

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.

Budget Proposals and Annual Accounts

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 McGiffen, 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

outlined briefly the situation in relation to best value in local government and said that you are at the mid-point in that. Given that best value will roll out to other sectors, will you explain where we are with it? Are timetables included in your budget proposals?

Mr Black: 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?

18:15

Mr Black: No, they will be different. The statutory framework for local government requires a best-value audit every three years. Such audits are a report in the round on how a council is doing across all its services, including its corporate governance—its financial stewardship as well as its performance. That is a triennial report. There are certain statutory duties on the Accounts Commission to consider those reports and, if necessary, to hold hearings and produce findings.

The situation is different in the rest of the public sector. I would characterise it as horses for courses. I expect a degree of strategic consistency across all health boards, for example, in how the auditors approach their work. The final audit reports should say something about all the major risks and performance areas in each health board, but that is not necessarily the same as a report in

the round on a consistent basis across all health boards every year.

Accountability is a different matter. Health boards are accountable through the Scottish Executive to the Minister for Health and Community Care. As the commission well knows, the minister has a framework of annual accountability review meetings, which he and the Executive have developed to make them more effective. We are attempting to complement that process.

The Convener: The roll-out of the risk-based audit approach has resulted in less time being spent with audit bodies that are deemed to be low risk. Will Audit Scotland provide us with examples of those low-risk areas?

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 being well managed in 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: A current business priority is to finalise new appointments for the period 2006-07 to 2010-11. What is the current status of the approved auditor appointment process?

Mr Black: Russell Frith, who leads on that issue, will be able to give a fuller answer than I could possibly manage.

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: 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.

Margaret Smith: 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 a no show. The work that auditors do is a bit like a lot of the work that planners should 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 £75,000 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.

Auditors

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.

Visit (Denmark)

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.