>830</td>
<td>54</td>
<td>56</td>
</tr>
<tr>
<td>Staff Related/General Costs</td>
<td>110</td>
<td>80</td>
<td>37</td>
<td>45</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Property Costs</td>
<td>299</td>
<td>320</td>
<td>103</td>
<td>111</td>
<td>41</td>
<td>28</td>
</tr>
<tr>
<td>Running Costs</td>
<td>526</td>
<td>505</td>
<td>305</td>
<td>322</td>
<td>41</td>
<td>28</td>
</tr>
<tr>
<td>Capital</td>
<td>29</td>
<td>147</td>
<td>20</td>
<td>29</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>2,727</td>
<td>2,882</td>
<td>1,125</td>
<td>1,337</td>
<td>100</td>
<td>90</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>CCYP</th>
<th></th>
<th>OCPAS</th>
<th></th>
<th>Total</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Budget</td>
<td>Bid</td>
<td>Budget</td>
<td>Bid</td>
<td>Budget</td>
<td>Bid</td>
</tr>
<tr>
<td>Revenue</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Staff Costs</td>
<td>745</td>
<td>583</td>
<td>153</td>
<td>161</td>
<td>3,375</td>
<td>3,460</td>
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<tr>
<td>Staff Related/General Costs</td>
<td>43</td>
<td>41</td>
<td>21</td>
<td>11</td>
<td>215</td>
<td>182</td>
</tr>
<tr>
<td>Property Costs</td>
<td>90</td>
<td>69</td>
<td>36</td>
<td>42</td>
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<td>542</td>
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<tr>
<td>Running Costs</td>
<td>244</td>
<td>496</td>
<td>170</td>
<td>180</td>
<td>1,286</td>
<td>1,531</td>
</tr>
<tr>
<td>Capital</td>
<td>45</td>
<td>84</td>
<td>3</td>
<td>95</td>
<td>264</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>1,167</td>
<td>1,273</td>
<td>380</td>
<td>397</td>
<td>5,499</td>
<td>5,979</td>
</tr>
</tbody>
</table>

SPSO - Scottish Public Services Ombudsman
SIC - Scottish Information Commissioner
SPSC - Scottish Parliamentary Standards Commissioner
CCYP - Commissioner for Children and Young People in Scotland
OCPAS - Commissioner for Public Appointments in Scotland
SPCB BUDGET SCHEDULE 5A

Progress on Final Accounts as at 31 October 2005
Based on Bovis Programme dated 7 October 2005

Recommendations on Final Accounts

<table>
<thead>
<tr>
<th>Recommendations due from Bovis by 31 October</th>
<th>30</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recommendations received</td>
<td>24</td>
</tr>
<tr>
<td>Outstanding this period</td>
<td>5</td>
</tr>
<tr>
<td>Outstanding from previous period</td>
<td>1</td>
</tr>
<tr>
<td>Total outstanding</td>
<td>6</td>
</tr>
</tbody>
</table>

Recommendations received

| Total from above                             | 24 |
| Authorised by Client                         | 20 |
| Awaiting Client authorisation                | 4  |

Final Accounts

| Signed off by Client to date                 | 6  |
| Awaiting sign-off                            | 6  |
| Returned to Bovis under query                | 5  |
| With Bovis for finalisation with Trade Contractors | 7  |

Note

The table demonstrates Bovis’s progress against the programme they proposed on 7 October and how the recommendations from Bovis have translated into agreed Final Accounts to date. An overall comparison with Estimated Final Costs as determined by Davis, Langdon for each trade package indicates that, for those packages where Final Accounts are known, a saving on the DL figure of £691,403.99 has been achieved as shown in schedule 5b.
## SPCB BUDGET SCHEDULE 5B
Scottish Parliament Building, Holyrood
Master Status Report on Trade Contract Final Accounts
(Revised to incorporate Bovis’ Trade Contract Final Accounts Programme dated 7th October 2005)
Issue Ten (1st November 2005)

<table>
<thead>
<tr>
<th>Package Number</th>
<th>Description</th>
<th>Trade Contractor</th>
<th>Current Status /HPT’s Views</th>
<th>Comments</th>
<th>Estimated Final Costs (by DL)</th>
<th>Agreed Final Account</th>
</tr>
</thead>
<tbody>
<tr>
<td>TP2010</td>
<td>Queensberry House Demolition &amp; Reconstruction</td>
<td>Ballast</td>
<td>Statement of Final Account received for Client sign-off (4th October 2005)</td>
<td>Statement of Final Account returned to Bovis on 17th October for correction.</td>
<td>£4,250,000.00</td>
<td>£4,250,000.00</td>
</tr>
<tr>
<td>TP2015</td>
<td>Queensberry House Miscellaneous Works</td>
<td>Kinsley and Bolton</td>
<td>No outstanding action on Bovis.</td>
<td>Recommendation signed-off by Client. Company no longer exists; new owners will not respond to request in terms of to whom final account should be addressed.</td>
<td>£78,380.82</td>
<td>£78,380.82</td>
</tr>
<tr>
<td>TP2080</td>
<td>Retention Piling</td>
<td>AMEC Civil Engineering</td>
<td></td>
<td></td>
<td>£1,668,320.86</td>
<td>£1,668,320.86</td>
</tr>
<tr>
<td>TP2091</td>
<td>Asbestos/Pigeon Dropping Removal</td>
<td>Chamic Industrial Services</td>
<td></td>
<td></td>
<td>£200,002.24</td>
<td>£200,002.24</td>
</tr>
<tr>
<td>TP2300</td>
<td>Excavations</td>
<td>Barr Construction</td>
<td>Statement of Final Account received for Client sign-off (7th October 2005)</td>
<td>Returned 12th October due to standard of supporting paperwork.</td>
<td>£831,139.42</td>
<td>£831,139.42</td>
</tr>
<tr>
<td>TP9500</td>
<td>Roads</td>
<td>Hewcon</td>
<td></td>
<td></td>
<td>£1,050,736.00</td>
<td>£1,050,736.00</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Package Number</th>
<th>Description</th>
<th>Trade Contractor</th>
<th>Current Status /HPT’s Views</th>
<th>Comments</th>
<th>Estimated Final Costs (by DL)</th>
<th>Agreed Final Account</th>
</tr>
</thead>
<tbody>
<tr>
<td>TP1510</td>
<td>Tower Cranes</td>
<td>Select Pant Hire Company Limited</td>
<td>Statement of Final Account received for Client sign-off (4th October 2005)</td>
<td>Supporting paperwork was considered substandard [e.g. manuscript overwriting on T/Cs payment application]</td>
<td>£4,756,000.00</td>
<td>£4,628,729.01</td>
</tr>
<tr>
<td>TP2045</td>
<td>Well Probing</td>
<td>Wimtec Environmental</td>
<td>No outstanding action on Bovis.</td>
<td></td>
<td>£29,292.97</td>
<td>£29,292.97</td>
</tr>
<tr>
<td>TP2046</td>
<td>Well Drilling</td>
<td>Ritchies</td>
<td>Statement of Final Account received for Client sign-off (7th October 2005)</td>
<td></td>
<td>£96,154.50</td>
<td>£96,154.50</td>
</tr>
<tr>
<td>TP2200</td>
<td>Substructure Concrete</td>
<td>O'Rourke Scotland Limited</td>
<td>Recommendation and supporting paperwork returned to Bovis 27th June 2005.</td>
<td>Returned 12th October due to standard of supporting paperwork.</td>
<td>£2,200,000.00</td>
<td>£2,156,009.68</td>
</tr>
<tr>
<td>TP2205</td>
<td>Substructure Concrete East</td>
<td>O'Rourke Scotland Limited</td>
<td>Statement of Final Account received for Client sign-off (4th October 2005)</td>
<td>Returned 12th October due to standard of supporting paperwork.</td>
<td>£7,244,171.20</td>
<td>£7,244,171.20</td>
</tr>
<tr>
<td>TP2600</td>
<td>MSP Concrete Frame</td>
<td>O’Rourke Scotland Limited</td>
<td>Statement of Final Account received for Client sign-off (4th October 2005)</td>
<td>Returned 12th October due to standard of supporting paperwork.</td>
<td>£5,560,870.84</td>
<td>£5,560,870.84</td>
</tr>
<tr>
<td>TP2905</td>
<td>Assembly Building Blockwork</td>
<td>Lesterose Scotland Ltd</td>
<td>Statement of Final Account received for Client sign-off (5th October 2005)</td>
<td></td>
<td>£664,000.00</td>
<td>£663,832.94</td>
</tr>
<tr>
<td>TP3523</td>
<td>MSP Building Louvers</td>
<td>Lesterose Scotland Ltd</td>
<td>Recommendation on Statement of Final Account received for Client</td>
<td></td>
<td>£2,200,000.00</td>
<td>£2,156,009.68</td>
</tr>
<tr>
<td>Package Number</td>
<td>Description</td>
<td>Trade Contractor</td>
<td>Current Status /HPT’s Views</td>
<td>Comments</td>
<td>Estimated Final Costs (by DL)</td>
<td>Agreed Final Account</td>
</tr>
<tr>
<td>----------------</td>
<td>------------------------------</td>
<td>--------------------------</td>
<td>---------------------------------------------------------------------------------------------</td>
<td>---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>-------------------------------</td>
<td>-----------------------------</td>
</tr>
<tr>
<td>TP3526</td>
<td>MSP Vent Pods</td>
<td>Coverite</td>
<td><strong>sign-off (12th October 2005)</strong> Recommendation on Statement of Final Account received for Client sign-off (11th October 2005)</td>
<td>Bovis have also submitted Statement of Final Account, executed by Trade Contractor, in parallel with Recommendation.</td>
<td>£2,883,113.00</td>
<td>£2,496,211.86</td>
</tr>
<tr>
<td>TP3528</td>
<td>MSP Bay Windows</td>
<td>Baydale Ltd</td>
<td>Statement of Final Account received for Client sign-off (11th October 2005)</td>
<td>Discrepancy between Bovis ‘certified and paid to date’ value and Client’s payments records; which is currently being investigated.</td>
<td>£4,620,000.00</td>
<td>£4,620,009.71</td>
</tr>
<tr>
<td>TP3640</td>
<td>MSP Roofing</td>
<td>Coverite</td>
<td>Recommendation on Statement of Final Account received for Client sign-off (11th October 2005)</td>
<td>Change Order Summary Reported received from Bovis on 12th October.</td>
<td>£1,022,977.00</td>
<td>£1,017,388.32</td>
</tr>
<tr>
<td>TP3646</td>
<td>Assembly Building Rooflights</td>
<td>Spacedecks</td>
<td>Recommendation on Statement of Final Account received for Client sign-off (11th October 2005)</td>
<td>Bovis have also submitted Statement of Final Account, executed by Trade Contractor, in parallel with Recommendation.</td>
<td>£2,630,000.00</td>
<td>£2,606,664.00</td>
</tr>
<tr>
<td>TP5300</td>
<td>Catering Equipment</td>
<td>Scobie Mackintosh</td>
<td>Recommendation on Final Account signed-off by Client &amp; returned to Bovis on 12th September 2005.</td>
<td>Outstanding query with BLL regarding ongoing commitment by Design Counters in Defects Liability Period.</td>
<td>£640,200.00</td>
<td>£630,209.00</td>
</tr>
<tr>
<td>TP5305</td>
<td>Front of House Catering</td>
<td>Design Counters Ltd</td>
<td>Recommendation signed-off by Client (May 2006).</td>
<td></td>
<td>£172,500.00</td>
<td>£151,573.00</td>
</tr>
<tr>
<td>TP5510</td>
<td>Audio Broadcast System</td>
<td>Tyco Ltd</td>
<td>Recommendation on Final Account signed-off by Client &amp; returned to Bovis on 6th September 2005.</td>
<td></td>
<td>£500,000.00</td>
<td>£472,729.81</td>
</tr>
<tr>
<td>TP5320</td>
<td>Ventilation Canopies</td>
<td>Ventmaster</td>
<td>Statement of Final Account received for Client sign-off (4th October 2005)</td>
<td></td>
<td>£166,000.00</td>
<td>£153,663.00</td>
</tr>
<tr>
<td>TP5530/40/50</td>
<td>Supply of Broadcasting</td>
<td>Thomson Multi Media</td>
<td>Recommendation on Final Account signed-off by Client &amp; returned to Bovis on 6th September 2005.</td>
<td></td>
<td>£1,125,250.00</td>
<td>£1,115,250.98</td>
</tr>
<tr>
<td>TP5700</td>
<td>Signage</td>
<td>Wood &amp; Wood Ltd</td>
<td>Recommendation on Final Account signed-off by Client &amp; returned to Bovis on 6th September 2005.</td>
<td></td>
<td>£211,150.00</td>
<td>£211,150.00</td>
</tr>
<tr>
<td>TP7500</td>
<td>Lifts – Site Wide</td>
<td>Otis</td>
<td>Statement of Final Account received for Client sign-off (12th October 2005)</td>
<td></td>
<td>£1,378,917.00</td>
<td>£1,377,106.92</td>
</tr>
<tr>
<td>TP9101</td>
<td>Supply of Turf</td>
<td>Stewart &amp; Co</td>
<td>Recommendation on Final Account</td>
<td></td>
<td>£140,000.00</td>
<td>£118,174.78</td>
</tr>
</tbody>
</table>
signed-off by Client & returned to Bovis on 6th September 2005.

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Holyrood Project Team</td>
<td>1st November 2005</td>
</tr>
<tr>
<td>Total Amount of Trade Contracts Final Accounts Agreed to date</td>
<td>£46,427,271.86</td>
</tr>
</tbody>
</table>

£47,118,675.85
Dear Paul

Parliamentary nominated Commissioners and Ombudsman

You will recall when the SPCB gave evidence to the Committee on its expenditure proposals at Stage 2 of last year’s Budget Process that members raised concerns regarding the budgets of the various Commissioners and Ombudsman nominated by the Parliament for appointment.

As the Commissioners and Ombudsman are funded directly by the SPCB, in accordance with the relevant statutory provisions establishing the offices, their budgetary submissions form part of the overall submission made by the SPCB to the Finance Committee.

In consideration of the budgetary process this year, the Committee considers it might be helpful to highlight in advance two major issues we would expect the SPCB to take account of when scrutinising the Commissioners’ and Ombudsman’s budget proposals. In raising these issues with you now we would expect the SPCB to report back on its scrutiny to the Finance Committee when it takes evidence from the SPCB in November.

The first issue is in relation to office location. The Committee noted during its inquiry into the Relocation of Public Sector Jobs that the Commissioners and Ombudsman have all established separate and seemingly expensive offices, all of which, bar one, are in Edinburgh. The one which is not in Edinburgh is in St Andrews and it is not clear why this locational decision was arrived at. It appears to the Committee that no thought has been given by the Commissioners and Ombudsman to either co-location or to the dispersal of
offices to other parts of the country in line with the overall guidance being applied to Executive and Non Departmental Public Bodies. The Committee is concerned that this is at odds with the Executive’s relocation policy and would seek assurances that these issues have been fully considered by the Commissioners and Ombudsman.

This, in turn, gives rise to the second issue which concerns value for money. As the Commissioners and Ombudsman are set up in separate offices, it would appear that very little scope exists to share services and to realise efficiency savings which could flow from this. The Committee has previously raised concerns over the increasing budgets for the various Commissioners and Ombudsman and the Committee is of the view that budgets cannot continue to increase with no evidence that more efficient ways of working are being sought.

All public bodies funded by the Executive are being required to contribute to the Efficient Government initiative and whilst we appreciate the independent functional nature of the Commissioners and Ombudsman, we believe the SPCB should be questioning the Commissioners over these issues as they are funded from the public purse. As you will recall, the Committee questioned the SPCB itself over these very issues and we do not believe that the Commissioners and Ombudsman should be exempt from such scrutiny.

As I have said, the expectation of the Committee is that the SPCB will undertake a detailed and thorough scrutiny of Commissioners’ and Ombudsman’s budgets so that it can report to the Finance Committee on its findings and views. We are aware that under a Memorandum of Understanding the Committee can ask the various Commissioners and Ombudsman to give evidence on their own budgets. The Committee would be reluctant to go down this road, but it reserves the right to ask the Commissioners and Ombudsman to appear before it, should it be dissatisfied with the budget submissions or with responses from the Commissioners and Ombudsman to these matters which we have identified.

Yours sincerely

[Signature]

Convener
Finance Committee

26th Meeting 2005 – Tuesday 15 November 2005

Budget Process 2006-07 - SCPA Report on Audit Scotland’s Spending Proposals

1. The Finance Committee has overall responsibility for scrutinising all expenditure paid out of the Scottish Consolidated Fund. In addition to scrutinising the Executive’s Draft Budget, the Committee also scrutinises the budget of the Scottish Parliamentary Corporate Body (SPCB) which is top-sliced from the Scottish Consolidated Fund (ie, the money for this is allocated before the Executive makes its allocations).

2. The other body whose budget is top-sliced is Audit Scotland. However, their spending plans are not directly scrutinised by the Finance Committee. The Public Finance and Accountability (Scotland) Act 2000 (the “PFA Act”) set up the Scottish Commission for Public Audit (SCPA) to scrutinise the spending plans of Audit Scotland. Under the terms of Section 11(9) of the PFA act, Audit Scotland must:

“for each financial year, prepare proposals for its use of resources and expenditure and send the proposals to the Scottish Commission for Public Audit...which is to examine the proposals and report to the Parliament on them”.

3. The SCPA’s membership is cross-party and is approved by Parliament. Each year, the SCPA receives Audit Scotland’s spending plans, takes evidence from the Auditor General and Audit Scotland on them and produces a report on the plans. In effect, the SCPA is giving its views on the whether Audit Scotland’s spending plans should be approved or not. This report must be laid before Parliament.

4. A custom has emerged whereby, as well as laying the report, the SCPA forwards a copy of its report to the Finance Committee and the Finance Committee includes a copy of this report in an annexe to its stage 2 budget report. In this way, the Committee is not directly scrutinising Audit Scotland’s Spending Plans but is considering the SCPA’s scrutiny and taking account of it in its report.

5. The Finance Committee debates its report in Parliament and this is followed by a vote. As the SCPA’s report is annexed to the Finance Committee’s report, then in effect, Parliament is approving Audit Scotland’s proposals through this route. It should be noted that Audit Scotland’s budget does appear in the subsequent Budget Bill which is voted on in its entirety by the Parliament.

6. This year, the Written Agreement which exists between the Finance Committee and the SCPA was revised to formalise this custom and practice which has emerged. This was agreed by the Committee and
subsequently, by Parliament. This Agreement details the procedures to be followed with regarding to the examination by the SCPA of Audit Scotland’s spending proposals and details the procedure to be followed in the event that there is disagreement between the SCPA and the Finance Committee. A copy of the finalised Agreement is attached for the Committee’s information.

7. The Committee is invited to consider the SCPA’s report.

Susan Duffy
Clerk to the Committee
THE BUDGETING PROCESS
AGREEMENT BETWEEN
THE SCOTTISH COMMISSION FOR PUBLIC AUDIT
AND THE FINANCE COMMITTEE

Foreword

1. This document sets out a revised understanding between the Scottish Commission for Public Audit (SCPA) and the Finance Committee of the Scottish Parliament, in relation to arrangements to be observed in connection with the annual budgeting process. It is not intended to create any legal rights or obligations on either the SCPA or the Finance Committee of the Scottish Parliament.

2. Under the terms of a revised agreement concluded with the Scottish Ministers the Finance Committee has agreed to participate in a biennial budget cycle with a full three-stage process in Spending Review years and a more limited process in non-Spending Review and election years. A separate administrative arrangement also exists between the SCPA and Audit Scotland.

Background

3. Scottish Ministers have undertaken to submit each year in which a Spending Review occurs to the Parliament (by 31 March or the first day thereafter on which the Parliament sits), a provisional expenditure plan This document will set out the Executive’s view on priorities for the coming Spending Review period; an initial assessment of progress against the key performance targets for each portfolio set in the previous Spending Review; and general expenditure proposals for those forward years for which aggregate figures at programme level are available. The Finance Committee can then seek views from a variety of sources including members of the public and other Committees of the Parliament.

4. Normally, the Scottish Ministers will present detailed expenditure proposals for the next financial year) by 20 September or the first day thereafter on which the Parliament sits. The Finance Committee will then produce a report in consultation with other committees of the Parliament. This will comment on the Scottish Ministers’ proposals and may include an alternative set of proposals. If it does, the total spend proposed by the Finance Committee will not exceed the total proposed by the Scottish Ministers. A plenary debate on the report will follow in which Committees and individual members will debate the Finance Committee’s report and may seek to propose amendments to the Executive’s expenditure proposals through the
mechanism of tabling amendments to the Finance Committee motion. It should be noted that even if such amendments are agreed to, this does not automatically guarantee that expenditure proposals will be amended in the subsequent Budget Bill, within the total proposed.

The Scottish Ministers will produce a Budget Bill by 20 January each year or the first day thereafter on which the Parliament sits.

Audit Scotland’s Budget

5. The expenditure plans of any body which has a prior call on the Scottish Consolidated Fund will reduce the total amount available to the Scottish Ministers for inclusion in their plans. Audit Scotland’s budget falls into that category, albeit that this budget forms a very small proportion of the total available resources. It is therefore important that, wherever possible, accurate information about the spending plans of Audit Scotland is provided to the Finance Committee and the Scottish Ministers at an early stage.

6. To this end, the SCPA, as the body which has responsibility for examining and reporting on Audit Scotland’s expenditure proposals has agreed that it will provide to the Finance Committee and to the Scottish Ministers, by mid-March each year, Audit Scotland’s provisional expenditure plan. The SCPA will also provide to the Committee and to the Scottish Ministers, no later than the end of the second week in November, a further expenditure plan for Audit Scotland reflecting any changes which have occurred since March.

7. The SCPA also undertakes to keep both the Committee and the Scottish Ministers informed throughout the period between March and January of any substantive changes to Audit Scotland’s budget in recognition of the fact that these would affect the Scottish Ministers’ expenditure plans and the Parliament’s consideration of them.

8. By convention, the Finance Committee’s consideration of the Executive’s draft budget (i.e. stage 2 of the budget process) has included a discussion of the SCPA’s report on Audit Scotland’s expenditure proposals. The SCPA’s report has then been included as an annexe to the Finance Committee’s report. The Committee and the SCPA wish to formalise this link, in recognition of the fact that whilst the SCPA has primary responsibility for scrutinising Audit Scotland’s expenditure proposals, the Finance Committee is responsible for scrutinising Scottish Ministers’ expenditure proposals as a whole.

9. This process creates the possibility of disagreement between the two bodies if they were to take a different opinion on Audit Scotland’s proposals. This could result in the Finance Committee’s report containing a different recommendation on Audit Scotland’s proposals from that reported by the SCPA.
10. To attempt to avoid such a scenario, the Finance Committee and the SCPA can discuss the SCPA’s report before the Finance Committee produces its report. The SCPA agrees that in order to assist the Committee’s understanding of Audit Scotland’s expenditure plans, it will seek to answer any questions from the Committee and make information available to the Committee.

11. If there is still disagreement between the Finance Committee and the SCPA, the Committee can express its comments on Audit Scotland’s proposals in its report or in the motion to discuss its report. The SCPA is free to lodge an amendment to the Finance Committee’s motion. The Parliament will then vote on the Finance Committee’s motion.

12. In situations where the SCPA’s report expresses discontent with Audit Scotland’s expenditure proposals and the Finance Committee either has no comment to make or is in agreement, the SCPA can lodge a motion on its report and seek to secure parliamentary time to debate this. Alternatively, the Finance Committee could, with the SCPA’s agreement, express any discontent in its report which could then be debated in the Parliament.

13. In either case, the final expenditure proposals for Audit Scotland will appear in the annual Budget Bill, which will be voted upon by the Parliament.
Scottish Commission for Public Audit

1st Report, 2005 (Session 2)


The Commission reports to the Parliament as follows—

1. In terms of section 11(9) of the Public Finance and Accountability (Scotland) Act 2000, the Scottish Commission for Public Audit (“the Commission”) must examine Audit Scotland’s proposals for its use of resources and expenditure for each financial year, and report on them to the Parliament.

2. The Commission received a copy of Audit Scotland’s expenditure proposals for the 2006/07 financial year on 29 September 2005. The Commission subsequently met on 26 October 2005 to take evidence on the budget proposals and Annual Accounts and Report on Accounts for the year to 31 March 2005 from Mr Robert Black, Auditor General for Scotland; Mr Russell Frith, Director of Audit Strategy, Audit Scotland; and Ms Diane McGiffen, Director of Corporate Services, Audit Scotland. The Commission requested additional written information from Audit Scotland, which was provided by the Auditor General on 4 November 2005. We thank Audit Scotland for its cooperation in providing evidence to us.

3. A report of the evidence session on 26 October 2005 can be found at appendix A. Appendix B contains a report of the 1st meeting 2005 of the SCPA on 25 May 2005.

2006/07 Budget Proposals

4. Audit Scotland’s Total Net Expenditure for 2006-07 is £25,191,000. Its estimated income from charges to audited bodies is £18,798,000. The total resource requirements (expenditure which is payable out of the Scottish Consolidated Fund) are £6,901,000: a net operating cost of £6,393,000 and capital of £508,000. (Table 1 in appendix 1 provides more detail on Audit Scotland’s resource requirements.)

5. The total resource requirements represent a 5.8% increase on last year’s proposal and are based on a general price inflation assumption of 3%. The Auditor General informed the Commission of a further increase in the amount of non-chargeable work undertaken by Audit Scotland which requires to be resourced
through parliamentary funding. This is primarily due to the creation of the transport agency and the introduction of whole-of-government accounting and will cost approximately 2% of Audit Scotland’s net funding requirement.

6. The 2006/07 budget proposals include a 4% reduction in the budgeted expenditure for approved auditors from £5,744,000 to £5,502,000 on last year’s submission. The Auditor General explained that this is partially attributed to the change in how national performance audit studies are carried out and represents a transfer of resources from approved auditors to Audit Scotland’s performance audit group. Performance audit and consultancy costs have risen to £1,159,000 from £684,000 budgeted in last year’s submission. (Table 2 in appendix 1 provides more detail on the subjective breakdown of running costs.)

7. The Commission sought further information from Audit Scotland on a number of matters such as Audit Scotland’s progress with best value auditing across all sectors, fees charged by Audit Scotland to audited bodies and progress on the reappointment of approved auditors.

8. The Commission recognises the statutory framework for local government which requires a best value audit every three years. Although there is no statutory requirement in other sectors, the Commission is pleased to note Audit Scotland’s development in rolling out a new modernised audit approach across other public sectors through its priorities and risk framework. The Commission acknowledges that savings are not expected at this stage of the roll-out but looks forward to savings in future years.

9. The Commission notes that audited bodies have some flexibility in negotiating their respective audit fees. An indicative audit fee is set for each audited body however this can be negotiated up or down by 10%. Accordingly, subject to agreement between Audit Scotland and the audited body, lower risk organisations can benefit from lower audit fees. The Commission notes that more audited bodies are beginning to push for lower fees where they have demonstrated better control systems and have had few adverse audit comments in previous years.

10. The Commission notes Audit Scotland’s contribution to the efficient government steering group and recognises the work being carried out in this area. The Commission is pleased to note a further 5% reduction in fees charged to most mainland NHS Bodies in 2006/07 on top of the 5% reduction in last year’s proposals.

11. As stated in the budget proposals, a current business priority for Audit Scotland is to finalise new appointments for the period 2006/07 to 2010/11. Audit Scotland updated the Commission on its progress and the Commission notes that recommendations for the new audit appointments will be made in February 2006. Audit Scotland confirmed that the overall split of work between approved auditors and Audit Scotland’s in-house teams will not significantly change. The Commission is pleased to note the proposed changes and also that the appointments will be made with a view to further improving joint working and community planning processes.
12. A current development priority for Audit Scotland is to review how it assesses the impact of its work. The Commission notes that measuring the impact of financial audit work is a challenging area; notes that work is on-going in this area and looks forward to an update at a future meeting.

13. In the budget proposal Audit Scotland split their expenditure on Audit Strategy and Corporate Services as 50% direct cost and 50% indirect cost or overhead. The Commission sought clarity on the basis of apportionment between direct and indirect costs. Audit Scotland explained that the proposal was submitted in a previously agreed format however, the Commission believes the current format may not be in sufficient detail to enable full scrutiny of Audit Scotland’s indirect costs. The Commission has agreed to work with Audit Scotland to improve the format of future budget proposals with regards disclosure of direct and indirect costs. (Table 3 in appendix 1 contains details of Audit Scotland’s direct and indirect costs submission.)

Annual Accounts and Report on Accounts for the year to 31 March 2005

14. The Commission then considered Audit Scotland’s annual report and accounts for the year to 31 March 2005. The Commission noted that an unqualified audit report was issued by Audit Scotland’s external auditor Mazars LLP.

15. The Commission sought further information on the number of staff employed by Audit Scotland. During 2004/05 an average of 274 staff were employed against an average of 242 in 2003/04. The Auditor General advised that this was principally due to the recruitment of best value specialists and the replacement of agency and temporary staff with permanent staff. The Auditor General confirmed that Audit Scotland’s headcount at October 2005 was 279 staff.

16. The Commission noted that Audit Scotland’s overall staff costs in 2004/05 were £12,820,000 against a budget of £11,717,000 previously advised. This variance was primarily due to additional costs of £977,000 arising from retirement benefit scheme costs. Audit Scotland advised that these additional costs were in respect of the full and permanent cost of staff early retirement which occurred as a result of the restructuring of Audit Scotland’s business in 2004/05. The Commission sought further information on these costs and Audit Scotland explained that these costs were for the early retirement of 6 senior members of staff. The amounts paid in respect of the staff members granted early retirement fall into the following bands:

<table>
<thead>
<tr>
<th>Band</th>
<th>Amount</th>
<th>Staff</th>
</tr>
</thead>
<tbody>
<tr>
<td>£1k - £100k</td>
<td></td>
<td>2</td>
</tr>
<tr>
<td>£100k - £200k</td>
<td></td>
<td>2</td>
</tr>
<tr>
<td>£200k - £300k</td>
<td></td>
<td>2</td>
</tr>
</tbody>
</table>

17. The Commission noted that, as at 31 March 2005, Audit Scotland was operating with net current liabilities. The Commission sought assurance that this position does not give cause for concern and that Audit Scotland can manage its working capital position. Audit Scotland assured the Commission that the net current liabilities position on 31 March 2005 was a managed position which is achievable since Audit Scotland receives funding for the year ahead early in the
new year. The Commission sought and received further assurance that Audit Scotland did not experience any cash flow difficulties during the year.

Conclusions

18. We draw the Parliament’s attention to the observations made and recommend that Audit Scotland’s bid for a budget of £6,901,000 for the year 2006/07 should be approved by the Parliament.

APPENDIX 1

Table 1: Summary of Audit Scotland’s resource requirements

<table>
<thead>
<tr>
<th>Summary of resource requirements</th>
<th>2006-07 £(000)</th>
<th>2005-06 £(000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts and governance</td>
<td>17,359</td>
<td>16,698</td>
</tr>
<tr>
<td>Performance audit</td>
<td>7,610</td>
<td>7,010</td>
</tr>
<tr>
<td>Other</td>
<td>222</td>
<td>333</td>
</tr>
<tr>
<td><strong>Total Net Expenditure</strong></td>
<td><strong>25,191</strong></td>
<td><strong>24,041</strong></td>
</tr>
<tr>
<td>Income from charges to audited bodies</td>
<td>18,798</td>
<td>18,009</td>
</tr>
<tr>
<td><strong>Net Operating Cost</strong></td>
<td><strong>6,393</strong></td>
<td><strong>6,032</strong></td>
</tr>
<tr>
<td>Capital</td>
<td>508</td>
<td>493</td>
</tr>
<tr>
<td><strong>TOTAL RESOURCE REQUIREMENTS</strong></td>
<td><strong>6,901</strong></td>
<td><strong>6,525</strong></td>
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</table>
Table 2: Subjective breakdown of Audit Scotland's running costs

<table>
<thead>
<tr>
<th>Subjective breakdown of running costs:</th>
<th>2006-07</th>
<th>2005-06</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£(000)</td>
<td>£(000)</td>
</tr>
<tr>
<td><strong>Employees:</strong></td>
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<td>Salaries and temporary staff</td>
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<td><strong>Training and development</strong></td>
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<td><strong>Travel and subsistence</strong></td>
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<td><strong>Recruitment &amp; Other Staff Costs</strong></td>
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<td><strong>IT</strong></td>
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<td><strong>Publications and media</strong></td>
<td>283</td>
<td>304</td>
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<tr>
<td><strong>Depreciation</strong></td>
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<td>505</td>
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<tr>
<td><strong>Cost of capital</strong></td>
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<td><strong>Total Audit Scotland expenditure</strong></td>
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<td><strong>Accounts Commission costs</strong></td>
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<tr>
<td><strong>Sundry income</strong></td>
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<td>(75)</td>
</tr>
<tr>
<td><strong>Total Net Expenditure</strong></td>
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<td>24,041</td>
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Table 3: Direct and Indirect Audit Scotland costs

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<tr>
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<th>Total Budget 2006-07 (£000)</th>
<th>Total Budget 2005-06 (£000)</th>
<th>Direct Costs Budget 2006-07 (£000)</th>
<th>Direct Costs Budget 2005-06 (£000)</th>
<th>Indirect Costs Budget 2006-07 (£000)</th>
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<td>Audit Scotland board</td>
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<tr>
<td>Sundry income</td>
<td>(253)</td>
<td>(75)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Net Expenditure</strong></td>
<td><strong>25,191</strong></td>
<td><strong>24,041</strong></td>
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</table>
Scottish Commission for Public Audit

Wednesday 26 October 2005

[THE CONVENER opened the meeting at 18:01]

Items in Private

The Convener (Margaret Jamieson): I welcome everyone to the second meeting in 2005 of the Scottish Commission for Public Audit. I hope that everybody has their mobile phones and pagers switched off—we do not want any interruptions. I offer a special welcome to Margaret Smith, who is attending her first meeting of the SCPA. I am sure that the experience that she has gained recently as a member of the Audit Committee will come in handy and will assist other members of the commission. Audit Scotland will not be strangers to her.

Margaret Smith (Edinburgh West) (LD): I will do my best, convener.

The Convener: A partial apology has been received from Cathy Peattie, who will arrive at some point during the meeting. She has difficulties in relation to a visit and one of her members of staff has taken ill.

The first item on the agenda is for members to consider whether to take agenda items 5 and 6 in private. Are we agreed to take those items in private?

Members indicated agreement.

18:02

The Convener: Agenda item 2 is Audit Scotland’s budget proposals for 2006-07 and the annual accounts and report on the accounts for the year to 31 March 2005. I remind members that, as well as publishing a report on the proposals, the commission is required to send a copy to the Finance Committee for inclusion in its stage 2 budget report. We are required to do that before 10 November to meet the Finance Committee’s deadline.

I welcome our three witnesses from Audit Scotland: Robert Black, the Auditor General for Scotland; Russell Frith, the director of audit strategy; and Diane McGregor, the director of corporate services. I ask Bob Black to make a short opening statement.

Mr Robert Black (Auditor General for Scotland): The Audit Scotland budget proposal seeks approval for parliamentary funding of £6.9 million, of which £6.4 million is revenue and £0.5 million is capital. That represents an increase of 5.8 per cent over the past year and is based on the following assumptions and resource requirements.

First, the proposal is based on a general price inflation assumption of 3 per cent. We have had to allow for incremental salary increases—we are a fairly young organisation and people are progressing through their grades, so we have had to calculate that. We have also allowed for a further 0.9 per cent increase in employers’ superannuation. We do not know exactly what the figure will be, but we think that it is prudent to put that in the budget.

We have also built into the budget increased and approved auditors payments, for the firms that work with us, of 3 per cent for each of the next two audit years. The commission will recall that the financial year to which the Parliament works straddles two audit years.

Another assumption is that there will be an increase in the amount of non-chargeable work resourced through parliamentary funding, amounting to about 2 per cent of the net funding requirement. That is primarily because of the creation of the new transport agency and the introduction of whole-of-government accounts as a Treasury and United Kingdom requirement. As always, we have looked for efficiency savings in the Audit Scotland budget and we have decided that we will make savings of 5 per cent in the audit
work of most mainland health boards for the 2005-06 audits.

There are four broad areas that must be reflected in the work that I, as Auditor General, ask Audit Scotland to undertake. The first relates to the general environment in which we work. As we all recognise, public services must be able to demonstrate that the extra resources that are being invested in Scotland are being used economically and efficiently and that they are having a significant impact on the quality and range of services provided. I expect Audit Scotland to contribute to that through the production of the annual overview reports throughout health and local authority sectors—that practice is spreading elsewhere—as well as through the full study programme of performance audits.

In relation to our environment, the statutory duty of best value in local government is now firmly in place and there is a progressive extension of the principles of best value, albeit without statutory support, to the rest of the public sector. We are supporting that through Audit Scotland’s delivery of the best-value audit for the Accounts Commission and through the development of the modernised audit approach, which is founded on the principles of risk management and performance review.

In our working environment, I have asked Audit Scotland to take into account the new ways of working, particularly the collaborative working between agencies and organisations that is now required by Government. I am thinking of such collaborative working as community planning and the joint future agenda. That presents particular challenges for us in following public money between all those different bodies and to arm’s-length bodies. We are also supporting that through our study programme.

The second broad area that I expect Audit Scotland to take into account relates to the risks facing audited bodies. They are still out there in the public sector, although the general standards of financial management in Scotland are high. One example is the difficult financial position faced by a number of national health service bodies. At next week’s Audit Committee, members will be considering five section 22 reports that I have recently laid on the accounts of NHS boards.

The third main heading, which I mentioned in my preliminary remarks, relates to the new audit responsibilities, including the creation of the transport agency and the movement to whole-of-government accounts.

The final area is the push for efficient government. With my support, Audit Scotland is contributing to the efficient government steering group without compromising the independence of audit. We are providing such advice and input as we can to that, which takes a significant amount of time.

As I mentioned, in the next financial year our contribution will be mainly in the form of a 5 per cent reduction in the amount of audit work in most mainland health boards. That saving is being passed back to the health service through lower charges. However, as we all know, efficient government is not only about cost reduction. Indeed, some people would say that it is not even primarily about cost reduction. It is about quality and impact. In the annual report for 2004-05, which came out earlier this year, we demonstrated the impact of our audit work in a number of ways—I am happy to remind the commission of that, if appropriate. I hope that that gives members a general context for the budget.

Against that background, our priorities for 2006-07 include the completion of the roll-out of a new audit approach throughout all sectors, which gives a much greater priority to a strategic assessment of the major risks and performance weaknesses. That means that we are producing audits that are much more valuable to the management of the audited bodies and it allows us to improve the quality and coverage of the overview reporting that primarily comes before the Audit Committee of the Parliament.

Another priority for the next year is completion of the first round of best-value audits of local authorities—fulfilling that statutory duty—and developing best-value work in other sectors. We are now well through the first round of best-value audits in local government. I know that the Accounts Commission is satisfied with the progress that is being made. Local government appreciates that we are devising a unique system in Scotland that is tailored to the circumstances of individual councils. There have been some challenging reports but also reports complimenting local government for its achievements. Producing such reports requires highly skilled and competent people, because that work goes well beyond just financial audit. We are enjoying some success in that area.

A major issue for us in 2006-07 is the implementation of new audit appointments for the following five years. A major piece of work on that is being undertaken at the moment. We are in the throes of a European procurement round for the appointment of auditors for 2006-07 onwards.

Thank you for the opportunity to make comments, which I hope you found helpful. My colleagues and I are pleased to answer questions.

The Convener: Thank you. Members of the commission have questions, but I will kick off. You
It is fair to say that all managers in the public sector recognise that the principles of best value are appropriate, because, in essence, they are to do with sound performance management. Our approach to that, outwith local government, is primarily through the development of what we are calling the modernised audit. For other major sectors—I single out the NHS as a prime example—we are developing a strategic document: our priorities and risk framework. That is our assessment, with input from the health service, of the major priorities for the health service, the major areas of challenge and the major risks. We expect all the appointed auditors, whether from Audit Scotland’s staff or from the firms, to use that strategic framework in planning the audit. I expect the final audit report to identify how well an audited body is doing against that framework, which is primarily about performance.

I would also expect an action plan to be produced by management with the support of auditors to address areas of weakness. Management must own the process, but we can support it. In essence, I am attempting to use the powers and responsibilities of audit to address some of the underlying issues of best value without the need for further statutory duties to be imposed.

**The Convener:** Will the best-value audits of organisations other than local authorities be in the same form as those for local government?

**Mr Black:** Russell Frith is in charge of our procurement strategy and the oversight of audit quality. Perhaps he will be able to answer that question.

**Russell Frith (Audit Scotland):** I will start by explaining where we are with the risk-based approach. In the 2003-04 audits, the approach was piloted into NHS boards. As a result of the pilot, we have rolled out the approach across all NHS audits for 2004-05—the audits that have just been completed—and piloted it into local government audits. For the 2005-06 audits, which will commence in the next month or so, we will roll out the risk-based approach to local and central Government. We are still only a short way through full roll-out.

In the first year of applying the approach across a sector, we do not expect to make any savings because we are making the full assessment of the control framework, the control environment and the quality of each of the audited bodies so that we have a firm foundation from which to judge how much work we will need to do in subsequent years.

As with almost any new audit approach, we certainly do not make any savings in the first year—we look to do that in subsequent years. We are still in the planning stage of that second year, so I cannot give the commission a figure at the moment. However, it will start to come out as the plans for the second year in the NHS are fully developed over the next two to three months.

**Mr Black:** I offer a supplement to what Russell Frith said. I always think about what the incentives are in a system, rather than issuing a top-down diktat about audit fees and so on. In our regime, we try to balance the public interest with including an incentive to perform in the system. We have an arrangement by which we will provide an indicative audit fee for a health body through Russell Frith’s team and its analysis. There is 10 per cent flexibility to negotiate up or down in that regard.
That means that, within a restricted margin, the audit body can influence directly the audit fee. If the body is well managed and there is a sound control environment, it is perfectly possible that the audit fee will come down from that indicative level. If the body wants more work to be undertaken, which is quite possible if it has a system that needs some attention, it might ask for that.

Russell Frith might like to say something about any general pattern of people who are looking for savings or whether they are making use of the auditor and asking for extra work.

**Russell Frith:** The pattern is varied. The audited bodies are still getting used to the idea that they have any influence over their audit fee. They have tended to think of the audit fee as a fixed cost. The more progressive bodies are beginning to recognise that they are relatively well run, that they are getting few comments back from the previous year and that they should start pressing the auditor to bring down the fee.

There are few examples of that as yet, but a trend is beginning to develop whereby the bodies that have better control systems are beginning to push for lower fees from their auditors. I expect to see more evidence of that in the fees that are agreed during the next planning round.

**Mr Andrew Welsh (Angus) (SNP):** To what extent is that work pioneering and to what extent is it established practice elsewhere?

**Mr Black:** It is fair to say that, for the equivalent of a national audit agency, we are involved in pioneering work. It is a unique Scottish model. In previous years, the Audit Commission attempted to use market testing; it had some success but also met real problems. In my opinion, it is essential that we strike a balance between ensuring that we have sufficient coverage of the core audit work that is done every year and providing an incentive at the margin. I do not know of anyone else who is running a similar regime over such a large proportion of their budget. As the commission well knows, about 75 per cent of our budget is recovered through charges, with the balance being made up by the net requisition from the Parliament.

**Mr Welsh:** Can you give us an idea of the relative costs of Audit Scotland and those outside organisations? Is Audit Scotland cheaper or dearer than the approved auditors?

**Russell Frith:** We have attempted to do quite a bit of benchmarking in different ways to assess the costs. Our current view is that the rates that we use to generate the indicative fees for the audits are lower than those that are used by the firms when they bid competitively for public sector work in Scotland and lower than those that are used by the other national audit agencies south of the border. On whether the firms are cheaper or dearer than our in-house teams, there is not a lot in it if we exclude VAT. If VAT is included, the firms are a little bit more expensive because we are unable to recover the input VAT.

**Russell Frith:** The advert was placed in the *Official Journal of the European Union* on 30 September. Potential tenderers have until 30 November to return their tenders. Following that, we will carry out an initial paper evaluation of the tenders received. A panel session, which will include the Auditor General, will then interview a shortlist of firms. Following that, in February, we will make recommendations to the Auditor General and to the Accounts Commission for the appointments, which will commence with the 2006-07 audits.

**Mr Welsh:** Audit Scotland’s corporate plan for 2005 to 2008 suggested that approved auditors would deliver 36 per cent of audit work. In other words, Audit Scotland would carry out 64 per cent of audits and approved auditors would carry out 36 per cent. Will the respective shares of work between Audit Scotland and approved auditors change?

**Russell Frith:** The overall share of work is unlikely to change by more than a percentage point or two, but the shares of work within individual sectors and the way in which we cluster together the work are likely to change quite significantly to drive improvements in the system. For example, this time round, the appointments for neighbouring councils that might be expected to share services will, we expect, be awarded to the same auditor so that we do not get duplication of audit when councils start to share services. We have not tried that in the past. Similarly, for at least some health boards, we will try to match up the auditor appointments with those of the geographically coterminous councils so that we can try to get some of the benefits from the joint working and community planning that is now expected of those bodies.

**Mr Welsh:** On page 4 of your budget proposal you say that one of your development priorities is to review how you assess the impact of your work. Will you give us an indication of how you are developing plans in that area? For example, are you seeking client feedback on the impact that your work has had? From some of the answers that you have given us, it is obvious that...
a great deal of change is taking place. I would have thought that it would make sense to monitor client feedback on some of the changes over a period. Do you have any plans to do that?

Mr Black: Yes, we do. As you will see from our annual report, it is possible for us to quantify the impact of some of the studies that we undertake. For example, the evidence that we have gathered in the three reports that we have completed on what can be done in hospitals that are well managed has resulted in an increase in the numbers of patients who are treated in hospital as day cases. We have considered matters such as the management of housing voids, better management of rental income and council tax collection. Whenever we formulate a study, we now ask what the study is for and what its impact will be and ensure that we attempt to follow that up in the study. Greater reference is being made to that in the annual reports.

In relation to the audit of audited bodies, on which a large part of the money goes, Russell Frith can say something about how we are developing the quality review procedures. I will mention two aspects, the first of which is challenging while the second is more straightforward. Part of the challenge of audit is that if auditors pick up system failures and weaknesses before they impact, there is no show. The work that auditors do is a bit like a lot of the work that planners do through development control, to ensure that the bad buildings are not built. There is a sense in which audit has a role to play in helping audited bodies to avoid disasters and failures. That is difficult to pick up but, to some extent, it can be reflected in what the audited bodies think of the audits.

As part of the quality review, we undertake surveys of what audited bodies think of their audits. We are at a fairly early stage with that but, for me, it will become a more important feature of our work. Just as I expect audited bodies to respond to the suggestions that we make in our audits, I expect them to let me know—through Russell Frith—how well the auditors are performing and whether they feel that they are getting value for money from the audits. Diane McGiffen might have something to add.

Ms Diane McGiffen (Audit Scotland): We are actively working on that project. We have had a few internal workshops on it and we are discussing how our parallel organisations in England and Wales are developing their frameworks for measuring the impact of audit. They face the same difficulties that the Auditor General has outlined in quantifying the impact of financial audit work and the provision of early warnings to management, for example. That work is on-going, but I hope that we will be able to report on it the next time that we meet.

Margaret Smith: The budget proposal for 2005-06 included a proposal for a 5 per cent reduction in the fees that would be charged to many mainland NHS bodies; a further 5 per cent reduction is proposed in the budget proposal for 2006-07. Is the proposed 5 per cent reduction for 2006-07 in addition to the reduction that was outlined in the previous year’s budget proposal? In other words, will there be a 10 per cent reduction in the fees that are charged? Will you give us a bit more information about how the efficiencies have been achieved? The explanation that is given is that the reduction relates to the abolition of NHS trusts. Is that the whole story or simply the principal part of it? I think that Bob Black said that the efficiencies are being passed back to the bodies concerned through lower charges, but that the budgeted income from NHS clients had gone up.

18:30

Mr Black: The short answer to your question on whether there was a further 5 per cent on top of the 5 per cent from the previous year is yes. There were two reductions of 5 per cent. We have been working hard to be more efficient in undertaking the audit. I would want you to recognise the amount of effort that Audit Scotland has put in to that end.

However, I would not want to mislead you about one particular marginal issue. A small element of the reduction in the money that is allocated for payment to auditors is actually a transfer into the performance audit group in headquarters. As we carry out more and more of what I regard as quite challenging performance audit activity, we find that it is more efficient and effective to work with a dedicated team that operates across the whole of the health service. We have found that the alternative—using local auditors in different parts of Scotland—is very inefficient. There has therefore been a marginal transfer of resources from the fees that are charged out—if you like—to the net resource requirement. That is because, marginally, more of the work is being done by the team that is primarily headed up by Barbara Hurst in the NHS.

I will ask Russell Frith to answer the other parts of the question.

Russell Frith: The broad answer to your question is yes: it was 5 per cent across all the health boards in one year, and there is an additional 5 per cent across most boards, by number but not, I am afraid, by value. The timing of the second 5 per cent reduction is linked to the extent to which the new health boards are operating in a unified way. The largest health boards are the slowest in fully changing over their
systems. For example, in Greater Glasgow NHS Board, the second 5 per cent will not come off until the 2006-07 audit, because the board does not plan to operate on a unified basis—financially speaking—until 1 April 2006.

**Margaret Smith:** The paperwork says that efficiencies arose from the abolition of NHS trusts, but are there other efficiencies over and above those?

Robert Black spoke about a marginal transfer of resources from NHS bodies to pay for the new dedicated team. I would like to know a little bit more about that dedicated team and about the costs. I do not have a problem with the concept, which seems reasonable.

**Mr Black:** It is not possible for me to break down that 5 per cent reduction into its different components. We have laid down a financial target for the auditors to work within. It has simply been the professional judgment of Russell Frith and I, after dialogue with the people who are doing the work, that a 5 per cent reduction target is not unreasonable. As you say, that comes on top of a 5 per cent reduction the previous year. We are pushing this as hard as we can. We cannot really break it down to an element that is the result of the rationalisation of trusts and an element that is the result of more efficient working. We have simply said, “That’s the target. Make it work.”

You will recall my earlier comment about the figure being indicative. An auditor in a particular health board who feels that there is a significant control weakness can negotiate an extra fee and Russell Frith’s team will monitor that in the public interest. There is therefore flexibility within the overall 5 per cent target.

The transfer of resources is marginal. As you will see on page 8 of the budget proposal, the approved auditors in 2006-07 are due to receive, if the budget is approved, £5,502 million. In 2005-06, the figure was £5,744 million. The 4 per cent reduction is a result of a change in the way that we do the national performance audit studies. It does not necessarily mean that there has been an increase in the number of staff in Audit Scotland who do that particular work, apart from a body or two here or there. In the main, it represents a transfer of resources to the performance audit group to enable it to commission consultancy work more effectively. Rather than the auditors getting that 4 per cent of resources almost as of right, it is put in a central pool and used to fund specific pieces of work.

I will give you an example. We are starting an ambitious project that will look at an information and communications technology strategy in the health service. Asking each of the Audit Scotland teams and the firms to do that would have been highly inefficient, so we used some of the resources that we have for consultancy to put a contract out to tender. We have awarded the contract to a firm that we think is particularly strong in ICT and which will be able to draw on its experience and knowledge from throughout the United Kingdom and abroad to advise us on that. That is a much more efficient way of undertaking performance audits than the old system was.

**Mr Brian Monteith (Mid Scotland and Fife) (Con):** Let us turn to page 8 of your budget proposal for 2006-07. I would like to ask some questions about expenditure and income. Under “Performance audit and other consultancy”, the budgeted figure for 2006-07 is £1,159,000, rising from £684,000 in the previous year. I understand that the outturn for 2004-05 was £496,000. That shows an increase from 2004 of 38 per cent and an increase in the budget of some 70 per cent. There is a clear trend of figures rising considerably. Why has there been such a rise?

**Mr Black:** My previous answer might help in that regard. If you compare the line above, “Approved auditors”, with the line for “Performance audit and other consultancy”, you will see that there is a downward trend in the budget for approved auditors and an upward trend in the budget for performance audit and other consultancy. The major factor in that is what I have just mentioned. We are moving resources from the pot of money over which an appointed auditor has pretty much total control to the centre, so that I have the resource base, through the performance audit group in Audit Scotland, to do things such as commission major ICT strategies. We are doing the work differently. Rather than coming back to the Parliament and asking for more resources, we are trying to use the budget in a more efficient and effective way.

There are other minor factors, which are really to do with working in a smarter way. However, in the overall total, there will inevitably be movements within the year in such lines.

**Mr Monteith:** Certainly, when the two figures are added together, the increase is smaller.

Let us turn to “Sundry income”, at the foot of page 8. The figure changes from £775,000 in 2005-06 to £253,000 in 2006-07. Can you give us some details for that and explain what sundry income is?

**Russell Frith:** Sundry income represents a small amount of interest that is earned from our commercial bank account, but the majority of that amount is for seconded staff. We have three or four middle management and senior staff out on secondment to the Scottish Executive and to local authorities. That is the income that we get back for that.
The Convener: My final question is on the direct and indirect costs that are set out on page 9 of the budget proposal. I note that the split between direct and indirect costs is a straight 50:50 split. Last year, the commission asked for clarification on how those costs are apportioned and what constituted indirect costs. I recall that we received a letter from you on the subject, from which I assumed that the costs would be set out more clearly in any future budget proposal. Why are the costs registered in such a way?

Mr Black: My understanding is that the breakdown of direct and indirect costs—which is always speculative; one could quite readily put the numbers into either box—was done with the full knowledge and agreement of the auditors. I understand that the auditors are content with what we are doing. The commission should take assurance from the fact that the auditor was comfortable with how the apportionment was undertaken. Diane McGiffen may be able to add to that.

Ms McGiffen: Russell Frith may prefer to say something.

Russell Frith: The basis was agreed originally with the commission’s previous audit adviser. As the Auditor General said, there is a degree of judgment as to the box into which different costs should go. The apportionments are fairly broad; it is perhaps more beneficial to look at trends instead of the fine definition.

If the convener is at all uncomfortable with what is in the document, we would be happy to sit down with the commission’s current audit adviser and agree a set of definitions for what cost should be in which box and produce comparative figures on the new basis.

The Convener: Forgive me. You can have offline discussions with our adviser if you wish, Mr Frith, but the commission quite clearly said last year that it wanted further information. The letter that we received gave us the expectation that we would get that information in subsequent years. There is insufficient clarity for me, as an individual sitting on this commission, to be satisfied that the split is appropriate. It may well be that the split comes out correctly, but I want to see that demonstrated.

Mr Black: If the convener is concerned about the matter, the first stage of any such process would be to undertake an exercise in which the commission’s audit adviser should be involved. Clearly, the allocation of costs is a matter of professional judgment, but such an exercise would allow the advice to be made available to the commission.

The Convener: Yes, but you have to understand, Bob, that as members of the Parliament we have to be satisfied of that. Irrespective of professional judgments, we also need to be satisfied that the moneys are being split in an appropriate way.

Mr Black: Certainly, if it would be helpful for us to do so, we could provide the commission with a letter to explain the process.

The Convener: I want to be satisfied that the overall personnel aspects are included in each of the indirect costs. From the information that I have been given, I cannot say that—the information is not clear. In the case of any central costs, I want to be able to see whether they include Audit Scotland’s internal wages, other personnel costs, occupational health costs and so on. The way in which the costs are expressed may be sufficient for Audit Scotland’s auditor, but I am an MSP who is not a qualified auditor and I want more information. If possible, could we get clarification of that in writing prior to the commission making our report know to the Finance Committee?

Mr Black: Yes, we will submit a letter on that.

The Convener: Okay. As no member has a further question on this section, we turn to Audit Scotland’s accounts.

18:45

Mr Welsh: I want to look at last year’s accounts. In 2004-05, the average number of staff employed by Audit Scotland was 274, against an average of 242 in the previous year. That represents an increase of approximately 13 per cent. What are the main reasons for such an increase?

Mr Black: The head count has gone up, and we can trace that increase from 2002-03. A significant element has been the increase of 18 staff required to do the best value work. Another significant issue has been the replacement of agency staff with permanent staff. We have had a problem for some time now in appointing permanent staff. We find that they are much more efficient and that we get much better value out of them than agency staff. However, it has taken a while for us to recruit to an appropriate establishment.

Most of the increase is down to replacing agency staff with full-time staff on the Audit Scotland payroll. Another part of the increase is the new staff required under statute for best value. That has been provided for in previous budgets and is reflected in the corporate plan.

Mr Welsh: Something else intrigued me: last year, there was a staff increase of approximately 13 per cent, yet for the coming year the proposed office expenses are £17,000 down. How did you manage that?

Mr Black: Ah, you have me there.
Margaret Smith: Tell everyone how it is done.

Mr Welsh: What is your head count at present?

Mr Black: Two hundred and seventy-nine.

Mr Welsh: Thank you.

The Convener: Note 2 of the annual accounts of Audit Scotland show staff costs of £12,820,000. The budget submission for 2005-06 shows a budget for staff costs in 2004-05 of £11,717,000, which is an additional cost of £977,000 for retirement benefit scheme costs.

What were the payments and who were the recipients?

Mr Black: I am not sure that we have that information available, but I will ask Russell Frith to help you as much as we can.

Russell Frith: In principle, I can answer the question. The adjustment for retirement benefit scheme costs is the full permanent cost of the early retirement of several members of staff during that year as part of the restructuring of Audit Scotland’s business.

As all those who were given early retirement were members of the local government pension scheme, we have to account for the full cost of the pension being paid early and, in a couple of cases, any added years valued for life. That accounts for most of that cost. A small amount of it is the actuarial adjustment on introducing financial reporting standard 17.

The Convener: Not that I want to know the names of the individuals, but could you give us numbers so that we have a better understanding? If you do not have them with you tonight, a note would do fine.

Russell Frith: Very well, we will give you a note.

The Convener: Thank you.

Mr Monteith: Could you turn to page 8, which shows the balance sheet as of 31 March 2005? I would like to ask about net current liabilities. Excluding fixed assets and liabilities arising from pensions, at year end Audit Scotland had net working capital liabilities of £1.15 million. How did that arise, and should it be cause for concern?

Russell Frith: The answer to the last part of your question is no. I suggest that it represents extremely good balance sheet management, because we are able to run with negative working capital. The matter is entirely down to the timing of cash flows. Unlike some other businesses, we have access to the following year’s cash immediately after the year end. At that point, we will also be invoicing, which means that we will have a healthy cash flow early in the new financial year. It is a managed position; indeed, I would argue that it is a very well managed position.

Mr Monteith: I agree that it is a managed position; however, it is significantly different from last year’s—also no doubt well managed—position. In reaching the position of having £1.15 million in liabilities, did Audit Scotland experience any cash flow difficulties during the year?

Russell Frith: No.

The Convener: As members have no further questions, I thank the representatives from Audit Scotland for their responses. The secretary to the commission will be touch about the issues on which we require further detail.
18:51

**The Convener:** We move to the third item on the agenda, which is an update by our audit adviser, Andy Munro, on the appointment of auditors of Audit Scotland.

**Andy Munro (Audit Adviser):** The only comment that I have to add to my briefing paper is that the process is well in hand and progress has been made. Several firms have expressed an interest, and last week Audit Scotland kindly helped us with some pre-bid points of clarification. Tenders will be opened on 3 November, so we are well within our timetable; shortly thereafter, they will be evaluated and an appointment made.

Obviously, I am not at liberty to disclose the names of the firms that have expressed interest. However, I can say that some of them will be well known to everyone at the table and that the firms involved will be more than capable.

**The Convener:** As members have no questions, I thank Andy Munro for that update.

18:52

**The Convener:** The fourth item on the agenda is consideration of a paper on the recent joint visit of the Audit Committee and the SCPA to Denmark. Commission members who are also on the Audit Committee will see a similar paper at the committee meeting on 1 November. As I participated in the visit as convener of the SCPA, I felt it appropriate to update the commission, despite the fact that most members of the commission were in the delegation.

Do members have any comments on the written paper? I take it by your silence that you have none.

With that, I move the meeting into private session.

18:53

*Meeting suspended until 18:55 and thereafter continued in private until 19:12.*
The Convener (Margaret Jamieson): I apologise for the late start. We were scheduled to commence at 6 pm, but our witnesses were delayed by the traffic in Edinburgh. In addition, the parliamentary authorities had forgotten that the Scottish Commission for Public Audit had taken a decision to conduct all its business in public. Having given that apology, I declare the meeting open and ask that all members, witnesses and members of the public switch off their mobile phones and pagers.

I welcome George Lyon to his first meeting of the Scottish Commission for Public Audit. I am sure that he will find that our work informs the work that he does as a member of the Audit Committee. Tonight's meeting is the first meeting in 2005 of the commission.

As this is the first time that a meeting of the SCPA has been held in public, it is only right and proper that we identify the areas that are within its remit. The SCPA was established under section 12 of the Public Finance and Accountability (Scotland) Act 2000. The commission's main areas of responsibility are to examine Audit Scotland’s proposals for the use of resources and expenditure and to report on them to the Parliament; to appoint a qualified person to audit the accounts of Audit Scotland; and to lay before the Parliament and publish a copy of Audit Scotland’s accounts and the auditor’s report on them.

Item in Private

18:12

The Convener: Item 1 on the agenda is to ask the commission whether it agrees to take in private agenda item 5. Is that agreed?

Members indicated agreement.
The other key member at the most senior level is Hugh Hall, the managing director of audit services. MSPs do not see him terribly often, but he plays a critical part in the organisation because he heads up all the financial audit staff and oversees the audit of all the public bodies for which Audit Scotland has an annual responsibility. Hugh Hall plays a senior role in interacting with top management in the civil service and public bodies in Scotland on the annual audit of their expenditure.

In one section of the corporate plan, I have attempted to summarise the strategic context within which we are working. I do not intend to go through it in detail, but there is no doubt that the key factors in the environment over the next three years will include the need to demonstrate that extra resources that come to Scotland are being well used; the impact of best value; and the new collaborative working that is expected of public bodies in Scotland, whether in community planning in local government or community health bodies in Scotland, whether in community planning in local government or community health partnerships in the health service.

We also find that we have to compete hard—not unsuccessfully, but hard nonetheless—to attract high-quality staff to Audit Scotland. The nature of the work that we do in Audit Scotland is such that we need people of high quality and the market for such people is very competitive.

A final important element—the Audit Committee attaches importance to it—is the need to take into account the perspectives of the users of public services. In the reports that we prepare for the Parliament and the Accounts Commission, we increasingly attempt to include that perspective, as will become evident throughout the next year or so.

A section of the plan concerns our forward work programme. We have structured it according to the three goals of supporting effective democratic scrutiny, maximising the value of the audit and building an effective organisation.

First and foremost, under the goal of supporting effective democratic scrutiny, it is right that we highlight what we intend to do with the major new initiative of best value, which is a statutory duty on local government and a statutory duty that has been placed on Audit Scotland to support the Accounts Commission. You will see from the plan that we intend to deliver best-value reports on 11 local authorities during 2005-06, which is the first year of the corporate plan. There will also be a best-value report of a police authority, which is a significant development. Her Majesty’s chief inspector of constabulary also has a best-value duty, so it is important that we work closely with him on that.

Meanwhile, on Hugh Hall’s side—the audit of public bodies—we are pioneering a new, modernised audit approach. The aim of that, on which we are already able to demonstrate some success, is to produce an audit that addresses the major risks and performance issues in public bodies—issues of which it is important that the Parliament be informed and that are important for the management of public bodies. We are having some success in rolling out a new, modernised audit across the public sector.

On page 8 of the plan, members will see the study programme for 2005-06, in which there are almost 20 reports. Annex 4 contains a list of the studies that are planned beyond the spring of 2006. That plan has been carefully put together after extensive consultation, including a useful dialogue with the Audit Committee, and I am confident that it provides wide coverage of some of the major issues on the performance and financial management of public bodies in Scotland.

Other elements of our continuing work are probably worth a quick mention. One of those is the procurement of audits. About 64 per cent of the work is done by the directly employed staff of Audit Scotland and about 36 per cent is undertaken by private accountancy firms for us. The Accounts Commission and I believe that that mixed economy of provision is good and works extremely well. The previous round of appointments, which was for five years, is due to expire next spring. Therefore, we are working on a new procurement regime, which is providing us with an opportunity to freshen our thinking and to ensure that the new modern audit approach is fully applied in all public bodies in Scotland.

From page 9 of the corporate plan onwards, there is a section on the initiatives that we are taking to make the organisation more efficient and effective. Those initiatives are centred on ambitious but nevertheless essential management and professional development schemes in Audit Scotland. As I said, recruiting staff in the external market is challenging for us, so we are committed to providing high-quality professional, leadership and management training in Audit Scotland. That is proving its worth.

Members will see a summary of financial resource needs for 2005-06, which relates back to my letter of 23 March. We also give an indication of our resource needs for the two subsequent years. I have taken the liberty of including at the end of the corporate plan a couple of exhibits about how our expenditure has moved in the past two or three years. It is often more helpful to consider such information rather than information on single-year expenditure, as it enables members to see the cumulative percentage increases.
A significant element of the percentage increases relates to two factors. One is the impact of the change of VAT status, which, as the commission well knows, has pushed up our cost base; the other is the impact of taking on the responsibilities and duties in relation to best value, which has required extra staff to be recruited. In a normal year, the best-value resource is about £1.2 million of that budget. For comparison, I have shown how the total managed expenditure of the Scottish Executive has moved. I do not wish to make an oversimplistic point, but there is no doubt that the growing size and complexity of the public sector in Scotland has brought extra audit demands. Exhibit 6 may provide members with a brief indication of that.

Caroline Gardner and Diane McGiffen are here to help me answer any questions that members may have.

The Convener: I am sure that members have a number of questions.

Mr Brian Monteith (Mid Scotland and Fife) (Con): In a little box on page 8, the plan refers to Audit Scotland’s priorities and risks framework, which aims to “ensure that audit work is properly focused and takes account of national priorities and risks.”

Will the priorities and risks framework mean a reduction in audit days for low-risk audited bodies?

Mr Black: Yes. I anticipate that well-managed bodies will continue to see a reduction in the audit charges that they receive. The reduction cannot happen instantaneously, but we are committed to delivering it in future years. Last year, as the commission may recall, we delivered a 5 per cent reduction in the costs of the national health service audit, mainly through a combination of the rationalisation of NHS structures, but also as a result of the start of our commitment to ensure that the resources that we devote to audit are used well and wisely.

The Convener: You said that 36 per cent of audit work is delivered by approved auditors, but exhibit 4 shows that 23.8 per cent of Audit Scotland’s expenditure is on fees to approved auditors. Will you explain why the amount of money that is allocated is disproportionate? To clarify, the approved auditors do one third of the work of performance auditors and so on who are employed by Audit Scotland. The figures of 36 per cent and 64 per cent relate to a different amount, which is simply the money that is paid over for financial audit work—that is not everything that happens in Audit Scotland. The fees that are paid to the firms are 36 per cent of all of the fees that we pay—including the fees, as it were, that we pay to Audit Scotland staff—for the financial audit work, but the work that the firms do accounts for a smaller percentage of all of the work that is undertaken, which includes the work that is done on the performance audit and the work of the central Government team for the Audit Committee and me.

The Convener: It would have been helpful if that information had been provided directly rather than having to be elicited through questioning. You might want to take account of that.

Mr Black: I am sorry if I am not being terribly clear. Exhibit 4 relates to Audit Scotland’s total expenditure budget. Some 23 per cent of all the money that we spend is spent on the firms. In the procurement paragraph, we say that, of the money that is spent on direct auditing by the firms and Audit Scotland, 36 per cent by value goes to the firms. The other figure—23 per cent—relates to our total budget. We would be happy to provide further information in the context of our annual report and accounts.

The Convener: That would be helpful. How do you determine the level of fees that you charge?

Mr Black: We do not go to the market with price competition. When we tender the work, we give an indicative fee that the firms might expect to pay. We set that by analysing the inputs that the firms are required to deliver. Of course, we have a lot of knowledge of that from the work of the Audit Scotland team. Then we consider the rates that it is reasonable to apply for that type of work. For example, we analyse the experience of sister organisations, such as the Audit Commission, and Russell Frith, the director of audit strategy, obtains other market information to enable us to establish a rate for the job.

The indicative fee is not a set fee. It sets a benchmark against which we can budget; the audited bodies can have a conversation with the auditor. The actual amount paid by an audited body can vary up or down from that, which relates to Brian Monteith’s earlier question. A well-managed audited body with sound controls should be able, over a year or two, to negotiate a fee below the indicative level. An audited body will often come to the auditor and say that it requires some extra work from the auditor in order to enable it to address an area of control weakness or performance weakness and it will pay an additional fee for that work. We give an indication based on our market analysis, but the fee at the end of the year depends on the needs and circumstances of the audited body.

Mr Monteith: The respective shares of work delivered by Audit Scotland and approved auditors...
change from spring 2006, following new appointments. What will that mean?

18:30

Mr Black: The respective volumes of work to be delivered by the firms and by Audit Scotland from spring 2006 are not exactly known at this time. Both the Accounts Commission and I have decided that the mix between Audit Scotland’s activity and the firms’ activity will remain broadly the same. A tendering exercise will commence in the autumn, when expressions of interest in the work will be sought. Depending on those expressions of interest, we will put together packages of work. As a consequence, the exact allocations of work might not match any particular percentage. I am sorry that I cannot give the commission an exact answer at this stage, but we are at the start of planning for a tendering exercise.

The Convener: Last tender time, 20 firms could not tender for the appointment of an auditor for Audit Scotland as they were doing or had done work for Audit Scotland. As we prepare to start the new tender exercise, we find that only six or seven firms come under the required category. What is the reason for the decrease in numbers?

Mr Black: Certain firms have withdrawn from public sector audit work, for reasons that I cannot be too specific about. My general understanding is that at least two firms have taken a strategic decision to withdraw from public audit work because that work does not remunerate as well as other work that they undertake. That is a partial reassurance to me that we are not paying over the odds for the work. Two major firms have withdrawn. I am not sure about whether the number of firms has declined to the extent that you suggest, convener, so I ask Caroline Gardner to help on that.

Caroline Gardner (Audit Scotland): It would be interesting to know more about the firms that are now available to the commission but were not available last time round. We have not lost more than two or three firms at the margin. A wide range of firms is still involved in carrying out the third of our work that we outsource. It might be that a different question is being asked in order to come up with a slightly different answer. I am happy to give the commission our list of the firms that are engaged.

Mr Black: We are slightly puzzled about the matter. I am surprised that the decrease was quite as great as you indicate.

The Convener: I thank the Auditor General and his colleagues. We look forward to considering his annual budget proposals later in the year.

18:33

The Convener: We now come to agenda item 3, for which we welcome the witnesses from Mazars: Fiona MacPhee is the audit manager and Peter Jibson is a partner. I invite Peter Jibson to make an opening statement.

Peter Jibson (Mazars): The commission has received our report, which considers Audit Scotland’s training and recruitment strategy, identifies the methods that have been adopted to provide graduate training and provides a value-for-money analysis of the resources that have been invested in the training of graduate entrants, compared with the direct recruitment of trained, professional staff.

In carrying out our examination, we concentrated on graduates who had been recruited by Audit Scotland since its formation in 2000. The first graduate intake was in September 2001, therefore the period is quite short for a study of this kind with respect to outputs and empirical evidence. In addition, following a review of the inherited training programme, which was not achieving its objectives, Audit Scotland took a strategic decision not to recruit graduates in 2002. That is another reason for a lack of empirical evidence. Therefore, we have recommended that another study should be undertaken in three years’ time.

Following its review, Audit Scotland invested time in redesigning its training programme, with beneficial results. It created a document called “Assistant Auditor Training Policy”, which outlines the training that is provided to graduates. Together with the performance development scheme, which sets out the key competences against which staff are appraised, the policy documents the overall training and development programme.

Audit Scotland’s recruitment strategy is to seek a 50:50 balance of graduate recruits to qualified recruits. From 2000 to 2004, the ratio of graduate entrants to qualified recruits was 1:2. The ratio has been affected somewhat by the high intake of qualified recruits to become part of the performance audit team and by the fact that no graduates were recruited in 2002.

The resources that are applied to training graduates comprise financial resources for the direct costs of external training and personnel that internal staff provide through training, particularly by senior managers, and from administration and monitoring by human resources. That has an opportunity cost. If the
opportunity cost is evaluated, it is considerably more expensive to recruit and train graduates than to recruit qualified staff directly. However, it is important to note that the objective in recruiting graduates is not just to provide qualified auditors, but to invest in the future and provide future managers and management for Audit Scotland.

Following the review of the training programme, Audit Scotland has a good training scheme that is well communicated. Its recruitment is more selective than it was and it is achieving a better quality of graduate joiners. As a result of those two aspects, the exam success rate is high. The retention levels are now excellent. In the one year that shows several leavers, the majority left at Audit Scotland’s behest because they were not achieving the required standards.

Our conclusion is that Audit Scotland is achieving the right balance between graduate entrants and qualified recruits and that the measures that it has taken in the period that was covered should provide benefits in the future. That will be tested over time, which is why we recommend another review in three years’ time.

The Convener: Are you satisfied that the scheme is perfectly adequate? You make no recommendations for improvement, which is rather strange. We are usually told about matters for improvement at some point.

Peter Jibson: As I said, the process is at an early stage. If the results covered a longer period of time, one might have considered making recommendations. However, in respect of the changes that have been made to the programme and the exam results to date, the anecdotal evidence that we have received from discussion with Audit Scotland personnel is that the overall performance is good. We think that it is adequate. Hence, we have no recommendations at this stage.

The Convener: Thanks very much.

Cathy Peattie (Falkirk East) (Lab): Can you expand on the changes that have been made in the training programme? You say that you have no recommendations, but there have been changes. What costs are related to the changes that have been made?

Fiona MacPhee (Mazars): The changes that have been made are reflected in the “Assistant Auditor Training Policy” document that has been produced. The document sets out an induction programme, details of study leave and the essential series of audits that audit staff need to know about during their training contract. It also sets out study policies and so on. I believe that that was not the case in the past or, if it was the case, such things were not fully documented.

Cathy Peattie: So graduates are clearer about what is expected of them, and perhaps it is easier for their work to be assessed. Is that right?

Peter Jibson: Graduates are clearer. The information is well communicated. More open discussion takes place with graduates about their performance, which is measured by a formal appraisal system. Interaction between graduates and their superiors is better. Graduates are very much involved in the overall process.

Cathy Peattie: We are interested in the increased costs in relation to the programme.

Fiona MacPhee: The programme was developed by internal staff, so we believe that the cost is not very high.

Cathy Peattie: The report notes the enhanced referral scheme and the improved calibre of graduate recruits. Is that improvement the result of improved graduates or of an improved recruitment process in the organisation?

Fiona MacPhee: It is due to an improved process in the organisation. There is now a process whereby graduates who do not have the necessary qualifications to apply for jobs are screened out.

Peter Jibson: In effect, it is due to both factors that Cathy Peattie mentions. Through that process, the organisation gets a better quality of graduate, and through the enhancement in the training programme, graduates can see more clearly the potential for their personal development on joining Audit Scotland.

Cathy Peattie: What consideration has been given to equalities in recruitment to ensure that a balance of graduates is recruited? I did not see anything in the report about that.

Fiona MacPhee: The graduates who are recruited must have a Chartered Institute of Public Finance and Accountancy qualification or expertise in audit practice.

Cathy Peattie: When I ask about equalities, I mean in respect of issues such as gender, diversity and race. Organisations often complain that their staff are similar. I would like to see that consideration had been given to ensuring diversity in recruitment. That is what I am interested in.

Peter Jibson: Our examination did not cover issues such as race or the other aspects of diversity that you mention.

Cathy Peattie: There is nothing at all on equalities?

Peter Jibson: No.

Cathy Peattie: That is interesting.
Audit Scotland does not prepare a separate budget for graduate training. Would there be any benefit in doing so?

**Peter Jibson:** There would be a benefit in that such a budget would provide information for studies such as ours, but the time that would be involved in splitting out the costs would be such that the approach might not be meaningful for the on-going management of the organisation.

**Cathy Peattie:** Many organisations are keen to identify the costs of recruiting and training their staff, so I am surprised by your answer.

**Mr Black:** The Mazars report contains a useful summary of the direct costs per annum of training, as well as an estimate of the indirect costs. The important point is that, because of Audit Scotland's strong business focus, every day that a graduate spends at work is either a chargeable day or a non-chargeable, training day. That is common practice, as I am sure that Mr Jibson acknowledges. We have a strong sense of the amount of productive work that we get out of our graduates and how many days per year they spend in training. That information is available for management, but as Mr Jibson said, it would be difficult to capture the information as a line in the budget, because the situation fluctuates during the year between offices and particular projects. Nevertheless, we have a strong grip on those costs, because they contribute to the bottom line for the audit services group.

**The Convener:** I assure the witnesses that they will have an opportunity to comment when we have finished asking questions. I see that Diane McGiffen is jumping up and down to come back in on equalities.

**George Lyon (Argyll and Bute) (LD):** My question is for the Auditor General for Scotland rather than Mazars. How did you arrive at the £250 daily charge-out rate for graduate recruits? What are the components of the rate, in relation to matters such as employee and training costs and contribution to overheads?

**Caroline Gardner:** It is in the same band.

**George Lyon:** Is the same thing true of the charge-out rate for qualified people?

**Caroline Gardner:** Across the piece, our charge-out rates tend to be lower than they would be for the firms, because they are composite rates. You will understand that for reasons of commercial confidentiality it is difficult to secure directly comparable information. However, our rates tend to be at the lower end of the range. The composite approach is used to ensure that people are not penalised depending on whether they are audited by an Audit Scotland-employed auditor or an auditor who is employed by one of the private firms.

**The Convener:** I give Mazars an opportunity to elaborate on the matter, as it was mentioned in the report.

**Peter Jibson:** The charge-out rate for the most junior staff is comparable with the rates that we charge. It is difficult to compare rates for more senior staff, but the information that I have suggests that Audit Scotland’s charge-out rates are within a reasonable range in relation to rates in the private sector. Even in the private sector, the rates that individual firms charge vary considerably—

**George Lyon:** As does the quality of work.

**Peter Jibson:** Our rates are very reasonable, of course.

**Mr Monteith:** Exhibit 11 on page 30 of the Mazars report compares the cost of training a graduate to qualified status over 48 months with that of recruiting a qualified auditor directly. Have the costs of recruiting a qualified auditor also been taken over 48 months with regard to, for example, non-chargeable training time and administration? Are we seeing a like-for-like comparison?

**Fiona MacPhee:** No, you are not.

**Mr Monteith:** In that case, will you elaborate on what we are seeing in exhibit 11?

**Fiona MacPhee:** The training time for a qualified auditor is far shorter than that for a graduate trainee, because they have already been trained. As a result, when qualified auditors arrive in the organisation, they have only some induction and on-the-job training. A graduate’s training usually lasts for four years.

**Mr Monteith:** That is what I thought. Even if the figures were taken over 48 months, would the costs of training a qualified auditor—the £2,650 for non-chargeable training time, for example—be unlikely to increase? Does that make sense?

**Fiona MacPhee:** I do not think that they would increase, because a qualified auditor is already...
qualified and therefore needs less training before they begin the job.

Mr Monteith: That is what I thought you were saying. I simply wanted to clarify the point, and I am happy to hear it confirmed.

Does Audit Scotland try to recruit accountants who are experienced but are non-chartered? After all, there is a difference between the two.

Fiona MacPhee: When Audit Scotland recruits a qualified auditor, it looks for a qualification from a chartered organisation such as CIPFA, the Chartered Institute of Management Accountants or the Institute of Chartered Accountants of Scotland. It also looks for experienced auditors.

The Convener: Is the progress of former trainees tracked to find out whether they go into the private sector or remain in the public sector? Does your report contain any of that information?

Peter Jibson: Again, we come back to the period of time that the report covers. Because Audit Scotland had its first intake of trainees in September 2001, there has not been sufficient time to find out what happens to people when they become qualified. We are unable to track them at this stage. However, a subsequent review in three years’ time will allow one to track more meaningfully what has happened to the trainees. Over the period that the report covers—particularly since the review of the training programme—the retention rates of the people who were taken on have been very high.

The Convener: Given that time has been too short for such tracking to be undertaken and that Audit Scotland has not yet introduced such a policy, would it not have been appropriate to recommend that it track employees who have been through the graduate training scheme, have had considerable public investment made in their career and have then chosen to go elsewhere?

Peter Jibson: That would be a reasonable recommendation. Of course, there is no evidence at this stage to suggest that anyone will leave.

The Convener: But there is also no evidence to suggest that they will stay until they retire.

Peter Jibson: I appreciate that. It is fair to say that not all the graduate trainees will stay, so I think that such a recommendation would be reasonable for the future.

The Convener: But not for now?

Peter Jibson: Tracking what happens to the graduates following the revision of the training and appraisal programme is a key point, but by referring to it as a recommendation for the future, I mean that it is something that will need to be monitored in the future.

The Convener: I come at the issue from the point of view that, given the significant public funds that are invested in those individuals’ training, we would not want to lose them to the private sector. At some point, Audit Scotland might need to consider securing that investment through a golden handcuffs clause, such as is being undertaken in certain areas of the public sector. I am not satisfied that Mazars has considered the investment that could be lost to the public sector, given that the report makes no recommendation.

Peter Jibson: How would you become satisfied on that?

The Convener: I would have expected the report to identify the public investment in financial terms and to recommend how that might be kept within Audit Scotland, or at least within the public sector, to ensure that we get best value from the investment.

Peter Jibson: We attempt to quantify the investment in terms of direct costs and opportunity costs. It is fair to say that we have not commented on what measures might be taken in the future to retain staff once they are qualified.

Mr Monteith: Other than recommending a follow-up report in three years’ time, the report makes no recommendations for improvement. In the opinion of Mazars, could any area of Audit Scotland’s graduate training be improved?

Peter Jibson: We could not make any recommendation on the basis of the examination that we carried out. We are satisfied with the training that is undertaken at present.

The Convener: We will give Audit Scotland an opportunity to respond to some of the points that have been raised. I know that Diane McGiffen was absolutely desperate to respond to Cathy Peattie’s question on equal opportunities, so we will let her off the hook. She can start now.

Mr Black: I will offer a couple of general comments before Diane McGiffen responds.

I am grateful for the Mazars report, which assures me that the graduate training scheme is basically sound. I also want to put on record the fact that the Chartered Institute of Public Finance and Accountancy, which is the external accountancy body, has rated Audit Scotland at the highest standard and as a best-practice employer. CIPFA is fully satisfied on all counts that our training scheme is strong.

Although we had some problems in 2001, the commission will recall that that was just a year after the merger, so it took us a while to sort out our furniture. Since 2003, we have taken in 22 graduates, who are proving to be very successful indeed. The 2001 scheme delivered five fully qualified senior auditors on schedule. In
subsequent years, the scheme has clearly demonstrated that we have high-value graduates. The managers and staff are well satisfied, so we have a soundly based scheme that meets our business needs.

19:00

Lest the commission gain the impression that we have neglected to recruit directly, I should say that we recruit directly in the market at different levels. It is fair to say that, if we want to ensure a supply of high-quality people who are committed to Audit Scotland and to public sector work, the best way to do that is to reel in good quality graduates and to put them through the CIPFA training scheme. It is remarkably difficult to attract graduates who are not only directly qualified in the sense that we were asked about earlier, but who are also of high quality. It is an area that we examine quite carefully. Although we do not rely entirely on graduate entry, there is a need to recognise that it is difficult to attract high quality staff from among people who are fully qualified and are pursuing careers elsewhere.

The final point that I want to make is that we use secondments in and out of Audit Scotland. We are not talking about large numbers, but secondment also keeps the organisation fresh and gives our staff new opportunities and experiences. Perhaps Diane McGiffen would like to add—

**The Convener:** I have a question on the CIPFA training. A number of local authorities apply golden handcuffs to CIPFA training—I think individuals must remain with the authority for three years after training so that the authority can demonstrate its best-value practice to Audit Scotland. Why are you not applying that to yourself?

**Ms Diane McGiffen (Audit Scotland):** I am sorry that my desperation showed earlier. If I may, I will add some information now. In effect, we put golden handcuffs on graduate trainees in that, as part of the contract that graduates sign with us, they commit to remaining with us for two years following their graduation. If they leave during that time, we expect them to reimburse all their training costs. If they move to a public sector body, we reduce the repayment to 50 per cent, in recognition of the fact that part of our objective in the training scheme is to ensure a good pool of financially qualified staff in the public sector—not just in Audit Scotland, although we also need such people. That was one of the changes that we made to the scheme in 2002 to make things more explicit.

**The Convener:** Is that information given to Mazars?

**Ms McGiffen:** It is in the “Assistant Auditor Training Policy” document and in the contracts that graduate trainees sign.
had decided not to pursue a career in auditing, so they moved into other careers. We tend to lose people to other public sector organisations, although we also lose some to the private sector. Intermittently, we examine where those who leave go. Audit Scotland has relatively low staff turnover, so it is difficult to draw sound conclusions or to identify trends from that material. As we evolve and mature, the trends will become more apparent.

Mr Monteith: Have any trainees who decided to move to the private sector had the cost of reimbursing you for their training met by their new employers? Do you consider that cost to be enough to prevent employers from poaching staff whom you have trained?

Ms McGiffen: I do not know whether the cost deters other employers, but we have not to date lost any graduates in that way. It would be normal for employees to try to negotiate reimbursement of their training fees as part of their package for signing on with a new employer. That is one of the things about which we need to think. I do not know at what level a deterrent would operate, but the contract is partly intended to ensure commitment to the public sector and to Audit Scotland.

Mr Monteith: I asked the question simply because, if employers were willing to pay those fees as a premium, it would suggest that your training is, as Mazars has reported, up to scratch.

Ms McGiffen: I add that we hope to keep all our trainees.

Mr Black: I will quote one useful statistic—one of many—from the Mazars report. In paragraph 3.2.1, members will see that the direct expenditure on a trainee represents £2,000 per graduate trainee per annum.

Given that the attrition rate—that is, the loss rate—is low, we are talking about very small sums of money; it is only a few thousand pounds. I say that to provide a sense of scale and significance, but I wholly accept that we should monitor the situation and be ever watchful.

The Convener: There are no other questions from members. Are you happy that you have been able to respond sufficiently?

Mr Black: Yes. Thank you very much.

The Convener: Do the witnesses from Mazars wish to say anything further.

Peter Jibson: We have no further comments.

The Convener: I thank all the witnesses for attending.
Finance Committee

26th Meeting 2005 – Tuesday 15 November 2005

Police, Public Order and Criminal Justice (Scotland) Bill: Written Evidence Submission

Background
1. Members will take evidence today from officials from Scottish Executive in relation to the Police, Public Order and Criminal Justice (Scotland) Bill. COSLA agreed after last week’s meeting to provide the Committee with a paper detailing the assumptions that they had made in calculating the costs associated with marches in relation to the Financial Memorandum of the Bill. This response is attached.

Recommendation
2. Members are invited to consider the additional submission from COSLA received to inform their questioning.

Susan Duffy
Clerk to the Committee
Additional Submission from COSLA

This paper sets out COSLA’s best estimate as to the costs that might accrue to councils from the public processions element of this Bill. There are two key elements: costs arising from the staff resources that will be required; and, communication/consultation costs. These are each considered below.

The method adopted has been:

- To apply staff and communication costings to each of the activities involved and then calculate a total for Glasgow City Council, based on the number of orange and republican marches per year (as presented in Sir John Orr’s report).
- These figures are then extrapolated for the other councils dealing with the highest volume of such marches, based on the approximate % of orange/republican marches in their areas, with Glasgow taken as the 100% baseline.

1. **Staffing Costs**

   The table below outlines the key steps that local authorities will probably be expected to consider and the timetable that they will be expected to follow for taking decisions on notifications given 28 days in advance to hold a procession. The final column maps the staffing resource that COSLA estimates would be required against each of these activities. These estimates stipulate the grade/seniority of post we would expect to be required and the proportion of staff time involved. The figures are modelled on the basis of full-time equivalent (FTE), rather than necessarily particular individuals (e.g. a number of staff would be involved in liaison meetings with organisers and police and the height of the marching season), although as indicated to the Committee, additional staff will have to be recruited to support this activity.

   Please note that this table is based on what COSLA fully expects to be in the final statutory guidance, although clearly this remains only an informed prediction at this time.
<table>
<thead>
<tr>
<th>Week one</th>
<th>Task/ activity</th>
<th>Est cost/ staff resource</th>
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<tbody>
<tr>
<td>•</td>
<td>Organiser submits signed notification and any necessary risk assessment to the local authority and the police. Local authority and police acknowledge receipt of notification.</td>
<td>Marginal</td>
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<tr>
<td>•</td>
<td>Local authority makes arrangements with organiser and police and- depending on nature of procession being notified - other groups (e.g. the emergency services and community groups) for a meeting to discuss the notification. For small routine marches arrangements should be handled with key parties by phone or via e-mail.\n</td>
<td>20% of SCP15 = £3,000</td>
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<td>•</td>
<td>Local authority publicises notification according to its agreed procedures, giving 2 weeks for views to be submitted and explaining how those views will be taken into account.</td>
<td>20% of SCP 15 = £3,000</td>
</tr>
<tr>
<td>•</td>
<td>Local authority provides information to its &quot;opt-in list&quot; (e.g. business organisations, churches, community councils) about notification giving 2 weeks for views.</td>
<td>20% of SCP15 = £3,000</td>
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<td>Week two</td>
<td></td>
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<tr>
<td>•</td>
<td>Precursory meeting takes place with organiser, police and local authority to discuss the notification. Meeting should be recorded with an outcome agreed. \n</td>
<td>40% of SCP23 = £7,200</td>
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<td>•</td>
<td>Local authority carries out risk assessment and impact analysis together with a critical consideration of the notification. Police contribute to the risk assessment to help inform their operational policing plan.</td>
<td>40% of SCP39 = £12,000</td>
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<td></td>
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<td>40% of SCP 48 = £16,000</td>
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<td>30% of SCP23 = £5,400</td>
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<td>30% of SCP39 = £9,000</td>
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<tr>
<td>Week three</td>
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<tr>
<td>•</td>
<td>Local authority receives views from the public, from those on the opt-in list and from the police.</td>
<td>20% of SCP15 = £3,000</td>
</tr>
<tr>
<td>•</td>
<td>Outcome of risk assessment and risk analysis.</td>
<td>20% of SCP23 = £3,600</td>
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<td></td>
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<td>20% of SCP39 = £6,000</td>
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<td></td>
<td></td>
<td>20% of SCP48 = £8,000</td>
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</tbody>
</table>
**Week four**

- Information reviewed to ensure that circumstances have not changed.
- Local authority considers all information received on the notification according to its agreed procedures (by officials or by committee).
- Local authority makes an order about the procession (if appropriate imposing conditions, prohibitions).
- Local authority discusses outcome of its consideration of views with organiser and the police.
- Local authority provides organiser with a "permit to process" outlining what was agreed in the notification, any formal order it has made and the agreed code of conduct.
- Local authority publicises procession and any possible disruption through its agreed procedures.
- Procession takes place.

| 20% of SCP23 = £3,600 |
| 10% of SCP48 = £4,000 |
| **Marginal** |
| 20% of SCP39 = £6,000 |
| 20% of SCP 48 = £8,000 |
| 20% of SCP15 = £3,000 |
| 50% of SCP15 = £7,500 |
| No costs |

**After procession**

- Hold a debriefing meeting between the organiser, the police and the local authority and any other appropriate groups to discuss experiences, outcomes and to agree the record. The debriefing process should include a discussion about how the police exercised their enforcement powers.
- A debriefing meeting will not be required for small routine marches unless there are aspects of the march which have been of concern to the police and/or the local authority or the community.

| 40% of SCP23 = £7,200 |
| 40% of SCP39 = £12,000 |
| 40% of SCP 48 = £16,000 |
| No costs |

**Estimated totals for Glasgow City Council**

- **Total FTE** = 1.5 post at SCP15 (£22,500); 1.5 posts at SCP23 (£27,000); 1.5 posts at SCP39 (£45,000); 1.5 posts at SCP48 (£52,000).
- **Total cost = £175,000** per annum (this includes 20% employers costs – referred to as ‘administrative costs’ in the Bill’s Financial Memorandum).

**Total costs to other councils most affected**

- North Lanarkshire = £80,000
- South Lanarkshire = £60,000
- West Lothian = £45,000
- North Ayrshire = £35,000
- Renfrewshire = £20,000
- East Ayrshire = £20,000

**Approximate total for Scotland = £435,000**
2. **Communication/ consultation costs**

The Bill places a duty on councils to ‘make arrangements to ensure that anyone is able to receive information about processions which may be held in their area’. The Bill does not prescribe what those arrangements will be, therefore COSLA’s costs below are based on:

i. what it considers might be reasonable arrangements if that communication function is to be meaningful or effective

ii. what we consider will be options considered in the accompanying statutory guidance that might prescribe the communication activities that councils should undertake

Possible communication activity for a typical major procession might include:

- Advertising costs for a local newspaper: approximately £500 per advert.
- Advert in the Council magazine: approximately £375 per procession (based on Glasgow City Council magazine).
- Signage on lamp-posts: approximately £350 for 100 A3 signs.
- Total per procession equals £1,225 (costs of advertising on the Council website are considered to be marginal).

Therefore, if Glasgow consulted on 300 marches (as per John Orr report), that would come to a total of **£367,500 per year**.

Extrapolated for other the councils most affected by orange/ republican marches, this would mean:

North Lanarkshire = £185,000  
South Lanarkshire = £130,000  
West Lothian = £90,000  
North Ayrshire = £75,000  
Renfrewshire = £40,000  
East Ayrshire = £40,000

**Approximate total for Scotland = £927,500**

There is no recognition of these costs in the Financial Memorandum.

**Note**

Please note that these figures do not take into account the costs accruing from those marches previously exempt from the notification process – and hence not included in the baseline statistics presented in Sir John Orr’s report. It also excludes the costs accruing to councils (e.g. Edinburgh, Fife etc) outwith those dealing with the highest volume of orange/ republican marches. Therefore, if anything we would consider this to be an under-estimate of the total costs to local government.
Introduction

At its meeting on 1 November 2005, the Finance Committee agreed that research should be commissioned to produce an analysis of the economic impact of the Scottish Budget. This paper sets out background to, and requirements of this research in more detail.

Background

The 2003 Partnership Agreement announced that “growing the economy” is the Executive’s top priority. In the 2004 Spending Review (SR04) this was reflected in “substantial increases in planned expenditure across a number of key portfolios,” including Enterprise and Lifelong Learning, Education and Young People, Finance and Public Services and Transport, which will “have a major role in promoting economic development” (Scottish Executive 2004, p2).

SR04 further identified five key drivers of economic growth, which were reflected in the new spending plans. These are:

- Education and skills
- Research and development and innovation
- Entrepreneurial dynamism
- The electronic and physical infrastructure
- Managing public sector resources more effectively

These drivers were identified in the refreshed Framework for Economic Development in Scotland (FEDS) (Scottish Executive 2004b, p3), which also committed the Executive to achieve growth in a way that respects the environment and helps to close the opportunity gap (Scottish Executive 2004b, pvii).

The Finance Committee co-ordinates the Parliament’s responses to the Executive’s spending plans. Prior to the Spending Review, it consults with subject committees and makes recommendations to the Executive over strategic priorities.

After the Spending Review, it scrutinises the detailed proposals in annual budgets for evidence that the Executive is meeting its spending priorities and making progress towards the performance targets. It does this through appraisal of the Draft Budget, the Infrastructure Investment Plan, other relevant financial documents, and targeted cross-cutting expenditure reviews – for example, in 2005 the Committee completed a report on cross-cutting expenditure on economic development.
The Executive has declined to set a strategic target for its top priority of growing the economy in the budget, on the grounds that it would not be plausible to link changes in GDP to specific changes in budget allocations.

The Finance Committee has not been satisfied with this response. Whilst the budget is a document which provides the basis for financial control and accountability, it is also a financial expression of the Executive’s policies, programmes and activities as a whole. The Committee feel it is not unreasonable to expect budget priorities to be set out in a way which permits systematic and robust monitoring of performance. In this case, the Executive’s budget supports growth in employment, investment and output directly in the public sector, and indirectly in the private sector through creating a facilitative business environment, supporting business activity, or purchasing private sector products directly.

In the run-up to the next Spending Review, the Committee wishes to conduct a rigorous reappraisal of priorities and performance in the budget and its impact on economic growth. The Executive’s prime growth priority in FEDS is the aim to deliver:

\[ \text{An accelerated and sustainable rate of economic growth.} \]

This allows us to use the long-term trend rate (1.7% per annum from 1974-2004, compared with 2.1% for the UK) as a benchmark for comparison. The recent economic growth rate (between 1998 and 2004) for Scotland is 1.9%.

It is clear from much public discussion of the topic that there is a lack of evidence about the impact on GDP in Scotland of spending on different programmes. This is where independent research would assist the Committee.

**Research Proposal – Aims and Objectives**

It is proposed that there are 3 phases to this research.

1. The first phase is to examine the direct contribution made by the Scottish Budget to annual economic growth in the post devolution period. This should review the available evidence of a link between total levels of public spending and employment, productivity and output from the Executive’s programmes, whether directly or indirectly. This would include an assessment of the evidence in relation to “crowding out”. The research should also consider the evidence of the “opportunity cost” of public spending, for example in terms of the potential economic impact of reducing business rates. Economic modelling capability may be appropriate in this case.

2. The second task is to review research literature which examines the indirect economic impact of mainstream spending programmes, such as

   - transport,
• education,
• health and
• housing.

The interaction between health spending and economic growth, for example, is set out in the Draft Budget 2006-07, as below:

“The main role of public expenditure on health should be to provide clinical and community care to all those in need of these services…the health service has and does play a key role in maintaining and improving the productive potential of Scotland’s population, and in so doing, contributing to ensure a solid base for the future economic growth of Scotland.”

In a recent interview for the Herald, Dr Harry Burns made the link between economic prospects and health spending.

“We’ve got to invest extra resources in primary (community) care to expand the service and improve access, but it’s not just about that. It’s the whole question of increasing socio-economic prospects in these areas.”

The Committee has received much anecdotal evidence from the Executive and others on the economic growth impact of spending on programmes such as further education, roads, policing etc. There has also been much said about Scotland’s relatively large public sector and potential “crowding out” of the private sector. What the Committee lacks, however, is robust evidence to draw on in reaching conclusions on the economic impact of public spending programmes. The second task of the research project, therefore, is to review the research which addresses the wider economic impact of spending programmes under Executive control, drawing on international as well as British evidence.

3. The third task of the research would be to use the findings to advise the Committee how the current distribution of spending in the Scottish budget could be changed by identifying relevant options to enhance the prospects of improving sustainable economic growth. For this exercise, the SR04 plans should be used as the baseline.

This research project would help develop the evidence base for demonstrating the overall impact of the Scottish budget on economic growth in the post-devolution period, the contribution of specific spending programmes, and the options for enhancing that impact in SR07.

Given the breadth of this topic the focus of the research project as a whole is in drawing together and synthesising existing evidence.
Timing and use of research

The research would include a written report and presentation to the Committee. The research would aim to report in September 2006, to assist the Committee in formulating its input to the Executive’s Spending Review in 2007.

What specific expertise is required to research this area?

In depth knowledge of economic development, measuring GDP, and budgets both in Scotland and in a number of overseas locations. Practical experience and insight into ‘what works’ in stimulating economic growth, and an ability to provide an accessible, impartial and incisive analysis to Committee members.

What are the expected outputs of this project?

A full research report containing research results, analysis of evidence gathered, conclusions and recommendations, and including an executive summary. A presentation to a meeting of the Committee will also be required.

Recommendation

The Committee is invited to consider this proposal. If it is agreed, then a paper will be submitted to the Convener’s Group for the necessary approval and a tender exercise will be carried out to appoint an individual or body to undertake this research.

Sources


