MEETING OF THE COMMISSION

Thursday 20 June 2013

Session 4

Thursday 20 June 2013

CONTENTS

SCOTTISH COMMISSION FOR PUBLIC AUDIT
1st Meeting 2013, Session 4

CONVENER

*Colin Beattie (Midlothian North and Musselburgh) (SNP)

DEPUTY CONVENER

*John Pentland (Motherwell and Wishaw) (Lab)

COMMISSION MEMBERS

Iain Gray (East Lothian) (Lab)
*Alex Johnstone (North East Scotland) (Con)
*Angus MacDonald (Falkirk East) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Ronnie Cleland (Audit Scotland)
Russell Frith (Audit Scotland)
Caroline Gardner (Auditor General for Scotland)
Andrew McBean (Alexander Sloan)
Diane McGiffen (Audit Scotland)

SECRETARY TO THE COMMISSION

Fergus Cochrane

LOCATION

Committee Room 5

Scottish Commission for Public Audit

Meeting of the Commission

Thursday 20 June 2013

[The Convener *opened the meeting at 09:49*]

Decision on Taking Business in Private

The Convener (Colin Beattie): Good morning, everybody, and welcome to the first meeting of the Scottish Commission for Public Audit in 2013. I remind everybody to switch off their mobile phones and any other electronic gizmos. I understand that apologies have been received from Iain Gray.

Our first item of business is to agree to take in private agenda items 4 and 5, on the corporate governance of Audit Scotland. Are members content to do so?

Members *indicated agreement.*

Audit Scotland Annual Report and Accounts and Auditor's Report on the Accounts

09:49

The Convener: Our second item of business is to consider Audit Scotland's annual report and accounts for 2012-13 and the auditor's report on the accounts. The SCPA is responsible for securing the audit of Audit Scotland's accounts and has contracted Alexander Sloan chartered accountants to undertake that role. We will hear first from Audit Scotland and then from representatives of Alexander Sloan.

I welcome from Audit Scotland the Auditor General for Scotland, Caroline Gardner, who is also the accountable officer; Ronnie Cleland, the chair of Audit Scotland's board; Russell Frith, assistant Auditor General; and Diane McGiffen, the chief operating officer. I invite the Auditor General or the chair of the board to make an opening statement.

Ronnie Cleland (Audit Scotland): Thank you very much, convener, and good morning.

Our board oversees Audit Scotland's work and strives for a high standard of governance and management. Board membership remains the same as that in the previous year, with the obvious exception of the new Auditor General. I am pleased to report that the board has matured and has strongly focused on the challenges facing the organisation over the past year, which has seen a transition in the organisation's leadership with a new Auditor General appointed in July 2012. The board has also maintained close oversight of significant corporate projects, particularly the new audits of community planning partnerships, which I know have been of interest to the Scottish Parliament.

The board met nine times in the year, which included a strategy meeting, and the audit committee met four times. The board's audit committee appointed our internal auditors and receives our annual accounts and internal audit reports.

We also have a remuneration and human resources committee that sets and reviews salaries for senior staff, excluding the Auditor General, and the main terms and conditions for all staff. I am pleased to say that, during the year, the committee expanded its remit—which is set out on page 25 of the annual report and accounts—to good effect. The committee met five times during the year.

As the board of Scotland's public audit agency, we are of course aware of the challenges facing

Scotland’s public sector at this time. It is clear to me that, in such an environment, the need for independent and effective audit is more important than ever. The board’s focus has therefore been on ensuring that we use our resources to maximise the quality and impact of our work.

I hand over to the Auditor General to give her report.

Caroline Gardner (Auditor General for Scotland): I am pleased to present my first annual report to the Scottish Commission for Public Audit. As the chair of the board noted, the financial climate for Scotland’s public services continues to be very challenging. Against that backdrop, making the best use of public money is more important than ever. I believe that public audit has a central role to play in that. I am very conscious that we also have a responsibility to get as much out of our own resources as possible and to deliver value for money.

During the past year, we completed 214 annual audits and published 26 performance and best-value audit reports. The topics covered range from health inequalities to how major information technology contracts were managed, and from waiting lists in Scotland’s hospitals to new work such as the audits of community planning partnerships. Many aspects of our work received widespread media coverage and resulted in parliamentary debate and discussion. One of the things that I have particularly noticed during my first year as Auditor General is the extensive use of Audit Scotland publications as reference materials for parliamentary debates on important and relevant topics.

Internally, we have continued to deliver on our promise to reduce audit costs by at least 20 per cent over four years. In fact, we reduced audit fees to public bodies by 10 per cent in the last completed audit year, and we will continue to reduce fees in the 2012-13 audit year. We also delivered £2.8 million of efficiency savings—there are further details on that on page 20 of the annual report. Our voluntary release scheme in particular has contributed to reducing our costs and reshaping our workforce, and we entered 2012-13 ahead of schedule in our workforce plan. We are now focusing on strengthening our structure, skills and technology to ensure that we have the capacity that we need to deliver our responsibilities.

Finally, convener, my first nine months in post confirmed what a privilege it is to lead Audit Scotland in supporting the Scottish Parliament and public bodies to meet the challenges that they face. On a personal note, I thank my colleagues at Audit Scotland and my fellow board members for the warm welcome that they have given me over the past year. Thank you.

The Convener: Thank you, and a warm welcome to you, Auditor General, as this is your first time in front of the commission.

I will start with some questions on staffing in relation to the annual accounts. Seven staff were granted early retirement or release in 2012-13 at a cost of £386,000, with two costing between £100,000 and £150,000. How has Audit Scotland applied the key messages in its recent report “Managing early departures from the Scottish public sector” in respect of designing the business case for the early departure scheme that it operates and ensuring that it provides good value for money? What regular checks do you carry out against estimated savings?

Caroline Gardner: We think that our voluntary early release scheme has been a key part of ensuring that we deliver the efficiency savings to which we are committed while maintaining the quality of the work that we are committed to producing. As you would expect, we take seriously the need to comply with the good practice principles that we set out in our report for all public bodies.

Our scheme is good value for money compared with the experience elsewhere. People are entitled to 1.5 weeks of severance pay for every completed year of service that they have. We do not give added years on pension schemes, although there may be a strain cost for people who have access to their pension entitlements earlier. In those terms, the scheme is value for money. Of the £313,000 for 2012-13, only £96,000 relates directly to severance payments for individuals—about £12,000 per head, on average.

Managers produce a business case for every individual application that is considered by the management team. We look at the net savings over a three-year period that are intended to come from the application, if it is approved, and we then monitor the achievement of those savings in practice over the following three years. We are currently monitoring the outturn of the two earlier years of the voluntary severance scheme. Diane McGiffen may want to explain how we manage that.

Diane McGiffen (Audit Scotland): I have nothing much to add other than that there is an annual report to our board on our follow-through in delivering the savings from previous years’ applications under the voluntary early release arrangements, so there is accounting for the delivery of the planned savings. The board considered our report at its last meeting.

The Convener: In “Managing early departures from the Scottish public sector”, you indicate that the longer the payback period, the more difficult it is to identify or firm up the savings. You say that you monitor the payback over a three-year period. How does that compare with the practice in other public sector bodies?

Caroline Gardner: When we carried out the audit work for the report that you mentioned, we found a range of practice in other public bodies and saw payback periods that go to four years and, in some instances, further. Our payback period is right in the centre of the periods that we looked at. It also matters what net savings we see over that period. We have identified £782,000 in net savings over the three-year period, having taken account of the £313,000 up-front cost of the scheme. The period is very much in line with good practice, and we believe that the net savings that we will produce over that period demonstrate value for money.

The Convener: Your full-time equivalent head count has increased from 255 to 260. I do not know how that fits in with the early retirement scheme—whether those people are coming in as cheaper replacements or what. You say that that remains less than the planned head count. What was the planned figure for 2012-13, and which five posts have been added?

Caroline Gardner: I will kick off on that and will ask Diane McGiffen to add some detail. The average number of staff whom we had in post for 2012-13 was 260, which was nine fewer than we had in post in 2011-12. Part of the aim of the voluntary release scheme is to reduce head count and to shift our skill mix so that we have more junior staff who are able to carry out a wider range of tasks and a smaller management overhead. Diane McGiffen will be able to give you the detailed figures for that.

Diane McGiffen: The average number of full-time equivalents whom we employed during the year was 260, which was nine fewer than the average number whom we employed in the previous year, which was 269. The figures of 255 and 260 were the snapshot of the full-time equivalents at the end of March in each year.

The establishment figure planned for 2012-13 was higher again. We had some vacancies over the period that we held or were in the process of filling. We are ahead of our workforce plan, and what you see is a snapshot of where we were at the end of March. The average number of people employed during the year was lower than in the previous year.

10:00

The Convener: You mentioned that the notional increase of five staff would be at a more junior level. I presume that that is not a dumbing down and that, having got rid of more senior staff, the overall skills have not been reduced. We are not looking at trying to do audits on the cheap.

Caroline Gardner: Absolutely not. I am fully committed to ensuring that the quality of our audit work not only meets the auditing and ethical standards that we are required to comply with but goes much further in ensuring that we can demonstrate an impact for Scotland's public services.

We are targeting our management structure and management costs to ensure that we can justify every pound. We are using some of the savings that we generate to invest in grades D and E. Those are the people who deliver audit work, so we are keeping the quality up and ensuring that we can invest in the capacity that we need to deliver our responsibilities.

The Convener: Your sickness absence has increased from 4.77 days per person in 2011-12 to 5.95 days per person in 2012-13. While that is still below the public sector average—which is pretty high—is it something that Audit Scotland should be concerned about?

Caroline Gardner: When we monitored the figures for this year, that question occurred to us, too. The board considered a report on that at its last meeting. When we analyse the figures, it becomes clear that the increase is mainly due to a small number of staff with specific health problems—either serious health problems that have required them to take time off, or a couple of accidents that have occurred outside work. We have a strong human resources function in getting people back to work in those circumstances. Overall, we are not concerned about the pattern, although clearly we want to ensure that those individuals are back at work as soon as possible and in full health.

Angus MacDonald (Falkirk East) (SNP): Page 16 of the report says that Audit Scotland has 27 trainees working towards professional accountancy qualifications with the Chartered Institute of Public Finance and Accountancy and the Institute of Chartered Accountants of Scotland. I was pleased to note in the report that two of the trainees had won prizes. Neil Cartlidge won the CIPFA prize for governance, public policy and ethics, and Gillian McCreadie is the year's top student employed in public audit in Scotland. Congratulations to them. I am curious as to why two training schemes are in place. Are the training routes with ICAS and CIPFA optional for trainees?

Caroline Gardner: Thank you. We, too, were delighted with our trainees' success. They have generally done very well this year.

The fact that we currently have two training schemes in operation is a transitional issue. Audit Scotland used to train with CIPFA. About two years ago, before I was appointed, Audit Scotland carried out a review of the training arrangements and decided at that point to move to ICAS for a range of reasons, including value for money.

We are now in the second year of trainees coming through that scheme, and we monitor it very closely to ensure that it is fulfilling what we need, in terms of both the quality of training and the specialist skills that our staff need to audit public bodies. So far the results are very encouraging, but we will be keeping the scheme under review as it is such a major investment for us, not just in cash terms but in developing the workforce that we need for the future.

Angus MacDonald: There are differences between ICAS and CIPFA. Do the training costs vary between the two institutes? Have the success rates varied?

Caroline Gardner: I understand that value for money was one of the reasons for the decision to make the shift, but that decision was taken before I took up my role. I will ask Russell Frith to provide a bit more information about that.

Russell Frith (Audit Scotland): As Caroline Gardner said, value for money was one of the considerations but it was by no means the only one. The principal consideration was the quality and type of training that was being offered. CIPFA had made changes to the way in which it organised its training, which was one of the factors that we took into account.

As for the track record of success, it is too early to say because the two training schemes operate their exam systems in very different ways.

As far as we can tell, the ICAS trainees are doing as we would have hoped, but as none of them has yet reached the end of the training—and the final exams of ICAS are very different from those of CIPFA—it is too early to give you a definitive answer.

Angus MacDonald: When do you expect to be in a position to use ICAS solely rather than alongside CIPFA?

Russell Frith: In about another 18 months.

John Pentland (Motherwell and Wishaw) (Lab): Before I ask some questions on board governance, I would like to go back to a question that the convener asked about Audit Scotland's sickness absence rate. What is the rate in percentage terms?

Caroline Gardner: I do not know whether we have that figure available.

Diane McGiffen: I can certainly supply it.

John Pentland: That would be helpful.

Do you think that the increase in sickness levels might be anything to do with the fact that you are reducing the size of your workforce?

Caroline Gardner: We do not think that it is. That is one of the questions that we sought to answer when we reviewed our experience over the past 12 months. There was a concern, given the reduction in the head count and our expectation that quality would not reduce, that there might be an impact on the wellbeing of our staff, but the figures demonstrated clearly that the average was pushed up by a small number of people who had serious illnesses or had suffered serious accidents and who were off work for a longer period, rather than by a steady rise in the average sickness per head.

As the convener said, a rate of 5.95 days per year is quite a lot lower than the public sector average, but we are not complacent about it—we monitor wellbeing in general very carefully.

John Pentland: It would be good if Diane McGiffen could get us the percentage figure.

On board governance, we note that the report says, on page 25:

> "The board may appoint persons who are not members of the board to be members of or advisers to the remuneration and human resources committee, and may pay them such remuneration and expenses as the board decided."

Is Audit Scotland considering co-opting someone on to the remuneration committee?

Caroline Gardner: I will answer first, before handing over to Ronnie Cleland.

Standing orders make provision for people to be co-opted on to the remuneration and human resources committee and the audit committee—which are not decision-making bodies—to strengthen the skills and experience that are available in those specialist areas. To date, those provisions have not been used.

Ronnie Cleland: It is an option that we are considering. Perhaps we will speak about this later, but it is one that might arise when there is a change of membership of the board or of the committees. It is certainly an option that we would utilise to retain continuity and the level of skills in the committees, if we decided that that was appropriate.

John Pentland: If that were to happen, what involvement do you envisage the SCPA having in the process?

Ronnie Cleland: My understanding is that the provision in question is a standing order that has been approved by the board of Audit Scotland. I think that it would be an exercise that we would be happy to take on board, with some due process, within the remit of the organisation.

John Pentland: If that were the intention, the SCPA would be kept fully informed.

Ronnie Cleland: Absolutely. It would be kept informed.

John Pentland: What consideration would be given to the cost of such an appointment?

Ronnie Cleland: The cost would be absolutely minimal. If we were to take on a member of the audit committee, attendance at four or possibly five meetings per year would be involved, and some time would be allocated for the preparation of papers. We would absorb that cost within the organisation's operating costs.

John Pentland: You would absorb the cost within the existing budget.

Ronnie Cleland: Yes.

John Pentland: Again, you would take that to the board before you went ahead with it.

Ronnie Cleland: Absolutely.

John Pentland: On page 18, the report says:

"The board has also kept a close oversight of our new audits of Community Planning Partnerships".

How does the board assure itself that it does not cross over into areas that are the statutory responsibility of the Auditor General for Scotland or the Accounts Commission?

Ronnie Cleland: The board is clear on the split between its executive activity and its governance role. To take that example, we were keen to ensure that the objectives of the programme were met and that Audit Scotland was providing the Accounts Commission and the Auditor General with the resources necessary to carry out the work. We had it as a standing item on the agenda for a number of months, just to ensure that the resources were in place and that the progress that the Accounts Commission and the Auditor General wished to make was being maintained. We had no interest in the detail of how it was maintained—that is the executive responsibility of the Accounts Commission and the Auditor General.

John Pentland: The report states:

"The Board has agreed a framework which sets out the principles of partnership working between the Auditor General for Scotland, the Accounts Commission and Audit Scotland".

Can you explain that partnership framework in more detail, given that the Auditor General for Scotland and the Accounts Commission direct Audit Scotland, which the board oversees?

Ronnie Cleland: I ask the Auditor General to pick up on that.

Caroline Gardner: As you know, Audit Scotland is quite an unusual organisation, in that it exists only to provide the services that are required by me, as Auditor General, and by the Accounts Commission. The aim of the framework is to ensure that the various roles of the people who are involved in that are clear. The framework also works through the way in which the Auditor General and the Accounts Commission agree their own objectives and come together to ensure that Audit Scotland can fulfil those requirements in a way that provides value for money, and, as far as possible, gets the advantages of being able to look right across Scotland's public sector while avoiding duplication, overlaps and fragmentation.

The framework has been in place for some time now, and I think that it might be appropriate to review it over the next 12 months, just to ensure that it is working as we intended it to. However, that is simply a straightforward piece of housekeeping to reflect the different responsibilities that I have, as Auditor General, and that the Accounts Commission has, and the way that Audit Scotland supports us in fulfilling responsibilities.

Angus MacDonald: The report states that

"most internal audits in 2012/13 achieved 'substantial assurance', the highest standard available".

Which internal audits did not achieve "substantial assurance" and which level of assurance did they achieve?

Caroline Gardner: Diane McGiffen can deal with that question.

Diane McGiffen: The internal audit on business continuity planning resulted in a "reasonable assurance" rating, as there were various things that we could implement to enhance the business continuity planning that we do. We are in the process of working through those. That was a helpful internal audit, as it identified some improvement actions that we can take. One of the reasons why business continuity planning was in the internal audit plan was to assist us to identify how we might manage our risks better.

Angus MacDonald: That is one example. Are there others?

Diane McGiffen: I think that the other example concerned the implementation of SharePoint, which is an on-going project. Two actions were identified as part of that, and we are implementing those. Again, the rating was "reasonable assurance." None of the internal audits resulted in a "limited assurance" rating, which is the lowest of the three ratings.

Alex Johnstone (North East Scotland) (Con): I note that the report says that fee income for the year was £136,000 greater than budget, "mainly as a result of an increase in agreed fees compared with budget".

Can you explain that variance, given the general decrease in fees being charged?

Caroline Gardner: Russell Frith can deal with the detail but, in broad terms, we set a broad fee for each audited body. That fee can vary up or down by 10 per cent to reflect a body's circumstances and particularly the quality of its financial management and internal controls.

10:15

Russell Frith: As Caroline Gardner said, the budget is set on the basis of the mid-point of the fee ranges for each body. The individual auditors are then allowed to agree the final fee with each audited body, which depends on the issues that are expected to arise in the audit and on the quality of controls and of draft accounts for each organisation.

On average, the auditors agree incomes that are a small percentage above the mid-point across the year, which explains why we have a slight increase over the budget in overall fees. That is made up of 200 small variations—some up and some down.

Alex Johnstone: There was a significant reduction in costs across the board in 2012-13. However, I note that the report indicates that legal and consultancy support costs increased by 37 per cent year on year—from £552,000 to £760,000. What is the reason for that?

Russell Frith: The principal reason relates to the amounts that we pay the Audit Commission to run the national fraud initiative, which occurs every second year. This year, that was just over £200,000.

Alex Johnstone: So that is simply an exceptional cost.

Russell Frith: It occurs every second year.

Alex Johnstone: Fees and expenses paid to appointed audit firms fell by £899,000—from just under £6 million to just over £5 million—as a result of the recent procurement exercise to appoint firms for five years that took into account price. How do you minimise the potential risks associated with that decrease, such as firms using less experienced or less qualified staff?

Caroline Gardner: One of my prime priorities over my first year in the job has been to ensure that we keep the quality of audit up. I am conscious that we spend public money on our services. I genuinely believe that that is an important contribution to confidence in public services and spending and that it is particularly important when budgets are falling and demand is rising.

As we push costs down, there is clearly a risk that the quality of our in-house audit practice and that of the firms with which we contract might start to slip. Therefore, in Audit Scotland, we have focused attention on the quality of what we do. I have refocused Russell Frith's role to ensure that he makes an independent challenge on the quality of all the audit work that is carried out on my behalf and on behalf of the Accounts Commission. We are putting together a framework that ensures that all our quality work pushes in that direction, not only to hit the professional standards that we are required to achieve but to go further than that as part of our ambition to be a world-class audit organisation.

I ask Russell Frith to pick up some of the detail of how we do that in practice.

Russell Frith: We have not reduced our emphasis on quality; we have actually increased it as the pressure on costs has increased. We review some of the plans that the audit firms and our in-house teams produce. We review the outputs. We survey audited bodies to get their views on whether the audit quality is acceptable and to ask them for feedback on things that could be improved and things that worked well.

We are maintaining and increasing our emphasis on quality. So far, we have seen no adverse impact on the quality of audits or firms' compliance with the auditing standards since the costs came down.

Alex Johnstone: Are you confident that there is no danger that the firms that are involved are taking a less intensive approach as a result of the lower costs?

Russell Frith: We are confident that they are maintaining the quality, but we remain vigilant on that.

Alex Johnstone: Indeed. Is there a danger that, in the longer term, the policy might cause more experienced firms not to bid and that we might lose quality as a result?

Russell Frith: There is always a danger of firms changing their business strategies, but our experience of the previous procurement round a couple of years ago, when we introduced price competition explicitly, was that we had stronger competition for our work than we had had for about a decade. Our experience has therefore been the opposite of what you described.

Alex Johnstone: My final question is fairly simple, but I have to be careful about getting my head around it. Does compliance with the Government's financial reporting manual, as required by the accounts direction from the

Scottish ministers, require the balance sheet statement, which is on page 38 of the report, to be called the "statement of financial position"?

Russell Frith: The term "statement of financial position" is now used in the international financial reporting standards. However, in an effort to keep their accounts as understandable as possible, a significant number of organisations stick to terms such as "balance sheet". That is not wrong; it is simply a different term, and in practice it means exactly the same thing.

Angus MacDonald: A charge of £204,000 has been made in this year's accounts to meet any output tax that might be due for previous accounting periods, which is confirmed in note 4, "Other administration costs", on page 49. As you will know, the figure was £352,000 in 2012. The management letter from Alexander Sloan states:

> "We have considered the provision and the contingent liability for VAT as disclosed in the accounts."

Has that been included in provisions in the statement of financial position or balance sheet?

Caroline Gardner: I shall ask Russell Frith to give you a specific answer but, before he does so, I reassure the commission that we take seriously the need to resolve the VAT position. I know that it has been a long-running issue that has been of concern to the commission in the past. We can update you on that as well, if it would be helpful.

Russell Frith: The answer to the question is yes—the £204,000 is included in the statement of financial position.

Angus MacDonald: The figure for operating leases for vehicles was £467,000 last year. How many vehicles does that include and who is entitled to those vehicles? Perhaps you could also expand on the business case for them.

Diane McGiffen: I shall start with entitlement to vehicles, while Russell Frith finds me the numbers. Entitlement to vehicles is for particular grades of staff, primarily in our audit services group—the people who are out delivering audit and who need to be mobile, able to move across Scotland and flexible about getting efficiently to and from various audit locations. In the delivery of our audit, we pay a lot of attention to visibility and presence on client sites, and it is therefore important that we can get staff to and from those locations.

We have looked at the value and cost benefit of car schemes and have made a number of adjustments to membership of such schemes over the years; the level is the lowest ever and membership is restricted to members of the audit services group, who primarily work in key audit grades. A few members of staff have a legacy entitlement to cars, having had them as part of their previous terms and conditions. We have subsequently changed terms and conditions, and those entitlements will expire when those people are promoted into roles that no longer carry that entitlement or leave the organisation.

We manage vehicle use quite tightly. We introduced an extension to the lifespan of the leases, from three to four years, and that happens with the extension of each lease. We also introduced a cap on CO_2 emissions by restricting the range of cars that people can have.

At the moment, we regard a vehicle as a fairly essential part of the equipment for some staff to do the job, but certainly not for all staff. Even given that, we manage and review the arrangement regularly to make sure that it is delivering value for money.

Angus MacDonald: I had a slight feeling of déjà vu there, convener; I am sure that I asked that question last year.

Do you have a figure for how many still have a legacy entitlement?

Diane McGiffen: Off the top of my head, I think that it is probably fewer than 20.

John Pentland: I think that I might have asked this question last year, but I would like an update. How much of your business do you outsource and how much do you keep in-house?

Caroline Gardner: We appoint auditors either from the in-house audit practice, our audit services group, or from one of seven firms—Russell Frith will keep me straight on the numbers—for the annual audit work only. Of that annual audit work, about 65 per cent is done in-house and 35 per cent is done by the firms, although that varies across sectors.

Russell Frith: That is absolutely right. In addition, we bring in consultants, who might or might not be from the same firms, to support some of the performance audit work.

John Pentland: For the work that you outsource to other firms, do you top-slice the charge that you make or do you provide the firm with the full price?

Caroline Gardner: Our approach is not quite top slicing; I ask Russell Frith to explain how we recover our share of corporate costs through that mechanism.

Russell Frith: We operate a uniform charging mechanism for all audited bodies, so they should pay the same amount whether they are audited by an in-house team or by a firm. The firms offered us differing discounts when we went through the procurement process, so we have to even that up across each sector by taking the total costs for that sector and allocating them proportionately across the audits.

John Pentland: So you make a small income from outsourcing your work.

Russell Frith: We make a contribution to our other costs. Our statutory target is to break even.

The Convener: I will go back to one point that I might have misunderstood. Did the Auditor General say that she was going to add something on VAT?

Caroline Gardner: No. I reflected that I know that that is a long-running issue that has been of concern to the commission in the past. If you would like to know more about progress, we are happy to give you information, as well as to answer the question that Mr MacDonald asked.

The Convener: I am certainly aware that VAT is a difficult issue to resolve, but the commission is anxious to see a resolution of it.

Caroline Gardner: Yes.

The Convener: Perhaps we could have some feedback on it.

Caroline Gardner: Certainly. Our most recent meeting with Her Majesty's Revenue and Customs was on 6 June, so the issue is very live and we are pushing hard to finalise it. We would be happy to come back to the commission with a written update once we know the outcome of that meeting.

The Convener: If members have no other questions, I have a couple about the report. Page 13 shows feedback, and some of the figures seem a bit low. Can we have a comment on that?

Caroline Gardner: I will kick off and then ask Russell Frith to come in. We were concerned that the feedback from further education colleges on value for money was a low figure in comparison with the result that we had for the national health service this year and with previous experience in the FE sector. We think that a number of things are going on there, and Russell Frith will talk through those factors, but we take seriously the feedback results and we are following them up centrally and through the auditors who are appointed to colleges.

10:30

Russell Frith: I will clarify what the "Value for money" line means. It is about the impact of an audit on the value for money that a college achieves and not about whether the audit is value for money.

As the FE colleges are all relatively small public bodies with very tight audit fees, we expect the audit to concentrate on financial statements and governance matters. As a result, less resource is available to make an impact on how the colleges achieve value for money than there would be in the local audits of some bigger organisations, such as councils. That is probably the major reason why the response to the question is a lower figure than that for other parts of the public sector.

The Convener: I realise that historical figures are not included in the report, but it might have been interesting for the commission to see them. Might you consider providing them? After all, it is difficult to look at a figure of, say, 60, 70 or 50 in isolation and judge whether things are improving or deteriorating. Such figures do not mean much if we do not know what lies behind them.

Caroline Gardner: We recognise that. This year, we introduced a new transparency and quality report, which is mentioned just below the table on, I think, page 13—I am starting to need reading glasses—and which Russell Frith can tell you more about.

Russell Frith: I completely agree with you, convener. However, these are the first surveys that have been carried out under the new appointment round. We took the opportunity between appointment rounds to change some of the questions and their presentation, so the figures on page 13 cannot be directly compared with previous figures for health and FE. We expect the next surveys in those sectors to be much more comparable and it will then be more relevant to include the comparative information.

The Convener: You will have to bear with me—I am just going through the bits that I have highlighted in the report.

I note that, in the past year, staff costs have increased as a percentage of overall costs from 56 to 59 per cent. Is that not going the wrong way a wee bit?

Caroline Gardner: That reflects our success in reducing other large categories of expenditure—particularly the cost reductions from the previous audit tendering exercise, which Russell Frith has referred to, and the reduction in our property costs as part of the property strategy to reduce the number of buildings that we have across Scotland. Absolute staff costs have come down; you are right to point out that the proportion has increased, but that is because our overall costs have come down more quickly.

The Convener: According to page 27, there have been changes to benefits in kind. Will you clarify what those changes are? Do they relate purely to pensions?

Caroline Gardner: No. The benefits in kind that are mentioned in the table in the remuneration report all relate to members of staff who have leased cars, which we discussed a moment ago. The most significant change relates to the chief operating officer, whose entitlement to a car ended last year when she moved from her previous post to her current post. Two members of the management team have cars on a continuing basis and, as Diane McGiffen made clear in response to the more general question, we keep that under review.

The Convener: At £51,000, the figure for intangible assets is not huge, but what exactly are they?

Caroline Gardner: That figure relates entirely to the licences for the software on our corporate information systems—as Russell Frith has just confirmed to me.

The Convener: I think that I asked the same question last year.

Caroline Gardner: I hope that the answer is the same.

The Convener: You can be sure that I will come back to it again.

I see that travel and subsistence costs have increased from what was a fairly low level.

Caroline Gardner: The figure has increased slightly, but the increase is less than the increase in the retail prices index across the piece. Interestingly, the number of miles travelled by staff has decreased by 10 per cent, so we are talking about a cost rather than a volume variation. We can see the impact of the reduction in miles travelled in the significant reduction in our carbon emissions.

The Convener: The table on page 49 shows quite a substantial increase in staff recruitment costs.

Diane McGiffen: As I think we discussed last year, we ended our recruitment freeze—there had been a hold on recruitment for some time. The figure reflects the associated recruitment activity to support the introduction of new staff and recruitment to the graduate trainee scheme, which we discussed earlier. Even when there is internal recruitment, we organise assessment centres to ensure that we have objective evidence for interview panels to make appointment decisions on.

The Convener: Page 51 shows £269,000 in additions to leasehold premises.

Caroline Gardner: That reflects the shift in our property strategy. I ask Russell Frith to pick up on the background to that.

Russell Frith: The additions to leasehold premises are the fit-out costs of the new Glasgow office, which we finally moved into last month.

The Convener: I hope that you had a big celebration.

Page 52 has a table headed “Trade and other receivables”. Two of the lines are “Work in progress in advance of billing” and “Prepayments”. What are the prepayments?

Russell Frith: Prepayments arise simply when we have paid the cost of something in one year—an annual subscription, for example—but it lasts throughout a period that straddles two financial years.

The Convener: That is a big annual subscription at £542,000.

Russell Frith: I gave just an example. The same point can apply to rent, which we typically pay in February for the following quarter. By the end of March, we had used up only half our rent payment.

The Convener: What about “Work in progress in advance of billing”? I realise that that phrase means what it says on the tin, but I am curious as to what exactly it means.

Russell Frith: We have an agreed cycle with all the audited bodies whereby we typically bill them three times a year, whereas we incur the costs of carrying out the audit—our costs and the firm’s costs—on an on-going basis. That number builds and then drops away again at each point of billing to the audited bodies.

The Convener: There is a rather unusual line on page 53 for “Staff benefits—untaken holidays”, which come to £603,000. I am not sure that I have ever seen such a figure accrued like that before.

Russell Frith: You should have seen it for the past two years, and in the same place. That relates to a change to an international accounting standard, which required organisations to account for any untaken leave as at the end of the financial year. Our leave year runs to the end of December and people can carry forward up to nine days. They can then earn more leave between the end of December and the end of March. Typically, people do not take very much leave between the end of December and the end of March, so we have to accrue the cost of that earned leave, which people typically take during the summer.

The Convener: So you have already charged staff salaries for that leave. You disburse that when staff take leave.

Russell Frith: That is correct.

The Convener: The same page refers to deferred income of £420,000.

Russell Frith: Deferred income is in effect the reverse of the work in progress: it is when we have collected money from audited bodies that exceeds the value of the work that has been done up to that point.

The Convener: You reduced your accrual for VAT, which in effect meant that you achieved your reduction in expenses. However, in note 18 on page 57, on “Contingent liabilities”, you state that a further liability of £160,000, which you have not accrued, could arise. Is that a bit of sleight of hand with the accounting? You achieved the reduction in overall expenses by reducing your accrual for VAT, but note 18 states that a liability of £160,000 could arise.

Russell Frith: We made an additional charge for VAT. In note 12 on page 53, you will see that the 2012 VAT figure was £311,000. We paid the majority of that to HMRC, and we have charged an additional £200,000 in this year’s accounts to reflect what we now consider to be the most likely outcome of the discussions with HMRC.

The Convener: On page 21, you say that part of your savings was a lower accrual for VAT of £148,000.

Russell Frith: That explains the movement from one year to another. Last year, we made a charge of about £300,000; this year, we have made an additional charge of about £200,000.

The Convener: I will have another look at that. I will not take up the commission’s time now, but I would like to be sure in my mind about what is happening.

The table at the top of page 57 shows a sum of £489,000 for “Payable after 1 year”. I am being lazy, but I could not see—although I gave up very quickly—where that appears other than there.

Russell Frith: It is part of the £568,000 in that table.

Caroline Gardner: It is in the balance sheet table on the financial position on page 38, on the line for “Other provisions”.

Russell Frith: Yes—that line shows the figure of £489,000.

The Convener: Okay. There are no other questions from members, so I thank the witnesses.

I suspend the meeting for a few minutes for the changeover of witnesses.

10:42

Meeting suspended.

10:44

On resuming—

The Convener: I welcome to the meeting Andy McBean and Steven Cunningham from Alexander Sloan, the external auditors for Audit Scotland. I ask Andy McBean to confirm that Alexander Sloan received all the necessary information and explanations to inform the opinion on the accounts, and to provide an overview and any observations arising from that work.

Andrew McBean (Alexander Sloan): Thank you. Good morning, convener. I am happy to confirm that we received all the necessary information and explanations to allow us to undertake our audit for the year to March 2013, and I will give an overview of our work.

As you will be aware, Alexander Sloan was appointed to carry out an external audit of Audit Scotland’s accounts. We were required to provide an opinion as to whether the accounts give a true and fair view and whether they have been prepared in accordance with IFRS, as interpreted by the financial reporting manual, and to confirm that they have been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions by Scottish ministers.

We carried out our interim audit in February this year and carried out our final work in May and early June. The work was carried out in accordance with international standards on auditing. As I mentioned, we received all the information and explanations that were required to carry out our work, and the audit was completed without any significant issues or problems. We signed our audit report on 12 June 2013.

10:45

Our audit report is unmodified, which means that the accounts give a true and fair view and that there are no significant matters that require to be brought to the attention of the commission or other readers of the accounts. We are also required to prepare a report to management. The purpose of that letter or report is to summarise the key issues arising from our audit, including following up on the main audit risks identified at the planning stage and to report any weaknesses in the accounting systems and internal controls that came to our attention during the audit. I am pleased to report that, in the course of our audit work this year, we did not find any weaknesses in the accounting and internal controls.

Finally, I want to record my thanks to the staff at Audit Scotland and to the support staff at the SCPA for all their assistance during our audit this year.

The Convener: Thank you. I have just a general question. As you were sitting in the public gallery earlier, you will have heard the questions that the commission asked Audit Scotland witnesses and their answers. Do you have any comments on those questions and answers?

Andrew McBean: I have one point to make. You asked a question on VAT at the end of the session, and there appeared to be a bit of confusion about that. We can confirm that the overall liability in the amount of VAT due increased during the year: a further liability of £204,000 has gone through the accounts in addition to what had previously gone through. That additional amount within liabilities is definitely the case. There was a doubt over the movement from one year to the next, but a further £204,000 has been set aside due to a review of how discussions are going with HMRC.

The Convener: Does that mean that the £160,000 that is mentioned as a potential additional liability is on top of all that?

Andrew McBean: Yes. There was a contingent liability figure in the accounts last year as well, but that was a higher amount. Some of that amount has been moved from being a contingent liability, in effect, to being an actual liability in the accounts because it is more likely now that that will be payable. That is why it appears within liabilities and not as a contingent liability.

The Convener: I invite questions from members. I think that John Pentland's question has pretty much been answered.

John Pentland: I think that Mr McBean more or less answered my question in his introductory remarks. However, he said that there were no "significant issues" with regard to Audit Scotland's co-operation, and I wondered whether there were any issues at all.

Andrew McBean: No, there were no issues. As with all audits, we identified areas that we had to put more work into, which included VAT. However, we are satisfied with the calculations that Audit Scotland carried out on that. Obviously, we put resources into that area to ensure that the VAT position was the case and that we were satisfied with the overall level of liability appearing in the accounts and within the contingent liability note. In that sense, it was an important issue that we had to deal with, but we were able to resolve it more than satisfactorily.

Alex Johnstone: In your opening statement, which was thorough, you seemed to come very close to answering my question as well, but that has never before prevented me from asking my question. Why let that break the habit of a lifetime?

In your report to those who are charged with governance, as required by international standard on auditing 260—ISA 260—and in your report to the audit committee of Audit Scotland, did you raise any matters that the commission should be aware of?

Andrew McBean: No. There are no particular matters that we need to bring to your attention. Obviously, we have a closure meeting at the end of the audit in which we discuss issues, look at the audit risks that we identified and the work that we carried out, and have discussions to gather the final bits of evidence that we need to be satisfied to give our opinion. That final meeting was satisfactory. The main issue that we discussed in it was VAT, and we have obviously had a fair discussion about that today. There is nothing else that I need to bring to your attention.

Angus MacDonald: You have covered the issue of the £204,000 charge to meet any output tax that could be due. You will recall that I asked Audit Scotland about that earlier. Given that you have mentioned a review of the situation following discussions with HMRC, what is your view of Audit Scotland's response? How long is it expected that the discussions with HMRC will continue until the matter is brought to a conclusion?

Andrew McBean: I cannot comment on the second point, as we are not part of the negotiations. We are not advising Audit Scotland on the area; it is dealing directly with HMRC. Obviously, we have reviewed the correspondence to date, and I am aware that there was a meeting with Audit Scotland on 6 June. I think that it is likely that the matter will come to a head during the coming year, but I could not say exactly when that will happen. It has dragged on for a few years.

The main discussions have been around the original effective date of registration for VAT purposes, and movement on that date has resulted in additional liability, which still has to be finally determined. On the balance of probability, an additional liability has been put into the accounts to take that into account.

Angus MacDonald: Thank you.

The Convener: As members do not have any other questions for the witnesses from Alexander Sloan, is there anything that the witnesses would like to add to what they have already advised?

Andrew McBean: No—I think that we have covered everything. Obviously, the answers from Audit Scotland were on areas that we considered, and I think that sufficient information about the accounts has been passed on to you.

The Convener: In that case, I thank the witnesses very much for their attendance. It is much appreciated.

Annual Report

10:54

The Convener: Agenda item 3 is a draft annual report for the parliamentary year from 11 May 2012 to 10 May 2013. Members will recall that we agreed to align the SCPA's working practices with those of the parliamentary committees, which include producing an annual report.

The report consists of two pages, which I will go through. Members can make any comments; perhaps we can then agree the report.

Do members agree to page 1 of the report?

Members *indicated agreement.*

The Convener: Do members agree to page 2 of the report?

Members *indicated agreement.*

The Convener: Are members content with the report?

Members *indicated agreement.*

The Convener: Do members agree that the report should be published this week?

Members *indicated agreement.*

The Convener: As agreed earlier, we will now move into private session.

10:55

Meeting continued in private until 11:31.

Members who would like a printed copy of the *Official Report* to be forwarded to them should give notice to SPICe.

Members who wish to suggest corrections for the revised e-format edition should e-mail them to official.report@scottish.parliament.uk or send a marked-up printout to the Official Report, Room T2.20.

The deadline for corrections to this edition is:

Tuesday 2 July 2013

Published in Edinburgh by APS Group Scotland

All documents are available on
the Scottish Parliament website at:

www.scottish.parliament.uk

For details of documents available to
order in hard copy format, please contact:
APS Scottish Parliament Publications on 0131 629 9941.

For information on the Scottish Parliament contact
Public Information on:

Telephone: 0131 348 5000
Textphone: 0800 092 7100
Email: sp.info@scottish.parliament.uk

e-format available
ISBN

Printed in Scotland by APS Group Scotland