



OFFICIAL REPORT
AITHISG OIFIGEIL

Public Audit and Post-legislative Scrutiny Committee

Thursday 25 June 2020

Session 5



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PUBLIC AUDIT AND POST-LEGISLATIVE SCRUTINY COMMITTEE
13th Meeting 2020, Session 5

CONVENER

*Anas Sarwar (Glasgow) (Lab) (Acting Convener)

DEPUTY CONVENER

Liam Kerr (North East Scotland) (Con)

COMMITTEE MEMBERS

Colin Beattie (Midlothian North and Musselburgh) (SNP)
Neil Bibby (West Scotland) (Lab)
Bill Bowman (North East Scotland) (Con)
Willie Coffey (Kilmarnock and Irvine Valley) (SNP)
Alex Neil (Airdrie and Shotts) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Caroline Gardner (Audit Scotland)

CLERK TO THE COMMITTEE

Lucy Scharbert

LOCATION

Virtual Meeting

Scottish Parliament

Public Audit and Post-legislative Scrutiny Committee

Thursday 25 June 2020

[The Acting Convener opened the meeting at 11:00]

Decision on Taking Business in Private

The Acting Convener (Anas Sarwar): Good morning and welcome to the 13th meeting in 2020 of the Public Audit and Post-legislative Scrutiny Committee. Agenda item 1 is a decision on taking business in private. I will assume that everyone agrees unless a member indicates otherwise. Does any member object to taking item 4 in private? As no member has objected, the committee will take item 4 in private.

Audit Scotland (Impact of Covid-19)

11:00

The Acting Convener: Item 2 is consideration of the impact of Covid-19 on Audit Scotland's work. I welcome to the meeting Caroline Gardner, the Auditor General for Scotland.

Auditor General, we heard from you in both March and May on the impact of Covid-19 on your work and that of Audit Scotland. As I mentioned on those occasions, your work is intrinsically linked to that of this committee, so it is helpful for us to receive an update on how Audit Scotland's work is being reshaped due to the current exceptional circumstances and what that means for the committee's work programme. I invite you to make an opening statement.

Caroline Gardner (Audit Scotland): Things have moved on since we last discussed the impact of Covid-19 on our work. The Scottish ministers have extended the audit timescales for national health service bodies by three months to 30 September and for local government by two months to 30 November. The deadlines for laying central Government and college accounts in the Parliament are unchanged, but audit reporting on central Government bodies is likely to be later than in previous years.

The format and content of annual reports and accounts have not changed, including for governance statements, but audited bodies have the option to streamline their performance reporting and management commentaries. We are working closely with audited bodies to complete audit work in line with the new timetables, but at this stage we cannot guarantee that we will be able to meet all audit deadlines this year. The work is taking longer, there will be some difficult audit judgments to make and we will continue to prioritise audit quality and the health of our colleagues.

Meanwhile, we will carry out a substantial programme of work to respond to the pandemic, including an early review of the Scottish Government's financial response, which we hope to publish in July, and overviews of the NHS and local government responses planned for early 2021. There is more detail in the briefing paper published on Audit Scotland's website to coincide with this meeting, setting out the range of issues that we are looking at.

As we start to emerge from the pandemic, we are committed to playing our part in recovery and renewal by providing transparency, supporting parliamentary scrutiny and sharing good practice

and innovation. Our work is likely to cover how public services are adapting in response to Covid-19, financial sustainability and the impact of increased costs and reduced income on the economic and fiscal consequences of the pandemic

Convener, as always, I am happy to answer the committee's questions and we are also keen to hear your views. Thank you.

Liam Kerr (North East Scotland) (Con): Good morning, Auditor General. In the document that you published in May on how Covid would affect public audit in Scotland, you set out a phased approach to your audit work to help Parliament and the public understand how public money is being used throughout the crisis. What phase have we reached in that? What are the next steps?

Caroline Gardner: It is clear that we are now through the immediate emergency response to the pandemic and seeing a range of United Kingdom and Scottish Government programmes in place to support the economy and individual people and families across Scotland. It is also clear that we are now starting to ease out of lockdown, with the economy beginning to return to something that is more like normal, and that there are different views from forecasters and others about how quickly that might happen and how much long-term change there will be, so we are keeping a close eye on all that.

We are trying to keep in close touch with the Government and other bodies that we audit to make sure that we understand the responses that they are making, the challenges that they are facing and the need for them to have good governance in place as they work in unprecedented ways and at an unprecedented speed. As I said, we are now focusing on getting the audits of all those bodies—from the Scottish Government through to NHS bodies and councils—complete in line with the revised timetables. That will provide a lot of assurance. We have reshaped and reprioritised our planned performance audit work to make sure that we respond to what Parliament and the committee will need in order to carry out their responsibilities. None of us yet knows what the full effect of the pandemic or its effect on the public finances will be, but we are confident that we have positioned ourselves to be able to provide you with evidence and assurance about that, as we move into the next stage.

Liam Kerr: Over the past few years, this committee has looked at a great many of your very good reports which, a lot of the time, have suggested that some of the many things that the Scottish Government has promised are not capable of being delivered. Following the crisis, I

suspect that a common refrain will be, "Look, we could have delivered those things, if only coronavirus hadn't happened." Will your auditors stress test that assertion whenever it is made?

Caroline Gardner: I can say with confidence that we will do so. The committee will recall that the past two times I have given evidence to you, it has been on reports where that has been the case. I reported on affordable housing and on early learning and childcare. In both cases, I said that there were risks that the Government commitments would not be met in the expected timescales, and the pandemic made it clear that that would not happen. In the case of early learning and childcare, the Government has laid regulations to remove the statutory requirement for councils to offer 1,140 hours of early learning and childcare to eligible children.

As we reshape the work programme, part of what we are doing is to make sure that we come back at an appropriate point to look at what progress has been made, take stock of the impact of the pandemic and look at the way in which the Government is able to demonstrate the value for money that it is providing but also the way in which its planned outcomes under the national performance framework are being improved. That is a key part of our role in supporting your committee to do its work.

Liam Kerr: I have a final question in this section. The strength of the UK has resulted in around £3.8 billion coming to Scotland to directly address the coronavirus emergency. Will your team audit and report on exactly where that money has gone and where it has been spent, so that the public can see that it has gone directly to address the crisis and not to fill budget gaps elsewhere?

Caroline Gardner: That is very much the point of the piece of work on the Scottish Government's overall financial response that we plan to publish in July. As you said, a lot of money has come in as Barnett consequentials to address the effects of the pandemic. For good reasons, that money is being spent quickly; it is being passed out to businesses, delivered in the form of non-domestic rates relief and in a range of other ways. It is important that that money has the intended impact and that it does so quickly. Equally, it is important that this committee and people across Scotland can be assured that it is being spent properly, that the right safeguards are in place and that we can demonstrate what we have got for it. The piece of work that my colleagues plan to publish in July is intended to give you that overall picture, to highlight the specific risks and to identify areas where we think more detailed work might be needed in future.

Liam Kerr: I am very grateful.

Alex Neil (Airdrie and Shotts) (SNP): Good morning, Auditor General. I begin by asking you specifically about the business support measures. I have not heard anything concrete, but I have heard anecdotal stuff about the legitimacy of some of the claims that have been approved. I am not criticising anybody, because the whole point was to turn those applications around quickly to stop companies going bust. Will you be looking into specific cases and doing a sample of the turnaround funds, for example, to check for any large-scale, systematic fraud? I am not suggesting that there is any; I am just saying that, if nothing else, it would reassure people that the money was spent wisely and legitimately.

Caroline Gardner: In principle, absolutely—yes. As you say, it is important that the money gets out quickly to the people it is intended to help so that we can protect jobs, livelihoods and businesses for the future. That is what it is intended to do.

We all know—as auditors, we have seen this in a number of cases in the past—that, when a large amount of funding is available, particularly when it is available quickly, there is a risk that people will make fraudulent claims or that mistakes will be made, so we are mapping what each of those funding streams is, what the controls around them look like, whether they look robust enough, and what checks and balances are in place.

We will be reporting on that piece of work by the end of July, I hope. That might reveal some cases where we think that there are particular risks that need a much closer look. In those instances, we have auditors in the Government and in public bodies around Scotland who can go out and do exactly that sort of testing to make sure that the money is being spent properly and that proper records are kept.

It is probably also worth saying that we welcome hearing from people if they have concerns about particular instances, as it can indicate to us that there are problems that we should be alert to and may need to do some work on.

Alex Neil: Not just providing business support money but all aspects of dealing financially with the pandemic have had to be done at speed. In many cases, we have been inventing new schemes, such as the furlough scheme and the business support schemes. As part of what you will eventually do once the pandemic is over, will you be producing guidelines or a framework for use in any future national crisis, such as another pandemic? Clearly, one of the lessons that we should all learn from this is that we have to be far better prepared right across the board the next time.

My understanding is that it is still the case that the number 1 item on the UK risk register is the threat of a pandemic. If that is the top risk, what about the third or the fourth risk, for example? Are we as well prepared for those as we were for the pandemic? As part of the exercise on learning lessons, which we all have to do, will you be giving some guidance on what lessons need to be learned?

Caroline Gardner: You are absolutely right—the purpose of any risk register and any risk management process is to make sure not only that you know what the risk is but that you have good plans in place. Our objective throughout this is not only to provide the committee with the information that it needs to hold people to account for how money is being spent and services are being provided just now but to learn lessons and get good practice out there. Alongside the formal reporting that we do, it is likely that we will be doing much more in the way of using briefings, real-time reporting and round-table discussions—even things such as blog posts—to get information out quickly and to make sure that those lessons are learned as we come out of this phase of the pandemic and certainly so that they are built into any future plans.

We are looking to do that in a range of ways. For example, one of the things that my colleagues are putting together at the moment is guidance for audit committees so that they know what questions to ask about the controls in their organisations and about what procurement should look like in an emergency. How do you make sure that you are buying the personal protective equipment that you need, for example, as a matter of urgency, while making sure that you are safeguarding public money in doing that?

There will be lessons to learn and we can play a big part in helping to share those and to make sure that they are baked in for the future.

The Acting Convener: I think that we might have lost the connection with Mr Neil. We will move on to a question from Bill Bowman.

Bill Bowman (North East Scotland) (Con): I want to return to an aspect of how you are doing your work, Auditor General. Previously, we asked you about the ability of the auditors to carry out their work remotely and, at that point, you said that Audit Scotland was still working its way through how that might be managed. Will you give us an update on that?

11:15

Caroline Gardner: I am happy to do so. We have been pleasantly surprised by how much our audit teams have been able to do remotely, which applies both to my colleagues in Audit Scotland

and to those in firms that we appoint to do audits around Scotland. Most of us have been able to move all our work online practically overnight. I was able to give you the assurance back in March that Audit Scotland could work remotely and that has continued to be the case.

Under revised timescales, a lot of audit work is now well under way in line with the plans for audited bodies. We expect at least three audits—those of Skills Development Scotland, NHS Orkney and NHS Western Isles—to be signed off this week. Those are the early ones, but others are in the pipeline and expected to come through.

It is fair to say that there is more variation among the audited bodies in the extent to which they have found it possible to work remotely and provide the information, explanations and records that auditors need to do their work, but, so far, we have been pleasantly surprised by how well we have been able to take the work online. I am grateful to all my colleagues for the efforts that they have put in to do that.

I should caveat that by saying that we know that there will be some bodies that will struggle and that there will be some difficult audit judgments, particularly around things such as valuation and verification of physical assets, in which we have not yet been tested. However, it is a case of so far, so good.

The challenge is that it was not possible to do some of the interim work that would normally have been done in March and April, so we have a slight snowplough effect, with things moving out towards later deadlines. We are managing that in real time, trying to stay agile and flexible and to prioritise in ways that keep the flow of work as steady as it can be, while protecting our colleagues' health.

Bill Bowman: I know that external confirmations are an important part of audit work that is not directly linked to how the audited bodies do their work. Are you having any difficulty with banks or other organisations giving you direct confirmations?

Caroline Gardner: So far, we have not had difficulties and we have been able to get such confirmations from banks and financial institutions as required. The challenges have been more around things such as stock verifications—as you know, there are often physical inspections of significant stocks or stocks that are subject to particular valuation judgments. There have been innovative approaches with people taking iPads or iPhones around with them and streaming video to allow auditors to satisfy themselves that assets are there. People are learning as they go and being innovative, but that is not to say that there will not be stumbling blocks that we cannot overcome remotely and which might lead to

delays, depending on where we are in easing out of the lockdown at that point.

Bill Bowman: You mentioned how certain bodies are able to cope with this. In that regard, is there a difference between the types of body—for example, between public bodies that are particularly connected to people, as opposed to those that provide a more general service? Is there a pattern?

Caroline Gardner: I do not think that we have seen a pattern of that sort. It is much more about how well advanced they were in using digital technology as part of remote working and, in particular, in moving their digital services into the cloud. That is what has made our services much more robust and resilient than they would have been a couple of years ago. It has also enabled people to readily hold online meetings and to have access to all the records, transactions and back-up documents that they need to satisfy auditors. Bodies that have invested in that have been able to move online smoothly, while others are finding it more difficult. Some finance departments have a significant number of staff on site, which is a challenge and concern in its own right.

Bill Bowman: Do you anticipate any serious qualifications in or modifications to your audit reports?

Caroline Gardner: I am not aware of any at this stage. We know that that is a theoretical risk that we have to plan for. I suspect that the risk is more about limitation of scope. If we were not able to get the information to verify the audit judgments that we need to make, we would need to limit the scope of the audit opinion that we were making on annual reports and accounts. However, at this stage, it is a risk that we are aware of, rather than one that we are having to actively manage.

Colin Beattie (Midlothian North and Musselburgh) (SNP): Good morning, Auditor General. In March and May, we discussed with you the performance audit reports that you were planning to publish, and what might happen to them. Will you update the committee on the approach that you are taking, and the discussions that you have had with the relevant public bodies?

Caroline Gardner: Certainly. The team has stepped back and looked at what is already in the performance audit programme, and made a judgment for a proposal to the Accounts Commission and the new Auditor General about the priority that should be given to those things.

For example, it is clear that the educational outcomes audit, which was on the stocks and which we would normally be working on in March, will, as we come out of the pandemic, be just as relevant as before—if not more so. The team is engaging with colleagues in the Scottish

Government about what the right questions are to ask now and what actions the Government is taking, and therefore what role audit can usefully play. We will pick that up again, so that the work continues through 2021 and can provide a picture of the progress that the Government was making on increasing educational outcomes and reducing the attainment gap, and how that has been affected by the pandemic.

In other instances, we are looking at new pieces of work that have become much more important because of the pandemic, including the economic interventions that the Government expects to make, which we have heard a lot about this week in the report of the advisory group on economic recovery. It is likely that we will plan some work to look at the way in which those decisions are made, and at the trade-offs between investing in different types of company and the Government's aspirations for renewing the economy in the longer term.

Some pieces of work will simply need a bit of refreshing and relaunching, some will be new pieces of work that come into the programme, and some will drop out, because they simply do not seem that important after what we have been through in the past three months.

Colin Beattie: Just out of interest, have any public bodies said to you, "We are so busy at the moment—give us a bit of space. We cannot commit resources to supporting an audit at this time."?

Caroline Gardner: The expectation that they might do that was very much why we paused the performance audit programme in March, when we all went home. We absolutely recognised that audit was unlikely to be anybody's number 1 priority at that stage, so we pulled out of that planned work and took the time to review the programme. Since then, as I said in response to Mr Bowman's question, we have been surprised at how ready and able people are to engage with us on all the audit work, and we appreciate that very much.

However, we are still working through some things. For example, on the piece of work that I mentioned for July, on the Government's financial response, we need to make sure that the Government is willing to commit the time to clear the report's factual content in the normal way, and that the timescales that we have in place are appropriate to providing assurance to Parliament, during the slightly odd recess that you will have this year, while not placing unreasonable demands on our colleagues in the Scottish Government and other public bodies.

I think that things will continue to flex over time, but we are clear that accountability and good

governance are more important than ever, and we therefore expect the Government and other public bodies to engage with us when that is appropriate.

Colin Beattie: We also discussed Audit Scotland's work programme more generally and how it might change as a consequence of Covid-19. Will you update the committee on what stage you have reached on that, and what discussions you have had with Audit Scotland staff and your successor on the approach that might be appropriate to the planning of reports in the longer term?

Caroline Gardner: I am sorry; I missed the beginning of that question. Would you mind repeating it?

Colin Beattie: Of course. We discussed Audit Scotland's work programme more generally and how it might change as a consequence of Covid-19. I was asking you to update the committee on what stage you had reached on that. Did you get the rest of the question?

Caroline Gardner: I did, thank you very much.

As you know, the work programme is formally agreed by the Auditor General and the Accounts Commission, to make sure that it is a joined-up piece of work that covers all public spending and all public services. At the moment, the intention is that a revised programme will be approved in September by the commission and by my successor Stephen Boyle. However, we are not holding off until then from doing work on the response to the pandemic.

The work that is going on at the moment is very much about monitoring what is happening in Government and in other public bodies and ensuring that we are sighted on the risks and the value that audit can add. We are also working on producing almost real-time outputs, such as what we plan to produce in July on the financial response, questions for audit committees and red flags on procurement. September will be the milestone for formally agreeing the programme. Obviously, that ties into Audit Scotland's budget cycle for 2021-22.

Colin Beattie: The committee is concerned to know that proper follow-up work on the section 22 reports that we have received will be prioritised, particularly given that the response to Covid-19 is putting financial and manpower pressures on public services. Will Audit Scotland be focusing on those weak points in its programme?

Caroline Gardner: Very much so. Section 22 reports are the main vehicle by which I, as Auditor General, and my successor can report to Parliament and to the committee on matters of public interest that come out of the annual audit work. In my opening remarks, I said that the

deadline for laying reports in Parliament on central Government bodies has not changed; it is the end of December. NHS audits are due to be completed by 30 September. We will do our best to hit those deadlines. If anything slips, it will be the timing, not the content. If there are issues that we think need to come to Parliament, we will ensure that they are fully reported in the usual way and that the committee is fully supported to explore them.

The overview reports on the NHS and colleges provide an opportunity to step back and look at common themes that are coming through, and the commitment to an annual section 22 report on the Scottish Government's consolidated accounts remains in place, so you will receive all those reports.

The Acting Convener: You mentioned procurement. Will you be looking at our procurement structures as part of the work in the next phase? There has been a lot of procurement throughout the crisis—PPE is a prime example. Will there be a specific look at procurement practices and at any lessons that we can learn for the future?

Caroline Gardner: That is certainly one of the risks that auditors will look at in their audits of 2020-21. Most of that procurement will have happened in the current financial year. Auditors are alive to the risks of making large purchases at short order from, in many cases, new suppliers.

In general terms, we will report if there is something useful to report to the committee—either lessons learned or problems that have been uncovered. We are all conscious of the risks relating to procurement as we go through this emergency period and, indeed, as we move into the next stage and think about what is required for public services that are starting to adapt and renew themselves in the future. That will be a big area of focus for auditors.

The Acting Convener: Will there be a specific piece of work on the procurement of PPE and so on?

Caroline Gardner: I do not want to commit my successor, Stephen Boyle, to that at this stage. However, I absolutely give the assurance that, as we map out where we can best use the audit resources that are available and prioritise between them, procurement is right up there as an area that we are conscious of. It might well be picked up as part of the overview reporting on the Scottish Government and, in particular, the NHS that always comes out of the year's audited accounts.

Neil Bibby (West Scotland) (Lab): The biggest failure during the crisis has been in the care sector—specifically, in care homes. There have been issues with patients being discharged

without testing and care homes being unprepared. What can Audit Scotland do to shine a light on the significant failures that there have been in the care sector during the Covid-19 crisis?

Caroline Gardner: I can give you assurance on two things. The first is that the NHS overview, which we produce annually and which looks at the health and care system, will be expanded to look at the effects of the pandemic and the way in which the NHS and social care responded to it. The questions that you raise will certainly be part of that. We are planning to push back the timing a little bit to allow more time for the NHS audits to be completed and for work on those wider questions to be picked up.

Before we went into the pandemic, a significant piece of work on social care was just getting under way, which is another one of the audits—such as the one on educational outcomes—that has really gone up the priority order, given everything that we have seen over the past few months.

There are important questions about how we ensure that the social care system is fit for purpose and much better linked into the NHS, and that the integration authorities are able to do their work of ensuring that services are designed around people and their needs rather than expecting people to fit in with services that operate in separate silos. Two big pieces of work are under way that will help to shine some light on the really important questions that you have raised.

11:30

Willie Coffey (Kilmarnock and Irvine Valley) (SNP): Good morning, Auditor General. My colleague Liam Kerr asked a question about borrowing and the strength of the UK, which was a bit of a rascal question. I wanted to make the point that any money that comes to Scotland is, of course, Scottish taxpayers' money coming back to where it should be, but that is a political point that I would not expect you to respond to.

Who audits the process in which the UK Government—or any Government—borrows those amounts of money from additional markets, and who casts an eye over that process to ensure that Scotland gets its fair share of the moneys that have been borrowed on its behalf?

Caroline Gardner: Mr Coffey knows that I take great care not to get involved in the political questions, because of the value of our being independent and non-partisan. I am responsible for auditing the money that either comes to the Scottish Government as funding from the UK Government or is raised directly here in taxation of various forms.

My colleague the Comptroller and Auditor General and the National Audit Office play the same role at the UK level. As the committee knows, we have worked closely together as the lines that set out the devolution settlement have gotten more blurred over the past five years or so since the Scottish Parliament's financial powers were raised significantly.

We aim to set out the Scottish Government's overall financial picture as clearly as we can and we might talk about that later this morning. The NAO does the same for the UK's whole-of-Government accounts, and that picture is there. We have been working together and we have been talking to this committee, the Finance and Constitution Committee and the UK Parliament about the need for more clarity around parts of the fiscal framework, such as the way in which Barnett consequential flow through, and which increases in funding are subject to Barnett consequential and which are not. The confusion that we have seen about that over the past few weeks does not help the Government to plan and it does not build confidence that the system works well. I certainly am in favour of more transparency at the intergovernmental level about how that is working.

Willie Coffey: Are you seeing that Governments across the world are, in essence, borrowing their way out of this crisis? That money clearly has to be paid back in some form or another over time. When a pandemic or a health emergency occurs anywhere, is the only solution in our hands to borrow our way out of it?

Caroline Gardner: As you say, it is a global pandemic that has hit countries across the world with specific effects that none of us could have predicted. We have seen Governments respond in ways that are quite unprecedented, from the amount of support that they have provided to businesses, families and individuals to the way that public services have pivoted to meet critical needs, particularly in health and social care. The only way to fund that in the short term is to borrow, and Governments are in a very privileged position to do that.

The crisis has shown the value of government, which has maybe come under pressure over the past 20 years as market solutions have become more popular and prominent. The crisis has reminded us all that there are some things that only Governments can do. We will have to turn attention in due course to how that borrowing is repaid. As you said, most of the borrowing at the moment is UK borrowing, simply because that is where the power to borrow sits—the Scottish Government does not have power to borrow on that scale at all.

The UK Government will have to make choices about whether it wants to return to austerity, raise

taxes or accept that having a high level of Government debt is not the worst way forward in some circumstances. I have said elsewhere that, in my personal view, cutting public services and public spending at this point would have the very unfortunate effect of adding to the economic shock that all this is causing. However, those really are political questions and there are people in better-suited positions than me to make those decisions. We need to be very clear about the longer-term impact and the choices that are involved about raising taxes and spending on public services, so that we can have a democratic debate about that.

Willie Coffey: My final question is about Audit Scotland's work over the coming years. We are all talking about new ways of working, and many more people are able to work from home, which is providing some benefits. If a continuing number of people work from home, how will that impact on Audit Scotland's ability to audit processes? Will you be able to adapt and modify your programme to take that into account?

Caroline Gardner: We are in the middle of doing that. As I said, we have surprised ourselves by how much audit work we are able to do this year remotely, both because our staff are working remotely and because the bodies that we audit are doing so. We will take some positive things from this experience. We already build a lot of flexibility into the ways that our colleagues can work, and this situation has shown that we can take that to a whole new level. Equally, there are some people who value being able to come to the office some of the time, and we know that colleagues need to spend time together. Part of the value of work is that informal cross-fertilisation and the pleasure of being together with colleagues.

We are learning as we go and the bodies that we audit are learning, and it probably goes without saying that those sorts of shifts are likely to lead to changes in the patterns of expenditure that we audit. In the future, there might well be less demand for office buildings and more demand for technology, and there might be changes to the sorts of internal controls and safeguards that we need to make sure that public money is being spent well and that records and accounts are being kept properly. We are learning fast. As always, with these very difficult situations there are opportunities as well as real losses.

Willie Coffey: Are those positive changes here to stay, or will we revert back to the old ways of working where everybody piles into an office to carry out their work?

Caroline Gardner: I am sure that some of them are here to stay. In Audit Scotland, we have already made the decision that our planning in the future will be digital first rather than based on being an office-based organisation. We will be a

digitally enabled organisation, but we will need some space for our staff to come together, for people who have caring responsibilities to work in a focused way away from the home and for people to be able to share expertise and build relationships in ways that are hard to do when you are looking at each other through a screen. There will be changes; we are just not sure yet how much of them will be permanent and how much reversion there will be to the way that we worked before. We and other public bodies will need to put plans in place, and businesses right across the economy are grappling with the same questions.

The Acting Convener: I see that we have Alex Neil back, so I will hand back to him so that he can complete his questions.

I am afraid we—*[Inaudible.]*—Mr Neil. We will pause for a moment. We will try again, as we could not hear you that time.

I am sorry; we still cannot hear you. We will try to resolve your issues. You might need to unmute yourself. Have you unmuted yourself? We will move on, but we will try to get Mr Neil back in for the next session and we can take his questions then—unless he wants to try one last time.

Nope. I apologise, Mr Neil; we will need to take you in the next session.

I thank the Auditor General for her evidence.

Key Audit Themes

The Acting Convener: Agenda item 3 is on key audit themes. Auditor General, this is your final appearance before the committee. We want to provide you with an opportunity to reflect on your time in office and to talk about the key themes that keep arising in your audit reports, and about where there has been developments and where further progress is required.

As you know, over the past few years the committee has increasingly taken a strategic approach to its scrutiny. It published a report last year that drew together key audit themes and explicitly recognised that many of the issues that are highlighted in your audit reports are consequences of the pressures on public services. We look forward to hearing your views today.

I invite you to make an opening statement, after which I will open up the session to questions from members.

Caroline Gardner: Thank you. I am very grateful for the opportunity to open out my scope in this way during my final appearance before the committee.

As I finish my term of office, the impact of the Covid-19 pandemic feels overwhelming. However—as you said—many of the issues that I have reported on over the past eight years are as important as ever, so I would like to step back and highlight three themes.

First of all, I say that Covid-19 has shown us many of the strengths of Scottish society. The responsiveness and resilience of our public services and the ways in which individuals and communities have supported each other show that we have a lot to be proud of.

However, there is also the risk of the pandemic obscuring some long-standing issues that will need to be addressed, as we move towards recovery and renewal. In particular, Covid-19 has highlighted deep-seated inequalities in Scottish society. Despite the commitments that have been made by all political parties since the establishment of the Parliament, Covid-19 has shown how the cards remain stacked against the poorest and most vulnerable people in society, and how those people suffer disproportionately during times of crisis.

The Scottish Government's national performance framework is an ambitious attempt to join up policy making, and to focus on outcomes including reducing poverty, stimulating economic growth and tackling climate change. The framework was groundbreaking, but 13 years after it was launched it is still difficult to see how individual policies and budgets are designed to

improve outcomes, or how trade-offs between, for example, tackling climate change and supporting the economy, are managed.

In order to make a greener, fairer and more prosperous Scotland a reality, the Government will need to be more focused in setting its policies and directing its resources, and that must be underpinned by better data. The committee has seen many examples of how lack of data—for example, on primary care and mental health services—gets in the way of shaping services to meet people's needs.

We also need more parliamentary scrutiny of the Government's plans, budgets and progress in tackling the long-standing challenges that we face, as a nation.

Secondly, one of the defining features of my term as AGS is the big increase in the Scottish Parliament's financial powers. We now raise directly about 40 per cent of what we spend, with borrowing and reserve powers providing some short-term flexibility. However, the limits of the fiscal framework mean that it will be difficult for the Scottish Government to balance its spending against the available funding in this and future years. Maintaining that critical financial stability will require greater financial transparency.

I will highlight two priorities. The first is that there should be a set of consolidated public sector accounts that sets out what the Government owns and what it owes alongside what it raises and spends. That is essential to underpin good decisions and effective scrutiny.

The second thing is that transparency about the medium-term financial strategy is also critical. Before the pandemic, the strategy offered little information on the Government's spending plans, and no consideration of how a £1 billion budget shortfall over the next three years would be addressed. The pandemic has made those pressures much more acute. We need to know what the budget is likely to look like in the years ahead, and how the Government intends to fund its priorities.

The new budget process has been slowly bedding in, but we are now at a pivotal moment. I want to stress that that is not only a technocratic issue. As we have said, Governments are protecting lives and livelihoods in ways that would have been unthinkable even six months ago. As we emerge from the pandemic, the Scottish Parliament will need to base its decisions on clear, comprehensive and reliable information about the spending choices that are available and what they are intended to achieve.

The third area that I want to focus on is renewal of the NHS and social care. Our NHS has been a rallying point during the pandemic, but the

tremendous speed and scale of its response risks obscuring the fact that it is not sustainable in its current form.

Society has changed dramatically since the NHS was established; we live much longer, and we increasingly suffer from chronic diseases such as diabetes and dementia, which cannot be fixed during a hospital stay.

It does not make sense to keep pouring money into a system that was designed for a different era. Health boards increasingly struggle to break even. When I most recently reported, health accounted for 42 per cent of the Scottish budget—[*Inaudible.*] That cannot continue indefinitely without consequences for other public services, such as education. We have seen the unintended effects of looking at individual parts of the health and care system in isolation; now we need to look at the system as a whole, and we need to remove the barriers to change.

11:45

Progress with integration has been limited so far. We need to look again at the incentives in the system, and we need to reward people for working together rather than for the performances of their individual silos. We also urgently need to shape a culture that gives leaders the space to lead every day, rather than just when there is a crisis, and which puts trust and kindness at the centre.

I will close by touching on the role of the committee. In the Parliament's first decade, its committees were seen as one of the successes of devolution, but that view was challenged by the commission on parliamentary reform, which found that they have not been as effective in holding the Government to account as the constitutional steering group hoped they would be. The commission made a number of recommendations for change, some of which have been taken forward.

However, I believe that there is also scope for the Public Audit and Post-legislative Scrutiny Committee to play a stronger role in scrutinising Government spending, and that Audit Scotland can help you. We were created alongside the Parliament to provide you with independent evidence to hold people to account for how they spend public money. As Auditor General, I am nominated by Parliament and can be dismissed only by a parliamentary vote. I am accountable for my budget to a commission that is chaired by Colin Beattie. The safeguards exist to protect our independence, and to enable us to produce reports that the committee can rely on.

That is a privileged position, and we take it seriously. We invest in the quality of our work, agree the factual content of reports and

communicate our findings clearly, in a fair and balanced way. However, it sometimes feels as though the committee's scrutiny is directed at our work rather than at the Government and other public bodies that are accountable for what we have found. That reflects the polarised political environment that we all work in, but it can limit the committee's effectiveness.

When the committee takes evidence from accountable officers, you are sometimes hampered by not knowing how to interpret the evidence that you are given or how to probe the answers that you receive. Audit Scotland could help you to strengthen your scrutiny by acting as trusted advisors, rather than just being another set of witnesses—in line with well-established practices in Westminster, Cardiff and Belfast. The pandemic and a change in Auditor General offer you the chance to look again at your working practices, at a time when your scrutiny role has never been more important. I have no doubt that you will be in excellent hands when Stephen Boyle takes over on 1 July.

I have covered a lot of ground, but I hope that I leave you with some food for thought, as I step down after eight tremendously privileged years as the Scottish Parliament's Auditor General. Delivering the changes that are needed will not be straightforward; it is much easier to score points than it is to engage in debate about what is important and what trade-offs are involved. All political parties recognise those challenges and all find it difficult to deal with them in office, so we need to address them together, as a Parliament and as a nation.

If I may, I will finish with a question. We all find ourselves at a watershed moment: how do we want to use it?

The Acting Convener: Thank you for that opening statement. There was much in it. I do not want to hog all the questions, so I will open questioning out to other members in a moment.

Many of the issues that you have raised are important for us as individual committee members, and for us collectively as a committee and a Parliament to reflect on—particularly as we head into the next parliamentary session—in terms of what they mean for the future of our country and public services.

I will touch on two things that you mentioned. The first is the NHS and social care. More is needed than just a debate: decisions need to be made about the future model of care and how we deliver it for people throughout the country. Outwith the politics, one of the things that hampers us structurally in our NHS and social care—and in almost every area that you audit—is that we have a people problem in terms of numbers, and in

terms of adequate training and recruiting, nurturing and expanding our workforces. What are your reflections on the people challenges and how we can respond to them? Some of that is about immigration, training and redesign

Caroline Gardner: As you said, there was a huge amount in what I said, but we have published reports, specifically in the NHS and social care, which highlight workforce challenges and potential solutions.

I will highlight a couple of things. First, there is a need for a vision of what health and social care should look like to meet the needs of Scotland's people in the 21st century. The 2020 vision was set out 10 years ago; we are in 2020 now and it is widely acknowledged that not enough progress has been made towards a service that is delivered much closer to people's homes, is much more centred on individuals' needs and is about keeping people well in the face of chronic ill health rather than being about conditions and diseases that can be treated and cured so that people return to life as it was before.

In my most recent NHS overview report, I highlighted the need for a fresh vision that engages the people who work in health and care, people across Scotland, and politicians of all parties in thinking about the choices that we face and why we need to move away from what many of us still instinctively think of as being what the NHS should be. That has been reinforced by the pandemic, with all the fantastic work that has been going on in intensive care units, for example. That work matters, but most of what health services do most of the time is much less glamorous than that, but is just as important in giving people the chance to live full and long lives. I therefore think that the vision matters.

In addition, as the acting convener suggested, we need a focused programme of work that thinks through what that means for the professionals whom we need and how we train them, and how we retain people who already work in health and care. In normal times I talk throughout the year to a lot of doctors and nurses and other people who work in health and care services. All those people joined the NHS because they want to make a difference to people's lives. However, they are often frustrated by the systems and culture in which they work, and by how they are held to account—for example, by the focus on waiting times to the exclusion of many other things.

Setting a culture that gives professionals room to do their jobs as they want to do them, with care and kindness for individuals, while holding them to account for the big-picture results that the system achieves, would go a long way towards addressing the workforce problems. That would also keep people in their jobs longer, so that the

most could be made of their experience and expertise, and so that their experience and expertise are passed on to the next generation of professionals and care workers.

The Acting Convener: You have been in your role for eight years. I am not going to ask you to get involved—you are way too clever, smart and well trained for this—in the kind of political dispute that Willie Coffey, Liam Kerr and I might want to get into every now and then. However, you mentioned culture. This is a question about the wider political establishment and all political parties. Does the culture of polarisation in our politics hamper and undermine the approach to reforming our services in Scotland?

Caroline Gardner: To be honest, I say that it does. More than once, after I have published a report on the NHS, for example, and have been in the BBC's studio in Edinburgh to talk about it on the "Good Morning Scotland" programme, I have been in the Parliament's garden lobby before the committee meets on a Thursday morning and an Opposition member has come up to me and said, "We completely agree with what you're saying, but we can never say that in the chamber."

I absolutely understand the pressures on political parties to make short-term points and to open up space between themselves and the Government, but people recognise that they would have to deal with the challenges themselves, were they in power, and that all that we are doing is pushing them further into the future and making the pressures more intense. I absolutely do not want to underplay the difficulties of an individual politician or party moving away from that. In a sense, complaining about politics feels like complaining about the weather: it is just the environment that we have to work in.

However, there is something really important, particularly at this time, about accepting that the challenges will not be addressed unless we find a way of talking together about the big choices that we face and the kind of society that we want to be in the future. The pandemic has opened up an awful lot of stress lines in society.

The Acting Convener: I am sure that you accept that both Opposition and Government members can do better on that.

Caroline Gardner: I think that that is absolutely the case.

The Acting Convener: We might draw a lesson from Scotland's political parties having rallied together in the face of the pandemic, particularly at the start, although it seems that we have returned, or are returning, to politics as usual. Could the spirit that we displayed as a country at the start of the pandemic be displayed in relation to public services as we go forward?

Caroline Gardner: I very much hope that it could. We all know that the pandemic has imposed huge costs on people, families and communities across the country. The economic cost is, to a great extent, still to come. The situation will be even more tragic if we do not take some benefits from it.

The approach that the First Minister has taken to communicating what is happening in Scotland—the route out of lockdown and the choices that are being made within that—has been exemplary. There will be lessons to be learned, as we all recognise. We started off in the spirit that this was something that none of us has had to deal with in our lifetimes. The crisis demanded an instant response to things that were unprecedented. Some things will have been done wrong, as well as many things having been done right. Going into inquiries with that spirit, rather than talking about who is to blame could, in the conversation about what we learn from this situation, go a long way towards rebuilding.

The Acting Convener: I have a final question, before I hand over to Colin Beattie. At the Scottish Commission for Public Audit last week, I asked you about auditing of race disparity. For two years I have been asking the Government to do a race disparity audit, but it has been hesitant to do that, so far. Will Audit Scotland consider doing that, so that we take equality much more seriously, and so that we know what our base is on which to build a more progressive and equal Scotland.

Caroline Gardner: I absolutely recognise the importance of equalities in the broad sense. One of the answers to the earlier question about our people problem for health, care and other public services is to ensure that everybody has the chance to thrive and to fulfil their potential, despite the disadvantages that they face.

As I said at the Scottish Commission for Public Audit, that is not a core area of our responsibility, but we do some work on it. All auditors have been asked to look at equalities arrangements this year, as part of our duties under equalities legislation. We will be asking the Government about that, as part of our wider pattern of work. If there is more work to be done, we would like to have a conversation about that with the committee and the Government. It might be something that comes through in section 22 reporting on Scottish Government accounts this year. That would provide the committee with a hook: you could ask the permanent secretary about it and get more clarity on the Government's plans for providing baseline information that would let us track progress on its commitments in relation to our becoming a fairer country, as we emerge from the pandemic.

I know that Stephen Boyle will be happy to continue that conversation with the committee.

The Acting Convener: So, you have no objection in principle to doing a race disparity audit in Scotland.

Caroline Gardner: It is not about an objection in principle; it is a matter of ensuring that we make best use of our skills and resources, and that we keep responsibility where it sits, which is with the Government and equalities bodies.

However, there are things that Audit Scotland and the Auditor General can do to help the committee to engage with the Government about its plans, to fill gaps where information is available to report back, and to highlight where information is not available, so that you can ask why it is not there and when the gaps will be filled.

Colin Beattie: Thank you for your insights, Auditor General. It is clear that there are a lot of challenges ahead for all of us.

I want to return to the theme of internal audit, which I have raised with you on quite a number of occasions. During your time in office, we have had many section 22 reports that have indicated that there have been financial problems or whatever in particular public sector bodies and that the internal auditors have carried out their duties absolutely perfectly and according to the contract but something has still slid through and gone wrong, and we have ended up with a section 22 report. Is internal audit as it has developed, particularly in recent years, fit for purpose?

12:00

Caroline Gardner: It is not possible to give you a one-word answer to that question. We see some public bodies in which internal audit is extremely effective and highly valued by those who are charged with governance and the audit committee, it plans its work well and carries it out well, and its recommendations are taken into account. Internal audit is effective in that sense. However, we also see some public bodies in which internal audit is not well-enough resourced or does not meet the internal audit standards in carrying out its work. Where that is the case, we report on it. There are cases in the middle in which internal audit does everything that is expected of it but, because it cannot look at every transaction or every system every year or because the people on the audit committee do not pay attention to its recommendations, problems still emerge.

The only assurance that I can give you is that external auditors look at that issue every year as part of their overall work on the internal control systems in organisations. We report where we see problems. The committee will recall that a feature

of last year's section 22 report on the Scottish Government audit was that progress had been made with internal audit, and we thought that there was scope for the audit committee to be more effective in asking for it.

No form of audit is a guarantee that nothing will go wrong. That has been the subject of a lot of debate over the past couple of years, with reviews from Kingman and the Competition and Markets Authority and, more recently, the Brydon review.

It is very important to continue the conversation about what external audit and internal audit do so that they are understood and given their place. However, at the end of the day, management is responsible for its systems of control and its financial reporting. We try to ensure that that responsibility stays where it belongs.

Colin Beattie: I fully accept that internal audit is only as good as the people who are involved in it and that a partnership between the internal audit team and the board, or whoever is doing the monitoring or receiving the report, is involved. However, do you think that, over the years, where internal audit has become contracted out to third parties and, not unnaturally, there is a fixed programme of boxes to tick, with apparently very little leeway—obviously, for contractual legal reasons and so on, people will not do more or less than those boxes say that they have to do—that is constraining internal audit? Is that a straitjacket that means that internal audit does not look as widely and does not have such a broad vision of the business that it is auditing?

Caroline Gardner: That can be a risk. We see that, where internal auditors are appointed from one of the firms that specialise in that work, particularly when they are newly appointed and the audit committee is not particularly effective, the internal audit plan may not focus on the most important issues, and nobody might pick that up—neither the audit committee nor the internal auditors themselves.

Equally, I have seen strong examples of contracted-out internal audit. I pick out the example of the Scottish Police Authority, for which Scott-Moncrieff has been the internal auditor since the SPA put in place internal audit, which was later than it should have been put in place. It has done an outstanding job in getting a sense of not just what the internal controls look like but what the culture is in the SPA and Police Scotland, what that means for the risks that the organisation faces, and therefore what internal audit work it should be carrying out.

There is a risk, but the issue is not as straightforward as saying that having an in-house internal audit service is always better. We have seen some cases in which that is absolutely not

the case, although there are some great in-house services around.

Colin Beattie: I have asked you in the past about how far you get involved in defining internal audit within the various organisations. Every public sector body is different, for example in the risks that each one faces. Is it possible to have a manual, so that internal audit and management would have guidelines that they could look at, without that bring too constrained? You would not want the manual to become a tick box, but it would give some guidance on the ideals of internal audit and the relationship with the body being audited.

Caroline Gardner: There is already significant guidance out there, including the internal auditing standards that internal auditors are required to adhere to, and on which they are independently assessed every few years to demonstrate that they are meeting them. The Scottish Government also provides audit guidance for public bodies. Every year, as part of their work on the overall control system, external auditors will have a look at the quality of internal audit and decide how much of the work can be relied on.

In many ways, the answer comes back to something that this committee has repeatedly asked about, which is making sure that organisations have a good audit committee, with independent members who understand the business world and what the role of internal and external audit is, and who are asking the right questions. They should be asking why particular things are not on the plan, testing the priority of the different pieces of work that the internal auditors could do and making sure that their findings are taken seriously.

You will recall that, when we were reporting on NHS Tayside, internal audit had tried to blow the whistle about the transaction with the endowment fund, and that nobody wanted to hear that. In the end, successful internal audit comes more from culture than from the existence of standards and guidance.

Colin Beattie: There is a question about whether internal audit is a passive or a proactive function. You might think, "It's audit; therefore it's passive," but it should not be. How do you get internal audit units to understand that they must be proactive and have that vision and that, if they find an issue, they should not be bound by box ticking?

Caroline Gardner: Most of them already understand that. The best of them, at some personal cost, will step beyond the box ticking and beyond what they are subliminally being told is wanted by their organisation.

This committee plays an important role in reinforcing that internal audit must be independent and that that is the value that it brings. It is testing

and challenging the received wisdom in an organisation and providing evidence that what people say should be happening is happening in practice.

We will continue to report to the committee when we see internal audit that is not as effective as it should be. Internal audit is a key part of the system of governance and internal control. It is hard to say that it is the part that is most responsible when things go wrong. The whole system must work well. We have seen internal audit play its part in that, as well as seeing people not living up to the expected standards.

Colin Beattie: Thank you, Auditor General. You can relax now. You will not get hassled about internal audit again.

Caroline Gardner: Thank you. I hope that you get the chance to talk to the conference next year as planned.

Liam Kerr: I have a different key theme, but one that I am sure you will expect. Your reports have often looked at severance payments, particularly at those that have been made to departing senior individuals. The committee has raised concerns—and some would say that you have also done so in your reports—that those payments may sometimes seem somewhat inflated and may not represent value for the public pound.

Nothing ever seems to change. Do you have any sense that we will make headway in ensuring that public money is spent at a level that the public will feel is appropriate?

Caroline Gardner: That is an important question. I have told the committee before that severance payments can have an important role. You can make long-term savings and reshape organisations to improve things for the public by making a one-off severance payment to someone and therefore being able to delete a post or to recruit people to lower-paid roles that are more suited to what must be done. There is a place for severance payments.

Equally, especially with senior people, the amounts that are involved can be significant and look very much so when you compare them to the salaries of the people we have all come to recognise as being key workers over the past three months. It is critical that people have confidence that decisions are being made well, that the people making those decisions are accountable and that the intended benefits are being achieved.

It is probably worth reminding the committee that, when I report to you, it tends to be because things have gone wrong. Every year, severance payments are made around the country that are

absolutely above board in the way that I have described, and there is a good deal of transparency around them now; they are included in the auditor sections of the annual reports that public bodies publish. Transparency around the money involved and the people who receive such payments is much greater than it was.

The committee has had an impact here. Because of the attention that you have paid to this issue over the years, the Scottish Government has taken a role in approving and signing off settlements above a certain level. There is also a UK-wide cap on the amount that can be paid on redundancy or early retirement. That is all an improvement in ensuring that there is transparency and value for money around such payments, and the committee can be proud of the impact that it has had.

Equally, while I have been in the job, I have reported on some unacceptable severance payments where the decision making was just not good enough and the checks and balances did not operate. That is the sort of thing that undermines public trust and confidence in public bodies and makes it more difficult to manage the workforce in the ways that we should want it to be managed looking ahead.

Liam Kerr: Thank you for that. It is a reassuring answer, if I may say so. It is also a fair answer given that I asked whether we are going to make any headway on the issue, and what I am hearing is that we are making headway and there have been some improvements.

I wonder whether I can tie this back to something that Anas Sarwar said at the outset of the meeting that has been playing on my mind. He asked about people challenges. The committee has looked at the pool of talent at the top end and, although I do not mean this pejoratively, it seems to be fairly narrow. We have seen several reports that have said that not that many people can take on such difficult and responsible roles. If there is a narrow number of people who can do a particular role, and if we are having to buy in talent, when it comes to the other end and their employment is severed, will there have to be, by definition, a larger payment because the talent was brought in for a larger fee? Does that make sense?

Caroline Gardner: It does, and my starting point is to say that it is complicated. For example, I have recently reported on the difficulties that health boards are having with finding the right people to act as chief execs. Those are big, challenging jobs and they are exposed publicly, dealing with difficult changes that need to be made in politically fraught circumstances.

It is only fair to point out that we pay our NHS managers quite a lot less than NHS managers are

paid south of the border. That adds to the difficulty of recruiting people who have worked in England and are bringing a different sort of experience with them. It also means that severance payments are lower than they would otherwise be, because the base that we are starting from is also lower.

My concern comes from a perspective that is slightly different from that of your question. In areas such as digital information systems and technology, it is extremely hard to get the skills that are needed to put in place systems such as the common agricultural policy future system for agricultural payments or the social security system, and often people have to be paid as consultants on high daily or monthly rates for an extended period of time. At the end of that, there is no liability for redundancy payments, but we have paid a lot of money for skills and experience that, to a large extent, just go out of the Scottish public sector again. We should consider whether we are prepared to pay more for some roles so that we bring people in and keep them and can then develop and spread their skills more widely across the workforce.

12:15

I absolutely recognise that, for all the time that I have been in this role, we have been dealing with the consequences of a policy of austerity that was put in place by the UK Government in the wake of the financial crisis. It is not my job to comment on that, but it has meant significant pay restraint in Scotland, particularly at the higher levels, for people who earn more than £80,000 a year, who have seen very small increases since 2014. That makes it more difficult to recruit and, as people move into the later stages of their career, it makes their choices about whether to stay or go more difficult.

Mr Neil asked about the effect of pension taxation changes on all that. That is a complex mixture of issues, and they are part of the issues that the convener raised about the workforce earlier. We need to step back and see those in the round rather than look at one individual facet.

Willie Coffey: I want to take you back some years to the times in the committee when you would produce your reports and members would usually ask, "What happens next?" or, "What do we do now?" Will you give us a flavour of the journey that we have made from that point to this point and the work that you have done for us, which we have tried our best to follow up? Over the years since those questions were asked, have we moved to a better place? Is the public sector beginning to embrace the principles and recommendations and the importance of audit?

Caroline Gardner: That is absolutely the right question to ask. Everybody who works for Audit Scotland does so because they want to improve the use of public money and the public services that it funds. We take seriously the need not just to identify what is happening, what is working and what is not but to identify recommendations for improvement. We see ourselves as one key part of the system, along with the committee, which takes our findings, takes evidence from the Government and other accountable people and ensures that the recommendations are committed to and progress is reported on.

There have been some areas where real progress has been made. For example, the section 22 reports on the Scottish Government's consolidated accounts—that regular checking on the way in which money is spent, the governance arrangements that are in place and significant measures such as interventions in private companies—has helped progress to happen, and to happen publicly, in those areas.

The committee's work on your key audit themes, in which you set out your interest in things such as good governance, internal audit and digital technology, has helped us to focus accountable officers' attention on the things that matter.

As I said in my comments a while ago, Audit Scotland could support you even further in that through things such as pre-meetings to help you to think about the questions that you want to ask us and witnesses on the record to explore the issues further. The committee could also consider how, during meetings, we can help you to identify the right follow-up questions or where answers that you have heard might be a bit shaky. All those things happen in Westminster, Cardiff and Belfast. We are keen to look at ways to work with the committee to make its impact as thorough and forward looking as it can be, based on the work that we do for you.

Willie Coffey: We have pushed many public bodies towards embracing quality management systems, standards and processes more than was perhaps the case in the past. I am thinking specifically about information technology projects, which, I am sad to say, appear in front of us regularly. There are systems in place and there is documentation and guidance and so on. Are public bodies getting the message and beginning to embrace the recognised international standards, which help them to do their job much better?

Caroline Gardner: I am absolutely confident that people are getting the message. Looking at the changes that the Government has made in its digital support teams, both for Government projects and in large public bodies, I think that it has beefed up the quality of standards and people.

It would like to do more if it were able to recruit the right people—that goes back to the conversation that I had with Mr Kerr—and we can see that in examples such as Social Security Scotland, where it is making good progress on producing a big, complex and critically important system.

That said, with some IT systems, my team and I sit down and look at it and think, "How could they have let that happen?", and we wonder how they could not see that it was a significant risk to the business as well as to the cost of the system to not have put in place the skills, the governance arrangements and assurance that was needed. We are seeing progress, but I cannot put my hand on my heart and say that we will never see another Auditor General's report about a failed IT system in future; as much as I would like to be able to do that.

Willie Coffey: One of the legacies of your predecessor, Robert Black, was to warn us about the NHS and the need to reshape it from top to bottom. I hope that we are in the process of doing that.

What is your message to us as you leave us on what you would suggest is the biggest issue that we face?

Caroline Gardner: The issue of the NHS is not resolved, as we have spoken about this morning. It has coped brilliantly with this immediate crisis, but there is a risk that that hides the underlying stresses and strains that I have been reporting on for eight years. I do not want to lose sight of that.

Beyond that, I will pull out two things that are slightly unfair. They are both a bit abstract, but they affect everything that the Government does. I am a fan of the national performance framework; it is absolutely right that it shows what the Government is spending and the number of doctors or nurses we want to have, and also that it shows what effect we want those things to have on the people of Scotland and their health and wellbeing, equalities and all the other things, such as people's ability to thrive.

However, we are not seeing a real follow-through between the outcomes and the way in which the Government then spends its budgets, sets its policies or reports its progress. That will be critical in helping us to tackle the problems that the Covid-19 pandemic has exposed like never before in Scotland, and much more widely.

The second is that the new financial powers that we have are significant. They are not the powers that would come with independence, and it is not my job to comment on that, but they are significant and bring opportunities as well as risks. I do not think that Parliament is well sighted enough on those opportunities and risks. It will not be well sighted on those until we have a genuine medium-

term financial strategy that sets out what the finances will look like—with all the uncertainties involved—over a five year period, and what the Government intends to do on spending. If we also had a genuine public sector set of accounts that pulled together all the assets and liabilities as well as the income and expenditure, those things would let the Parliament as whole make decisions that we could be confident in about the longer term, which would allow the committee to focus on what is being achieved with the money that is spent.

Willie Coffey: Thank you so much for that and for everything that you have done for us in the past eight years or so, Caroline.

Bill Bowman: Auditor General, you have been in your post for eight years, but I have known you for only the past two or three. Is the Auditor General now the same as the one who was appointed in 2012?

Caroline Gardner: As a person, I am eight years older and wiser, and perhaps a tad more cynical than I was then.

The role has changed significantly. That is mainly because of the changes in the Scottish Government's financial powers. When I started in the role, the Government received about £30 billion per year from Westminster and decided how to spend it. Now, it raises 40 per cent of what is spent in Scotland either directly through Scottish taxation or through its own decisions on income tax, and it has to deal with the long-term sustainability issues. It has to get the revenues that it raises and the amount that it spends right as well as ensuring that it achieves the desired impact. That is the biggest difference that I would highlight in the role. Different things are required of me and of Audit Scotland to support Parliament in managing those powers.

Bill Bowman: Perhaps I was being a bit cheeky, but I was thinking less about the role and more about the person. Cynicism is a very useful thing for an auditor.

Is an eight-year term the right amount of time? It might not be in our gift to change it, but would a six-year term be better or do you think that you are only getting going and could do much more if you had another two years?

Caroline Gardner: Members might know that, when the post of Auditor General was established back in 2000, the position was that the postholder had to retire at 65—there was an age limit rather than a term limit. During the first decade of the Parliament, it became clear that that was not compliant with age discrimination legislation, and it ran the risk that somebody could be in post for 20 years without there being any change of perspective, which posed a risk to independence.

The Public Services Reform (Scotland) Act 2010 brought in a term limit of eight years. There was a fair amount of debate in Parliament and with the then Auditor General about whether it should be two five-year terms, a 10-year term or something in between. My view is that a period of eight or 10 years is about right. I think that a renewable term would be a bad idea, because there would be real pressure to not upset the Government and the majority party in Parliament in order to secure a second term of appointment, which would be fatal for the Auditor General's independence.

A period of eight years feels about right to me. There are still things that I would like to do, but it has been good for me and the organisation to have a clear end point in sight. My counterpart in Westminster has a 10-year term. I am not sure that there is much between an eight-year term and a 10-year term. That is the sort of area that we should be in here in Scotland, and we are.

Bill Bowman: That is good to hear. I agree with the comments about the committee; perhaps it could do more. I suppose that, at the moment, we are a little bit reactive. It would be helpful if we could instigate investigations of our own, but that might be a bigger discussion.

Thank you for your answers and your candid approach.

The Acting Convener: Mr Neil was going to ask a question about that very subject but, sadly, technology issues have meant that—[*Inaudible*.]—so I will ask that question on his behalf. Mr Neil would like to hear the Auditor General's views on the committee's remit. At the moment, the committee can only respond to reports from the Auditor General. As Mr Bowman does, Mr Neil believes that that is restrictive. What do you think about that, Auditor General? Should the committee be able to initiate its own inquiries?

Caroline Gardner: The thing that distinguishes the Public Audit and Post-legislative Scrutiny Committee from all the other committees in Parliament is that it has an Auditor General and, in Audit Scotland, an organisation that can carry out that work for it. We have the resources, the expertise and the powers of access to people, documents and explanations to really get beneath the skin of a question that the committee is interested in and that the public are interested in and to provide the committee with an evidence-based, factual account of what is currently happening and where there is room for improvement that it can rely on, take evidence on and use to form its own conclusions.

Having said that, over the years in which I have been in this role, I have on occasion heard committee members express frustration that there are issues that they would like to explore that are

not covered in the annual audit work or are not on the planned audit programme. The best that I can offer in my last few days in the role is to say that I am sure that my successor, Stephen Boyle, will be very happy to engage with the committee on that to look at how members' voices can play into deciding the programme of work that he carries out while not compromising his independence to follow the public money and the issues that he thinks are important without fear or favour or undue political interference.

It is a fine balance, but I think that we all know the interest that the committee has in being able to use its powers on issues that are of particular interest to it, and I am sure that Audit Scotland could help it to do that, and that it could use all the resources, expertise and access that it has to help it to do that well.

The Acting Convener: That feeds into the point that you made at the start about how we can work much more closely together. The committee needs to think about that and to have that discussion with your successor.

I hand over to Neil Bibby.

Neil Bibby: Thank you for all your years of service, Auditor General.

The convener talked about retaining skills in the health and care sector, and Liam Kerr talked about severance payments. As you will know, public sector bodies have lost a lot of experienced personnel over a number years through voluntary redundancy and early retirement.

Leaving aside the financial impact—the public sector is obviously going through a very challenging time with Covid and is likely to be under financial pressure, which will perhaps result in an urge to implement similar schemes in the future—is there sufficient depth of knowledge and experience in Scotland's public sector to deal with the challenges that we face as we move forward? To what extent are we at risk of losing experience and knowledge in public sector bodies across Scotland?

12:30

Caroline Gardner: There absolutely is a risk. We have talked about the NHS in particular this morning; it is probably the biggest and most challenging part of my area of responsibility. We have seen a high turnover of chairs, chief executives and other senior people, partly because of the pressures of those roles and partly because of the extent to which, when something goes wrong, we all—understandably—look for an individual to blame rather than thinking about the system in which the individual is working and the limits that that places on what they can do.

We absolutely need to fund public services well enough so that they can afford to have the number and calibre of people who are required to plan, deliver and transform those services to meet the needs of Scotland in the 21st century. Equally, as I said in my opening remarks, we need a culture that is about learning from mistakes, sharing good practice and giving leaders the space to lead rather than making people so fearful and defensive that they stick to the letter of what is required of them, with results that are not in anybody's best interests.

That is a really difficult balance to strike, in particular when funds are tight and the political environment is highly contested, but it seems to me that, over the years in which I have been in my role, there have been some real costs in terms of losing expertise and commitment.

The Acting Convener: I thank you for your evidence this morning, Auditor General. I will read out a tweet from our convener, Jenny Marra, who is currently on maternity leave. She notes that the Auditor General is having her last evidence session with the committee as her tenure comes to an end. She goes on to say:

"Disappointed not to be chairing today's session. The professionalism of Caroline Gardner cannot be overstated. Thank you for your exemplary service to public life. Enjoy your new chapter."

I know that we would all want to echo that.

On a personal level, I thank you, Auditor General, for your candour and advice, for your listening ear and for always being at the other end of a phone whenever there are any issues to discuss, or when we require any suggestions or intelligence.

It is hard to believe that this is the final occasion on which you will address the committee. You have given eight years of dedicated service to this committee, and I take the opportunity, on the committee's behalf, to pay tribute to your work over that period. I thank you for all the efforts that you have made through your reports and your evidence, and for all your efforts and achievements in helping to improve Scotland's public services. You have managed to achieve a balance between—rightly—calling out and robustly challenging organisations that are failing in their responsibilities and in spending public money, and continuing to highlight the bigger picture and the significant pressures that our public services continue to face at this critical time.

You have managed—as you have done again today—to steer away from occasional political pressures by rephrasing your response as a position with which we can all agree. Thank you for being able to walk that fine line in these testing and divisive political times. Thank you for the

support that you have given to this committee in its scrutiny, for your invaluable guidance and expertise. Thank you also for responding to the committee's interests and focus while respecting our independence in deciding which route to pursue.

On behalf of all members of the committee and anyone who has worked with you over the past eight years, I thank you for your service. We all wish you and your family all the very best for the future, and we are sure that you will be successful in whatever you choose to do next.

I now close the public part of the meeting, and we move into private session.

12:34

Meeting continued in private until 12:52.

This is the final edition of the *Official Report* of this meeting. It is part of the Scottish Parliament *Official Report* archive and has been sent for legal deposit.

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