Audit Scotland welcomes the opportunity to respond to the Economy, Energy and Fair Work Committee’s call for views on the Scottish National Investment Bank Bill. We have not answered all the individual questions, as many relate to policy choices and decisions. We have instead provided a view on the audit arrangements for the Bank, which is directly relevant to our role.

9) Is there any other aspect of the Bill you wish to address? Please elaborate.

In October 2018, Audit Scotland responded to the Scottish Government’s consultation on the Scottish National Investment Bank. The response covered general points relating to issues relevant to our role, including:

- **Transparency and public reporting** - noting that high quality reporting of the Bank’s activities and performance will be needed to support accountability to Parliament and to the public.
- **Governance arrangements** – emphasising the importance of clear and detailed governance structures in ensuring public trust in the Bank and its ability to demonstrate value for money of public funds.
- **Performance measurement** - highlighting the importance of specific and demonstrable performance measures to determine progress against the Bank’s missions.

The provisions of the Bill are consistent with these principles. The ultimate effectiveness of arrangements in each of these areas will be determined by the way they are implemented by the Scottish Government, and the Bank itself once established.

Our consultation response also recommended that the annual accounts of the Scottish National Investment Bank be sent to the Auditor General for Scotland for auditing in accordance with the provisions of the Public Finance and Accountability (Scotland) Act 2000.

The Policy Memorandum accompanying the Scottish National Investment Bank Bill states that “The Bank’s accounts will also be subject to audit by the Auditor General for Scotland or an auditor appointed by the Auditor General” (paragraph 35).\(^1\) To ensure that the relevant provisions in the Public Finance and Accountability (Scotland) Act 2000 apply to the Scottish National Investment Bank, this requirement should also be included in the legislation.\(^2\)

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This would require that the Bill (or other enactment or prerogative instrument) includes a section on accounts and audit that sets out the need for the Bank to prepare annual accounts and to send them to the Auditor General for Scotland for auditing. An example of this can be found in section 45 of the Water Industry (Scotland) Act 2002, which relates to the arrangements for Scottish Water.\(^3\)

5) **What governance arrangements ought to be in place?**

Section 9 of the Bill provides that the articles of association will require the Bank to have an audit committee and risk committee. These are critical elements of the governance arrangements that ought to be in place.

Subsection 9(3)(a) of the Bill provides that the role of the audit committee will include “independent review and oversight of the company’s … independent auditors”. The independence of the Auditor General for Scotland and auditors appointed by her is an essential element of the Scottish public sector audit model. While it is important that the company’s audit committee reviews and has oversight of the outcomes of the independent audit process, it is not appropriate for it to have any role in directing or in any way overseeing the work of the external auditor. This may be read as being implied by the current wording.

We have discussed our comments in relation to audit arrangements as set out in the Bill with the Scottish Government.

Audit Scotland
3 May 2019