

Scottish Commission for Public Audit

Wednesday 25 May 2005

[THE CONVENER *opened the meeting at 18:09*]

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.*

Provisional Expenditure Plan 2006-07 and Corporate Plan 2005-08

18:12

The Convener: Agenda item 2 is consideration of Audit Scotland's provisional expenditure plan for 2006-07 and its corporate plan for 2005-08. I welcome Robert Black, who is the Auditor General for Scotland, Caroline Gardner, who is deputy auditor general, and Diane McGiffen, who is Audit Scotland's director of corporate services. I invite Mr Black to make an opening statement.

Mr Robert Black (Auditor General for Scotland): In a letter of 23 March, I gave the commission a provisional estimate of Audit Scotland's requirements. At this point, that estimate is a single-line number. The commission will receive a full budget for its consideration later in the year.

It is my great pleasure to take a moment or two to introduce Audit Scotland's corporate plan. In the sense that the plan contains no major new issues, it is simply a roll-on from the corporate plan that the SCPA received last year, but in another sense we are confident and enthusiastic about Audit Scotland's work and have tried to capture that in our plan.

We have structured the plan around three goals that evolve from last year's plan. The first—and, in my view, perhaps the most important—is that of supporting the new democratic system in Scotland through supporting effective democratic scrutiny. We are a significant resource, so the second goal is about maximising the value of audit and the third goal is to ensure that, in Audit Scotland, we are building an efficient and effective organisation.

The second part of the report, which begins on page 3, summarises our role and our structure. As our role is well known to the commission, I do not wish to dwell on it, but members might find it interesting to look at page 4, which shows how we are now structured, following a slight change. To fulfil the goal of getting as much value as possible out of audit, we have undertaken a modest realignment of responsibilities to achieve specialisation in the major areas of the public sector that we cover.

There are two broad groupings of staff. As deputy auditor general, Caroline Gardner is in charge of all stakeholder reporting to the Parliament and the Accounts Commission for Scotland. All the performance audit work is submitted to those two bodies. Caroline Gardner is well known to the Audit Committee from her frequent appearances before it. Exhibit 1 shows the structure under her.

18:15

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 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, but they receive only a quarter of the money.

Mr Black: The figure in exhibit 4 relates to the total costs. The figure of 23.8 per cent includes 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.

Economy, Efficiency and Effectiveness Examination

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 resources 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 it 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.

18:45

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: I will give a broad answer, but we can provide more information for the committee, if that is useful. Our fees are constructed around an average, grade-related rate, which reflects the costs of staff at the various grades, from partner to trainee. We aim to come up with a composite rate that reflects the broad costs across audit services and the firms that we use for a third of audits, as we mentioned. The £250 charge is the lowest rate, which reflects the most junior grade and the intention is—

George Lyon: Is that rate comparable with the private sector charge-out rate?

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.

Cathy Peattie: I return to equalities. There is strong emphasis on working hard to recruit people and on how hard it is to recruit people; lots of organisations and companies tell me that. However, sometimes people recruit others like themselves and do not consider diversity and the need to have an equal opportunities strategy to ensure that they get the best people.

Ms McGiffen: We have been doing quite a bit of work on that and we plan to do more later this year. We have an equal opportunities statement and policy. In our recruitment, we ensure that applications and curricula vitae are anonymised at the long-listing and short-listing stages so that the opportunities for bias to creep in are minimised. When we run assessment centres for applicants, we use approved assessment tools that are free of bias and we train all our interviewers in equality issues. Later this year, we will introduce a diversity excellence model at Audit Scotland. We will work through the process with staff to help us identify further action that we need to take to mainstream diversity and equality. Like other public bodies, we also have a race equality scheme. We are working to introduce our disability equality scheme in the new year.

Cathy Peattie: I would be interested in the work on that that the committee plans to do in the future. Clearly, it is good to have a good statement, but Audit Scotland needs to ensure that it has policies that work. However, having heard what I have just heard, I am much happier than I was before.

The Convener: Does Audit Scotland have other points of clarification to make?

Ms McGiffen: On the improvements that we made to the scheme, we took some time to look at best practice in graduate training. We covered all the processes from the selection process on, including the advertising that people use and the market that we are in for graduates. We examined the nature of the scheme itself, what other bodies are doing and what they recommend in terms of training. We aspired to best practice in CIPFA accreditation because we wanted independent validation that the scheme is robust; we are pleased that we achieved that.

A question was asked about costs. One of the improvements that we have made is to make much clearer the salary progression that graduate trainees can anticipate on successful completion of their exams. We also introduced rewards and incentives for passing exams first time and, as other witnesses have said, we made clear the study leave and support that graduates get.

A very small number of people have left us from the graduate training scheme since Audit Scotland came into being; in fact, some of those who left

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.

Auditor

19:09

The Convener: Agenda item 4 is consideration of a paper from Andy Munro, the audit adviser, on the Mazars contract, which expires on 2 January 2006. Do you wish to make any comments on your paper?

Andy Munro (Audit Adviser): Not really—there is not a great deal to be said. It is fairly clear that we have to appoint a new auditor, because it is the commission’s responsibility to do so. I mention the value of the contract, given that it could cover five years, and the fact that there is also likely to be some three Es—economy, efficiency and effectiveness—work that will be similar to what we have seen today. There will not be three Es work every year but, taking the five years of financial audit and the three Es work together, the overall cost of the contract is likely to be over the European threshold, in which case we will have to go through European procurement processes. That is why we are starting the procurement process early.

I have spoken to Audit Scotland, which has advised me what firms are working for it. The advert that will be used will say that firms that are working for Audit Scotland now and that plan to work for it in the next five years cannot be involved.

There is not a great deal to add to what is in the paper. I assure the commission that the process has started and that we intend to ensure that an auditor is in place.

The Convener: Thank you very much. As members have no comments on the paper, that ends the public part of the meeting.

19:10

Meeting continued in private until 19:1