

AUDIT COMMITTEE

Tuesday 8 February 2005

Session 2

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AUDIT COMMITTEE

3rd Meeting 2005, Session 2

CONVENER

*Mr Brian Monteith (Mid Scotland and Fife) (Con)

DEPUTY CONVENER

*Mr Andrew Welsh (Angus) (SNP)

COMMITTEE MEMBERS

*Susan Deacon (Edinburgh East and Musselburgh) (Lab)

*Robin Harper (Lothians) (Green)

*Margaret Jamieson (Kilmarnock and Loudoun) (Lab)

*George Lyon (Argyll and Bute) (LD)

*Mrs Mary Mulligan (Linlithgow) (Lab)

COMMITTEE SUBSTITUTES

Chris Ballance (South of Scotland) (Green)

Mr Ted Brocklebank (Mid Scotland and Fife) (Con)

Marlyn Glen (North East Scotland) (Lab)

Mr John Swinney (North Tayside) (SNP)

*attended

THE FOLLOWING ALSO ATTENDED:

Mr Robert Black (Auditor General for Scotland)

Caroline Gardner (Audit Scotland)

Graeme Greenhill (Audit Scotland)

Bob Leishman (Audit Scotland)

Arwel Roberts (Audit Scotland)

CLERK TO THE COMMITTEE

Shelagh McKinlay

SENIOR ASSISTANT CLERK

David McLaren

ASSISTANT CLERK

Clare O'Neill

LOCATION

Committee Room 1

Scottish Parliament

Audit Committee

Tuesday 8 February 2005

[THE CONVENER *opened the meeting at 09:46*]

Items in Private

The Convener (Mr Brian Monteith): Good morning and welcome to the third meeting in 2005 of the Scottish Parliament Audit Committee. I am pleased to see so many people in attendance. As usual, I ask that mobile phones and pagers be switched off, because they interfere with the public address system. I welcome representatives of Audit Scotland to the meeting. We have received apologies from Susan Deacon, who has intimated that she will be delayed.

Item 1 is consideration of whether to take items 5 to 9 in private. Item 5 is consideration by the committee of its approach to the section 22 reports by the Auditor General for Scotland that are listed under item 2. Item 6 is consideration by the committee of its approach to the report by the Auditor General entitled "Scottish Prison Service: Correctional opportunities for prisoners". Item 7 is consideration by the committee of arrangements for its inquiry into the section 22 report by the Auditor General entitled "The 2003/04 Audit of the National Galleries of Scotland". Item 8 is consideration by the committee of an issues paper for its inquiry into the section 22 report by the Auditor General entitled "The 2003/04 Audit of Argyll and Clyde Health Board". Item 9 is consideration by the committee of the evidence taken at its previous meeting for its inquiry into the report by the Auditor General entitled "Overview of the financial performance of the NHS in Scotland". Do we agree to take those items in private?

Members *indicated agreement.*

Section 22 Reports

09:48

The Convener: Item 2 is a briefing to the committee by the Auditor General on the section 22 reports that are listed on the agenda. After I have read out the titles of the reports, the Auditor General will provide us with a summary of and comments on them. The reports are "The 2003/04 Audit of the Scottish Children's Reporter Administration"; "The 2003/04 Audit of Forest Enterprise Scotland"; "The 2003/04 Audit of the Water Industry Commissioner for Scotland"; "The 2002/03 Audit of the Water Industry Commissioner for Scotland"; "The 2003/04 Audit of the Scottish Commission for the Regulation of Care"; "The 2003/04 Audit of the Scottish Executive Consolidated Resource Accounts"; "The 2003-04 Audit of the NHS Pension Scheme Scotland Accounts"; "The 2003-04 Audit of the Scottish Teachers' Pension Scheme Accounts"; and the Scottish Executive consolidated resource accounts for 2003-04. That is quite a large list.

Mr Robert Black (Auditor General for Scotland): As members know, the accounts were due to be laid before the Parliament no later than the end of December last year. The section 22 reports that I may make relate to the audited accounts, which are now with the Parliament. That is why a cluster of such reports appears at this time of year.

With the convener's agreement, I will offer brief comments about each report. If it helps the committee, I will pause after each comment in case members have questions. I will deal with the reports in the order in which they appear on the agenda.

I will start with the 2003-04 accounts of the Scottish Children's Reporter Administration. In 2003-04, the Scottish Children's Reporter Administration received additional funds to help it to recruit extra staff to work on front-line services and the administration of children's hearings. It engaged the services of a recruitment company, but it did not undertake a formal tendering exercise. In that year, it spent £216,457 on the recruitment company's services. The value of those services exceeded the European Union procurement threshold above which competitive tender should be sought. The auditors therefore qualified the regularity audit opinion.

Forest Enterprise Scotland is a relatively new body, which was established in April 2003 as an executive agency of the Forestry Commission Scotland. Its role is to manage the Scottish forest estate in accordance with economic, environmental and social objectives that the

Scottish ministers set. Forest Enterprise's main trading activity is harvesting and marketing timber commercially.

The Forestry Commission sets financial targets for Forest Enterprise that reflect the net loss that Forest Enterprise makes on its operating activities and the cash consequences of that deficit, together with the net costs of other Forest Enterprise activities. Forest Enterprise reported an operating deficit and a cash deficit in excess of its targets, but I should emphasise that the operating deficit would have been close to the target of about £17 million but for the impact of a loss of £6.4 million on the revaluation of its assets.

Forest Enterprise's financial performance is closely linked to the income that it generates in timber sales. The Forestry Commission provides about 10 per cent of the United Kingdom's timber requirements at market prices. Timber prices are close to their lowest point ever in real terms and, as a consequence, the Forestry Commission has increased its deficit funding of Forest Enterprise. The expectation is that that deficit funding will be required for the foreseeable future. Auditors will clearly have a continuing interest in that.

I will take the water industry commissioner for Scotland's accounts for 2003-04 and 2002-03 together and start with the 2003-04 accounts. In March 2004, the water industry commissioner's office advised the Scottish Executive Environment and Rural Affairs Department that its expenditure for 2003-04 was likely to exceed its budget. After investigation, the department identified a breakdown in financial controls, as well as scope for better financial monitoring, and highlighted the lack of an internal audit function and an audit committee. The department provided additional funding of £141,000 at the end of March 2004. The commissioner's office has taken action to strengthen the organisation's financial procedures and controls and I am pleased to report that that action is being taken to address shortcomings, but I shall expect the auditors to keep such matters under review as part of the 2004-05 audit.

In the prior year—2002-03—the commissioner's accounts were not laid in time to comply with statutory deadlines. The draft accounts had several problems, including the impact of computer problems and a requirement by the department that the commissioner's office should obtain an actuarial valuation of its share of the assets and liabilities of the relevant pension scheme—the Falkirk Council superannuation scheme, of which it is a member.

I will turn now to the accounts of the Scottish Commission for the Regulation of Care for 2003-04, which I would like to consider together with the Scottish Executive consolidated resource accounts for 2003-04. The report on the accounts

for the Scottish Commission for the Regulation of Care, which is usually referred to as the care commission, relates to the commission's role in registering housing support services, a matter that is addressed more fully in my report on the Scottish Executive resource accounts.

I have been able to give a clean audit certificate on the Scottish Executive consolidated resource accounts for the year to 31 March 2004. However, I decided to issue a report to bring to the attention of the Parliament matters relating to expenditure on the supporting people grant, which continues to be an issue of some concern. I will therefore take a moment or two to advise the committee of the content of my report.

The Scottish Executive introduced its supporting people policy in April 2003. As I am sure members know, that is an integrated policy and funding framework for housing support. Housing support covers a variety of services, including sheltered housing for older people, housing schemes for people with learning and physical disabilities or who have mental health problems, and refuges for homeless people or people who are escaping domestic violence.

Previously, such services were funded from a number of sources, including housing benefit. Under the new arrangements, local authorities, working with partners such as health organisations, are responsible for assessing the levels of need in their areas. Local authorities may either provide housing support services themselves or commission them from contractors. The Housing (Scotland) Act 2001 states:

"The Scottish Ministers may pay grants to local authorities towards expenditure incurred by them in providing"

relevant

"housing support services."

Under the Regulation of Care (Scotland) Act 2001, the care commission is responsible for

"furthering improvement in the quality of care services",

which includes housing support services.

The providers of 14 different types of care services, as listed under the Regulation of Care (Scotland) Act 2001, must apply to the care commission for the registration of each service that they provide. The requirement for the providers of each type of service to register is being introduced in stages. The Regulation of Care (Scotland) Act 2001 gave a six-month period of deemed registration before providers were required to submit an application for registration. That was intended to give a period in which the care commission could identify what services required to be registered and to develop procedures for making the applications.

I ask members to bear in mind the critical date of 1 October 2003. Providers of housing support services that were required to be registered had to apply to the care commission by that date for registration. Services that were in operation prior to that, as at 1 April 2003, were deemed to be registered right through to 31 March 2004 provided that the required applications to register were made before that critical date of 1 October 2003. Local authorities could continue to make payment for contracted services after 1 October 2003 only if the service provider had made an application for registration to the care commission before that date. The Scottish Executive Development Department considers that, on 1 April 2003, there might have been about 100 persons or organisations, including local authorities, providing around 1,600 housing support services, each of which was separately registrable. However, reliable information on that is not available—that is simply an estimate from the department.

Because of the complexity of housing support services, it was necessary to get agreement with individual service providers on the number of applications for registration that they were each required to make. The care commission therefore adopted a two-stage approach to the registration process. That was in order to save providers from submitting applications that might have been unnecessary and expensive for them, as each application had to be accompanied by the required fee.

The first stage involved a decision on whether a particular service required to be registered. The care commission would invite the service provider to submit the necessary number of applications. In the second stage, the care commission would determine the applications. However, by the critical date that I mentioned—namely 1 October 2003—the first stage discussions had not proceeded far enough to allow the care commission to determine the appropriate fee so that service providers could be invited to submit applications.

10:00

The consolidated resource accounts show that the Development Department paid £406 million of the supporting people grant to local authorities during the financial year 2003-04 to fund expenditure on housing support services. In the period from the critical date of 1 October 2003 to the end of the financial year on 31 March 2004, the department paid £203 million to local authorities. That expenditure by the department in the form of grant to local authorities was incurred properly in accordance with the Housing (Scotland) Act 2001. However, because no

applications to register housing support services were received before 1 October 2003, expenditure by local authorities on registrable housing support services was not in accordance with the terms and conditions set out in the act.

Local authorities estimate that they incurred expenditure of about £225 million after 1 October 2003. As a consequence, the auditors of 28 local authorities drew attention to the failure to comply with the statutory requirements. Although there were a number of discussions between Scottish Executive officials and care commission staff, not until the financial year 2004-05 did the Executive become aware that the deemed registration of providers had not continued beyond the end of September of the previous year—30 September 2003—as originally intended.

In July 2004—into the next financial year—the Scottish Executive Health Department wrote to all known providers of housing support services, urging them to apply for registration by 29 September 2004. At the same time, the Lord Advocate confirmed that as long as providers of housing support services submitted applications for registration to the care commission by that date, they would not be liable for prosecution for providing an unregistered care service. By early December 2004, the care commission had registered 1,210 services out of 1,284 valid applications received.

In August 2004, the regulations made under the Housing (Scotland) Act 2001 were amended to remove as a temporary measure the requirement for providers to be registered before they could receive payment. The Scottish Executive has also presented to Parliament proposals in the Smoking, Health and Social Care (Scotland) Bill to rectify the position on a retrospective basis in relation to both the operation of unregistered providers and the payments made to them by local authorities where they did not comply with statutory requirements.

The findings that I draw from those events are as follows. First, the regulation of housing support services was started without reliable information about the size of the sector and a robust understanding of the work involved in identifying the number of services requiring applications. It was therefore understandable that the care commission decided to adopt a two-stage process for registration. However, that meant that it would take longer to generate formal applications.

Secondly, given the complexity of housing support services, the deemed registration period of only six months was too ambitious. The care commission, working with the sector concerned, will need to scope carefully the remaining services that are due to be brought within regulation, such as adult placements.

Thirdly, it appears that there was poor communication between the care commission and the Scottish Executive. It is therefore important for the care commission to submit to the Scottish Executive regular progress reports on the registration of all new care services.

Finally, it is worth saying that the problem could be seen as no more than a technical problem, but I am aware that, in general terms, it has caused difficulties within the service and a lot of anxiety and uncertainty that could have been avoided by better planning. The supporting people policy is still in the course of implementation and I expect the auditors to continue to monitor the supporting people expenditure programme and the value that it provides and, if necessary, I shall report again to Parliament.

I shall mention briefly together the national health service pension scheme Scotland accounts for 2003-04 and the Scottish teachers pension scheme accounts for 2003-04. The reasons for the reports on those pension schemes are similar. Both schemes are unfunded. By that I mean that the employer's pension contributions and other receipts are not invested to create funds to pay pensioners. Income is credited to the schemes' revenue accounts, but the cash received is transferred to the consolidated fund. Pension payments, along with transfers out of the schemes, are met from the consolidated fund. When income is received from employers for pensionable service, that increases the scheme's liability to pay the employee as a future pensioner. That is an important point to bear in mind. That increase is charged to the scheme's revenue accounts. In both accounts, the resource outturn for 2003-04 exceeded the resource budget. That led to a qualification on the regulatory audit opinion, which arose for a technical reason to do with the calculation of a prior year adjustment being received too late to enable an increase in the budget act provisions. There was also a higher than expected level of employers' pension contributions, which led to a corresponding increase in the current service pension costs.

Both accounts are also qualified on the grounds of what auditors call a limitation in the scope of the audit. There was a statutory requirement for a full actuarial valuation of both schemes' liabilities to be conducted every five years. The Government Actuary's Department has been unable to carry out a full valuation since 1996 in respect of the Scottish teachers pension scheme, and since 1994—more than 10 years ago—in respect of the NHS pension scheme, because of deficiencies in the pension data provided to the Government Actuary's Department for evaluation purposes. Without a more recent full actuarial valuation, the evidence that was available to the auditor was limited and therefore the auditor was not able to

confirm that the scheme's liabilities were not materially misstated.

Finally, I shall mention briefly something that is not on the agenda, for a good reason: the fact that there is no report on the audit of the accounts of the Scottish Parliamentary Corporate Body for 2003-04. That is because the accounts obtained a clean audit certificate and there has been a significant improvement in the control environment since I last reported to the committee on the previous year's accounts. I welcome that and wish to place it on the record.

The Convener: Thank you for that briefing on the section 22 reports. I intend to invite members of the committee to raise any questions that they have about the individual section 22 reports, which I shall run through so that we can take them in order. I propose to leave the Scottish Commission for the Regulation of Care and the Scottish Executive consolidated resource accounts to the end, as I suspect that that is where many of the questions may arise, and we can deal with other matters first. First, are there any questions with regard to the Scottish Children's Reporter Administration?

George Lyon (Argyll and Bute) (LD): I wonder whether Bob Black could explain why the Scottish Children's Reporter Administration did not realise that there needed to be a formal tendering process. Is there an explanation of why that was not recognised? It is a matter of standard EU procurement rules, is it not?

Mr Black: Generally speaking, the section 22 reports are reports on the accounts, so we have not done a full audit examination of the pattern of events that led up to them. If members of the committee are interested in further information that we cannot provide today, we will obviously get hold of it. I certainly would not want to mislead the committee on any matters that have not been discussed and fully cleared with the people involved. I will have to refer to my audit teams if I am to attempt to answer such questions.

Arwel Roberts (Audit Scotland): I have two comments. One is that I believe that it was a genuine oversight. The other point is that the final total was an accumulation of extending existing contracts, so it is not the case that one contract was let for that sum. It grew over time.

Mr Andrew Welsh (Angus) (SNP): What are the consequences of not conforming to the European rules?

Arwel Roberts: I am told that the EU has said that it is not an issue, but that the mistake should not be repeated.

The Convener: Wrists and slaps come to mind.

As there are no more questions on the Scottish Children's Reporter Administration, we come to the audit of Forest Enterprise Scotland.

Robin Harper (Lothians) (Green): I presume that the £6.358 million that was lost through the revaluation of assets relates mainly to trees and that the figure is predicated not just on present value but on future value. Therefore, the figure could go up or down.

Arwel Roberts: Yes, particularly as the typical life cycle of the assets is 50 or 60 years.

Mr Welsh: What does the phrase "deficiencies in pension data" in the section on teachers' pensions mean?

The Convener: We have not got to that yet; we are still considering the report on Forest Enterprise Scotland.

Mr Welsh: I beg your pardon. I had a flashback there.

The Convener: As there are no more questions on Forest Enterprise, we come to the audit of the water industry commissioner's accounts for 2002-03 and 2003-04.

George Lyon: The report is in some ways damning. The commissioner's office has no internal audit function or audit committee, even though the commissioner pronounces on Scottish Water's financial performance, compares it with that of companies south of the border and has made robust criticisms of Scottish Water. Is there an explanation of why the commissioner failed to put in place proper financial procedures in his organisation?

Mr Black: We cannot answer that question directly. I am pleased to note that the Environment and Rural Affairs Department has identified the issue and that the commissioner has responded accordingly and is putting in place the appropriate controls that one would expect in any public body.

George Lyon: So an internal audit is standard practice.

Mr Black: It is.

Mr Welsh: The report mentions that the problem was caused by a computer virus. I presume that the system is now secure, but why was it not secure in the first place?

Mr Black: We cannot answer the question about why it was insecure in the first place.

Mr Welsh: Is it secure now?

Mr Black: Clearly, a significant failure in the system prevented the office from generating accounts that were suitable for audit. We are advised that the problems have been sorted.

Mr Welsh: What kind of virus was it?

Mr Black: I am sorry, but we do not have that level of detail.

Mr Welsh: Was there a flaw in the system or was the virus introduced?

Arwel Roberts: The financial systems were provided by a third party and the virus was in its system. I do not know the name of the virus.

The Convener: We now move to the accounts for the NHS pension scheme and the Scottish teachers pension scheme.

Margaret Jamieson (Kilmarnock and Loudoun) (Lab): Why is this the first time that the difficulty with the actuarial valuation has been raised with us, given that the valuation is supposed to take place every five years and that, for the NHS, the previous one was carried out in 1994?

Mr Black: The auditor reported the lack of a Government Actuary's Department full actuarial valuation in previous years, but the matter came to a head in 2003-04 when, in accordance with the new financial reporting standard 17, the accounts for the first time were required to disclose on the balance sheet the value of the scheme's liabilities. That new reporting standard required a qualification, but the matter had been reported in previous years as a concern.

Margaret Jamieson: Obviously, the concern would have been raised with the various bodies. Did they make no attempt to address it?

10:15

Graeme Greenhill (Audit Scotland): That goes back to the previous question that Andrew Welsh asked on the problems that were experienced. The problems arose when the previous pension administration system was being replaced by a new system in 2000. There appeared to be a two-year gap between the old system being switched off and the new system going live, which meant that two years' worth of membership changes were not updated. It also led to a mismatch between membership data submitted annually by the employers and the information held by the Scottish Public Pensions Agency, which administers the pension scheme. Efforts to investigate the data mismatch and address the backlog of membership changes were disrupted as a result of the SPPA's relocation to Galashiels.

Margaret Jamieson: Have any irregularities been reported with the data mismatch? Given that the updating of data was two years behind, were inappropriate claims made?

Graeme Greenhill: Not to our knowledge.

Susan Deacon (Edinburgh East and Musselburgh) (Lab): I am interested in receiving further information on the impact of relocation. A significant number of relocations have taken and are taking place. We have an example of a relocation that contributed materially to significant operational disruption and potential cost. It is important to have an understanding of that, although it is not the major question that I wanted to ask.

Precisely where do responsibility and accountability lie for the management of major public pension schemes? I accept that the SPPA is tasked with administering the schemes, but there are clear financial and operational implications for major public services and it would be useful to have more of an understanding of the level of information to which accountable officers for the various public services have access, as well as the level of responsibility or decision making. Can you clarify that, please? That question addresses more than just the two schemes that are in front of us. It also covers fire service pensions and so on, with which I am sure there are parallel issues.

Arwel Roberts: Accountability for the two pension schemes rests with the accountable officer of the Scottish Executive Finance and Central Services Department, who at the moment is Andrew Goudie.

Susan Deacon: That is a third place. There is the SPPA, there is the relevant department—be it the Education Department or the Health Department—and there is the accountable officer of the Finance and Central Services Department. Is there not an issue if no one person is charged with the task? I say that not just in relation to the point that you have brought to our attention, but more generally in relation to the management and financial planning of such pension schemes, which are hugely significant elements of public expenditure.

Mr Black: Having clear accountability and responsibility for such schemes is important, because—aside from the need to safeguard the welfare of scheme members—the schemes are unfunded and therefore the impact is on public spending. I imagine that the view is taken that it is for the pensions agency to administer the scheme, in effect on behalf of the accountable officer. However, I sense from your questioning that your concern is with the elapsed time since revaluations were instituted and completed. That must be, and should be, of concern to the accountable officer.

Susan Deacon: Which accountable officer?

Mr Black: The accountable officer in the department.

Susan Deacon: The Finance and Central Services Department?

Arwel Roberts: The one who is responsible for signing these accounts.

Susan Deacon: For the record, my concern is wider than the issues that you touched on in your report. If—and I stress the word “if”—the work of Audit Scotland has flagged up questions about where responsibility lies in such matters, I would like to know whether that has wider implications for other aspects of the management and planning of the schemes. Is that concern founded or not?

Caroline Gardner (Audit Scotland): There are two aspects that we should be clear about. The administration of the scheme is the ultimate responsibility of the accountable officer for the Finance and Central Services Department. However, I think that you are talking about the wider question of financial planning and management in services such as the national health service. One of the things that we are interested in exploring in more detail is how the Health Department is carrying out its responsibility for long-term financial planning, picking up issues such as future pension liabilities as well as drug costs and salary costs. As our integrated overview reporting develops, we will examine the linkage between what the Health Department does and what health boards are doing. I hope that that will pick up the question of the way in which resources are being planned for future liabilities at this point.

Susan Deacon: If the head of the Finance and Central Services Department is the accountable officer for this purpose, does that imply that he or his department are undertaking any wider programme of work to ensure that, across Scottish public services, the highest standard of management of these arrangements is being adhered to and that appropriate forecasting and future planning are taking place? Or are such things being considered purely on a departmental or sector-by-sector basis?

Mr Black: It is not unreasonable to suggest that that question could best be answered by the accountable officer.

The Convener: I suspected as much.

Mr Black: Having said that, as you will be aware, there are a number of schemes that receive a great amount of funding and which are covered by the audit process that is administered by Audit Scotland on behalf of the Accounts Commission. Because those large schemes are subject to our annual audit, assurances can be given in relation to some of them, for example that which concerns local government employees. There are a variety of schemes in Scotland. The major distinction among them is between the unfunded schemes, of which the teachers scheme

and the NHS scheme are the largest, and the funded schemes, of which far and away the largest is the local authority scheme. Different circumstances apply to those two types of schemes.

Mr Welsh: With regard to the future, can you assure us that the situation is now fixed or are the problems likely to continue?

With regard to the past—I declare an interest at this point, as I am a member of the Scottish Parliamentary Corporate Body—I can think of a massively complex situation involving enormous numbers of individual amounts of money. It seems to me that it would be enormously time consuming and difficult to go back over that situation. How easy is it to solve such past situations?

Mr Black: The SPPA expects to be able to provide the relevant data to the Government Actuary's Department to ensure that the full 2001 actuarial evaluation is completed by the spring of 2005. That is the latest information that we have.

George Lyon: Has Audit Scotland picked up on any difficulties in relation to other schemes, or are the two schemes in question the only ones that have been hit by the lack of information with regard to financial reporting standard 17, which was introduced only two or three years ago?

Mr Black: There are no other qualifications on any other scheme for that financial year.

George Lyon: So the matter is linked to the loss of information in relation to the two schemes.

Mr Black: In essence, the concern is that, because the actuarial evaluation has not been carried out, there is a limitation on the assurance that the auditors can give about the financial state of the schemes.

George Lyon: Has the actuarial evaluation been done on all the other schemes that you have inspected?

Mr Black: I would expect that to have been done. If it had not been done, the auditors would have made a report.

The Convener: Our final area of questioning is the section 22 reports on the audit of the Scottish Commission for the Regulation of Care and the related audit of the Scottish Executive consolidated resource accounts. We have received quite a lengthy and detailed explanation from the Auditor General with regard to those reports.

Mrs Mary Mulligan (Linlithgow) (Lab): Was one of the difficulties in identifying the support services that were being provided the fact that the services themselves—even down to individuals—would come in different packages, meaning that it was difficult to identify a strand of services

because of the way in which they were intermixed? Towards the end of your presentation, you talked about a change to the requirement in August 2004 and a proposal for future changes. Are you confident that that will address the difficulty that was identified in recognising the services and being able to register them and cost what was being paid out?

Mr Black: I preface my remarks by saying that we are not expert in this scheme. As I said earlier, we have not carried out a full audit examination of the underlying processes and systems.

It is true to say, as Mary Mulligan points out, that the scheme is a complex one, in which the packages of care can involve drawing upon a variety of services. The care commission faced a challenging task in understanding fully the range of services that were involved and the implications for the registration of providers. We have received assurances from the care commission and the Development Department that the situation is now being better monitored and that communication has improved. As I remarked, we will continue to monitor the situation through the audit process.

Mrs Mulligan: It seems to me that it was overambitious to think that the care commission could establish the monitoring process within six months. Did that come down to the Executive's decision, or was it down to the commission?

Mr Black: You are correct to say that the timescale was overambitious—I agree with that view—however, without further investigation and examination, I would not wish to apportion responsibility for that decision. Nevertheless, if the committee so decides, we can look further at that matter.

George Lyon: My question is similar to Mary Mulligan's. Which of the three organisations that were involved was responsible for trying to evaluate how many different service providers needed registration? Where was the breakdown in the delivery of that? Who was responsible for informing the service providers of what was required? It is difficult to understand where the responsibility lay.

Mr Black: Part of the problem was the introduction of an entirely new system, under the Regulation of Care (Scotland) Act 2001, in an environment in which recorded information about provision before the new policy was implemented was very poor.

George Lyon: Where did the responsibility for that information lie? Did it lie with local authorities or with Westminster? A lot of the funding came from Westminster previously.

Mr Black: It is a Westminster scheme. When we considered the matter, the parallel with

independent learning accounts came to mind. As committee members may recall, that scheme, which was based on very good principles, was devised at Westminster and then taken over for application in Scotland. Imperfect information was provided to the Scottish Executive for the implementation of that scheme, and there were other problems with its implementation in Scotland.

George Lyon: But who was responsible for handing over the information? That is what I am trying to get at. Did Westminster hand over the information to Scotland, given the fact that Westminster was handing over the programme to be run by the Scottish Executive?

Mr Black: I am sure that the Scottish Executive would have been expected to know what services and service providers existed in Scotland prior to the implementation of the scheme.

George Lyon: So this is similar to ILAs in some ways.

Mr Black: Some general parallels can be drawn.

10:30

Susan Deacon: Should not we be very cautious about making such comparisons, given that the registration arrangements, as distinct from the supporting people scheme, were devised here in Scotland? Is not this, first and foremost, an issue about the registration process?

Mr Black: I would not disagree with that statement.

Susan Deacon: Has any work been done to assess the general efficacy of the registration process and, indeed, its cost effectiveness? You said towards the end of your statement that this could be seen as a technical problem, but that it has caused people problems within the system. What practical problems has the fact that registration was not in place caused either to staff or, arguably more important, to service users, given that registration had not been in place previously and that registration has taken a bit longer to kick in?

Mr Black: I am sorry, but I do not think that we are well placed to answer questions about what is happening out in the system, because we have not done a full study of that area. It is clear, however, that anxieties and concerns will have been raised by the fact that local authorities had been paying money, which was not regular, and by the prospect that service providers could be found to have accepted payments unlawfully, because they were not registered. Happily, the Lord Advocate removed that concern last summer, but it is reasonable to conclude that there must have been a period of anxiety and concern for

those who are involved in service provision. There may well have been a consequential effect on service users' confidence in the new system as it was being implemented.

Susan Deacon: It is important that we are clear about this. In your view, would the concerns arise from the fact that, technically, there was an issue of non-compliance in terms of statute rather than from there being any evidence of a practical impact on the quality or level of service that was being provided?

Mr Black: We have no evidence that there has been a practical impact on the level or quality of service. That does not mean, of course, that there has not been a consequence. On the other hand, it is probably worth saying that, to safeguard the continuity of service delivery, a pragmatic decision was taken, which was perfectly understandable, to continue spending the money so that the services were provided.

Margaret Jamieson: Could the situation to which you referred have been the result of a lack of understanding of the complexity of setting up the care commission and the Scottish Social Services Council and of how those bodies would relate to other areas of the Executive?

Mr Black: It is fair to say that the care commission had an extremely challenging agenda when it was established. There was a very short lead time between the commission's establishment and its assumption of responsibilities for registration in a number of areas. Certainly, the commission faced enormous pressures at the time. It is also fair to say that, in advance, no one fully appreciated the complexity of the registration process.

Margaret Jamieson: But surely civil servants, in advising ministers, would know exactly how much work was on-going within the care commission and how quickly the people there would have to set up systems and processes, without burdening them with the complexities of the Housing (Scotland) Act 2001 coming into force as well?

Mr Black: I think that that question would be best asked of the Executive department.

George Lyon: Are any financial liabilities outstanding as a result of the majority of the payments being deemed illegal until the Lord Advocate's ruling?

Mr Black: No. I am aware of nothing arising as a result of the problem with legal registration.

George Lyon: There are no court actions in view.

Mr Black: We are unaware of any such events.

Mr Welsh: The matter comes down to the accurate control of, and financial accountability in

relation to, more than £225 million of public spending. You said that you have received assurances that the situation is being monitored better and that communication has improved. When will the system be fully operational? Is there a light at the end of this tunnel?

Arwel Roberts: By the end of last year, the majority of applications for registration had been cleared. We do not know what has happened since December, but it would be reasonable to assume that the very small balance that was left has been cleared by now.

Mrs Mulligan: The role of Westminster and the Scottish Executive in all this has been mentioned. However, the other major party involved is local government. Do you want to comment on that aspect? After all, we are focusing on the question whether services were delivered at that time and the procedures that local authorities were asked to go through. Were local authorities concerned about whether services were being registered? Were services being delivered?

Mr Black: Before the Regulation of Care (Scotland) Act 2001 was enacted, local authorities provided a range of services under the supporting people programme. Unfortunately, the records of those services were kept in such a way that they could not have allowed a good information base to be created for the new legislation.

Another problem was that services were provided out of housing support, not by the local authorities. As a result, the picture was quite complex. Indeed, the legislation that was passed in 2001 was introduced partly to rationalise the system and to establish the care commission to register all providers, which would be known to the local authorities and could receive proper payments. Before the system came into being, the pattern of service delivery was complex and not very clear.

Mrs Mulligan: So you are not aware that any particular local authorities faced problems. The problem was simply that, across the board, it was difficult to break up the packages and have them registered.

Mr Black: I am sorry, but we are unable to give you an objective analysis of the situation in individual local authorities.

Susan Deacon: You have emphasised the scale of the task that was involved in processing the number of applications for registration that were required within the available timescale. I take that point, but during the audit process did you examine the method of registration? Was there any scope for a lighter touch that would have allowed applications to be processed more quickly, or could nothing further have been done to reduce the time that needed to be spent on each?

Mr Black: I am sorry—we have not looked at that. That would require a separate study.

The Convener: If there are no further questions on this item, I thank the Auditor General and his team for trying to answer our questions on the section 22 reports and laid accounts. I remind the committee and the wider audience that, more than a year ago, section 22 reports did not appear on the committee's agenda. The fact that they are now brought to the Parliament's attention represents a significant advance in the transparency and accountability of the public bodies in question. Of course, that does not necessarily mean that the Auditor General and his team will be able to answer all our questions.

Under item 5, when we discuss in private our reaction to the information that we have received, we can decide whether we want further information to be made available and whether we need to take further evidence in that regard. I thank the Auditor General and his team for raising the matters with us and I look forward to the committee's discussion.

Scottish Prison Service

10:40

The Convener: Item 3 is a briefing from Arwel Roberts on the Auditor General for Scotland's report "Scottish Prison Service: Correctional opportunities for prisoners".

Arwel Roberts: The report examines the Scottish Prison Service's provision of correctional opportunities for prisoners to reduce the risk of reoffending by improving prisoners' skills, addressing their offending behaviour, tackling addictions and preparing prisoners for release. Correctional opportunities include education, work-related training and behaviour management programmes.

We carried out the study for a number of reasons. First, reoffending is a major problem for the Scottish criminal justice system. SPS research indicates that nearly half of all prisoners who were released in 1999 were back in prison within two years. In addition, costs of reoffending are likely to be high. For example, it is estimated that recorded crime by ex-prisoners in England and Wales costs at least £11 billion per year. Secondly, the cost of operating the prison service in 2003-04 was around £260 million, of which the SPS estimates that it spent around £30 million—some 12 per cent of the full cost of prison operations—on correctional opportunities. Thirdly, research evidence from outside Scotland indicates that the provision of opportunities and interventions for prisoners during their sentences can be effective in improving basic skills and reducing reoffending.

The overall message that emerges from the report is that the Scottish Prison Service needs to do more to demonstrate the effectiveness and value of the opportunities that it provides in reducing the risk of reoffending. The report's findings indicate that although the SPS has no statutory duties to rehabilitate prisoners, the service recognises the importance of doing so and has increased the provision of education, vocational training and behaviour management programmes. However, a number of weaknesses are apparent, which prevent a clear conclusion on the extent to which expenditure has provided value for money. In particular, the Scottish Executive has an objective to reduce reoffending, but it has not set a specific objective or target that makes it clear how it expects the SPS to use its resources to contribute to the overall objective.

Prisoners' access to appropriate opportunities is variable and often depends on the resources that are available at each prison and on the duration of a prisoner's sentence. The report shows that a lack of staff and facilities at a number of prisons

resulted in waiting lists for access to correctional opportunities. The SPS has limited cost information for the correctional opportunities that it provides, which inhibits assessment of value for money. Due to the absence of robust local information on costs and activity, a full benchmarking exercise for all correctional opportunities across all prisons could not be carried out.

The SPS has undertaken only limited evaluation of the success of its correctional opportunities and has yet to evaluate the effectiveness of its correctional work in reducing reoffending. The evaluation of offending behaviour programmes should provide a robust basis for evaluating other correctional opportunities, but there are no specific plans or timescales for the development of such evaluations.

The SPS needs to improve the way in which it works with external organisations that are involved in the rehabilitation of offenders, to promote the effectiveness of the opportunities that are provided in custody. Scotland's criminal justice plan, which was published in December 2004, includes proposals for closer working links between the SPS and community-based criminal justice services.

Finally, I will comment on a number of positive steps that the SPS is taking to address some of the issues that I have mentioned. In 2004, it introduced a range of initiatives that were designed to improve the provision of correctional opportunities for prisoners in the prisons that it manages. Those initiatives include performance contracts for each prison to improve business planning and measurement of performance, including performance on correctional work; a so-called menu-based approach that is designed to provide prisoners with appropriate opportunities, depending on the length of their sentences; and a new information technology system to improve information sharing within the SPS and between prisons and outside agencies. The SPS accepts the need for improvement and has recognised the need to evaluate better the impact of its correctional work in order to demonstrate value for money.

As always, we are happy to answer any questions that the committee may have.

10:45

The Convener: Just before I invite members to ask questions, I draw to their attention—or remind them of—the fact that the Justice 1 Committee is considering the Audit Scotland report as part of its inquiry into the effectiveness of rehabilitation programmes in prison. It is also relevant to note that the Executive has announced plans to

legislate on prisoner reoffending early this year—we believe that the bill is imminent. I give that as background information.

Mrs Mulligan: As I am a member of both the Audit Committee and the Justice 1 Committee, I am becoming a little confused about which committee's meeting I am at. However, I will try to keep to audit issues. I do not want to give away what the Justice 1 Committee is considering as it draws up its report, but I agree that we have found it difficult to examine the inconsistencies across the prison service and have noticed a lack of evidence to support any of the arguments about what works. I was struck by the fact that prisoners move around the system and might not serve their whole sentence in one establishment, to which Arwel Roberts referred. From an audit point of view, I want to know whether the facilities are available to follow prisoner journeys so that we can decide whether the work that has been done with them has been productive. Is that another difficulty that you had?

Arwel Roberts: It fair to say that we had that difficulty. The case material on individual prisoners does not always enable their whole sentencing treatment to be evaluated.

Mrs Mulligan: Do you have any suggestions on how we could follow that path?

Arwel Roberts: As I have said, the SPS has introduced a new IT system. In theory, that should help.

George Lyon: The report is a baseline report that states what you found and where we are. It makes it clear that the reoffending agenda is just beginning to be implemented throughout the Scottish Prison Service. You mentioned that a new computer system is being introduced, but is the SPS taking the necessary steps to provide robust baseline information so that we can move on to conduct proper value-for-money evaluations and assessments of what is being done in each prison? As regards the ability to audit those objectives, is the SPS heading in the right direction?

Arwel Roberts: On the basis of what we have seen, the SPS recognises that it is necessary to provide more information. I would not necessarily want to comment on its robustness yet.

George Lyon: Does the information that is supplied by the commercial contract for the running of Kilmarnock prison—which is operated privately—enable you to determine what is happening there? Does it include robust targets against which performance can be measured?

Arwel Roberts: As the one private finance initiative prison in the system, Kilmarnock has specific service delivery agreements as part of its

contract. That principle has been rolled out across the other prisons in the system, which seek to match the same business objectives.

Susan Deacon: I note that, in the report, reference is made to the fact that

“Statute and ministerial objectives do not set clear goals for the delivery of correctional opportunities”.

The report goes on to note:

“There is no statutory duty to undertake rehabilitation”.

I read those comments as implying that, from an audit point of view, you thought that that state of affairs was a weakness in some way. However, it is striking that, despite the absence of a statutory duty, the SPS has given correctional work such a high priority. Perhaps we are making a tenuous or even spurious connection and further statutory controls are not necessary to drive change because the service seems to be moving forward on correctional work by its own hand.

In the same section of the report, you flag up the fact that the

“SPS has no defined budget for correctional opportunities”.

Again, the implication seems to be that, if it had such a defined budget, it would do more. However, it seems to me that, because it has freedom and flexibility on correctional work, the SPS is being relatively creative, which is not to suggest that there is not a long way to go.

The Convener: The first part of the question might delve into policy, so it is for the Audit Scotland representatives to decide whether they wish to answer that.

Arwel Roberts: What underlies the point that we were making is the need to provide a means to ensure that the Scottish Prison Service's performance can be properly measured and assessed. It is true that the sponsor department does not set specific objectives for correctional activities, which are not a statutory duty of the Scottish Prison Service. The SPS's primary statutory duty is custody and it is to its credit that it has taken the opportunity that custody provides to introduce measures for rehabilitation. It spends a considerable proportion of its funds on correctional activities and we think that it is important that that spending can be assessed for performance and value for money and that it is important for the sponsor department, rather than the Scottish Prison Service, to set the objectives.

Susan Deacon: I have two other points to query, one of which is about research. Various references are made in the report to research or to gaps in research on the efficacy of correctional programmes. I appreciate that that must be the substance of much of what the Justice 1 Committee is considering, but I am interested in

the issue. In paragraph 1.7, you flag up the point that certain research has been conducted in England and Wales but comparable research has not been done in Scotland. Are you leaning towards the suggestion that more research should be done in Scotland or should we make better use of the research that has been done elsewhere, whether south of the border or beyond our shores? I doubt whether the evidence on what works would vary hugely from one part of the United Kingdom to another and possibly even from the UK to abroad.

Arwel Roberts: There are a number of issues. First, reoffending needs to be defined. It is difficult to measure reoffending if it is not detected, and what the research really measures is the extent to which prisoners return to prison as a result of reoffending. Therefore, wherever the measurement is made, it is not a true measurement of reoffending; it is a measurement of resentencing.

On where the research comes from, the Scottish Prison Service is a member of an international group of prison organisations that shares information about such issues and is actively involved in gathering research in other parts of the UK and outside the UK. Certain countries have strong research, and the Scottish Prison Service benefits from that research as much as it can.

Susan Deacon: So this section of the report should not be read as Audit Scotland pressing for the Scottish Prison Service and the Scottish Executive to undertake their own research into such matters. Instead, are you saying that they should ensure that they have the information and evidence base that are required for them to make informed decisions?

Arwel Roberts: Yes.

Susan Deacon: On page 7 of the report, you make a connection between correctional work and the condition of the prison estate. I thought that you tantalisingly left that question hanging. Do you want to add anything on it?

Arwel Roberts: There is nothing that we can add.

Mr Welsh: My question is about proper measurement and assessment. You mentioned various actions that are being taken: the introduction of performance contracts with each prison, a menu-based approach and a new IT system for information sharing. There is machinery for delivering action, but what is the timescale for implementing the measures?

Bob Leishman (Audit Scotland): The simple answer is that we recommend that the Scottish Prison Service should use more of the new information that is becoming available to it to

monitor how well its new plans are being delivered.

Mr Welsh: Is that not a key point? How will the service know whether its plans are succeeding or failing unless it is able to monitor them properly from the start?

Bob Leishman: You are right.

Robin Harper: There is a fairly high turnover of short-term prisoners. From the document, one could work out the rough cost per prisoner for the large number of opportunities that are presented to prisoners. Would it help prisoners and the Scottish Prison Service if the service were able to give you a full cost per prisoner, rather than the overall bulk figures that you have for the estimated cost of correctional opportunities?

Bob Leishman: There are two issues. There is a need first to develop better information on costs generally. Once we have that, there is scope for benchmarking at prisons level and down to the level of individual prisoners. In the final column in exhibit 20, we made an initial attempt to work out the average spend per prisoner on correctional opportunities; there is some variability between prisons. However, that is only a starting point, until we have robust information. We need to get the information right before we can develop the benchmarking.

Robin Harper: I will push the point a little further. From bullet point 2 of exhibit 5 on page 7, it is clear that, once the information is collected, some sensible decisions could be taken to focus expenditure on work-based skills training, for instance, which the English research suggests is effective. I do not expect that the situation is markedly different in Scotland.

Arwel Roberts: It is worth mentioning that, historically, most correctional work has focused on long-term prisoners—those with sentences of more than four years. Latterly, the Scottish Prison Service has begun to work with prisoners with sentences of less than four years. It is moving to cover the area with higher turnover.

Margaret Jamieson: Are prisoners' needs being assessed consistently across the service, including in the private sector? Under paragraph 3.19, I note that the cost per prisoner learning hour varies significantly from £5.30 at HMP Kilmarnock to £12.35 at HMP Edinburgh. We have the figures, but do we know what the quality is at the other end? Are people coming out with qualifications that allow them to go into the employment market on their release? I have great difficulty with the fact that we can see the inputs but we do not see what comes out at the other end.

11:00

Arwel Roberts: The nature of the education that is provided varies. At the vocational end, it is provided under contract by external providers such as further education colleges. It is difficult to be precise about the benefits in terms of employment simply because the information is not available. That is part of the advantage that will result from closer links with other organisations. The education that is provided during custody will be linked to the prisoner's reintegration into society when they leave custody. Although the links are being improved at the moment, the information that they will provide is not complete yet.

Bob Leishman: If I may, I will add something. There is not a lot of information about the output of the education provided at the moment. The contracts between the SPS and the providers—the further education colleges—are being renewed at the moment. One of the things that we note in the report is the fact that the tender for the new contracts put more focus on the output of education. More information should be available in future; it is not there at the moment.

Margaret Jamieson: Obviously, education is an important factor. A number of prisons also have throughcare facilities. Are the two linked and do they dovetail into the needs of the individual prisoner? Some prisoners will need a significant amount of support in learning and achieving a skill for release. Obviously, those prisoners will also need to do a great deal of work in the throughcare programme, whereas other prisoners will not need as much of either provision.

I am well aware of the key performance indicators as they relate to Kilmarnock. I know that, if the prison does not meet its KPIs, a financial penalty is imposed. Is there any indication of a levelling across the SPS? Will the requirements that are imposed in the contract at Kilmarnock be replicated elsewhere?

Arwel Roberts: Your question raises two points. The first is that there is a well-structured assessment process in which the needs of prisoners are determined. The process varies depending not only on need but on the length of sentence. The longer the sentence, the more refreshing is undertaken.

The second point concerns levelling across the SPS. Kilmarnock is, of course, the single PFI prison in the SPS. As I said earlier, the principles that are adopted in defining the service are being applied to the other prisons. In effect, the contracts with prison governors are beginning to define business objectives. I cannot comment on whether a levelling up is taking place yet—the process is on-going.

The Convener: As the committee has no further questions, I thank the Audit Scotland representatives for their evidence and briefing document. The committee will discuss its approach to the report in private when we reach agenda item 6.

Audit Scotland (Study Programme)

11:04

The Convener: Item 4 is a brief explanation of and discussion on Audit Scotland's study programme for 2005-06. I understand that Caroline Gardner will brief the committee.

Caroline Gardner: The 2005-06 study programme presents the committee with its first opportunity to consider our forward work programme as a whole. Members may recall that, back in the summer, we consulted the committee on the items that we were considering for inclusion in the programme. After a wide-ranging consultation exercise with all our stakeholders, the Auditor General and the Accounts Commission have approved the joint programme, which will take Audit Scotland through to about the end of 2006.

I will draw to the committee's attention a handful of key points before I do my best to answer any questions that members might have on the detail. First, the continuing development of our overview reporting will build on what the committee has already seen in the health sector. In November 2005, the committee will receive an integrated overview report that will bring together our financial and performance overview reporting, on which the committee has based its work in the past few months.

We aim to extend that integrated overview approach across the rest of the public sector; we will start by looking at key policy areas within the Scottish Executive. We will take an area of policy and follow it through from departmental responsibilities to the range of bodies that implement policy on the department's behalf. That will provide an opportunity to examine performance in the round so that we get both vertical and horizontal integration in the ways in which organisations work together to deliver policy objectives. We hope that the integrated overview report will help the committee to get a better handle on how resources are used and the impact they have on public services.

Linked to that is our commitment to update the report "How government works in Scotland", which we produced in November 2002. We plan to take that forward through a series of linked pieces of work, each of which will be quite short and focused. Those will examine key issues such as financial management, performance management and probably, first, leadership development—I know that that is a matter of interest to some committee members. That will give the committee a different lens through which it can examine the performance of the public sector.

A number of studies will follow up issues in which the committee has already expressed an interest. For example, we plan to produce work on the new consultant contract, the use of information technology in the health service and—topically, following today's discussion—the impact of relocation on public bodies.

We plan to produce for the Auditor General and the Accounts Commission a number of joint reports that will pick up key areas of public policy, such as implementation of the teachers pay agreement and a review of housing stock transfer. We also plan to look at the impact of community planning partnerships in moving on from the process aspects of their work to being able to deliver improvements for the communities that they serve.

Finally, the study programme covers the Accounts Commission's responsibilities for local government. It is worth noting that the programme of best-value audits will get fully up to speed during 2005. That will provide an important source of information about local government performance to add to the studies that we already carry out and our work on statutory performance indicators. The results of all our work in local government will continue to be pulled together in an annual overview report. The chairman of the Accounts Commission has given a commitment that he will be happy to discuss that with the committee to provide a source of dialogue on how local government contributes to the delivery of public services throughout Scotland.

The programme pulls together work that is currently under way and work that is planned for the future in order to give the committee an overview of what is going on. I hope that I have given a sense of the key thinking behind why the programme looks as it does, but I am happy to try to answer any specific questions that members might have on the studies that it contains.

George Lyon: Which area or department will be covered in the pilot integrated overview report of the Scottish Executive, which is due to start in spring 2005 and finish in winter 2005? Has an area been selected for that first piece of work?

Caroline Gardner: The intention is that all the integrated overview reports will move beyond the department to look at the integrated policy approach. We are still considering options, but transport is a front-runner. Transport seems to be important enough for us to be able to say something useful on it and it also seems to be on a scale that a pilot could get to grips with.

Susan Deacon: A number of the studies that are mentioned in the paper will be very interesting and useful. As I recall, the earlier paper on Audit Scotland's planned future work programme placed

great emphasis on considering ways in which service users might be involved in order to find out more about their experiences. Can we get an update on where you have got to on that?

Caroline Gardner: We want that theme to run through each of the elements that make up the study programme, rather than its being a study in its own right. When the committee was discussing the prisons report, you might have noticed that prisoners were included in the focus groups. The work on colorectal cancer that will come through soon places a good deal of weight on focus groups and interviews with patients with colorectal cancer about their experiences of using services. We want a direct view of how it feels to be on the receiving end of a service as well as of the responsible body's view of how it is aiming to achieve service-user and public engagement with service delivery and development.

Susan Deacon: I am pleased to see that the "How government works in Scotland" study is to be updated. I realise that the list is not exclusive, but you highlight financial management and performance management. Will you also consider human resource management and some of the people and culture issues that are involved?

Caroline Gardner: That strand of work is to allow us to take a horizontal look across some of the issues that affect all public bodies. We have plans to examine leadership development, which is a key aspect of what Susan Deacon described. The future elements of that programme will keep developing and reflecting the issues that seem to be most important, as well as reflecting what we learn from the more detailed drill-down studies and overview reports.

Susan Deacon: I have a final question. You have a study on the efficiency and effectiveness of initiative funding. I am slightly concerned that the use of the term "initiative funding" might suggest something different from your descriptor of the project, which strikes me as being much more about getting behind how innovation is fostered and supported. The phrase "initiative funding" has become jargon and is almost a loaded phrase. I suppose I am just making an observation about the name.

Caroline Gardner: We are still consulting on the report and what it might cover. You are right that the title is causing some confusion; people have very different interpretations of what it might mean. As with any of our studies, getting the starting point right is the key to success, so watch this space. That is as much as I can say just now.

George Lyon: I have a general question. One of the themes that recur during all Audit Committee investigations into various reports is the inability to drill down into Scottish Executive money that is

allocated to policy areas that are delivered by local government. We have consistently been unable to get good-quality information that would help us to take a view on whether the outcomes are being delivered at the grass roots. Has there been any consideration of how we might address that or does that take us into policy, in which case Audit Scotland does not take a view? The subject has come up during every study that we have been involved in recently. We have been unable to get good-quality information to evaluate whether money is spent well and directed at the relevant areas.

Caroline Gardner: I will attempt to answer that first, but Bob Black might want to add to it.

One of the reasons why a number of studies are set up as joint studies is so that we can follow through from the Executive's policy intention to delivery by a range of bodies. The clearest example of that is probably the study of the McCrone agreement, through which a significant amount of money is being invested with the intention of improving teaching in schools. The Auditor General and the Accounts Commission have agreed that that should be a joint study because of the joint interests that it covers. However, there is clearly still a question about different accountabilities for local government relative to the other bodies that make up the public sector. The Accounts Commission has specific responsibility for picking up on reporting by the 32 councils that make up Scottish local government.

Robert Black: Caroline Gardner has covered the point perfectly adequately. It is important to bear in mind the provisions whereby the Accounts Commission, through best-value reporting, reports to Scottish ministers. Through that process—for example, during preparation of the local government overview report—it would be perfectly appropriate for the committee to take evidence from the appropriate accountable officer, probably from the Finance and Central Services Department, on the performance of local authorities in the aggregate. That includes how well the money is used and how satisfied the Executive is that funds are being used to deliver value for money in the intended areas. There is a subtle but important distinction between the holding to account of individual democratically elected local authorities for the use of resources, and the holding to account of the rest of the Executive.

11:15

George Lyon: That is a mechanism that we have not used, at least in my time on the committee.

Mr Black: I beg your pardon?

George Lyon: I do not think that we have used that mechanism.

Mr Black: Of course, the best-value legislation is a relatively new development.

George Lyon: So that gives us an opportunity.

Mr Black: There is a new opportunity and an expectation that the overview reporting that is produced by Audit Scotland in the name of the Accounts Commission will, increasingly, consider performance issues as well as financial management issues.

Margaret Jamieson: To pick up on Susan Deacon's point about the efficiency and effectiveness of initiative funding, how will Executive departments work with one other to deliver initiatives on the ground? We all have experiences of initiatives to which all the partners are signed up, but when they come to Edinburgh they all have to go in through different doors and if one individual gets a no, the whole thing comes down like a house of cards. Is that the type of thing that you will examine, rather than a specific area?

Caroline Gardner: I need to say, as a caveat, that we are still consulting on the scope of what we might do, but we are interested in what the Executive aims to achieve by funding services in such a way, how easy or otherwise it is for the organisations on the receiving end to make applications, how clearly the Executive monitors the achievement of its objectives, and the proportionality of the process of applying for funding and reporting back what has been done, relative to the amounts of money that are involved.

Margaret Jamieson: Will the delivery aspects feed in to the work that you do on the community planning process?

Caroline Gardner: Absolutely.

Mr Welsh: I do not have a question. I just want to say thank you to Audit Scotland, which covers a massive range of topics and subject areas. In a few short years, you have certainly saved Scottish taxpayers a large amount of money—I do not know whether you measure that—and you have shed light on Scottish public services, which was simply not possible under the Westminster Government. You have also encouraged efficiency of resource management and service delivery so, on behalf of us all, I wish you success in your work.

Robin Harper: Hear, hear.

The Convener: Enjoy that.

Susan Deacon: I have a brief final comment to make, but I think I should wait until the blushes have died down a little.

I am struck by the fact that the committee has repeatedly returned, not least in our discussion about NHS data, to the need for measurement and monitoring systems to drive performance in the right direction. I want to check with you one of the themes that runs through that. Would it be fair to say that Audit Scotland is making a discernible shift towards trying to look more at outputs and outcomes? The committee keeps on saying that that needs to happen more throughout all public services, but I think that all of us tend to default back to drilling into inputs rather than into the results. Is that a reasonable observation on the overall direction of the programme and the way in which it, in turn, might help to drive performance in the Scottish public sector?

Caroline Gardner: That is certainly a fair reflection of our intention, but it is important to say that it is not always possible to focus on outcomes as much as we would like. The prison service report is not a bad example of that, because the information is not available as a starting point. That is increasingly where we place our attention, but the dilemma that we face is that if that information is not available, we end up with a pretty dull report, which says that people need better information to evaluate the impact of what they do. We sometimes step back down the chain and say, "This is the best report that we have been able to produce in terms of inputs, process and outputs." Outcomes are often more difficult; we are making a gradual push in that direction, but we cannot solve the problem quickly.

Mr Black: To return to the point that George Lyon made earlier, it is also fair to say that we intend increasingly to take the service-user perspective into account in our studies wherever possible. It is an important discipline for us to keep in mind the key question whether an activity makes a difference for citizens and users of services. We use focus groups and study groups occasionally, when we can.

The Convener: It falls to me to thank Caroline Gardner and Audit Scotland for presenting its forward work programme. It is fair to say that the programme meets with the general approval and support of the committee, given the way in which the work is developing, and I ask the committee to note the report.

11:21

Meeting suspended until 11:31 and thereafter continued in private until 12:23.

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