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Mr Paul Martin MSP
Convener
Public Audit Committee
The Scottish Parliament
EDINBURGH
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21 August 2015

Dear Convener

Public Audit Committee Audit, accountability and the further devolution of powers

Thank you for your letter of 24 June 2015 requesting my views on the Public Audit Committee's issues paper Audit, accountability and the further devolution of powers. I set out my response in the attached paper.

As Auditor General, I am committed to supporting the Parliament in developing world class arrangements for holding Government to account and improving the use of public money. I and colleagues in Audit Scotland have welcomed the opportunity to contribute to the Committee's work so far in this important area.

I look forward to continuing to work with the Committee to support the further devolution of powers, and to strengthen the Parliament's oversight of the Scottish Government in line with the recommendation of the Smith Commission.

Yours sincerely
Caroline Gardner

Caroline Gardner
Auditor General for Scotland

Public Audit Committee: Audit, accountability and the further devolution of powers

Response by the Auditor General for Scotland to PAC issues paper

Introduction

1. The proposals for further devolution contained in the Scotland Bill 2015 represent a substantial increase in the financial powers of the Scottish Parliament. The Smith Commission agreed that the Scottish Parliament should seek to expand and strengthen the independent scrutiny of Scotland's public finances in recognition of the additional variability and uncertainty that further tax and spending devolution will introduce into the budgeting process. As Auditor General, I am committed to supporting the Parliament in developing world class arrangements for holding Government to account and improving the use of public money.
2. The Public Audit Committee has requested views on the issues in its paper *Audit, accountability and the further devolution of powers* published in June 2015. I set out below my views on the issues within the paper that are relevant to my responsibilities.
3. The Committee highlights that its paper serves as a starting point for its discussions on that detail. I welcome the opportunity to provide my views at this stage, and I look forward to continuing to assist the Committee and the Scottish Parliament in its work in this area.

Overall comments

4. Public audit provides independent assurance that public money is spent properly and provides value for money. It helps create a strong and effective system of financial accountability and transparency, which improves the use of public money in the public interest. Clarity about the audit arrangements for new devolved powers is vital to support accountability to the Scottish Parliament. This is particularly important where accountability for proposed powers is shared between the UK and Scottish Governments.
5. I remain of the view that there is no one-size-fits-all model of audit and accountability for the proposed devolved powers, and welcome the agreement of the Committee and others on this point. As the nature of the powers and the bodies involved vary significantly, it will be necessary to consider what arrangements are most appropriate in each case.
6. I welcome the Committee's suggestion of key principles that should underpin audit reporting to the Scottish Parliament, and provide more detailed comment on these below. In my view the audit arrangements established in each case should also continue to enshrine the principles of public audit that are shared across the UK:
 - the independence of auditors from the bodies they audit

- a wider scope which reaches beyond financial statements into governance and performance
 - public reporting of audit findings and recommendations.
7. These principles ensure that auditors can carry out their work free of interference and raise issues of concern in the public domain. Taken together with effective public and parliamentary scrutiny, the principles contribute to strong and transparent oversight of public funds.

Key principles underpinning audit reporting to the Scottish Parliament

8. The principles outlined in the Committee's paper (paragraphs 9 to 11) – proportionate, transparent and robust – provide a sound basis for the information the Committee and the Scottish Parliament would need to hold to account those who collect or spend public money. I strongly advocate that scrutiny should be based on audited information and that relevant audit reports are provided to the Scottish Parliament. My own reporting to the Parliament embodies this approach.
9. I agree that any functions transferred to the Scottish Ministers or otherwise to the Scottish Administration should fall within my remit and that of Audit Scotland (paragraph 12). Any functions that are devolved in turn to Scottish Local Government should fall within the remit of the Accounts Commission.
10. Our recent joint paper *Public audit in Scotland* sets out the shape, principles and themes of public audit. It reflects the changing context for public audit in Scotland, including the new devolved financial powers in place and proposed. I believe we have a strong platform for successful delivery of the additional audit responsibilities that flow to us from the further devolution of financial powers and any other responsibilities that may be necessary.

The relationship between C&AG and the AGS

11. I and my colleagues in Audit Scotland maintain a strong and effective working relationship with the Comptroller and Auditor General (C&AG) and the National Audit Office (NAO). We have started discussion of the implications of the Scotland Bill 2015 provisions, and I will continue to keep the Committee informed of the progress we make.
12. The draft memorandum of understanding for the co-operation between the C&AG and me on the audit of the Scottish Rate of Income Tax (paragraph 16) was developed in response to the transfer of powers outlined in the Scotland Act 2012. The additional assurance approach embodied in the draft MOU (paragraph 17) will need to be considered further in the light of the additional devolution proposed in the Scotland Bill.

13. The C&AG previously highlighted to the Committee the importance of a legislative provision to enable his reporting to the Scottish Parliament on the Scottish Rate of Income Tax. It is important that the arrangements that are established in relation to audit reporting on newly devolved areas are appropriately underpinned by legislation or other measure to ensure their durability.
14. As the Committee has noted (paragraph 15), my rights of access do not currently extend to the organisations or activities that are within the remit of the C&AG. This presents a significant barrier to direct involvement in any audit work in these areas. I recognise that there are specific sensitivities attached to taxpayer information.
15. These issues will take some time to work through, and I welcome the Committee's interest and support. I look forward to continuing to work with the Committee and the C&AG to develop appropriate and effective arrangements.

Enhanced financial reporting

16. I have set out in my reports on *Developing Financial Reporting* my strong view that the case for comprehensive, transparent, reliable and timely reporting of Scotland's public finances, as part of a strong fiscal framework, has never been stronger. I welcome the Committee's continuing interest in this area, especially its commitment to pursuing the production of Scottish public sector accounts (or whole of government accounts) with the Scottish Government (paragraph 19). I confirm that I will continue to report progress on this, and on financial and fiscal devolution to the Scottish Parliament more generally.

Scottish specific data

17. Using the principles it has established, I would be pleased to help the Committee develop its views on what information it should expect about specific bodies and how that information may be used to support effective scrutiny (paragraph 22). In cases where bodies receive no direct funding from the Scottish Budget, scrutiny may need to focus on service delivery or performance rather than the use of money.

Taxation

18. I recognise the lack of clarity at this stage about the audit arrangements which will apply to the collection and administration of the Scottish proportion of Value Added Tax (VAT) (paragraph 33). I welcome the Committee's intention to explore this further with the C&AG and HMRC later this year. It is important that the underpinning principles – proportionate, transparent and robust – apply to audit and accountability for assigned VAT, and I will comment on the arrangement as further details emerge.
19. On the audit of devolved taxes (paragraph 34), I share the Committee's expectation that the audit of the collection and administration of devolved taxes will fall within my remit. I will therefore have the opportunity to report to the Scottish Parliament on the new

devolved taxes under the well-established financial reporting and performance audit arrangements with which the Committee is familiar.

Welfare

20. Welfare powers are a significant area for consideration, given the scale of the social security activity to be devolved and its complexity. Alongside scrutiny of financial and service performance, the Committee and the Scottish Parliament is likely to require information from the citizen's perspective under the devolved arrangements. In particular the Committee might expect to have an interest in the citizen's experience of a welfare system and how straightforward or complicated it is to navigate, given the potential for interaction between reserved and proposed devolved functions in tax and social security.
21. The nature of audit arrangements in this area will depend on the Scottish Government's policy decisions about the administration of the social security payments devolved to Scotland. Potential options for this are set out in the Committee's paper (paragraph 36). I will continue to work closely with the C&AG to develop cost-effective audit arrangements as the arrangements become clearer.
22. As the Committee notes (paragraph 37) the Accounts Commission for Scotland, as the organisation responsible for the audit of local government in Scotland, will have a direct interest in the audit and reporting arrangements should councils be involved. The Accounts Commission, Audit Scotland and I work together to deliver public audit in Scotland, as reflected in our *Public audit in Scotland* paper.

Specific bodies

23. Paragraphs 40 to 97 of the Committee's paper set out its views on matters relating to specific organisations and other proposed devolved powers. I can confirm the Committee's assessment of the position in relation to devolved functions of the following bodies:
 - Crown Estate (paragraphs 40 to 42) – based on proposals in the Scotland Bill 2015, I would assume the responsibilities of the C&AG in relation to the responsibilities transferred to Scottish Ministers.
 - Commissioners of Northern Lighthouse Board (NLB) (paragraphs 56 to 61) – NLB's accounts are currently examined by the C&AG as part of the audit of the General Lighthouse Fund (GLF) accounts. This information could provide the basis for Scottish Parliamentary scrutiny of NLB. Subject to appropriate statutory underpinning, it would be possible for me to appoint auditors to undertake such work and provide assurance to the C&AG for his audit of the GLF. There would be a cost to such work which would need to be balanced against the additional assurance gained.

Under existing arrangements, Audit Scotland performs a programme of audit work on shared account areas and linked common systems at Forestry Commission in Edinburgh, on behalf of the NAO. This contributes to the C&AG's financial statements audits of associated UK and English bodies.

- The Boundary Commission for Scotland (paragraphs 94 to 97) – any powers transferred to the Local Government Boundary Commission will result in them being subject to audit by me under existing arrangements.

24. In relation to the other functions highlighted by the Committee, I will be pleased to contribute to its future deliberations. I anticipate there will also be opportunities for Audit Scotland to support effective parliamentary scrutiny of finances and service performance of relevant organisations on a case by case basis.

25. In further developing audit and accountability arrangements, it will also be valuable to consider how the principles outlined in the Committee's paper should be applied to existing cross border activities. For example accounts in areas such as nuclear decommissioning and criminal injury compensation are currently reported to the Scottish Parliament.

Conclusion

26. I and colleagues in Audit Scotland have welcomed the opportunity to contribute to the Committee's work so far in this important area. As the Committee intended, its paper serves as a starting point for its discussions on the detail of audit reporting arrangements with all interested parties. We have significant experience of the implementation of devolved powers, arising from the initial devolution arrangements, and more recently the implementation of the new powers in the Scotland Act 2012. I look forward to continuing to work with the Committee as it considers the audit arrangements required to support the further devolution of powers, and to strengthen the Parliament's oversight of the Scottish Government in line with the recommendation of the Smith Commission.