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AUDITOR GENERAL
ACCOUNTS COMMISSION

28 April 2023

Richard Leonard
Convener
Public Audit Committee
Scottish Parliament
Edinburgh
EH99 1SP

Dear Convener

Replacement European Union funds – future audit and accountability arrangements

Thank you for your letter to the Auditor General for Scotland on 3 April 2023. In view of our shared interests in this area we have prepared this joint response. We can assure the Committee and the wider Parliament that the application of any EU replacement funding by Scottish public bodies falls within our existing remits and that we will remain alert to any significant risks or concerns in considering and reporting our future work.

As you know, the Auditor General for Scotland and the Accounts Commission for Scotland are responsible for securing the independent audit of the accounts and performance of public sector bodies in Scotland. Working with Audit Scotland, we aim to provide clear, independent and objective assurance on how effectively public money is being managed and spent. We consider the application of all public funds by the Scottish Government, councils and other public bodies whatever the source – including block grant and direct funding programmes operated by the UK Government (such as the UK Shared Prosperity Fund).

Where such financial assistance or other funding is provided directly by the UK Government to devolved public bodies we cannot consider the arrangements made by the responsible UK Department to determine the amounts to be provided or the conditions attached. We can consider how Scottish councils and other public bodies decide how to seek and apply any such funding, and how this is coordinated with other national, regional and local spending programmes.

We determine our respective work programmes based on our assessment of the issues and risks being faced across the public sector, following consultation with our stakeholders. This includes joint work, where we consider the unique national and local perspective that public audit can bring produces valuable insight into Scotland’s public services. *Scottish devolution: a framework for audit and accountability* sets out an overall approach and principles agreed between the Scottish and UK Governments as part of the Fiscal Framework Agreement. This enables Audit Scotland and the National Audit Office to work together where they agree it is necessary to meet their respective responsibilities, supporting accountability to both Parliaments.

Letter from the former Deputy First Minister

As you set out, the former Deputy First Minister wrote to the Committee to provide an update on the audit and accountability arrangements for the UK Shared Prosperity Fund (and other EU replacement funding) provided by the UK Government in Scotland. We would provide the following views.

The UK Shared Prosperity Fund (UKSPF) is the UK Government's replacement for the European Structural and Investment Programme (ESIF). We consider that the UKSPF is subject to the following accountability and audit arrangements:

- The UKSPF spending programme is financial assistance provided under powers set out in the UK Internal Market Act. UK Government ministers and officials are accountable to the UK Parliament for the regularity, propriety and value for money of its spending on this programme.

- The National Audit Office (NAO) is responsible for the auditing of all UK Government spending. The Comptroller and Auditor General (C&AG) has statutory authority to audit and report on the financial accounts of all UK Government Departments and to examine and report on the value for money of how public money has been spent by the UK Government. The C&AG determines his own work programme and NAO prepare around 60 value for money reports a year for the UK Parliament.

  For example, in February 2022 the NAO published a report on *Supporting local economic growth*. This considered the lessons the UK Department for Levelling Up, Housing & Communities (DLUHC) had learned from implementing local growth policies and how it had applied these to its current programmes including UKSPF. The report highlighted that the Department is working directly with local authorities in the devolved administrations for the first time in more than two decades.

- UKSPF funding is allocated by the UK Government to Scottish Local Authorities on a formula basis, subject to the approval of specific investment plans. The UK Government is responsible for setting out the conditions of the Fund that all recipients, including Scottish councils, require to follow. This includes provisions on reporting, monitoring and performance management including quarterly progress reporting by Councils. There are currently no requirements for audit certification or other audit reporting to the UK DLUHC on the application of this funding by Scottish local authorities.

- UKSPF funding received by Scottish councils is grant income that requires to be applied by them in accordance with the relevant conditions. They are accountable to their elected members and local electorate for their use of all public funds. The Accounts Commission is responsible for the audit of Scottish local authorities. Their appointed auditors consider if such income and associated expenditure is appropriately accounted for. As part of its work programme, the Commission may also consider how effectively Councils are managing this spending, on a standalone basis or alongside other economic development activity.

- Some Scottish councils may apply UKSPF funding through onward funding to other Scottish public bodies (for example enterprise bodies). Where this is the case the public body concerned is responsible for meeting the relevant conditions, and is accountable to Scottish Ministers and the Scottish Parliament for their use of all public funds. The AGS is responsible for the audit of all Scottish such public bodies. His appointed auditors consider if such income and associated expenditure is appropriately accounted for. As part of his work programme, the AGS may also consider how effectively this spending is being managed by the public bodies concerned – for example as part of overall economic development activity.

- The Scottish Government does not have any responsibility for the UKSPF or the allocation of associated funding. In determining its own spending programmes to support economic development and growth, in our view it needs to be mindful of other sources of funding available to Scottish public bodies. The AGS may consider how effectively it does so as part of his work programme.

- ESIF programmes such as the European Social Fund and the European Regional Development Fund involved match funding by Scottish councils and other public bodies, for example on a 50/50 basis. While the UKSPF has replaced the EU element of this funding, amounts previously funded by the Scottish Government and councils in accordance with the rules of these older schemes are now available as part of overall budgets. This means that any such funding is no longer subject to the conditions of the ESIF. The UKSPF does not require any match funding.

  Any such public spending by the Scottish Government, councils or other public bodies on support for national, regional and local economic development and growth is subject to our respective audit responsibilities.

There are a number of other public spending programmes operated by the UK Government under powers set out in the UK Internal Market Act. These include the Levelling Up Fund, Community Renewal Fund and the Community Ownership Fund. Accountability and audit arrangements for such funds also follow the principles outlined for the UKSPF above. A significant difference between UKSPF and these other funds are that some apply a competitive bid process – which raises further issues about council arrangements that may be considered by the Accounts Commission as part of its work programme.

Progress of our work to support the Committee’s interest

We recognise that notwithstanding the specific accountability arrangements in place for the UKSPF (and other UK Government financial assistance provided in line with the UK Internal Market Act) that the Scottish Parliament has an interest in understanding how EU replacement funding schemes are operating. For example, it is likely to wish to be assured about the extent of coherence between spending programmes at a UK, national, regional and local government level and how Scottish public bodies are coordinating overall approaches.

As the AGS highlighted to the Committee in January 2023 we are committed to working together to support the Committee’s interest in this area and look forward to continuing to engage with you on this. As we do so we look to bring together relevant information about the public spending involved, consider how we might best cover this area as part of any relevant work on support for economic development and growth as part of our respective work programmes and if there would be value in joint audit work.

For example we will shortly publish a briefing paper on Scotland’s City Region and Growth Deals. This will summarise progress of the recommendations in our joint audit report on this area published in 2020. In this briefing we will reflect on the changes to the way the public sector invests in regional economic development, including the introduction of the UKSPF and other UK-wide funds. We will outline the amounts involved and draw out the lessons from City and Regional Deals that can be applied in this increasingly complex landscape. We will share this briefing with the Committee once it is available.

We are both currently consulting on our respective work programmes. As you know the AGS provided evidence to the Committee on 30 March 2023 and welcomes its engagement with the other Committees of the Parliament on his draft work programme. The Accounts Commission has also been consulting with its stakeholders (including all councils, integration joint boards, members of the Strategic Scrutiny Group and relevant national bodies) on its priorities and work programme. We will each reflect on the outcomes of these consultations in determining our future work programmes, including any work in this area.

As we set out above, the approaches of the UK Government in providing financial assistance or other funding directly to Scottish public bodies are beyond the scope of our responsibilities. Nevertheless we consider that we are able to assure the Committee and the wider Parliament that the application of any such funding by Scottish public bodies falls within our existing remits and that we will remain alert to any significant risks or concerns in considering and reporting our future work.

We would be happy to discuss any of these points further as helpful.

Yours sincerely

Stephen Boyle Auditor General for Scotland	Dr William Moyes Chair, Accounts Commission