



REPORT TO

Scottish Commission for Public Audit

**Examination under Section 25(4) of the public
Finance & Accountability (Scotland) Act 2000**

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SP Paper 362

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1 Executive summary

1.1 Introduction

We have completed our examination of the economy, efficiency and effectiveness with which Audit Scotland uses the resources it commits to graduate training which was undertaken in accordance with the remit provided by the Scottish Commission for Public Audit. Our review comprises the period from 1 April 2000 to 31 December 2004.

Costing data within this report was provided by Audit Scotland. This data has not been specifically validated for the purpose of this report, however, Audit Scotland has confirmed that the costings set out in this report accurately reflects the cost of training and recruitment of graduates and qualified staff. In addition, the Annual Accounts of Audit Scotland for the accounting periods to 31 March 2004 have been subject to both internal and external audit and the period from 1 April 2004 to 31 December 2004 has been subject to internal audit.

This report has been prepared solely for the use of the Scottish Commission for Public Audit and Audit Scotland and should not be quoted in whole or in part without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose.

We would like to express our thanks to all the staff at Audit Scotland who gave their time and provided us with the necessary information in order for this report to be produced.

1.2 Key findings

- a) Audit Scotland has a structured graduate training programme, which is fully documented in the '*Assistant Auditor Training Policy*'. Audit Scotland is a CIPFA accredited employer. There are three levels of accreditation and Audit Scotland has achieved Best Practice level, which is the top level of accreditation. Audit Scotland invests approximately £56,200 training one graduate from appointment to qualification. The most significant element is the opportunity cost of the time spent in training, measured as evaluated chargeable time. At £46,500, this represents 83% of the total.

- b) Core training is provided through the CIPFA qualification and supplemented by a variety of in-house courses throughout the training contract. Training needs are identified through the *'Performance Development Scheme'*, which is a competency based appraisal system in place across the organisation as a whole. Training provided is considered relevant to Audit Scotland's requirements.
- c) Audit Scotland properly considers and documents the level of staff required to deliver effective and efficient services. The average balance between graduates trained internally and those recruited directly with equivalent professional qualification is 1:2. The high numbers of qualified staff recruited in 2003 and 2004 occurred as a result of the creation of a 'Best Value' audit team. In 2002 Audit Scotland decided not to recruit any graduates but to enhance the graduate recruitment and training scheme for future intakes because of the structure and performance of the inherited scheme. The impact of the decision not to recruit is that Audit Scotland will have no graduates qualifying in 2006; they will therefore be relying on the external market to satisfy the requirement of qualified staff in 2006. A review of applicants to offers ratio of the October 2004 recruitment drive highlights this will be challenging. The enhancements made to the graduate recruitment and training programme has improved the calibre of graduate being recruited.
- d) Internal training of graduates is more expensive than the direct recruitment of qualified staff due mainly to the opportunity cost of lost chargeable time, and taking into consideration that it takes on average 48 months to train a graduate. Overhead costs in the administration of the scheme are not considered to be significant representing less than 3% of the total cost to train one graduate. Only the 2001 intake had wastage of graduates during training. All of the 2001 trainees that qualified remain in the employ of Audit Scotland at the promoted Senior Auditor grade.

1.3 Conclusion

Audit Scotland aims to achieve a proper balance between training staff internally and the direct recruitment of professional staff from the external labour market. This report considers Audit Scotland's training and recruitment strategy, identifies the methods adopted to provide graduate training and provides a value for money analysis of the resources invested in the training of graduate entrants compared with the direct recruitment of trained professional staff.

Despite the high opportunity cost, graduate training provides key benefits in terms of the availability of high quality assistant auditors and professional staff with an in-depth knowledge of public sector auditing. In addition, graduate training provides an effective means for Audit Scotland to effect staff continuity and succession planning, particularly in light of the difficult external recruitment market. In our opinion to date, a

proper balance has been struck between training staff internally and direct recruitment, and that the resources devoted to the former provide benefits that justify the cost.

We would recommend a follow up report in three years time, when more intakes have completed their full training contract.

2 Purpose of this report

The Scottish Commission for Public Audit has asked us to perform an examination under the powers provided in S.25(4) of the Public Finance and Accountability (Scotland) Act 2000, to examine the economy, efficiency and effectiveness with which Audit Scotland uses the resources it commits to graduate training.

The Scottish Commission for Public Audit is seeking assurance that the resources devoted to graduate training provides benefits in terms of the quality of trained personnel and the levels of professional staffing required to achieve Audit Scotland's objectives. In particular, it wishes to be assured that a proper balance has been struck between training staff internally and direct recruitment, and that the resources devoted to the former provide benefits to justify the cost.

Our examination included the following:

- a) A review of Audit Scotland's training strategy, identifying the resources applied to the training of graduate entrants;
- b) Identification of the method adopted to provide graduate training and consideration of its relevance to Audit Scotland's requirements;
- c) Consideration of Audit Scotland's recruitment strategy, with particular reference to the balance between graduates trained internally and those recruited directly with equivalent professional qualifications;

- d) A value for money analysis of the resources invested in the training of graduate entrants compared with the direct recruitment of trained professional staff, with particular reference to the overhead involved in administering the scheme and the wastage rate both during training and post qualification.

2.1 Audit Scotland - Background

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000, providing services to the Auditor General for Scotland and the Accounts Commission. The role of Audit Scotland is to:

- deliver comprehensive public audit;
- promote high standards of governance, stewardship and management;
- support service improvements and Best Value;
- report in the public interest;

Audit Scotland employs 260 staff in six locations across Scotland. The organisation recently underwent a major restructuring exercise, with staff grouped under four departments:

- Audit Services
- Performance Audit
- Audit Strategy
- Corporate Services and Communications

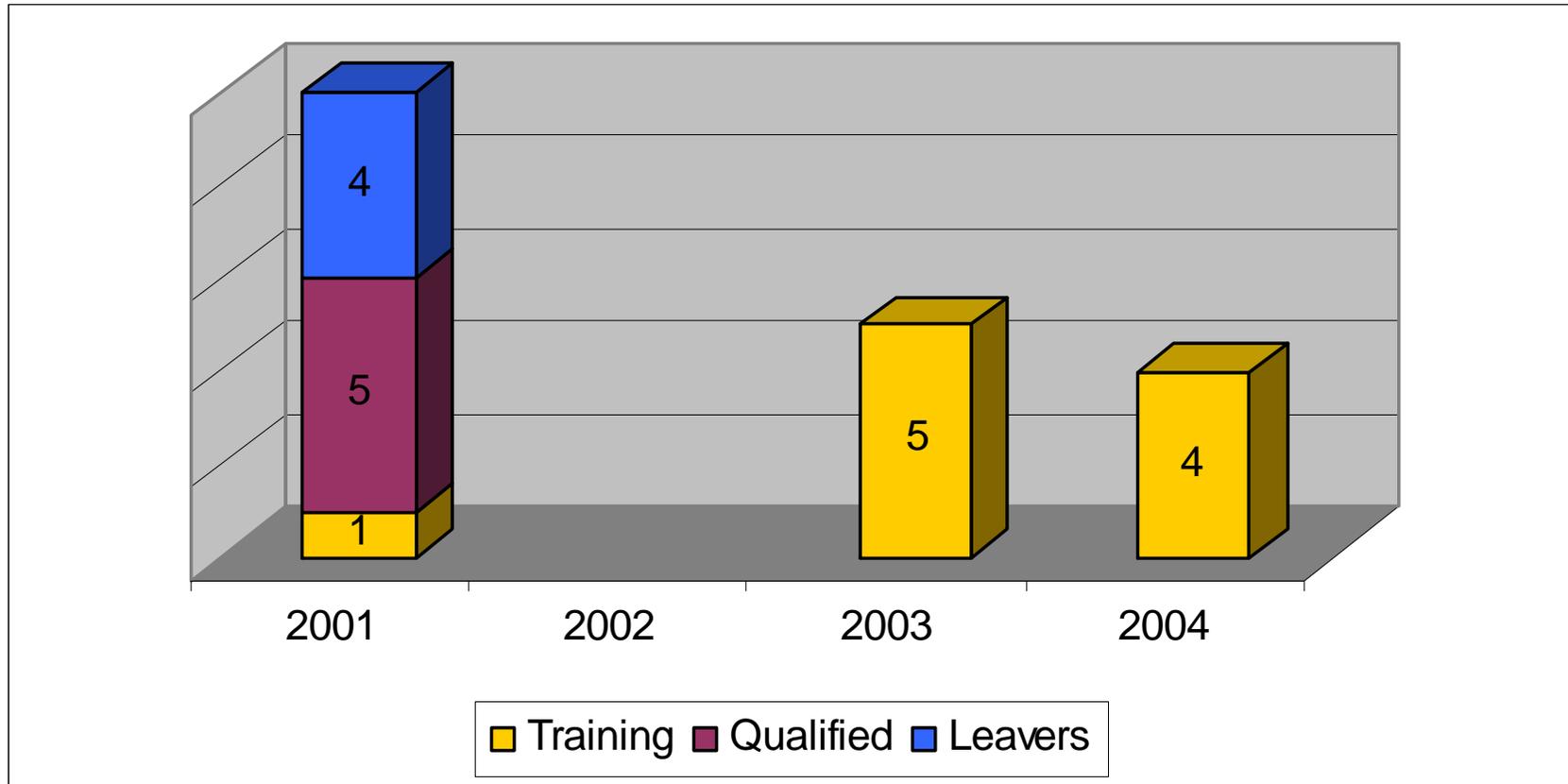
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Audit Services and Performance Audit deliver audit services to public sector organisations across Scotland. Such services range from the traditional financial audit to issuing reports on best value and governance. There is approximately 214 client/stakeholder facing staff within Audit Services and Performance Audit. The intake of graduate trainees since the inception of Audit Scotland is shown at exhibit 1.

Exhibit 1

Graduate intake



2.2 Methodology

There have been three graduate intakes since the inception of Audit Scotland in 2000, namely 2001, 2003 and 2004. A total of 19 graduates have been recruited in this time, 10 of whom remain under training contract at the date of this report. Available data is limited as a result of the small number of graduates recruited, coupled with this, only the 2001 graduates have completed the full training contract at the date of this report.

We have identified direct costs in graduate training from the financial records of Audit Scotland for the years ending 31 March 2002, 2003 and 2004 and for the period ending 31 December 2004.

Internal resources devoted to graduate training have been ascertained through discussions with Audit Scotland management, Human Resources and graduate trainees. Assessment of internal resources utilised throughout this report has been estimated from the time spent on activities and the use of applicable daily rates. The charge-out rates employed by Audit Strategy in their calculation of indicative fees has been used to calculate the opportunity cost of client/stakeholder-facing staff involved in training. The time cost applicable to support staff involved in training has been calculated with reference to a daily rate based on salary costs.

The limited data available has impacted on our examination and we have been unable to quantify the benefits provided by graduate training through a traditional cost benefit analysis. The evidence presented in this report is largely anecdotal owing to the absence of empirical data. We have conducted a number of interviews with Audit Scotland management and graduate trainees in order to assess the benefits provided by graduate training in terms of the quality of trained personnel and the levels of staffing required in order to fulfil the organisation's objectives.

Audit Scotland did not recruit graduates in 2002 following the underperforming graduate intakes inherited from predecessor organisations and the poor examination success rates of the 2001 intake. In light of this performance, significant improvements have been made to the scheme and Audit Scotland anticipate higher success rates of the graduates recruited in subsequent years. We recommend that benefits derived from the improvements made to the graduate training scheme, in terms of quality and levels of trained professional staff, be examined at a later date when sample data is of a sufficient size.

3 Training strategy and resources applied to graduate training

3.1 Training strategy

Audit Scotland aims to provide high quality audit services to the Auditor General and the Accounts Commission. The business objectives of Audit Scotland are guided by the strategies of both the Auditor General and the Accounts Commission and are set out in the Corporate Plan 2004-07. The Corporate Plan identifies the priority of improving the performance of Audit Scotland by supporting learning and growth across the organisation. It also recognises the importance of high-quality training and development and the need to attract high calibre staff.

Audit Scotland initiated a comprehensive Training Needs Analysis in 2002 across several business units. Coupled with the Internal Audit report on Training and Development, this has resulted in a number of initiatives aimed at meeting the training and development objectives outlined in the Corporate Plan. Such initiatives include the development of a corporate Training and Development policy, the launch of a Human Resources site on Audit Scotland's intranet, the development of a staff handbook and the implementation of the '*Performance Development Scheme*'.

The Training and Development policy, '*Our Learning and Development Strategy*', establishes Audit Scotland's training and development strategy at a corporate level. This document communicates to staff the learning and development goals across the organisation and how these link into the delivery of Audit Scotland's Corporate Plan.

Training and development needs are identified through the '*Performance Development Scheme*'. This is a best practice scheme outlining key competencies expected from staff at each grade. Through the performance of regular staff appraisals, training and development needs are identified on an individual basis. Training and development of staff is therefore linked to the needs of the individual staff member and is aimed at achieving core competencies in order that the organisation may meet its strategic objectives as outlined in the Corporate Plan.

Audit Scotland has developed a graduate training policy, '*Assistant Auditor Training Policy*', which outlines the training and development to be provided to graduates. Key competencies specific to graduate trainees are outlined in the policy and these sit alongside those identified in the '*Performance Development Scheme*'. Details of the graduate training policy are provided at section 4.1.

3.2 Resources applied to graduate training

Audit Scotland does not prepare a separate budget for the graduate training scheme. Instead, the scheme is funded from the corporate training and development budget. The resources applied to graduate training are not separately identified in the financial information provided to management as costs incurred by Audit Scotland are reviewed as part of the larger training and development budget.

Costs incurred on graduate training can be categorised into direct costs and investment of internal resources. From our examination of both the external expenditure and the internal resources utilised it has been possible to ascertain the total resources applied when training a graduate, from appointment to qualification.

3.2.1 Direct costs

Direct costs are primarily incurred in respect of trainees studying towards the Chartered Institute of Public Finance Accountants (CIPFA) qualification. Costs include registration fees, annual subscriptions, open learning courses, attendance at day release courses (the CIPFA College in Edinburgh or Glasgow Caledonian University) and examination fees.

In addition to CIPFA, Audit Scotland employs The Institute of Chartered Accountants of Scotland (ICAS) to provide basic bookkeeping and auditing courses during the annual induction course for graduate entrants.

The first intake of graduate trainees commenced training in September 2001. Consequently, there are only 6 months of costs recorded in the accounts for the year ended 31 March 2002.

Excluding 2002, Audit Scotland invests approximately £23,000 per annum on external training and examination fees. (See exhibit 2). This represents approximately £2,000 per graduate trainee per annum. (See exhibit 3).

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The total actual expenditure from September 2001 to 31 December 2004 in respect of external training and examination fees is approximately £76,284. (See exhibit 4). The bulk of the costs relate to the teaching of the course material through open learning and attendance at day release classes. This represents 70% of the total cost.

Examination fees account for 11% of the total expenditure. Trainees are supported for the first and second attempt. Further financial assistance is provided at the discretion of the Human Resources manager.

Exhibit 2

Annual expenditure on external training and examination fees

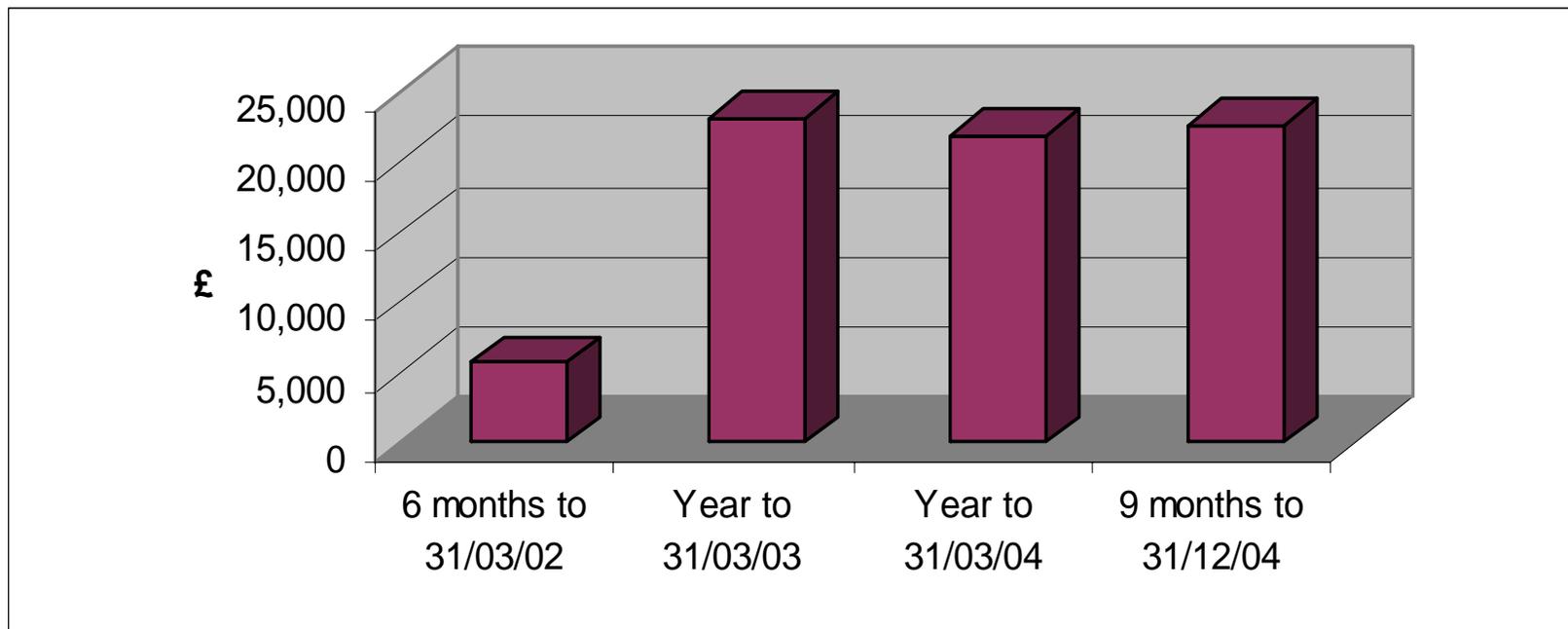
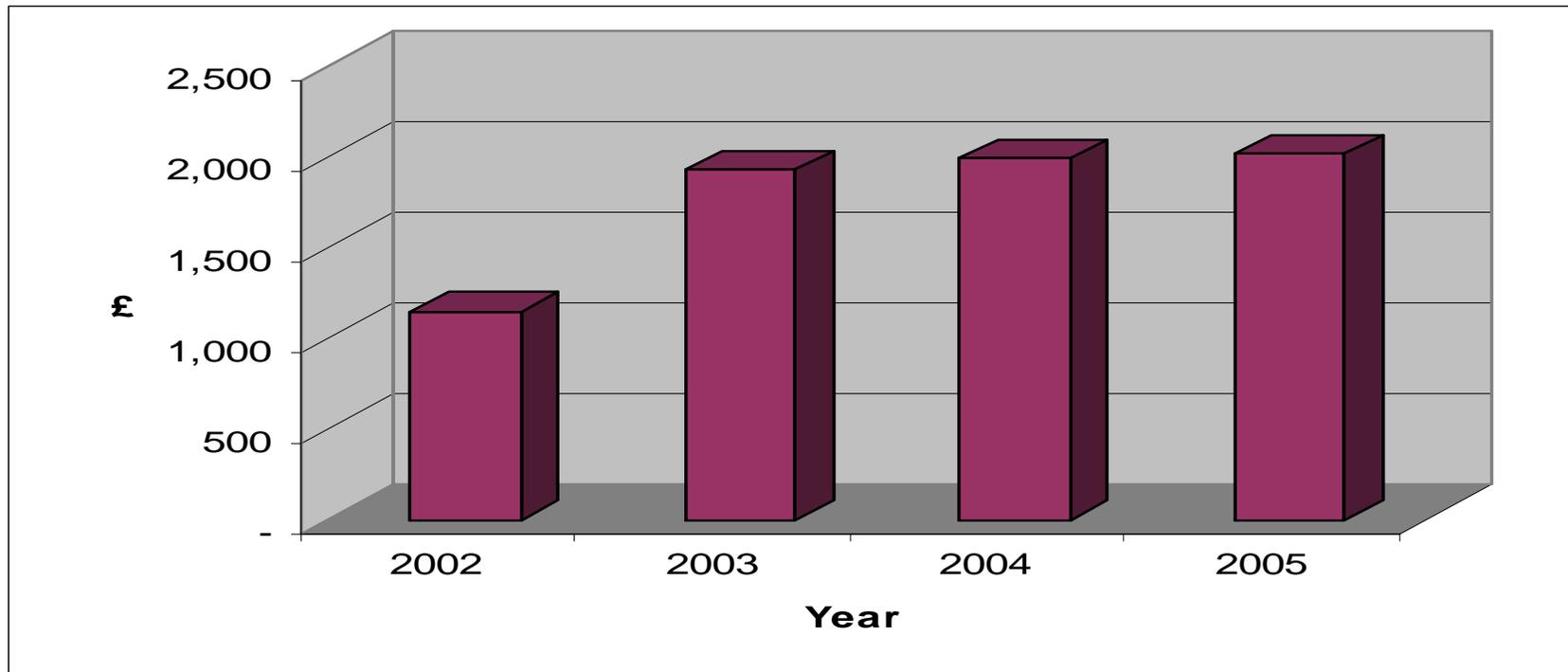


Exhibit 3

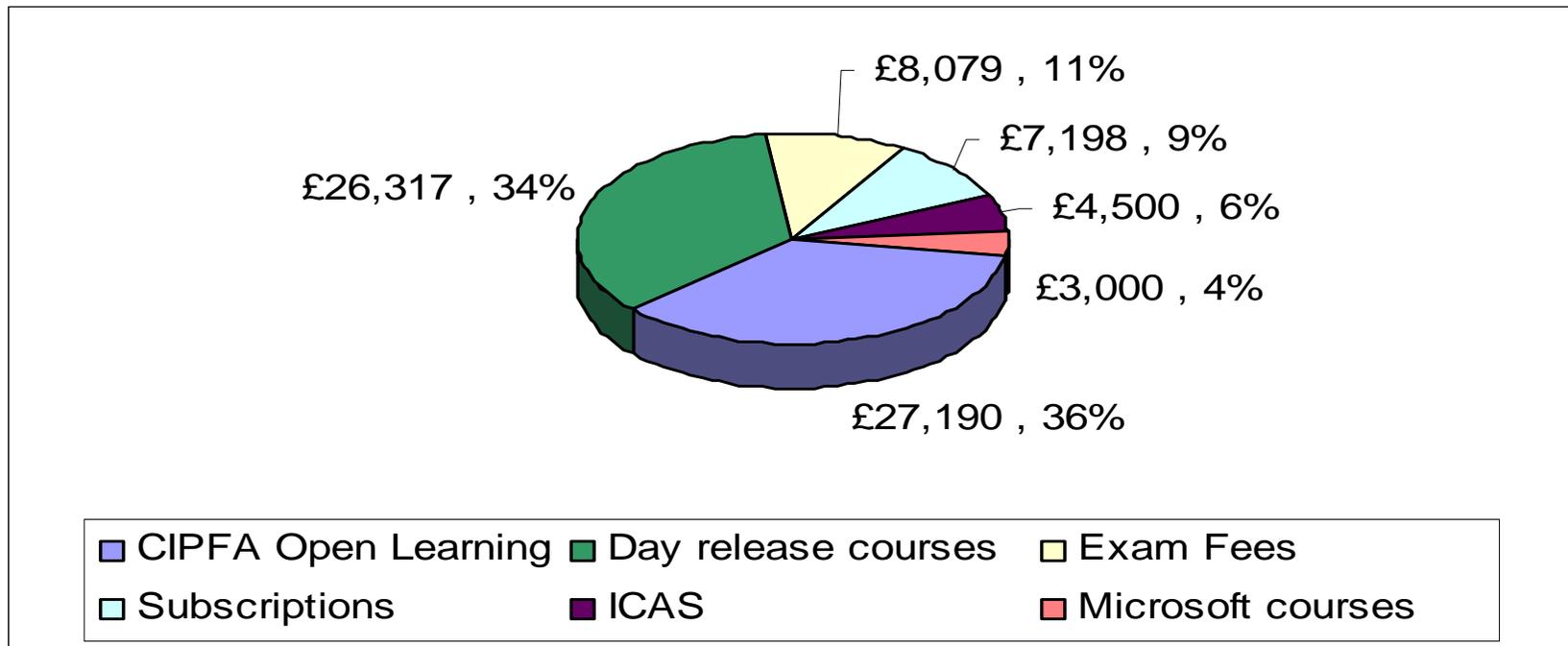
Annual expenditure per trainee on external training and exam fees



Please note the annual expenditure per trainee has been adjusted to reflect the 9 month period in 2005.

Exhibit 4

Total actual expenditure from September 2001 to 31 December 2004 analysed by category



3.2.2 Internal resources

Audit Scotland does not separately record internal resources invested in graduate training. Time costs have been ascertained following discussions with the HR manager, two Audit Services managers and two graduate trainees.

The graduate training programme was reviewed in September 2001 following poor exam performance of graduate trainees inherited from the predecessor organisations. The programme was significantly enhanced following this review and has resulted in more time being devoted by Audit Scotland senior staff, in the provision of in-house courses and the involvement of HR in feedback sessions. The '*Assistant Auditor Training Policy*' was developed as a result of the review process and this forms the basis of the graduate training programme at Audit Scotland and is an integral part of the trainees' contract of employment.

A two week induction course welcomes new graduate entrants to Audit Scotland and prepares the graduate trainees for their new role as assistant auditors. The course is delivered by a mix of Audit Scotland senior staff and external trainers from CIPFA, ICAS and Microsoft partners.

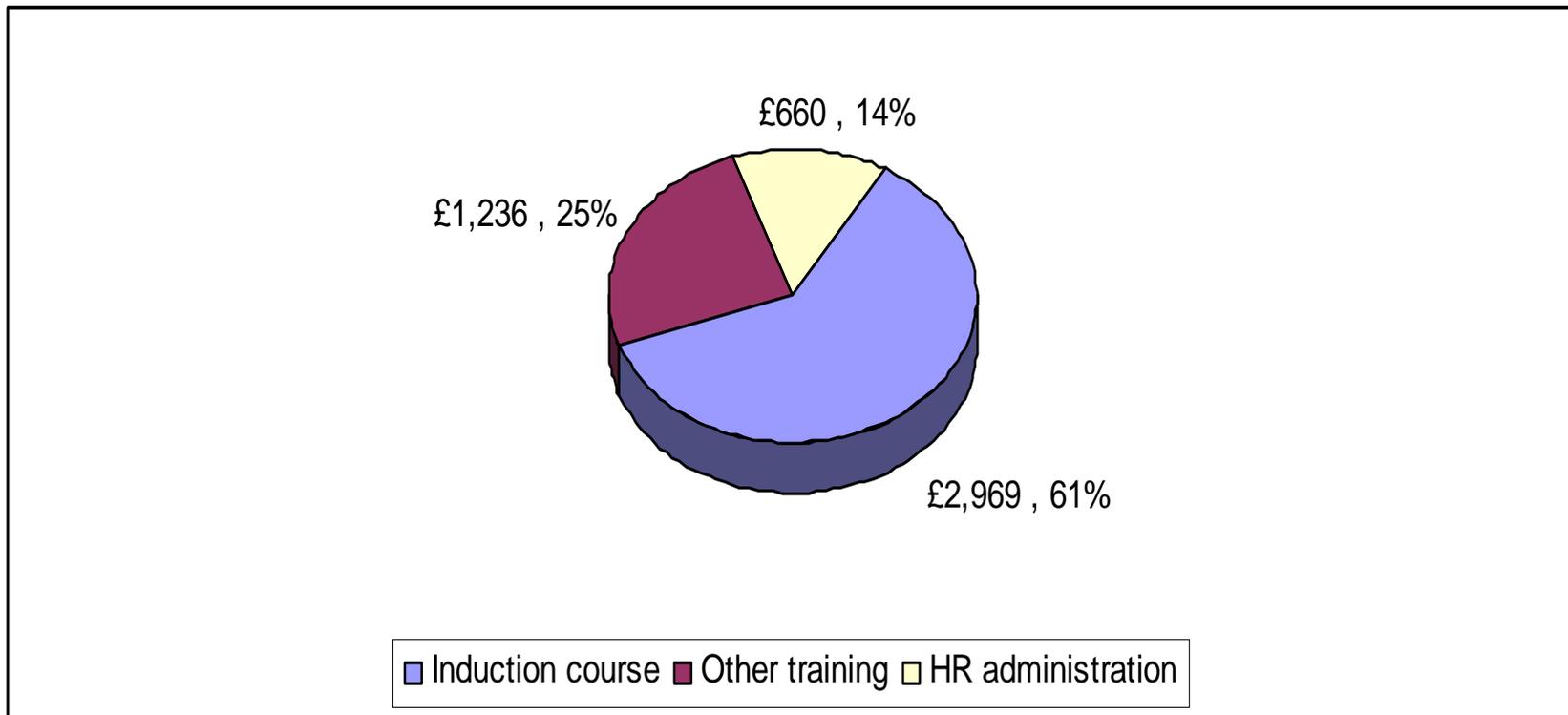
In-house training courses are delivered, in addition to the induction course, to provide new graduate trainees with sufficient knowledge of the different types of public sector organisations, drawing on the wealth of experience within Audit Scotland. The '*Essential Series*' of courses (Health, Local Government, Central Government and Further Education) cover the fundamental knowledge required for the graduate trainee to commence work in any of the public sector audit teams.

On-going training is provided throughout a graduate's career at Audit Scotland. This is delivered through Audit Scotland's '*Performance Development Scheme*' and is available to all employees, not just graduate trainees. Training needs are identified during the individual's biannual appraisals with line management. Examples of training needs include 'soft skills' such as report writing, communication and presentation skills. Trainees are also included in the regular technical updates which are provided to all Audit Scotland staff through a programme of continuous professional development.

Time spent by the HR department in administering the graduate training scheme is not separately recorded. Two group feedback sessions are held annually, chaired by the HR graduate training liaison officer, and provide an opportunity for all trainees to meet and discuss any issues. Other time spent by HR is expected to be of a general nature and not pertaining directly to the graduate training scheme. The estimated annual commitment of internal resources to graduate training is £4,865. (See exhibit 5)

Exhibit 5

Analysis of estimated annual commitment of internal resources applied to the graduate training scheme



The majority of internal resources relate to the provision of in-house training courses. The provision of feedback sessions and general administration of the scheme by HR is considered to be minimal at 14% of the total cost. This in part reflects the lower hourly rate applied to HR staff compared to the charge out rate applied to audit staff delivering the in-house courses. HR provides a support function to the organisation and this rate has been determined using salary costs only. The opportunity cost of utilising client/stakeholder facing staff in the provision of internal training has been determined using Audit Scotland charge out rates for the appropriate grade of staff. The charge out rate used is that determined by Audit Strategy when setting the indicative fees for Audit Scotland teams and independent accountancy firms. We have assumed for the purpose of this report that client/stakeholder facing staff are a scarce resource.

3.2.3 Total resources applied to train one graduate

The training contract varies according to whether the graduate is entitled to full, partial or nil exemptions from the Foundation examinations at CIPFA. For the purposes of this exercise it has been assumed that the average training contract is 48 months in duration.

Data from Audit Scotland's time recording system for the period ended 31 December 2004 was extracted and analysed. This data reveals that graduate trainees achieve, on average, 138.5 chargeable days per annum compared to 185 days for qualified staff. The calculated chargeable days are close to the estimated chargeable days used by Audit Scotland as part of their staff planning. The reduction of 46.5 chargeable days per annum has been assessed as the non-chargeable time associated with training. A daily charge out rate of £250 is applied to the 46.5 non-chargeable days per annum to provide an estimate of the opportunity cost associated with the graduate training programme. The total opportunity cost per graduate per annum is estimated as £11,625.

Audit Scotland assess that graduates attend one day's training per annum that relates directly to the graduate programme. These sessions are assumed to be delivered by senior audit managers and the opportunity cost has been calculated with reference to the appropriate charge out rate.

It is estimated that the total resource required to train one graduate from appointment to qualification is £56,200. (See exhibit 6).

The most significant cost to Audit Scotland is the non-chargeable time associated with graduate training. Over the 48 month period the total estimated cost of such time is £46,500, representing 83% of the total training costs. Other expenditure and resources utilised are not significant by comparison. Training time includes attendance at CIPFA training courses and in-house training, examinations, the provision of study leave in accordance with CIPFA guidelines, and on the job training.

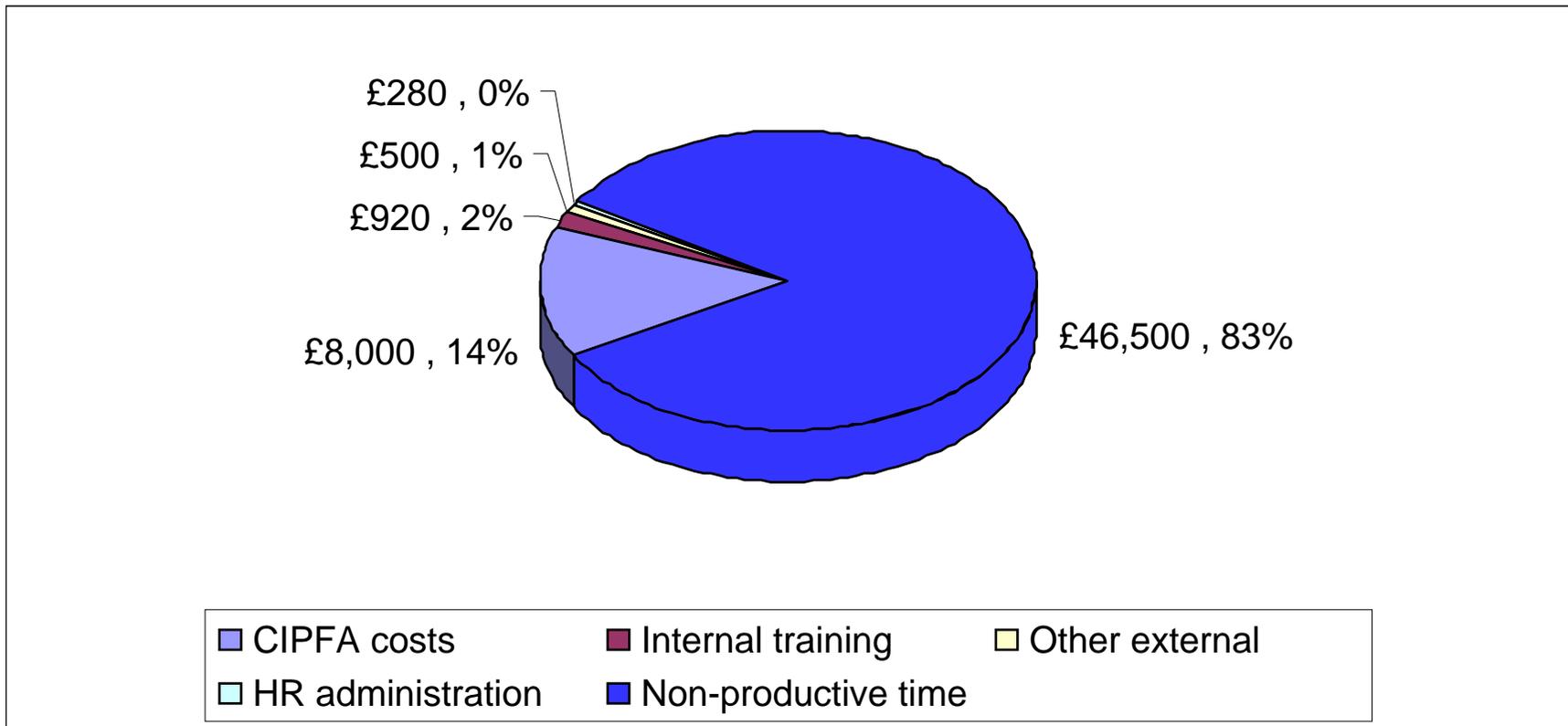
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As expected, expenditure incurred on CIPFA training and examinations represent a considerable cost in graduate training with an approximate spend of £8,000 per annum. This is based on the average spend per student over the period examined and provides a good estimate of probable costs required to train a mixed intake of students with different entitlements to exemptions and varying degrees of examination success. This represents the core of the graduates' structured learning.

Exhibit 6

Analysis of resources applied in training one graduate (48 month training contract)



4 Method adopted to provide graduate training

4.1 Overview of training

In light of the findings of the review of the graduate training programme in September 2001, a graduate training policy was developed, '*Assistant Auditor Training Policy*', which outlines the structure and content of the graduate scheme delivered at Audit Scotland. The policy is reviewed and updated annually by HR. The key features of the graduate training policy are:

- Fixed term contract of 48 or 54 months depending on eligibility for exemption from foundation level of CIPFA exams
- Clear set of competencies to be attained at each stage of the training. These competencies are linked to the evolving role of the assistant auditor through the training period and are in line with the business needs of the organisation
- Attainment of competencies monitored through the '*Performance Development Scheme*'
- Clearly defined financial support for learning and examinations
- Outline of entitlement to study leave at each stage of the professional qualification
- Structured work placement scheme across the organisation to provide trainees with a broad work experience
- Clear responsibilities for both the trainee and Audit Scotland
- Provision of a suitable induction course
- Clearly defined promotion and career progression following qualification

The '*Assistant Auditor Training Policy*' is well defined and is a suitable document to both communicate the scheme to graduates and to act as a basis for Audit Scotland to deliver the scheme.

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The graduate training scheme is composed of the training provided to enable the trainee to secure a professional accountancy qualification and the on-going training provided by Audit Scotland through the *'Performance Development Scheme'*. The core training of graduates is provided through the professional accountancy qualification, this is explained at 4.2.

An induction course is held with each new intake of graduates. We consider this course to be clearly structured; it provides new recruits with relevant information to commence their new role at Audit Scotland. The course is delivered by a combination of external trainers, HR staff and audit staff. In addition to providing general staff and employment information, the course provides recruits with basic training in the fundamental skills required in their assistant auditor role such as basic bookkeeping and an introduction to auditing.

In addition to the induction course, new graduates also receive training in Microsoft Office including Word, Excel and PowerPoint.

As part of the training and development programme on offer to all employees, Audit Scotland operates a number of workshops entitled *'The Essential Series'*. These workshops cover the fundamental knowledge required to work in the following public sectors:

- Local government
- Central government
- Health
- Further education

The workshops are delivered by senior audit managers and are an effective means to share expertise and knowledge found within Audit Scotland. All new graduates attend the first available workshops after their training commences. These workshops provide the trainees with a basic understanding of each of the public sectors before their placement in an audit team.

Continuous training and development is provided through the *'Performance Development Scheme'*. This scheme is not exclusive to professional trainees and is operated across the organisation for both client/stakeholder-facing and support staff. The structure and operation of the scheme is in line with current best practice. The scheme enables assessment of the trainees' work and academic performance and is used as a means of determining whether the key competencies outlined in the training policy have been met. The performance development appraisals provide the trainee and his or her line manager with an opportunity to identify and discuss particular training needs. The delivery of training is therefore

tailored for each individual, with due consideration to core competencies identified in the training policy and the business requirements of Audit Scotland.

4.2 Accountancy qualification

Consideration was given to the training provided by CIPFA and ICAS; the Audit Scotland Board decided that the organisation would support the CIPFA training programme exclusively. CIPFA is one of the major accountancy bodies in the UK and specialises in the provision of accountancy and audit services to the public sector. In addition, CIPFA was involved in the review of the graduate training programme, providing advice on the implementation of best practice.

Audit Scotland is a CIPFA accredited employer. There are three levels of accreditation and Audit Scotland has achieved Best Practice level, which is the top level of accreditation. This accreditation is provided by CIPFA based on their assessment of the training programme provided. CIPFA consider that Best Practice employers provide an environment in which the trainee has a substantially better chance of success.

CIPFA training is provided through open learning and is supplemented by structured teaching at CIPFA approved colleges in Edinburgh and Glasgow. Audit Scotland meets all financial outlays in respect of the open learning packs and day/week release at college.

4.3 Relevance of training to Audit Scotland

Core training is provided to graduates through the professional accountancy qualification. CIPFA is considered to be most relevant to the needs of Audit Scotland due to the strong emphasis on public sector accounting and auditing. Through the CIPFA qualification, trainees develop key skills required in order to fulfil their role as public sector auditors.

Training and development provided to graduates throughout their contract represents a superior level of training that meets both the needs of the individual and Audit Scotland. Key to the successful delivery of training is the identification of key competencies at each stage of the training contract. These competencies are derived from the business needs of Audit Scotland and are aligned with the core competencies in the '*Performance Development Scheme*'. Achievement of key competencies is monitored through regular staff appraisals; training and development needs are identified at this time.

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In-house public sector courses, such as *'The Essential Series'*, deliver effective training on public-sector related issues and draw on the wealth of experience and knowledge within Audit Scotland.

5 Recruitment strategy

The balance between training graduates internally and the direct recruitment of qualified staff requires careful consideration of the staffing requirements of the organisation in the short, medium and long-term. There is an optimal ratio of qualified: unqualified staff for each audit to ensure the effective and efficient delivery of the assignment. Effective resource planning ensures that the correct complement of qualified and unqualified staff is achieved in the short, medium and long-term. Such planning should give consideration to historical information of graduate examination success rates, wastage rates during training and post-qualification and retention data for directly recruited qualified staff.

Resource planning at Audit Scotland involves the identification of the level of qualified and unqualified staff required in order to perform all assignments in an effective and efficient manner. The recruitment strategy considers the requirement between recruitment of graduate trainees and qualified staff from the external market place. Audit Scotland believe that by implementing a rigorous graduate training program they are investing in the long term future needs and strategic direction of the organisation; they further believe that the investment in the graduate training scheme intrinsically prepares graduates to “go the extra mile”, which in turn will produce the senior grades of staff in the future.

Audit Scotland currently estimate that 50% of the vacancies will be filled internally with the short fall being met by direct recruitment of professional staff from the external labour market.

From our review of the recruitment and leaver data we estimate that the average ratio of graduate trainee recruitment to qualified senior recruitment is 1:2. (See exhibit 7). It should be noted that in the period of review a recruitment drive was undertaken to recruit Best Value auditors, this is reflected in the high numbers of qualified staff recruited in 2003 and 2004.

A review of the data also highlights that there was no graduate trainee intake in 2002. As stated previously this was due to the unsatisfactory standards of performance of the graduates from the predecessor organisations. Indeed, the wastage rate in the 2001 intake is also a reflection of the calibre of graduate recruited and the inadequate training programme in place at that time. Audit Scotland will therefore be relying on the external labour market to ensure it maintains the required complement of qualified staff in 2006. (See exhibit 8, which demonstrates the number of graduates expected to qualify as a result of the intakes in 2002, 2003 and 2004) This will be challenging in light of the perceived difficulties highlighted in section 6.4 below, where the most recent recruitment campaign only attracted 17 applicants for 5 qualified posts.

Exhibit 7

Trainee and professional audit staff recruitment/leaver statistics

Graduate Trainees	2001	2002	2003	2004	Total
Recruits	10	–	5	4	19
Leavers	(4)	–	–	–	(4)
Total	6	–	5	4	15
Average wastage					2.1%

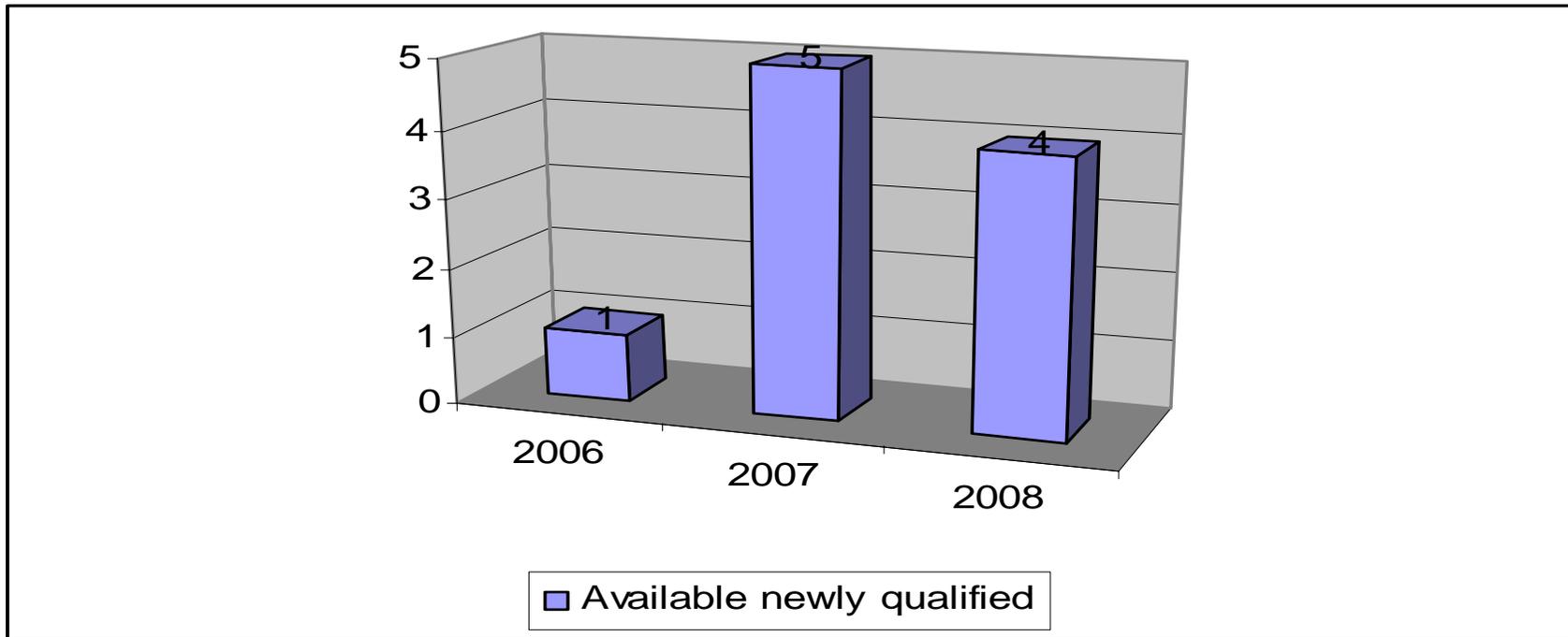
Professional Staff	2001	2002	2003	2004	Total
Recruits	6	6	18	11	41
Leavers	–	(3)	(4)	(6)	(13)
Total	6	3	14	5	28
Average wastage					3.2%

The post-wastage ratio of internally trained staff to directly recruited professional staff is 1:2.

Please note professional staff excludes managers and senior managers.

Exhibit 8

Assessment of available newly qualified staff, assuming 0% wastage rate up to the date of qualification



6 Value for money analysis

6.1 Resources invested in training graduates

The cost of training one graduate to qualified accountant level has been assessed as £56,200 at section 3.2.3. This includes all direct and indirect training costs associated with a 48-month graduate training contract.

As noted previously, the most significant element of the cost of graduate training is the non-chargeable time associated with training; this represents 83% of the total cost. On average, graduates achieve 138.5 chargeable days per annum. This represents a reduction of 46.5 days per annum compared to other non-training audit staff. Exhibit 9 demonstrates the estimated number of non-chargeable hours associated with graduate training per financial year.

Exhibit 9

Non-chargeable trainee hours per financial year

Financial Year	Average number of graduates	Estimated non-chargeable hours
2002	5	235
2003	9	423
2004	9	423
2005	11	517

The internal resources invested in administering the graduate training scheme are discussed in section 3.2.2. Staff resources identified in the administration of the scheme includes approximately 23 hours of HR time per annum and 51 hours of Audit Manager time per annum. This time equates to an annual cost of approximately £945 for HR involvement and £3,920 for Audit Manager time. The cost of Audit Manager time has been assessed as the opportunity cost of lost chargeable time to Audit Scotland on the basis that Audit Managers are a scarce resource. The cost of Audit Managers providing internal training is insignificant in relation to the overall cost of the graduate training scheme. The use of external training providers is unlikely to produce a significant cost saving to Audit Scotland and the benefits of employing staff, with their wealth of public sector experience, in the delivery of training outweighs potential cost savings.

The inclusion of Audit Manager time relates only to the delivery of internal training courses and does not include a provision for on-job training associated with graduates. It has not been possible to quantify the hours spent by client/stakeholder facing staff through on-job training and these costs have therefore been excluded from the analysis.

Exhibit 10

Overhead involved in administering the scheme

	Human Resources (staff hours)	Human Resources (cost)	Audit Manager (staff hours)	Audit Manager (cost)
Induction Course	9	£285	37	£2,685
Other Training Courses	-	-	14	£1,235
HR Administration	14	£660	-	-
Total	23	£945	51	£3,920

Exhibit 11

Comparison – training internally compared to direct recruitment

	Graduate trainee to qualified status (48 months) (Cost £)	Direct recruitment of a qualified auditor (Cost £)
<i>Direct costs</i>		
External training	8,500	-
<i>Internal resources</i>		
Non-chargeable training time	46,500	2,650
Internal training	920	80
HR administration	280	-
Total investment	56,200	2,730

Direct recruitment of qualified staff involves minimal training and clearly offers cost savings to Audit Scotland in comparison to training a graduate internally. Exhibit 11 highlights the disparity in cost between training a graduate to qualified auditor and direct recruitment from the external labour market.

From discussions with HR, initial training of newly qualified staff is a one day induction course to introduce the new staff member to Audit Scotland. The cost per individual staff member is negligible since induction courses are produced in-house and are only delivered when there are sufficient numbers of new staff.

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The minimum selection requirement in the recruitment of qualified staff is that they be CCAB qualified with either public sector or audit experience. It is anticipated that loss of chargeable time when a qualified member of staff is recruited is significantly lower than that of a graduate trainee assuming that 30% of chargeable hours in the first month be classified as 'on the job training', this represents approximately 7 days training. The opportunity cost of the training is estimated to be £2,650 per qualified staff based on an indicative daily charge out rate of £378.

Audit Scotland run composite recruitment campaigns; it is not possible therefore to separately identify the costs associated with the recruitment of graduate trainees and those associated with qualified auditors. From discussion with Audit Scotland, it is estimated that there are no significant differences between the recruitment process for graduates and qualified staff and it is therefore assumed that the cost base for recruitment is the same for both candidates. The cost of recruitment has therefore been ignored in the cost comparison between training qualified staff internally and direct recruitment.

It has been the policy of Audit Scotland to run recruitment campaigns on a quarterly basis. This has resulted in delays in the recruitment of staff to fill vacancies. Agency staff are employed by Audit Scotland to fill these short-term gaps during the recruitment process. Audit Scotland also use agency staff during peak periods such as summer time to increase the available complement of qualified staff. In the 11 month period to February 2005, Audit Services and Performance Audit incurred agency staff costs of £512,618 and £17,605 respectively. It has not been possible to quantify agency staff costs associated with delays in the recruitment process; such costs have therefore been ignored for the purpose of building a cost profile of direct recruitment. However, it is important to note that these costs are incurred by Audit Scotland as a result of the use of composite recruitment campaigns and the need to recruit increasing numbers of professional staff from the external market place.

The cost of direct recruitment may be defined in terms of on the job training and the cost of temporary agency staff. Value for money will be enhanced if the recruitment process is initiated earlier and the vacancies for qualified staff are filled by permanent staff in a timely manner.

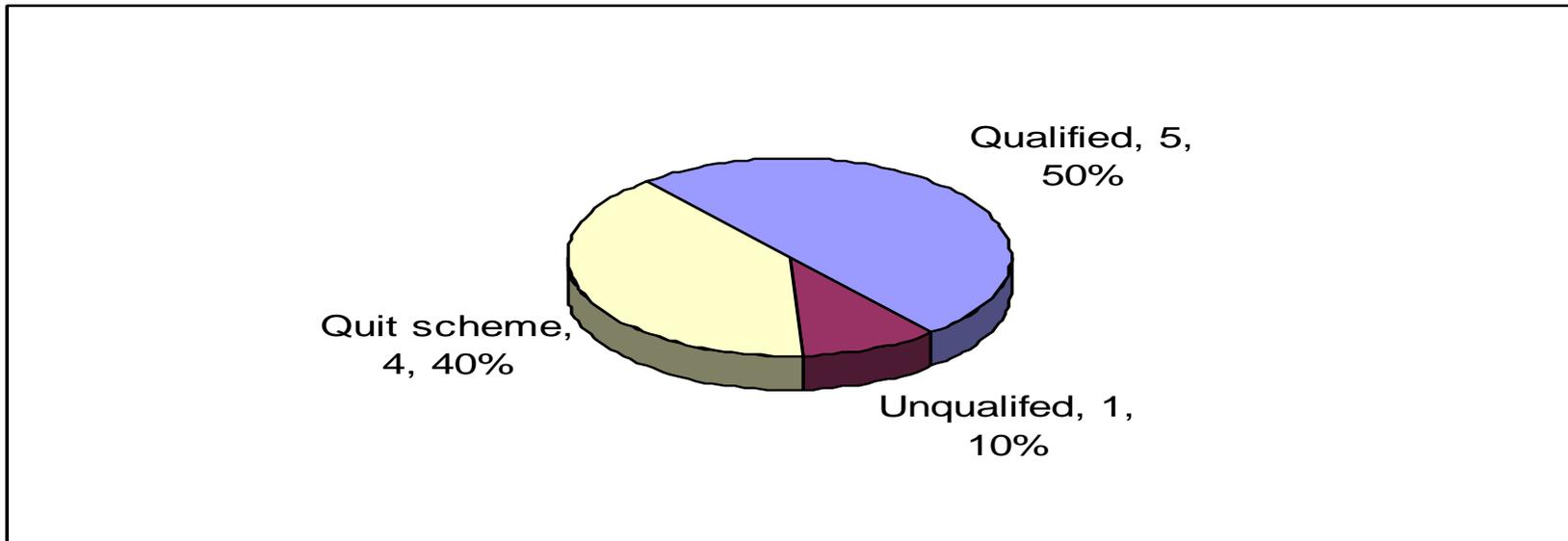
It is important that vacancies for professional staff be filled quickly in order to preserve business continuity and to minimise agency staff costs. Audit Scotland has identified this and has recently developed a new approach to recruitment, including the construction of a 'talent-pool' database of potential candidates that can be contacted when vacancies arise. Visitors to Audit Scotland's website are encouraged to register with the organisation and to provide details of their qualifications and experience. This initiative, if successful, should improve the timeline for attracting suitable candidates, reduce the number of vacant posts and ensure that best value is gained from Audit Scotland's advertising media spend.

6.2 Wastage rates during training and post-qualification

The 2001 graduate intake is the only batch of trainees to have completed their training contract to date. Ten graduates were recruited and commenced training in September 2001. Of the original ten trainees, five qualified in January 2005 and have subsequently been promoted to senior auditor, one trainee remains unqualified and four left Audit Scotland's employ part way through the training contract. (See exhibit 12). Of the four trainees who left during their training contract, three did so at the behest of Audit Scotland following underperformance and one resigned. Of the five students who qualified in January 2005, three passed all of their exams at the first diet. The trainee who remains unqualified fell behind with the training programme following an accident which rendered him unable to work for an extended period and it is expected that he will qualify at some point during the coming year. Currently, there has been no wastage in the 2003 and 2004 intakes.

Exhibit 12

Review of the 2001 graduate intake



6.3 Benefits provided by devoting resources to graduate training, in terms of quality and level of staff

Improvements to the recruitment process have been made in an attempt to increase the quality of graduates admitted to the training scheme. The recruitment process now includes competency based screening as part of the recruitment. In addition, the selection of graduates according to their ability to demonstrate such skills means that graduates are likely to have a higher performance in the work place.

Audit Scotland believe that by investing resources in the graduate training scheme they will obtain high calibre unqualified staff in the short-term and qualified auditors with a robust knowledge of the public sector in the medium to long term. From discussions with management, it is evident that graduate trainees are perceived to provide a high quality alternative to unqualified staff in terms of ability and aptitude. This is manifested in the higher exam success rates and increased productivity levels found with the 2003 and 2004 graduate intakes.

All of the newly qualified 2001 graduate intake have been promoted to senior auditor positions and remain in the employ of Audit Scotland. It is important to note that promotion to senior auditor is not automatic upon qualification and indeed the graduate training contract notes that promotion to senior auditor will only occur if the quality of the graduates' work merits this. Audit Scotland management have therefore deemed the quality of the newly qualified graduates to be of a sufficient calibre to merit promotion.

It is too early to examine the value for money obtained from the 2003 and 2004 intake. No trainees from either the 2003 or the 2004 intake have left the employ of Audit Scotland to the date of this report. Of the five trainees in the 2003 intake, only one candidate has failed an exam at the first attempt. The 2004 intake have yet to sit examinations.

By enhancing the graduate training scheme and the recruitment process, Audit Scotland are hopeful that the 2003 and 2004 intakes will have a lower wastage rate than the 2001 intake and that the trainees will demonstrate a higher level of examination success.

Audit Scotland look to the external labour market to recruit qualified staff in order to provide the level of service of a quality that is expected of the organisation. They believe that the calibre of staff recruited by this method produces experienced auditors but may not provide the senior grades of staff required for the future. It is particularly difficult to recruit qualified auditors directly from the external labour market. This is illustrated by the disparity in the applicant to offer ratio of the two grades of staff. A campaign was run in October 2004 for graduate trainees and qualified auditors. There were 14 applicants for every offer made for the graduate positions compared to only 3 applicants for every offer made for the qualified auditor. (See exhibit 13).

Scottish Commission for Public Audit

Examination under Section 25(4) of the Public Finance & Accountability (Scotland) Act 2000

As discussed in section 6.1, direct recruitment of professional staff also comprises the utilisation of agency staff to cover short-term staffing requirements. The use of agency staff is likely to impact on the efficiency and effectiveness of the delivery of audit assignments due to lack of experience and client familiarity. The availability of a constant stream of internally trained qualified staff mitigates the need for agency staff having a positive impact on the cost and quality of audit services provided.

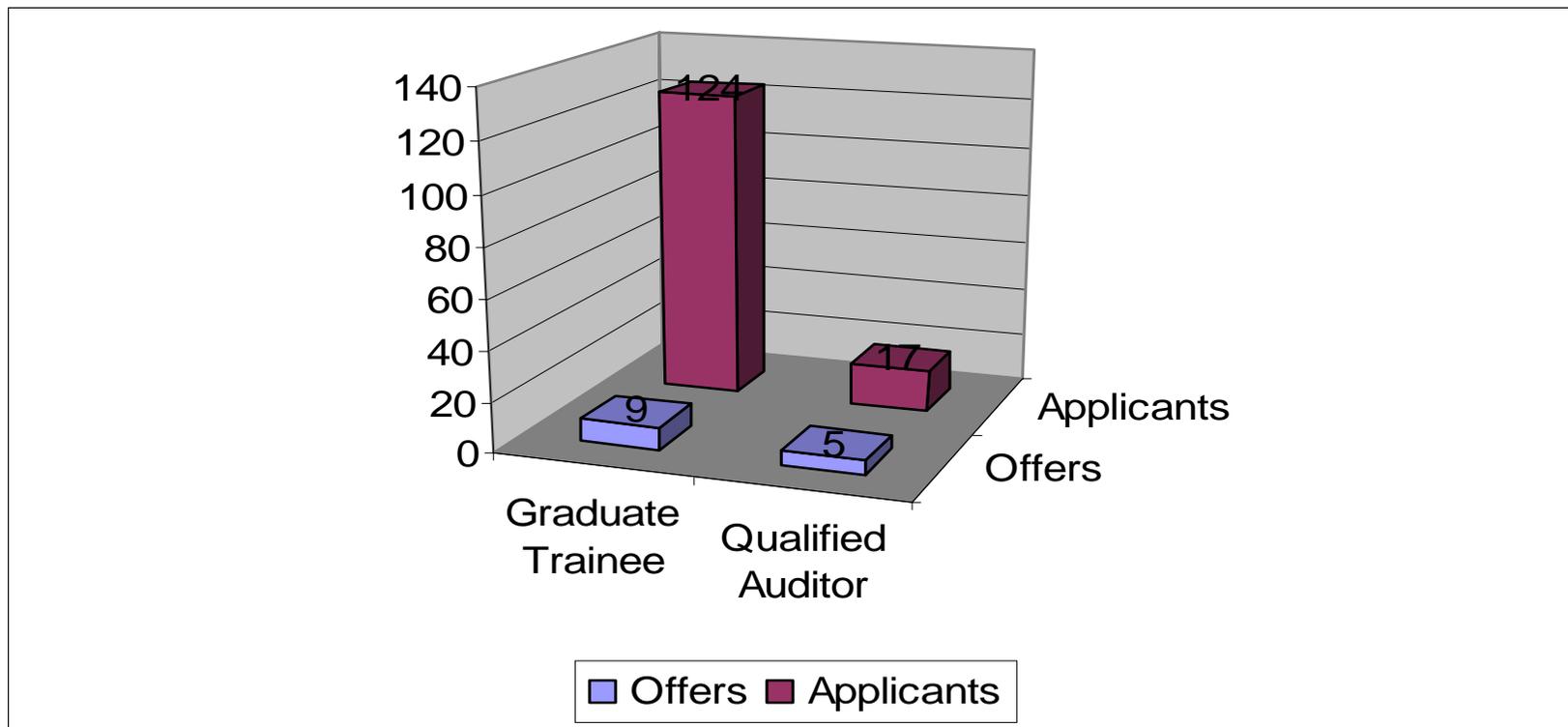
It is important that Audit Scotland achieves a proper balance between training staff internally and the direct recruitment of professional staff from the external labour market. This will ensure that Audit Scotland enjoys the cost savings and the diversity of talent and experience that direct recruitment offers whilst maintaining an adequate stream of internally trained qualified staff to promote continuity of audit services in the short, medium and long term.

In order to achieve a proper balance, Audit Scotland must give due consideration to its success rates in graduate training, its historical staff turnover data and the external labour market in which it operates.

From discussions with management it is clear that Audit Scotland is working hard to achieve this balance to ensure the effective and efficient delivery of audit services. (See exhibit 7 for the current ratio of graduate trainee : professional staff statistics)

Exhibit 13

October 2004 recruitment campaign



6.4 Resources devoted to graduate training justify the costs

Graduate training is an expensive means of obtaining qualified staff in terms of direct and opportunity cost by comparison with direct recruitment from the external labour market. However, there are number of benefits derived from internal training namely:

- The provision of high quality unqualified staff, ensuring effective and efficient delivery of audit services
- The availability of a steady stream of newly qualified staff available to meet a considerable proportion of Audit Scotland's professional staff vacancies. This is particularly important in light of the difficult recruitment market
- The provision of high quality qualified staff with a robust knowledge of public sector audit
- The provision of future audit managers and senior audit managers to effect succession planning

This report has provided evidence of the benefits provided by graduate training. It has been difficult to quantify these benefits in terms of monetary value and a number of the measures utilised have been of a subjective nature. This has, in part, been due to the lack of historical data due to Audit Scotland's short period of existence.

The benefits listed above and discussed in this report are considered to be vital for the delivery of Audit Scotland's objectives. In this regard, graduate training is considered to provide benefits to Audit Scotland that justifies the costs.