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 4, 5 and 6 in private.

2. **The 2016/17 audit of NHS Tayside:** The Committee will take evidence on the Auditor General for Scotland's report from—

   Caroline Gardner, Auditor General for Scotland;
   
   Claire Sweeney, Associate Director, Fiona Mitchell-Knight, Assistant Director of Audit, and Bruce Crosbie, Senior Audit Manager, Audit Scotland.

3. **Managing the implementation of the Scotland Acts:** The Committee will take evidence on the Auditor General for Scotland's report from—

   Caroline Gardner, Auditor General for Scotland;
   
   Mark Taylor, Assistant Director, Michael Oliphant, Senior Audit Manager, and Morag Campsie, Audit Manager, Audit Scotland.

4. **The 2016/17 audit of NHS Tayside:** The Committee will consider the evidence heard at item 2 and take further evidence from—

   Caroline Gardner, Auditor General for Scotland;
   
   Claire Sweeney, Associate Director, Fiona Mitchell-Knight, Assistant Director of Audit, and Bruce Crosbie, Senior Audit Manager, Audit Scotland.

5. **Managing the implementation of the Scotland Acts:** The Committee will consider the evidence heard at agenda item 3 and take further evidence from—
Caroline Gardner, Auditor General for Scotland;
Mark Taylor, Assistant Director, Michael Oliphant, Senior Audit Manager, and Morag Campsie, Audit Manager, Audit Scotland.

6. **Work programme:** The Committee will consider its future approach to its scrutiny of Early learning and childcare and Self-directed Support.

Lucy Scharbert
Clerk to the Public Audit and Post-legislative Scrutiny Committee
Room T3.60
The Scottish Parliament
Edinburgh
Tel: 0131 348 5390
Email: papls.committee@parliament.scot
The papers for this meeting are as follows—

**Agenda Item 2**

Clerks Note  
PRIVATE PAPER  
PAPLS/S5/18/9/1

**Agenda Item 3**

Clerks note  
PRIVATE PAPER  
PAPLS/S5/18/9/3

**Agenda Item 6**

PRIVATE PAPER  
PAPLS/S5/18/9/5
Introduction

1. At its meeting on 16 November 2017, the Committee took evidence from the Auditor General for Scotland on the 2016/17 audit of NHS Tayside.

2. Following the evidence session, the Committee agreed to await the publication of a report by the NHS Tayside Assurance and Advisory Group (AAG) before deciding whether to take any further action on the audit report.

3. On 23 February 2018, Paul Gray wrote to the Committee enclosing a copy of the second report of the AAG. This consisted of a risk-based assessment produced by the NHS Tayside Transformation Support Team (TST), and a covering letter from Sir Lewis Ritchie on behalf of the AAG with their assessment of the Board’s progress to implement the recommendations of their Staging Report.

4. On 7 March 2018, Paul Gray wrote to the Committee explaining that the financial outturn of NHS Tayside for 2017-18 was likely to deteriorate further, arising from information identified about the flow of £5.3m of eHealth funds via NHS National Services Scotland and the way in which they had been recorded within NHS Tayside accounts. He indicated that he had instructed an independent external review by Grant Thornton UK LLP into the financial transactions in question. Paul Gray provided the Committee with a copy of the report on 23 March 2018.

5. At its meeting on 29 March, the Committee took evidence from Professor Sir Lewis Ritchie, Caroline Lamb and Alan Gray and then from Paul Gray, Gordon Wales, Lesley McLay, and Professor John Connell.

6. Following the meeting on 29 March, further allegations were made regarding the misuse of Tayside Endowment Fund monies by NHS Tayside.

7. Paul Gray wrote to the Committee on 5 April advising that the Cabinet Secretary for Health and Sport had decided that the current structure of the Board of NHS Tayside could not deliver the improvements required to return to a sustainable position, while continuing to deliver safe and effective services to patients. In particular, he indicated that the Cabinet Secretary had concerns about the overall management of the Board’s finances and the ability of leadership to carry through the change required to bring the Board back into financial balance. As such, the Cabinet Secretary would be exercising her Ministerial powers of intervention under the National Health
Service (Scotland) Act 1978 and moving NHS Tayside to the highest level of escalation.

8. Paul Gray wrote to the Committee further on 6 April advising, in particular, that—

- following the resignation of Professor John Connell as Chair of NHS Tayside, the Cabinet Secretary had agreed to the appointment of John Brown CBE, Chair of NHS Greater Glasgow and Clyde as interim Chair of NHS Tayside, with immediate effect, until a substantive Chair could be appointed through the appropriate regulated route;

- Professor Sir Lewis Ritchie would continue as Chair of the Assurance Advisory Group, but with an expanded role focused on non-executive Board Member development and support;

- Lesley McLay was currently not at work. In her absence, it had been agreed that Malcolm Wright would be acting Chief Executive and Accountable Officer for NHS Tayside.

9. On 8 April Anas Sarwar MSP wrote to the Committee and the Health and Sport Committee asking the committees to take certain action as a result of recent developments at NHS Tayside.

10. On 12 April, Paul Gray wrote to the Committee attaching a letter that he had sent to the Chief Executive of the Office of the Scottish Charity Regulator. The letter confirmed that he had written to all NHS Board Chairs seeking assurance in relation to the appropriate use of Endowment Funds and that there had been no retrospective payments. He indicated that he expected to receive responses by 30 April. The letter sought an initial view from OSCR on the responses by the end of May.

11. The letter from Paul Gray further indicated that he had asked that the external audit of NHS Board accounts for 2017-18 specifically covers use of Endowment Funds and retrospection, and that this would be completed by 29 June.

12. All correspondence received subsequent to the Committee’s meeting on 29 March is attached at Annexe A.

13. At its meeting today, the Committee will take evidence from the Auditor General on developments since 16 November 2017 in respect of the 2016/17 audit of NHS Tayside. The Auditor General has provided a briefing paper which is attached at Annexe B.
To the Conveners of:

Parliament Audit and Post Legislative Scrutiny Committee
Health and Sport Committee

5 April 2018

Dear Conveners

NHS Tayside

I am writing to you at the request of the Cabinet Secretary for Health and Sport to let you know that she has decided that the current structure of the Board of NHS Tayside cannot deliver the improvements required to return to a sustainable position, while continuing to deliver safe and effective services to patients. In particular, she has concerns about the overall management of the Board’s finances and the ability of leadership to carry through the change required to bring the Board back into financial balance.

She will therefore be exercising her Ministerial powers of intervention and moving NHS Tayside to the highest level of escalation. By way of background, Ministers have the power of intervention under the National Health Service (Scotland) Act 1978 and these can be exercised if the Cabinet Secretary is of the opinion that any functions of a health board are not being exercised adequately. In line with these powers, she has instructed me, as Chief Executive of NHS Scotland, to strengthen the leadership of NHS Tayside with immediate effect.

I am copying this to the Cabinet Secretary, and to the Auditor General for Scotland. I will update the Committee further as soon as I have more detail to add.

Yours sincerely,

Paul Gray
To the Conveners of:

Parliament Audit and Post Legislative Scrutiny Committee
Health and Sport Committee

6 April 2018

Dear Conveners

NHS Tayside

I wrote to you yesterday about the Cabinet Secretary’s decision to escalate NHS Tayside to the level of Ministerial intervention, and said that I would update you when I had more information.

Following the resignation of Professor John Connell as Chair of NHS Tayside, the Cabinet Secretary has agreed to the appointment of John Brown CBE as interim Chair of NHS Tayside, with immediate effect, until a substantive Chair can be appointed through the appropriate regulated route. Mr Brown is currently Chair of NHS Greater Glasgow and Clyde. He will retain that role, but meantime will pass some of his duties to the Vice-Chair and to NHS GG&C sub-committee chairs, so that he can devote sufficient time to NHS Tayside, and to ensure continuity in GG&C.

Professor Sir Lewis Ritchie will continue as Chair of the Assurance Advisory Group, but with an expanded role focused on non-executive Board Member development and support.

Lesley McLay is currently not at work. In her absence, I have also agreed with the Cabinet Secretary that Malcolm Wright will be acting Chief Executive and Accountable Officer for NHS Tayside, from Monday.

Malcolm Wright will also remain as CEO and Accountable Officer for NHS Grampian, and I have agreed that Amanda Croft, as Deputy CEO, will oversee the day to day operations of NHS Grampian.

I am copying this to the Cabinet Secretary, and to the Auditor General for Scotland. I will continue to update the Committee as substantive information becomes available.

Yours sincerely,

Paul Gray

St Andrew’s House, Regent Road, Edinburgh EH1 3DG
www.gov.scot
Anas Sarwar MSP
Member of the Scottish Parliament for Glasgow Region

Public Audit and Post-legislative Scrutiny Committee
Scottish Parliament
Edinburgh
EH99 1SP

Sunday 8th April 2018

Dear Jenny

I am writing to you as the Chair of the Audit Committee following the revelations at NHS Tayside.

The use of more than £2 million from NHS Tayside’s charitable trust to fund a new back office computer system has caused immense local anger. It follows years of financial mismanagement at NHS Tayside, which has had to be repeatedly bailed out with loans from the Government.

I know that the Audit Committee has already looked in detail at the issues relating to NHS Tayside, but I think this incident raises a number of serious issues that go well beyond just NHS Tayside.

I therefore ask that you please reinvestigate the financing, accounting and management of NHS Tayside, but that the investigation should go further.

I think there is an urgent need to reassure the public that charitable donations that they make are being used appropriately. That’s why I believe that the Committee should be taking evidence from every health board and asking them to answer whether they have ever used funds in this way.

The Cabinet Secretary for Health and Sport should also be called before the committee to answer a number of questions which relate to her own handling of this situation.

The problems at NHS Tayside are not new. They have had had issues relating to financing and management for years. In all that time, while making deals on brokerage, surely at some point the Government would have opened the books to see what was going on. If they did why was this not spotted and addressed? If they didn’t, then why not?

I would please request that these issues are investigated as a matter of urgency.

Kind regards,

[Signature]

Anas Sarwar MSP
To the Conveners of:
Parliament Audit and Post Legislative Scrutiny Committee
Health and Sport Committee

12 April 2018

Dear Conveners

ENDOWMENT FUNDS

I attach a letter which I have sent today to the Chief Executive of the Office of the Scottish Charity Regulator.

I am copying this to the Cabinet Secretary, and to the Auditor General for Scotland. I will continue to update your Committees as substantive information becomes available.

Yours sincerely,

Paul Gray
12 April 2018

Dear David

Thank you for your ongoing engagement in relation to the investigation into the use of Tayside NHS Board Endowment Fund.

As you know, I have written to all NHS Board Chairs and I am seeking specific assurance via the Chairs of Endowment Committees in relation to the appropriate use of Endowment Funds; I am also seeking assurance that there have been no retrospective payments. I expect to receive responses by 30 April and I will share these responses with you as soon as they arrive. It would be helpful to have your initial view on these responses by the end of May; I also understand and welcome the fact that OSCR would routinely take into account any matters which have been the subject of public comment. I have also asked that the external audit of NHS Board accounts for 2017-18 specifically covers use of Endowment Funds and retrospection, and this will be completed by 29 June.

I would be happy to provide additional support and resource, should you decide that further action is required, including further investigation into the use of any aspect of NHS Board Endowment Funds.

I can also confirm that if the use of any Endowment Funds was found to be inappropriate I would expect it to be paid back.

Yours sincerely

Paul Gray
1. I presented a report on the 2016/17 audit of NHS Tayside to the Committee in November 2017. Since then a number of events have taken place at the board. This paper sets out the main issues and highlights a number of factors that the Committee may want to consider.

Assurance and Advisory Group report

2. NHS Tayside’s Assurance and Advisory Group issued its second progress report in January 2018. This was discussed at the PAPLS meeting on 29 March. The report comments that while some progress has been made, transformational change still needs to be achieved and the board continues to face significant challenges.

Retention of eHealth funds by NHS Tayside

3. Early in March 2018, Scottish Government staff became aware that NHS Tayside was holding money intended to fund eHealth in NHS boards. This came to light when the Scottish Government health finance team were asked to process an allocation adjustment relating to the eHealth national programmes budget.

4. It emerged that an arrangement had been in place since 2012/13 to route eHealth money from Scottish Government through NHS National Services Scotland then on to the NHS boards. Since that time, underspent funds on the eHealth programme were passed to NHS Tayside to fund its annual expenditure. It was then returned to the Scottish Government as funding allocation credits the following year. Based on the work of Grant Thornton, and recent disclosures, there is evidence that the Director of Finance at NHS Tayside (both the most recent and the previous postholders), the Director of Finance at NSS and eHealth leads were aware of the arrangements but that this was not shared more widely. The details were not shared with the NHS Tayside Board, its Audit Committee, or the auditors.

5. The impact of the transactions on the financial position of NHS Tayside is a further deterioration of £5.3 million for 2017/18. This brings the forecast deficit in NHS Tayside to £12.1 million for 2017/18. The Chief Executive of the NHS in Scotland, Paul Gray, has reported to the committee that NHS Tayside will again be provided with year end brokerage.

Tayside NHS Board Endowment Fund

6. A further issue was raised in late March regarding allegations of the misuse of Tayside Endowment Fund monies by NHS Tayside (with retrospective suspension of the fund's constitution to facilitate this). This allegation relates to the 2013/14 financial year.

7. The audit of NHS board endowment funds is not within my statutory remit, and the auditors are appointed by each endowment fund board. However, I have been able to establish that the endowment fund's external auditor, MMG Archbold, issued an unqualified audit opinion for 2013/14. The external auditors of NHS Tayside at that time, PwC, issued an unqualified opinion on the 2013/14 annual accounts of NHS Tayside, which contained the Tayside Endowment Fund as part of the NHS Tayside group.

8. The Tayside NHS Board Endowment Fund 2013/14 accounts state that ‘Trustees agreed to fund £2.7 million retrospectively on projects that Tayside Health Board had commenced.’ The Endowment Fund Board minutes of 24 January 2014 document the Board’s agreement to ‘a temporary variation in the Endowment Fund’s Policy and Procedures to allow retrospective applications to be considered.’

9. On 5 April it was announced that OSCR are conducting a formal enquiry into the specific circumstances of the case at NHS Tayside.

Intervention by the Cabinet Secretary for Health and Sport

10. On 5 April, the Cabinet Secretary for Health and Sport exercised her Ministerial powers of intervention and moved NHS Tayside to the highest level of escalation, following which the Chair of the NHS Tayside Board stood down. The Chief Executive is currently not at work. An interim Chairman and interim Chief Executive were appointed to the NHS Tayside Board with immediate effect.

Issues raised by the situation in NHS Tayside

11. The recent developments at NHS Tayside highlight a series of local issues and some broader, more systemic factors that the committee may wish to consider. The summary below is based on our local audit work, our national reporting on the health and care system and the committee’s evidence session on 29 March 2018.

The NHS board’s treatment of deferred expenditure

12. At the session on 29 March 2018, the Committee discussed the wider issue of NHS Tayside’s reliance on deferred expenditure. Deferred expenditure is funded from income received by a board but unspent at the year end which is then carried forward to be spent in future years. The external auditor has referred in previous reports to the need for the board to reduce its reliance...
on non-recurring funding, which includes deferred expenditure. This is also reflected in my report to the Committee in October 2017. The external auditor has confirmed that the treatment of income received but unspent at the year end complies with the accounting rules in 2016/17.

13. For a number of years the internal auditors, FTF Audit Management Services, have also reported concerns about NHS Tayside’s reliance on deferred expenditure. In their 2016/17 annual report internal audit noted that ‘the Board has taken positive steps to increase reporting and oversight of this area and the 5 year plan presented to the March 2017 Board contained detailed proposals to reduce the level of deferred expenditure over the 5 year cycle’. However, their 2017/18 interim report, presented to the Board’s Audit Committee on 11 January 2018 noted that ‘the finance report itself does not provide an immediate and clear understanding of the position with regard to deferred expenditure and financial flexibility’.

14. The external auditor’s 2016/17 Annual Audit Report includes the following commentary on the board’s internal auditors: ‘We carried out a review of the adequacy of the internal audit function and concluded that it generally operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.’

NHS Tayside’s current financial forecast for 2017/18

15. In my report to the Committee in November 2017, I concluded that there was a high risk that NHS Tayside will not achieve its financial plans for 2017/18 and will require more than the anticipated £4 million brokerage from the Scottish Government.

16. On 26 March the Board received the latest financial report showing a forecast deficit of £12.1 million. This increased deficit reflects the impact of removing the e-Health funding, and funding shortfalls of £6.8 million (exceeding the £4 million target). The Board is discussing further brokerage with the Scottish Government to cover this increased deficit.

Wider systemic issues

17. While the incident in NHS Tayside reflects a specific arrangement involving a small number of individuals, it is important to consider the risks it raises in the wider context of the NHS in Scotland. A number of features of the way that the health system in Scotland currently operates need to be addressed, which I have highlighted previously to the committee. There are risks arising from a narrow focus on achieving financial balance each year, coupled with an increasingly tight financial position, late budget allocations at year end and a general need for greater transparency. I have reported to the committee on a number of occasions through my annual reports on the NHS in Scotland that there is a need for greater transparency and more strategic management of the NHS finances.
18. In October 2017, I reported that ‘..the majority of NHS boards had to use short-term measures to break even. These included: receiving loans, known as brokerage, and late allocations from the Scottish Government…’. The report also draws to the committee’s attention that ‘Savings targets are then revised through the year as revenue and capital resource limits change due to additional funding allocations from the Scottish Government.’

The role of audit

19. In 2016/17, the external audit of NHS Tayside was carried out by Audit Scotland. The auditor’s opinion on the 2016/17 annual report and accounts was unqualified. From 2012/13 to 2015/16, PwC was the external auditor and also issued unqualified audit opinions over these years. I reported to Parliament under s22 of the Public Finance and Accountability (Scotland) Act 2000 on these audits in 2014/15, 2015/16 and 2016/17, drawing attention to concerns about financial management and financial sustainability.

20. In carrying out their work auditors follow the requirements of the Scottish Public Finance Manual and the NHS Accounts Manual, which require NHS boards to recognise the amount set out in their Scottish Government funding allocation letters as income in their accounts. Allocation schedules, setting out the level of income allocated to the NHS board by the Scottish Government, are the prime source of audit evidence in checking that this has been done correctly. The auditor has confirmed that NHS Tayside’s 2016/17 core revenue income of £803.2m, which includes eHealth income of £2.5 million, was checked by the audit team to the final 2016/17 Scottish Government allocation letter and supporting schedules, dated 8 June 2017.

21. The 2016/17 Scottish Government allocation letters make no reference to the fact that any allocations were held on behalf of other boards, nor that any amounts may be repayable in the future.

Implications for the accounts

22. The auditor’s view is that the 2016/17 accounts do not need to be revised and that the most appropriate course of action is for the revised treatment of the e-Health income to be reflected in full in the 2017/18 accounts.

23. Of the £5.3 million further deterioration to the financial position of NHS Tayside for 2017/18, £2.5 million relates to the 2016/17 accounts. The remaining £2.8 million relates to monies that were requested in 2017/18 and formed part of the Board’s 2017/18 financial projections, but were not paid to or accounted for by NHS Tayside.

24. The eHealth funds of £2.5 million received in 2016/17, less the prior years repayment of £0.6 million, have led to a net overstatement of income of £1.9 million in the accounts. The auditor would require a change to the accounts if an error identified exceeded the audit materiality
level; this was £10.5 million for the 2016/17 accounts. To comply with accounting rules, any change to the accounts would require the Scottish Government to issue revised allocation letters for NHS Tayside clarifying the treatment of the eHealth monies.

25. The Grant Thornton report includes calculations of the net error in the accounts for the years prior to 2016/17. These are also not of a scale that would require a change to the accounts.

26. The events in NHS Tayside mean that there is a need to review the controls in place in NHS Tayside and NHS National Services Scotland in relation to national schemes, and in the Scottish Government in relation to the management of allocations to NHS boards. We are therefore taking the following actions:

- the external auditors for NHS Tayside and NHS National Services Scotland will carry out additional work and the level and nature of testing they have planned for the audit will be reassessed in response to the issues raised in the report by Grant Thornton.

- we will continue to report on the transparency of NHS funding and the quality of strategic financial management across the NHS and in individual Boards through local and national external audit work

- the relevant auditors will follow up on recommendations from the various reviews in relation to internal controls at NHS Tayside, NHS National Services Scotland and Scottish Government and we will consider whether there are any wider issues for our NHS audits.

27. The 2017/18 Annual Audit Reports that set out the results of our audit work, will be issued by the auditors of NHS Tayside and NHS National Services Scotland in June 2018. My annual NHS in Scotland report will be published in October 2018.
Public Audit and Post-legislative Scrutiny Committee

9th Meeting, 2018 (Session 5), Thursday 19 April 2018

Managing the implementation of the Scotland Acts

Introduction

1. The Committee will take evidence on the Auditor General for Scotland’s report *Managing the implementation of the Scotland Acts*¹, which was published on 28 March 2018.

Written Submissions

2. Audit Scotland has provided a briefing paper which is attached at Annexe A.

3. The Minister for Social Security wrote to the Committee on 28 March in relation to the social security elements of the report. The letter is attached at Annexe B.

ANNEXE A

SCOTTISH PARLIAMENT PUBLIC AUDIT AND POST-LEGISLATIVE SCRUTINY COMMITTEE

THURSDAY 19 APRIL 2018

REPORT BY THE AUDITOR GENERAL FOR SCOTLAND

MANAGING THE IMPLEMENTATION OF THE SCOTLAND ACTS


2. Key messages and recommendations from the report are:

The Scottish Parliament’s new financial and social security powers and responsibilities from the 2012 and 2016 Scotland Acts (the Scotland Acts) are fundamentally changing the Scottish public finances. Implementing these is a large and highly complex programme. The Scottish Government’s social security programme is a key part of this, and the government is committed to having a Scottish social security agency in place to deliver the devolved benefits by the end of the current parliamentary term.

The Scottish Government needs to develop the capacity and capability to deliver these changes alongside delivering its continuing responsibilities and preparing for the implications of the UK’s withdrawal from the European Union. It has taken some important steps to assess its workforce and priorities. It will be challenging to recruit and deploy all the necessary people and skills in time. We have recommended that the Scottish Government:
  o further develop its analysis of workforce capacity
  o finalise plans to ensure it has the required people in place to meet current and future demands.

The Scottish Government has established a new role of Director General Scottish Exchequer, with responsibility for fiscal autonomy and financial sustainability. Governance and organisational arrangements now need to be established for the Scottish Exchequer to manage the new fiscal risks and opportunities in the budget.

The Scottish Government has not estimated the total cost of implementation, or the extent to which this will exceed the UK Government’s agreed contribution. The excess will require funding from the wider Scottish budget. Greater transparency and a better understanding of overall implementation costs are needed to support financial planning and decision-making. We have recommended that the Scottish Government;
  o identify the expected overall costs of implementing the financial powers in the Scotland Acts
  o report regularly how much is being spent against what has been planned
  o refine cost estimates as detailed decisions are made.

The Scottish Government’s social security programme has made good early progress and is now at a critical point as it intends to deliver its first wave of devolved benefits by summer 2019. A significant amount of work is required during 2018 if planned timescales are to be met. This relies on effective working with others such as the Department of Work and Pensions (DWP), and the development and integration of a number of IT systems. Plans need to be fully developed to reflect
interdependencies, assurance activities, contingency arrangements and key decision points. We have recommended that the Scottish Government;
- keep under review joint delivery plans for the parts of the system that the DWP is developing on the Scottish Government’s behalf
- develop detailed options appraisals and contingency plans for interim and long-term IT components, ensuring key decision points are fully reflected in plans
- build enough time into plans for assurance activities, procurement, recruitment and succession planning.

- The Scottish Government is currently developing a five-year financial plan to refine the implementation and operational costs of the social security programme. More detailed estimates of costs need to be developed and refined as decisions are made about service delivery and long-term IT solutions.

- The initial devolved tax arrangements are now well established. The National Audit Office (NAO) reported that Her Majesty’s Revenue and Customs (HMRC) processes for identifying Scottish taxpayers operated appropriately in 2016/17, but that maintaining accurate address records remains a risk. Air Departure Tax has been delayed until issues related to the Highlands and Islands exemption are resolved. Arrangements for the assignment of VAT are being finalised and need to be in place by summer 2018. Work is under way within the Scottish Government to support agreed changes to the Scottish budget process. This provides the opportunity for it to be clearer about its overall approach to financial management over the medium term.
March 2018

Audit Scotland Report – Managing the Implementation of the Scotland Acts

I am writing in relation to the social security elements of the report published today by Audit Scotland on the Scottish Government’s approach to implementing the Scotland Act powers.

The report has been informed by many months of interaction between Audit Scotland and my Social Security officials. We provided Audit Scotland with full access to the information they requested and we supplemented that through a series of meetings and workshops.

The Scottish Government is reassured that the report contains a number of positive messages about the Social Security Programme; particularly that good early progress has been made. I am particularly pleased that Audit Scotland recognises the following key points.

- The Programme has made good early progress and is now at an important point as it moves to deliver its first wave of devolved benefits.
- Parliamentary consideration of the Social Security Bill is progressing to the planned timetable.
- Universal Credit Scottish Choices were delivered on time in October 2017.
- The devolution of the first wave of benefits is on track.
- Risk management arrangements are well established.
- Preparations are on track for establishing the agency.
- There has been good ongoing engagement with stakeholders.

Scottish Ministers, special advisers and the Permanent Secretary are covered by the terms of the Lobbying (Scotland) Act 2016. See www.lobbying.scot

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www.gov.scot
• The Programme has demonstrated good practice by revising its governance arrangements to reflect the needs of the Programme. The current arrangements will need to be kept under review to ensure they are well understood by staff and remain effective.

• The Programme is learning lessons from previous public sector programmes. For example, it has invested in Agile training for staff at all levels of the Programme. This is something Audit Scotland have previously highlighted as important.

• The Scottish Government has demonstrated good practice by establishing multi-disciplinary teams in line with Agile delivery - this structure gives delivery level staff responsibility to progress the Programme, allows quicker decision making, and makes it easier to adapt and learn from day to day experience.

In the session you held with my officials on 26 October 2017 I know you were particularly interested in some of these matters, such as how the Programme was learning lessons from other programmes and how the governance processes were working in practice. I hope the Committee is encouraged to hear Audit Scotland’s view on these.

The report is also a useful reminder of some of the areas where we need to retain focus as we continue to progress. In particular these include the following points.

• The Programme’s reliance on effective working with others such as the Department for Work and Pensions (DWP), and the development and integration of a number of IT systems.

• The work that is required during 2018 to meet planned timescales.

• The importance of ensuring plans fully reflect interdependencies, assurance activities, contingency arrangements and key decision points.

• The necessity to build on our current approach to financial monitoring and reporting.

• The requirement for the development and refinement of more detailed estimates of costs as decisions are made about service design and long-term IT solutions.

There is one important area where I believe the report does not accurately describe the situation correctly, and that is in relation to the IT solution. At Exhibit 9 the report states that there is a risk that the initial design of the Customer Management System (CMS) being developed by IBM may make it difficult for other suppliers to further develop it to deliver post Wave One benefits. It indicates the potential impact of this is that the CMS may only be able to process Wave One benefits and that the Scottish Government may need another system to deliver the remaining benefits which might, in turn, delay their launch. These statements are factually inaccurate. The CMS will be able to support both Wave One benefits and the benefits to be devolved thereafter. We deliberately procured a multi-benefit system capable of handling all the devolved benefits and which, additionally, has a number of interfaces for other suppliers to connect components to. My officials discussed the detail of the CMS with Audit Scotland on a number of occasions and requested these inaccuracies be corrected prior to publication of the report. Unfortunately they were not.
It is important that the report makes abundantly clear that the Scottish Government cannot deliver devolution of social security powers in isolation given the reliance on DWP for the safe and secure transition of the benefits. They are required both to provide Scottish Government with relevant, robust data and to make significant changes to their systems and processes to ensure an overall joined up experience for citizens who will continue to deal with both the Scottish Government and DWP. We require, and are seeking, assurance from DWP that they have a parallel plan in place which prioritises relevant workstreams for DWP to ensure they are on track with the extensive work they need to undertake.

We do of course recognise that there is a significant body of work still to be done in this year, and in future years, to ensure successful delivery of devolved social security powers. The priorities that Audit Scotland has highlighted for the Social Security Programme are areas we had already identified and were working on prior to receipt of the report and I am grateful to them for their support in this and for the extensive work they have undertaken in this most recent exercise.

I would be happy to provide the Committee with further detail on progress in these areas if it would be helpful.

Kind regards

[Signature]

JEANE FREEMAN