



The Scottish Parliament
Pàrlamaid na h-Alba

PUBLIC AUDIT AND POST-LEGISLATIVE SCRUTINY COMMITTEE

AGENDA

6th Meeting, 2016 (Session 5)

Thursday 27 October 2016

The Committee will meet at 9.00 am in the Adam Smith Room (CR5).

1. **Decision on taking business in private:** The Committee will decide whether to take items 3 and 4 in private.
2. **Section 23 report - Changing models of health and social care:** The Committee will take evidence on the Auditor General for Scotland's report entitled "Changing models of health and social care" from—

Jan Baird, Director of Adult Care, NHS Highland, and Bill Alexander, Director of Care and Learning, Highland Council, The Highland Partnership;

Robert Calderwood, Chief Executive, and Mark White, Director of Finance, NHS Greater Glasgow and Clyde.

3. **Section 23 report - Changing models of health and social care:** The Committee will consider the evidence received at agenda item 2 and take further evidence from—

Fraser McKinlay, Director of Performance Audit and Best Value, and Jillian Matthew, Audit Manager, Audit Scotland.

4. **Work programme:** The Committee will consider its work programme.

Terry Shevlin
Clerk to the Public Audit and Post-legislative Scrutiny Committee
Room T3.60
The Scottish Parliament
Edinburgh
Tel: 0131 348 5390
Email: terry.shevlin@parliament.scot

The papers for this meeting are as follows—

Agenda item 2

Changing models of health and social care - written submissions

PAPLS/S5/16/6/1

PRIVATE PAPER

PAPLS/S5/16/6/2
(P)

Agenda item 4

PRIVATE PAPER

PAPLS/S5/16/6/3
(P)

Letter from the Auditor General for Scotland

PAPLS/S5/16/6/4

PRIVATE PAPER

PAPLS/S5/16/6/5
(P)

PRIVATE PAPER

PAPLS/S5/16/6/6
(P)

Public Audit and Post-legislative Scrutiny Committee

6th Meeting, 2016 (Session 5)

Thursday 27 October 2016

Changing models of health and social care – written submissions

Background

1. At its meeting on 30 June 2016, the Committee took evidence from the Auditor General for Scotland and Audit Scotland on the AGS report entitled “Changing models of health and social care”. The Committee agreed to seek oral evidence from the Scottish Government.
2. At its meeting on 15 September 2016, the Committee took evidence from Scottish Government officials on the same report. The Committee then agreed to seek oral evidence from NHS Greater Glasgow & Clyde and NHS Highland/Highland Council (also known as The Highland Partnership).

Written submissions

3. The Committee has received two written submissions ahead of today’s evidence session with NHS Greater Glasgow & Clyde and The Highland Partnership. They are:
 - A written submission from The Highland Partnership (attached at Annexe A); and
 - A response from the Scottish Government (attached at Annexe B).

Gary Cocker
Assistant Clerk to the Committee

Written submission from The Highland Partnership – The Highland Council and NHS Highland

Background:

A joint meeting of The Highland Council and the Health Board was held in December 2010 and a joint statement of intent was issued:

“We will improve the quality and reduce the cost of services through the creation of new, simpler, organisational arrangements that are designed to maximise outcomes, and through the streamlining of service delivery to ensure it is faster, more efficient and more effective.”

NHS Highland and the Highland Council, 16 December 2010

Some fifteen months later, on 31st March 2012, The Highland Council and NHS Highland signed a formal partnership agreement to establish the first lead agency model in Scotland.

Under the lead agency model all adult social care services were transferred to NHS Highland from the Highland Council in April 2012, and in a reciprocal arrangement, The Highland Council took on responsibility for the delivery of community children’s services.

This involved 1,400 adult care staff transferring under Transfer of Undertakings (Protection of Employment) ¹ from Highland Council to NHS Highland while maintaining their terms and conditions. Alongside this, 200 NHS Highland staff transferred across to the Highland Council. Some of the other practical implications are summarised below.

Financial arrangements:

- New single budgets had to be prepared along with requisite resource transfer
 - £89 million annual budget was transferred from the Council to NHS Highland
 - £8m annual budget was transferred from NHS Highland to the Council
- Different VAT reporting mechanism for each organisation had to be reconciled

Management and governance structures:

- The lead agency has responsibility for the governance of service delivery
- The commissioning agency monitors and scrutinises that delivery

¹ Transfer of Undertakings (Protection of Employment) Regulations (TUPE) provide rights to employees when their employment changes when a business is transferred to a new owner

- Local community partnerships have been created, for local stakeholder involvement
- A series of improvement groups ensure multi-agency contribution to strategic planning
- Outcomes had to be agreed along with associated performance management frameworks

At the point of integration (1st April 2012), new governance and management arrangements were put in place for the lead agency model of single governance, single management, single budgets, which followed legislative requirements .

These confirm that in terms of adult services the Council remains accountable but NHS Highland is responsible for the delivery of the service. In terms of children's services, NHS Highland remains accountable but the Council is responsible for the delivery of the service.

Below, are some of the key outcomes and challenges for the Partnership in both Children and Adult services.

CHILDREN'S SERVICES:

Key Outputs and Outcomes

- Single management arrangements to reinforce the single Highland Practice Model (GIRFEC).
- Creation of integrated front line teams, bringing health and care professionals together around school boundaries.
- Closer joint working for the team around the child and family.
- Continued improving performance delivery across the majority of indicators.
- New multi-disciplinary initiatives that would not otherwise have been possible: e.g.: emerging literacy, now being rolled out across the Northern Alliance; and the co-ordinated use of consistent improvement methodology across children's services.

Key Challenges

- Recruitment and retention for some disciplines, and in some parts of the authority.
- Ensuring a joined up strategic approach, when many national initiatives continue to have narrower bases, targets and objectives, and restricted funding streams.

- Ensuring effective team working, when staff have different terms and conditions.

ADULT SERVICES:

Key Outputs and Outcomes:

- Improvements in quality of care in care homes as illustrated by Care Inspectorate gradings, through support to all care homes, commitment to My Home Life and appointment of dedicated posts – Service Improvement Lead, Dietician and Scottish Care Development workers.
- Improvements in access to home based care through strategic commissioning with the Independent and third sectors, innovative application of SDS option 2, targeting of reablement, flexible intermediate care, development of single point of access and integrated teams.
- Older people are safer due to significant improvements in preventing falls – in hospitals, care homes and at home.
- Increased choice for all adult groups with improved uptake of SDS option 2 – Individual Service Funds
- More people with a Learning Disability supported in the community with a reduction in those supported within an institution.
- Access to Community Mental Health Teams improved with development of single point of access, improved communication and greater clarity of roles – as reported by service users.
- Users and carers have expressed the view that they are more involved and engaged in improvement work through Improvement groups, Kaizen events and the high level value streams.
- Daily huddles in Mental Health improving information flow about vulnerable people.

Key Challenges:

- Hospital flow and discharge is the subject of significant redesign and is now more about the interface between Hospital and community services.
- The demand for Complex care at home packages continues to grow with expectations of home based support often developed within Children's services and the number of young adults with complex needs continuing to rise. This does of course encourage innovation, community engagement, the use of assistive technology and flexible housing solutions.

- Redesign whilst maintaining service levels. Transformational change is long term and requires considerable investment of time, energy and expertise. The Highland Partnership agreed a five year plan and as approach the end of that timescale we can evidence improvements. However this is still a journey that requires sustained focus on improvement.
- Recruitment and retention remains an issue across all services and areas. However integration has enabled us to flex roles and budgets to maximum effect especially in the more remote and rural areas. This presents a challenge to traditional roles and expectations of communities. It also enables the development of new roles that provide opportunities to local people.
- Outcome focussed performance Indicators – Historically performance indicators whether National or local have focussed on inputs and a perception that more is better. With the shift to person centred approaches and a focus on outcomes for both cared-for people and their carers, there is a need to agree how we can effectively evidence improvements without referring to a raft of proxy indicators. There is also a need to acknowledge that a number of different approaches and initiatives will contribute to an outcome and it is capturing that contribution that is challenging.
- Budget management. Although quantum can be agreed and a structure is in place to share and jointly manage in-year financial pressures, there remains a challenge around managing budgets against demand, expectation and uncertainty in the longer term. Short-termism does not support transformational change and can become a distraction, diverting the organisations away from improving outcomes for our population.

**Jan Baird, Director of Adult Care, NHS Highland
Bill Alexander, Director of Care and Learning, The Highland Council**

RESPONSE FROM THE SCOTTISH GOVERNMENT, DATED 20 OCTOBER 2016

Following the meeting of the Public Audit Committee on 15 September, you wrote to me about three commitments I made to the Committee.

Electronic patient record

I asked Professor Andrew Morris to write to the Committee with a detailed outline of the current position of the electronic patient record and this is attached. Please let me know if the Committee would like more information.

National Review on Targets and Indicators

The Committee asked to be informed about the National Review on Targets and Indicators for Health & Social Care. Sir Harry Burns is chairing the review and we expect to receive his initial recommendations in March 2017. You may be aware that Sir Harry has been invited to the Health & Sport Committee on 15 November to give evidence about the review of targets. I can confirm that we will inform both Committees when we get Sir Harry's report.

Section 23 report – Changing models of health and social care

The attached appendix provides my response to each of the recommendations of the Audit Scotland report on Changing Models of Health and Social Care. I will be happy to provide further details if the Committee would find that helpful.

If members would find it helpful to visit a Partnership to see directly how integration is being implemented, please contact my office; my officials would be pleased to offer any support to make such arrangements.

I hope this is helpful but please get in touch if we can provide any further information that would be of use to the Committee.

PAUL GRAY

Appendix: Responses to the recommendations of the Audit Scotland report

1. The Scottish Government should provide a clear framework by the end of 2016 of how it expects NHS boards, councils and integration authorities to achieve the 2020 Vision, outlining priorities and plans to reach its longer-term strategy up to 2030. This should include the longer-term changes required to skills, job roles and responsibilities within the health and social care workforce. It also needs to align predictions of demand and supply with recruitment and training plans.

The integration of health and social care, the National Clinical Strategy and our work on population health provide the basis for delivering the 2020 Vision and our longer-term strategy up to 2030. Taken together, these strategies will support the workforce developments that need to be put in place to support the 2020 vision. I will set out my plan for bringing the delivery of these policies together as a single framework by the end of this year.

On workforce specifically, I have committed to publishing an outline national healthcare workforce plan by December 2016, to be followed by a first iteration of a full national healthcare workforce plan by Spring 2017. We continue to work with partners and stakeholders to develop and up-skill the social care workforce and to improve recruitment and retention. Registration with the Scottish Social Services Council (SSSC) is resulting in a significant increase in the proportion of that workforce who hold or are working towards accredited qualifications, from around 20% in the early 2000s to approximately 50% this year. People working in care at home and housing support services (potentially another 30% of the overall workforce) will come into the scope of registration over the next few years. In addition, our transfer this year of £250m from health funding to support investment in social care includes paying adult care workers the Living Wage from 1 October.

2. The Scottish Government should estimate the investment required to implement the 2020 Vision and the National Clinical Strategy.

I have set out above that we will publish our plan for bringing together delivery of these policies by the end of this year, and I will include in that further information on required investment. The context for these improvements is our total expenditure on health and social care, all of which should be geared towards successful implementation of the 2020 Vision and National Clinical Strategy. Within current resources, the Committee will wish to note that we are already enabling a shift in the balance of care with our transfer this year of £250m from health funding to support investment in social care, and, over three years from 2015-16 to 2017-18, via the Primary Care Fund (£85m), the Integrated Care Fund (£300m), additional funding to tackle Delayed Discharge (£100m) and funding for technology enabled care (£30m).

3. Support new integration authorities making the transition from focusing on structures and governance to what needs to be done on the ground to make the necessary changes to services.

The Improvement Hub at Healthcare Improvement Scotland is providing practical support to Health and Social Care Partnerships as they move into implementation of their strategic commissioning plans. With NHS NSS, we are providing enhanced data to support better local service planning, supplemented by analytical support ‘on the ground’, so that colleagues in Partnerships are better equipped to make effective use of their data. We are also providing a programme of leadership development for Chief Officers in Partnerships, and a support network for Partnership Chairs and Vice Chairs. We are carrying out a rolling programme of engagement meetings between senior Scottish Government officials and leaders within Partnerships, from which I am pleased to note that many are already making progress in terms of practical improvements to service provision.

4. The Scottish Government should ensure that learning from new care models across Scotland, and from other countries, is shared effectively with local bodies, to help increase the pace of change.

The Improvement Hub at Healthcare Improvement Scotland will play a key role in ensuring learning is shared effectively from within and beyond Scotland. In addition, we will continue to support topic-based learning networks – for example in relation to commissioning skills – as integration beds in. Partnerships and Chief Officers are already learning from one another; I recognise the importance of supporting them to set the achievements of other areas in the context of their own local assets and communities’ priorities.

5. The Scottish Government should work to reduce the barriers that prevent local bodies from implementing longer-term plans.

In terms of improving structures and processes, the Programme for Government sets out that we will begin work to examine the structure of NHS Health Boards and their relationship with Local Authorities, as part of Ministers’ commitment to facilitating lasting change, particularly in terms of reducing bureaucracy and removing any barriers to effective care. My officials are also working with Health Boards, Local Authorities and Partnerships to ensure that the budget setting process for Partnerships is better aligned in future years.

6. The Scottish Government should be taking a lead on increasing public awareness about why services need to change.

I recognise the role that the Scottish Government, and Partnerships, must play in building communities’ confidence in both the need for change and the plans to implement it. We are already taking a lead on this, via the engagement on the National Clinical Strategy, and our commitment to realistic medicine. Integration, with its focus on effective locality engagement and involvement in plans for change,

provides the local framework for conversations with the public about the shape of health and care services in future.

7. The NHS boards and councils should work with integration authorities during their first year of integration to carry out a shared analysis of local needs, and use this as a basis to inform their plans to redesign local services, drawing on learning from established good practice.

In 2015, the year before integration went live, we published statutory guidance on strategic commissioning, which set out that each Partnership's strategic commissioning plan should be based upon a Joint Strategic Needs Assessment of local people's needs. Strategic commissioning plans have now been published by every Partnership in line with the requirements of the guidance, and we are providing support for their on-going development. Partnerships that went live early are now in year two of their integrated arrangements, and are building on the work they have already undertaken; in other areas, Partnerships have progress to make in this regard. We have shared with Partnerships a draft overview of strategic commissioning plans for 2016-19, which identifies common themes and key areas for further development. I attach the draft overview for your consideration.

4th Floor
102 West Port
Edinburgh EH3 9DN

T: 0131 625 1500
E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk

AUDITOR GENERAL 

Jenny Marra MSP
Convener
Public Audit and Post-legislative Scrutiny Committee
Room T 3.60
The Scottish Parliament
EDINBURGH
EH99 1SP

14 October 2016

Dear Convener

Thank you for your letter of 26 September. I'm glad that the committee found our contribution to the business planning day useful; I welcomed the opportunity to have an early discussion about how we can best support your scrutiny of Scotland's public services. I look forward to continuing to work closely with the committee as it develops its role, including its approach to post-legislative scrutiny.

This is a period of significant change for Scotland's public finances as a consequence of the new financial powers that are transferring to the Scottish Parliament. One of my priorities over this session will be to work closely with the committee and the Parliament more generally to provide assurance that the audit arrangements underpinning Scotland's new financial powers support effective parliamentary scrutiny.

I have attached my detailed response to the committee's questions, but it might be helpful to draw out some key issues that may be of most interest to the committee.

Firstly, I believe that the current scope of my audit powers, and those of the Accounts Commission, is sufficient for auditing public spending in Scotland.

I share the committee's ambition to ensure that the way public money is spent produces the best possible outcomes for the people of Scotland. Audit plays an important part in providing independent judgements on how well public bodies are working together and engaging with people and communities to provide seamless and high-quality services. A common theme in a number of my recent reports has been the need for the Scottish Government to be clearer about what its spending aims to achieve and how this contributes to the Government's overall purpose, together with specific outputs and outcomes. This will be a continuing area of focus in my audit work across the public sector.

The way public services are delivered continues to evolve, with the creation of new bodies and different funding and accountability arrangements such as the introduction of Integration Joint Boards and City Deals. I will continue to keep the committee updated on how the Accounts Commission and I are adapting our audit approaches and targeting our work to reflect these changes. The committee has received briefings from the Accounts Commission in the past on important national issues arising from its audit work in local government and we anticipate this continuing, alongside my own reporting to the committee.

A crucial part of my support to the committee lies in identifying important cross-cutting systemic issues and challenges facing the public sector. In the past, I have reported to the committee on issues such as managing early departures, the role of boards, and public sector workforce planning. I fully support the

committee developing different activities to examine issues like this, and would be happy to contribute to members' thinking.

Finally, I would like to emphasise my commitment to working closely with the committee to ensure, as far as possible, that my future programme of work addresses your areas of interest.

I hope this letter and the attached appendix cover all the points raised by the committee, but do let me know if you would like any more information.

Yours sincerely

Caroline Gardner
Auditor General for Scotland

Appendix 1: Auditor General for Scotland responses to the questions arising from the Public Audit and Post-legislative Scrutiny Committee business planning session

Question 1: Are there any significant barriers to auditing public money that may be spent by non-public bodies that may impact on Audit Scotland and/or the Parliament's scrutiny and holding to account of such bodies? In short, are you always able to 'follow the public pound'?

I do not believe that there are any significant barriers to auditing public expenditure in Scotland. The powers available to me and to the Accounts Commission for Scotland enable the spending of public money in Scotland to be properly tracked through and beyond the public sector.

Public audit in Scotland provides an overview of how the three key public sector bodies in Scotland (the Auditor General for Scotland, the Accounts Commission for Scotland and Audit Scotland) work together to support effective democratic oversight of all public spending in Scotland. http://www.audit-scotland.gov.uk/docs/corp/2015/as_150511_public_audit_scotland.pdf

My responsibility is to audit the Scottish Government, health and other central government bodies and report to the Scottish Parliament on their financial health and performance.

The Accounts Commission's specific responsibilities for auditing and holding councils to account for their performance reflects the separate democratic mandate of local authorities, which, as sovereign bodies, are not directly accountable to the Scottish Parliament. This point was reflected in your letter where you drew a distinction between the Commission's role in scrutinising the performance of individual local authorities and the Parliament's broader interest in holding the Scottish Government to account for the funding it allocates to councils.

Audit Scotland provides audit services to both the Auditor General and the Accounts Commission. This allows a 'joined-up' approach to be adopted to the auditing of public money and the performance of public bodies across the increasingly complex and interconnected model of public services in Scotland. This is reflected in the joint reporting arrangements that exist between myself and the Accounts Commission and in the extensive cross-sectoral working that takes place within Audit Scotland.

The committee has expressed a particular interest in how audit follows the flow of public money through and beyond the public sector. I have therefore summarised below the local government 'following the public pound' arrangements and the framework for auditing central government expenditure under the Scottish Public Finance Manual. I have also set out the audit arrangements for public bodies that are currently outside my remit.

Local Government bodies – following the public pound

The use of external bodies to deliver public services is most common in the local government sector. The growth in use of arm's-length external organisations (ALEOs) by councils, which began mainly with sports and leisure trusts in the 1980s, has now extended to include widespread use of ALEOs for property services, transport, economic development and in some cases social care services. For that reason, the use of ALEOs by councils is a significant area of interest for the Accounts Commission. ALEOs are obliged to appoint their own external auditors and, where the operation of the ALEO is sufficiently significant for it to feature in a council's group accounts, the council's external auditor will liaise with, and place reliance on the work of, the ALEO's auditor. Some ALEOs are also subject to other types of regulation, for example, the Care Inspectorate regulates ALEOs which provides care services.

As we mentioned at the business planning day, the principles of funding external bodies were set out in the Accounts Commission and the Convention of Scottish Local Authorities (COSLA) 1996 'Code of Guidance

on Funding External Bodies and Following the Public Pound' (FtPP Code). http://www.audit-scotland.gov.uk/docs/local/2003/nr_040311_following_public_pound.pdf

The Code places obligations on councils to establish appropriate arrangements for oversight and scrutiny of any significant funds or other resources which are transferred by councils to arms length bodies such as companies, trusts and voluntary bodies. The Code was given statutory backing in 2005 in the form of a Ministerial Direction under s51 (1) and (2) of the Local Government (Scotland) Act 2003 which required every local authority to comply with the FtPP Code when entering into any arrangement or agreement with a body corporate or implementing any such arrangement or agreement. The Direction also placed a requirement on proper officers of the council to provide auditors with information to ensure compliance by local authorities with their duty to secure best value.

The Code also includes a requirement that the council must ensure that its external auditors are given a right of access to financial and other monitoring information held by the council and, if appropriate, accounts and financial arrangements of the external body so that they may follow the trail of public money from the council through the body.

The Code was developed at that time in response to the increasing use by councils of companies, trusts and other arm's-length bodies, and concerns about the quality and effectiveness of councils' oversight of the performance of these bodies. The initial focus of the Code was on self-regulation by councils.

In its current strategy, the Accounts Commission has following the public pound as a priority. The Commission undertook a review of the Code in 2015 and concluded that it remained fit for purpose. The Chair of the Commission subsequently wrote to councils to remind them of their obligations in relation to following the public pound. The Commission has also revised its approach to auditing Best Value. A new approach began at the start of October this year. The Commission has agreed that compliance with the Code should be incorporated into the Commission's performance expectations for councils under revised Best Value statutory guidance (the review of this guidance is being taken forward by the Scottish Government and COSLA); and that proportionate and risk-based auditing of compliance with the Code will be undertaken as part of the new audit approach...

In addition to considering compliance with the FtPP Code through its Best Value audit work, the Accounts Commission's rolling programme of performance audits also includes the proposal to undertake a national performance audit on councils' use of ALEOs during 2017/18.

Central government bodies

The Scottish Public Finance Manual sets out the obligations on Accountable Officers for the stewardship of public finances under the Public Finance and Accountability (Scotland) Act 2000. It covers all non-local government bodies which fall within my audit remit. It sets out the relevant statutory, parliamentary and administrative requirements for accounting for public funds, emphasises the need for economy, efficiency and effectiveness, and promotes good practice and high standards of propriety. <http://www.gov.scot/Topics/Government/Finance/spfm/Intro>

The essence of the Accountable Officer's role is a personal responsibility for the propriety and regularity of the finances under their stewardship and for the economic, efficient and effective use of all related resources. Accountable Officers are personally answerable to the Parliament for the exercise of their functions.

Although there is no formal 'following the public pound' code that applies in the central government sector, the Scottish Government's model grant scheme includes a requirement that any body receiving grants must provide the Auditor General for Scotland with access to books and records of receipts and expenditure of the grant.

In the further education sector there are a number of charitable arms-length foundations (ALFs) which hold and use reserves of colleges for the benefit of the individual college or further education in an area. These

bodies were created to avoid colleges having to return money unspent at the financial year end to the Scottish Government, which in turn would need to return that money to the Treasury.

Not all colleges have an associated ALF and not all colleges have donated money to ALFs. The amount donated to ALFs to date have totalled almost £106m, of which £99m was transferred in 2013/14, the year prior to college reclassification. Some colleges have applied for and received money, with other colleges having their applications turned down. Some non-college bodies have also applied for and received money from ALFs.

As charitable bodies, ALFs must submit their accounts and an annual return to the Office of the Scottish Charity Regulator (OSCR) and details of their income and expenditure are published on the OSCR website. For example, details of West College Scotland Foundation can be accessed [here](http://www.oscr.org.uk/search-oscr/charity-details?number=SC044743):
<http://www.oscr.org.uk/search-oscr/charity-details?number=SC044743>

Taken together, these local and central government arrangements provide me and the Accounts Commission with powers to access information the use of public funds (including their use by non-public bodies) across most parts of the public sector.

There are though a number of special cases which are highlighted in my answers to questions 2 and 3, below.

Question 2: What are the audit arrangements for nationalised industries, limited companies, the Scottish Futures Trust and Universities? Do they raise any issues for the effective audit and scrutiny of the bodies in question?

Audit arrangements for Scottish public bodies currently outside the remit of the Auditor General for Scotland

Your letter asks about the audit arrangements for public bodies currently outside my remit as Auditor General for Scotland. These include public sector bodies that are audited under the Companies Act and some UK bodies that operate in Scotland and a number of bodies who are audited by the National Audit Office. I have set out the audit arrangements for these bodies below.

Public bodies in Scotland that are limited companies

Public bodies that are also limited companies in Scotland and are therefore subject to Companies Act audits that are outside of my remit currently include Highlands and Islands Airport, David MacBrayne, Caledonian MacBrayne and the Scottish Futures Trust. The auditors of these bodies are appointed by shareholders (e.g. the Scottish Government). However, the Auditor General for Scotland has powers to carry out performance audit work in these bodies under section 23 of the Public Finance and Accountability (Scotland) Act 2000 (the PFA Act).

There is a potential gap in the scope and reporting to the Scottish Parliament of external audits of these public bodies. These 'Companies Act' audits are covered by a narrower scope than the wider audit work that takes place in audits which are undertaken by appointed auditors under the Auditor General for Scotland and Accounts Commission Code of Audit Practice. In addition, as Auditor General, I do not have powers to prepare reports for the Scottish Parliament under Section 22 of the Public Finance and Accountability (Scotland) Act 2000 on any issues arising from the auditing of the accounts of those bodies.

The Companies Act 2006 does though make provision for Auditors General to become the auditor of limited companies in two circumstances. Firstly, where the Auditor General is appointed as the external auditor of a limited company by statutory instrument. Ministers may use this route to dis-apply the relevant provisions of the Companies Act relating to audit only where every company in the group is non-profit making. This route has been used to allow the Auditor General for Scotland to become the auditor of Skills Development Scotland and Architecture & Design Scotland.

The second route for an Auditor General to become the auditor of a limited company would be for the Auditor General to be appointed by the body itself. For this route to be used, the Auditor General would need to be regulated by the Financial Reporting Council and the senior audit staff in Audit Scotland undertaking the work would need to be individually eligible under the Companies Act to be company auditors. Audit Scotland staff do not currently have this status, and it would require a sufficient volume of work to be cost-efficient given the upfront cost in meeting the eligibility requirements. An alternative would be to explore whether this route could be achieved by the Auditor General appointing a private sector audit firm with company audit experience to any such audit.

UK public bodies that operate in Scotland

A number of public bodies operate in Scotland for which responsibility is not devolved to the Scottish Parliament, such as the Ministry of Defence and the Health and Safety Executive. These bodies are audited by the National Audit Office (NAO) and are accountable to the UK Parliament. The Auditor General has no powers to prepare reports on these bodies under sections 22 and 23 of the Public Finance and Accountability (Scotland) Act 2000.

There are also a number of UK public bodies that operate in Scotland whose audit arrangements are set out in the Scotland Act. These include the Northern Lighthouse Board, the Gas and Electricity Markets Authority and the Office for Communications. Whilst these bodies operate in Scotland, they receive little, if any, funding from the Scottish public sector. These bodies are subject to audit by the NAO and the Scotland Act requires them to have their annual accounts laid in the Scottish Parliament. The Act provides for officials from the bodies, but not the auditors, to provide evidence to the Parliament. The Auditor General has no powers to prepare either S22 or S23 reports on these bodies. The Committee may wish to consider what role, if any, it or other committees of the Parliament might have in relation to these bodies.

Audit arrangements for universities

Universities are responsible for appointing their own external auditors and as charities are also accountable to OSCR. The Auditor General for Scotland has powers to perform value-for-money audits in bodies funded by the 'higher education funding body for Scotland'. These powers were used for the first time in 2007 to report on estate management in higher education. Earlier this year I reported on higher education in Scottish universities this year, and briefed the committee on my findings on 6 October.

I am content that the current powers available to me are sufficient to enable me to assess the effectiveness of the use of public funds across the higher education sector.

Higher education is a sector in which I have an on-going audit interest and I anticipate undertaking further work in this sector as part of my five-year rolling programme of performance audit work.

Question 3: Are there any outstanding audit and accountability issues associated with the enactment of the Scotland Bill?

In June 2015, the Public Audit Committee published a [paper](#) on the evidence previously received on the audit and accountability arrangements for the proposed further devolution of powers. The committee recognised that it would take time to finalise the detail of audit reporting arrangements for each of the relevant bodies and powers and that its paper served as a starting point for discussions on that detail. In August 2015, I set out my [views](#) on the issues raised in the paper that were relevant to my responsibilities.

Since then, the Scotland Act 2016 became law and the Fiscal Framework was agreed between the Scottish and UK Governments. Work is now under way to put in place the necessary arrangements to enable implementation. My briefing [paper](#) on *Scotland's new financial powers: key issues for the Scottish public finances* sets out the timeline for key elements of this. The issues raised by the committee's predecessor in June 2015 remain pertinent and in many cases are yet to be resolved. The main outstanding issues are summarised briefly below.

The Fiscal Framework provides¹ that both Governments have agreed to put in place a set of robust auditing arrangements, and that these will be agreed through the Joint Exchequer Committee. I am committed to supporting the Parliament and the Public Audit and Post-legislative Scrutiny Committee as it contributes to the development of those arrangements through continuing discussion. I will also work with the National Audit Office, the Scottish Government and others to develop and implement cost-effective audit arrangements.

The main issues previously identified by the Public Audit Committee in Session 4 that remain unresolved include:

- The Comptroller and Auditor General (C&AG) will remain as auditor of some of the devolved functions whilst responsibility will transfer to me in others. A memorandum of understanding between the C&AG and me operates in relation to audit reporting on devolved income tax following implementation of the 2012 Act. This provides for me to provide ‘additional assurance’ in relation to the C&AG’s reporting. In view of the greater range and complexity of powers (such as the interplay between reserved and devolved functions in tax and welfare) the committee may wish to consider whether such an arrangement remains appropriate – and whether arrangements might extend to other areas including assigned VAT and social security.
- Further dialogue is required with relevant organisations about the specific Scottish reporting and data that could or should be provided in relation to bodies or functions devolved to Scotland – including financial, performance and service information. The manner in which UK ministers may direct such organisations to provide Scottish specific reporting also remains to be resolved. I will be pleased to contribute to the committee’s future deliberations and anticipate that 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.

In relation to the specific financial provisions of the 2016 Act I would highlight the following:

- Devolved taxes – further devolved taxes were included in the Act and I anticipate that these will be audited by Audit Scotland through the existing audit of Revenue Scotland.
- Income Tax – the National Audit Office will shortly report to the Scottish and UK Parliaments on the Scottish Rate of Income Tax for 2015/16. At this point I will provide my report to the Scottish Parliament on this work. We are currently discussing the specific timetable for this and will provide more information on this as soon as it is confirmed. The first such reports covering 2014/15 is available [here](#).
- The amount raised from income tax under the control of the Scottish Parliament will rise significantly from 2017/18. This will continue to be collected by Her Majesty’s Revenue and Customs (HMRC) and will result in adjustments to the Scottish Block Grant. The C&AG audits HMRC, and both the C&AG and I will continue to report to the Scottish Parliament under existing arrangements. As noted above, given the significant increase in revenues covered by these arrangements, the committee may wish to consider whether these arrangements remain appropriate.
- Value Added Tax (VAT) – part of the revenues from VAT will be assigned to the Scottish Parliament and an adjustment made to the Block Grant. The calculation method and any scrutiny arrangements are still being developed and I will report to the committee on these arrangements in due course.
- Social security expenditure – the Scottish Government is currently consulting on future arrangements and has proposed the setting up of a social security agency. We would expect the Auditor General to be appointed as the auditor of that agency. The Accounts Commission for

¹ Paragraphs C111 and C112 of the [annexes](#) to the Fiscal Framework.

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.

- At least until the agency is established and the administration arrangements finalised, there may be a period where the Department of Work and Pensions (DWP), which is audited by the NAO, administers some Scottish social security expenditure. If that is the case then arrangements will need to be put in place to ensure that the Scottish Parliament obtains audit assurance about that expenditure and is able to scrutinise it. The Scottish Parliament is also likely to require information and assurance about the interaction between reserved and devolved functions in tax and social security, and the citizen's experience of this.
- Crown estate – responsibility for the crown estate in Scotland is being devolved to Scotland. The Scottish Government is currently considering the best way to achieve this and accountability and audit arrangements will need to be considered once the body that will hold and manage the assets has been decided. If, as part of that process, the Crown Estate becomes a new public body, then we expect that the Auditor General would be responsible for appointing auditors to that body.

Question 4: Do you think there is merit in the Committee examining recurring or generic issues that arise as part of my audit work?

As your letter indicates, it is not uncommon for generic issues or themes to recur across a number of different pieces of audit work and often across different sectors. Where this is the case, a key part of my support to the committee lies in identifying these cross-cutting issues and bringing them to the attention of the committee to help it discharge its parliamentary scrutiny role effectively, and support improvements in public spending and services. This is something that I have done in the past in my reporting on issues such as: managing early departures from the public sector, the role of boards, and workforce planning.

I fully support the idea of the committee examining recurring or generic issues that arise as part of my audit work, perhaps through activities such as one-off evidence sessions or round table discussions. As you know, in early 2017 I am planning to draw together the common governance, cost and implementation difficulties highlighted in my recent series of S22 reports on a range of different IT project management difficulties across the public sector. I hope that this material will support the committee in seeking a range of views from key stakeholders on what action might be taken to address the systemic challenges associated with public sector IT procurement and project management.

This will provide a useful opportunity to pilot a different approach to using audit evidence to support scrutiny and improvement.

I shall be refreshing my rolling programme of performance audits later this year and would be interested to hear the committee's views on any specific cross-cutting issues that it thinks I should consider for potential future performance audit work.

Question 5: Scrutiny of local government and other public bodies such as IJBs

Your letter highlights the increasingly complex and interconnected public service delivery in Scotland and asks whether this is likely to lead to more joint reports from myself and the Accounts Commission.

One of the advantages of the Scottish Public Audit model is that Audit Scotland works jointly for the Auditor General for Scotland and the Accounts Commission. This allows cross-cutting public sector audit issues to be identified and reported on in an efficient and 'joined-up' manner. The impact of public service reform has featured prominently as an area of audit interest for us both for many years and continues to do so.

The Commission and I are committed to ensuring that our joint approach to public sector audit adapts to reflect changing models of public service delivery. Joint reports have always been an important vehicle for

us to work together to support the effective scrutiny of performance across national and local government bodies and to assess the effectiveness of implementation of significant national policies that also have a local dimension. Our recent joint work on community planning partnerships and health and social care integration are both examples of this.

I would be happy to discuss with the committee how the audit risks presented by the changing landscape of public services in Scotland are reflected in the audit work that Audit Scotland undertakes on behalf of myself and the Accounts Commission. It would also be useful for me to hear from the committee about any significant risks or challenges associated with public service reform that it would like me to consider when developing my future programme of audit work.

Joint reporting will continue to be an important aspect of my support to the committee during Session 5, alongside the range of other reports such as sector overviews (e.g. the NHS) and section 22 reports on the audits of individual bodies that I bring to the committee's attention. The balance of audit activity will, of course, vary from year to year depending upon the audit risks at that time.

Your letter highlights the recent Accounts Commission report on social work in Scotland and notes that, unless the committee requested otherwise, it would not receive a briefing on such reports. The Commission and I are both fully committed to ensuring that all of our audit work contributes to effective Parliamentary scrutiny in ways that recognise the distinctive democratic mandate of local authorities.

The Commission has briefed the committee on its work in the past and it remains committed to continuing to support the committee in its work scrutinising Scotland's public finances and public sector service performance. In doing so, the Commission will want to ensure that any input to your committee complements the links that it is also developing with the Local Government and Communities Committee and other parliamentary committees in relation to its audit work.

Question 6: Would it be feasible for financial audits to provide even more generic performance information, which could help the Parliament to assess the outcomes delivered by public bodies?

The primary responsibility for reporting on the outcomes delivered by public bodies rests with public bodies themselves, many of which are either subject to statutory public performance reporting obligations (including those contained in the Community Empowerment Act) or are required to participate in national performance reporting frameworks such as Scotland Performs.

My recent Section 22 report on the Scottish Government's consolidated accounts highlighted the need for the Scottish Government to improve its performance reporting. In particular, it stressed the need for the Scottish Government to be clearer what spending is aiming to achieve and how this contributes to the Government's overall purpose and the specific outputs and outcomes. Improving the quality of performance reporting by public bodies has also been a consistent theme in much of my performance audit work across the public sector.

A key strategic priority for me as Auditor General for Scotland is ensuring that that public money is being used to best effect to support the delivery of improved outcomes. This means that reporting on the progress that is being made in improving the quality of public performance reporting across the public sector, and in particular how improved outcomes are linked to the use of increasingly scarce public resources, will be an on-going area of focus in my audit work across the public sector.

The annual audit work that is undertaken by appointed auditors has an important role in supporting me in this ambition.

The Code of Audit Practice sets out the responsibilities of external auditors appointed by me as Auditor General and by the Accounts Commission. The new Code, introduced this year, sets out the requirement on auditors to provide conclusions on a wider scope of audit work covering the following areas: financial sustainability, financial management, governance and transparency, and value-for-money. <http://www.audit-scotland.gov.uk/report/code-of-audit-practice-2016>

Evidence gathered through this wider-scope annual audit process provides the basis for my overview reporting on specific sectors (e.g. NHS and colleges). It also provides the means through which I can report to the committee on any issues of concern within specific audited bodies (such as the recent Section 22 reports on Edinburgh College and Glasgow Colleges' Regional Board). The annual audit process also informs broader programme development activity across Audit Scotland (including the development of new audit products and briefing material for Parliamentary committees).