



**OFFICIAL REPORT**  
AITHISG OIFIGEIL

# Public Audit Committee

**Thursday 10 February 2022**

**Session 6**



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**Thursday 10 February 2022**

**CONTENTS**

	<b>Col.</b>
<b>DECISION ON TAKING BUSINESS IN PRIVATE .....</b>	<b>1</b>
<b>“PLANNING FOR SKILLS” .....</b>	<b>2</b>
<b>SECTION 22 REPORT: “THE 2020/21 AUDIT OF THE SCOTTISH ENVIRONMENT PROTECTION AGENCY” .....</b>	<b>30</b>

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**PUBLIC AUDIT COMMITTEE**

**5<sup>th</sup> Meeting 2022, Session 6**

**CONVENER**

\*Richard Leonard (Central Scotland) (Lab)

**DEPUTY CONVENER**

\*Sharon Dowey (South Scotland) (Con)

**COMMITTEE MEMBERS**

Colin Beattie (Midlothian North and Musselburgh) (SNP)

\*Willie Coffey (Kilmarnock and Irvine Valley) (SNP)

\*Craig Hoy (South Scotland) (Con)

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

Douglas Black (Audit Scotland)

Stephen Boyle (Auditor General for Scotland)

Joanne Brown (Grant Thornton UK LLP)

Morag Campsie (Audit Scotland)

Rebecca Seidel (Audit Scotland)

Gordon Smail (Audit Scotland)

**CLERK TO THE COMMITTEE**

Lynn Russell

**LOCATION**

The James Clerk Maxwell Room (CR4)



## Scottish Parliament

### Public Audit Committee

Thursday 10 February 2022

[The Convener opened the meeting at 09:00]

### Decision on Taking Business in Private

**The Convener (Richard Leonard):** Good morning, and welcome to the fifth meeting in 2022 of the Public Audit Committee. We have received apologies from Colin Beattie, and I am delighted to see that Willie Coffey has joined us this morning via videolink.

I remind members and visitors that the Parliament's social distancing rules apply, and it would be much appreciated if people entering, leaving or moving around the room could wear a face covering.

Agenda item 1 is a decision on taking business in private. Do members agree to take items 4 and 5 in private?

**Members indicated agreement.**

## “Planning for skills”

09:00

**The Convener:** Agenda item 2 is an evidence-taking session with the Auditor General for Scotland and members of the Audit Scotland team on the report “Planning for skills”, which was published just a couple of weeks ago. I once again welcome Stephen Boyle, the Auditor General for Scotland, who joins us in the committee room. We are joined online by Gordon Smail, audit director; Rebecca Seidel, senior manager; and Douglas Black, audit manager in performance audit and best value.

We have a considerable number of questions to ask about the report, but first I ask the Auditor General to make introductory remarks.

**Stephen Boyle (Auditor General for Scotland):** Thank you, convener. Good morning.

Today, I bring my report “Planning for skills” to the committee. Scotland's skills system needs to operate efficiently and effectively for individuals and employers, and to add value to the economy. The labour market in Scotland faces a combination of skills shortages, skills gaps and skills underutilisation. Many organisations, including colleges, universities, employers and private sector training providers, have roles in funding and developing workforce skills, and this audit focuses on the Scottish Government's support for integrated skills planning and how it works with Skills Development Scotland and the Scottish Funding Council, which are the main public bodies responsible for providing access to post-school skills and knowledge.

In 2017, the Scottish Government, SDS and the SFC agreed to work towards skills alignment and a more integrated approach to equipping people with the workforce skills that Scotland needs. The intention was that SDS and the SFC would work together to agree what skills were required, to develop a plan for providing them and to review and evaluate their impact.

However, we have found that slow progress has been made since 2017, with anticipated benefits not being realised. The Scottish Government has not provided the necessary leadership or oversight for joint working between SDS and the SFC, and there has been insufficient clarity on what it wanted to achieve and on what success would look like. We also found that progress by SDS and the SFC was impeded by lack of agreement between the two organisations about what skills alignment would involve.

The Covid-19 pandemic has undoubtedly affected progress, but other obstacles included the

delayed appointment of a skills alignment director, changes in staffing in the Scottish Government and constraints on capacity in the Scottish Funding Council. As a result, opportunities for more efficient and effective investment have been missed. During 2020-21, the Scottish Government proposed some new approaches to skills alignment, but many of the challenges remain and present risks to progress.

I have therefore made a series of recommendations. The Scottish Government needs to set out what it wants to achieve from skills alignment, and how it will measure progress and clarify governance and oversight arrangements. All three parties need to agree on how they will work together to deliver the shared outcomes for skills, and SDS and the SFC should implement solutions to overcome obstacles to joint working.

Lastly, I point out that, as I was finalising my report, the three parties were developing a new shared outcomes framework that they intend to use at regular meetings between the minister and the chief executives and chairs of the two agencies in order to measure progress and agree shared outcomes and priorities.

As ever, convener, my colleagues and I will do our best to answer the committee's questions.

**The Convener:** Thank you very much, Auditor General. We have a large number of questions, but before we go to them, I remind everyone that, to aid broadcasting, it would be helpful if members could direct their questions to a particular member of the team. I also say to Stephen Boyle that if someone on his team other than whoever has been invited to respond wishes to come in and add something to our evidence gathering, they should put an R in the chat function. We will pick that up and bring them in.

Sharon Dowey has a number of questions.

**Sharon Dowey (South Scotland) (Con):** Good morning, Auditor General. The committee has seen a lot of reports, but this is probably one of the most damning. Your comments in the report that

"The Scottish Government has not provided the necessary leadership for progress"

and

"Current arrangements are unlikely to achieve the ambitions for skills alignment at the pace required"

raise a lot of concern. The report states that the

"intended benefits of skills alignment ... have not been realised and the opportunity for more efficient and effective investment has been missed."

I appreciate that this might be hard to quantify, but do you have any information on what the largely failed project has cost the public purse or, indeed,

on what the opportunity costs have been as a result of the catalogue of errors outlined in the report?

**Stephen Boyle:** Good morning, deputy convener. This is a difficult report, but it is significant with regard to the extent of the findings that we have set out. I will bring in Gordon Smail in a minute, as he not only led on the report but is the external auditor of SDS and the SFC. He might wish to say a bit more about quantifying the cost.

In truth, though, it is, as we set out in the report, difficult to quantify in numerical terms the total costs involved. We think that the issue is much more to do with the opportunity costs of not progressing with skills alignment, for all the reasons that I have been highlighting to the committee over recent months. Given the impact of the pandemic and what that means for Scotland's economy, there is a requirement for skills and the effective skills planning that the country needs.

The report contains some positive examples, and we highlight through case studies the progress that has been made in early learning and childcare. Such examples might serve as a template for further progress, but they do not mask the overall picture of what, I think, you called a missed opportunity, and there is much work to be done to progress with skills alignment and effective skills planning, given how much Scotland's economy needs them.

Gordon Smail will say a bit more about that and perhaps comment on the costs of the project.

**The Convener:** I think that there might be some problem with the cameras for Douglas Black and Gordon Smail—*[Interruption.]* I now see Gordon—please join us.

**Gordon Smail (Audit Scotland):** Thank you, convener. We are just getting to grips with the technology here.

We first need to bear in mind that the skills alignment that we are talking about is only one part of what SDS and the SFC do. The report's relatively narrow focus has been on the skills alignment in which both organisations have been involved, but it is important that we keep that context in mind.

As for the financial side of things, we looked carefully at the accounts of SDS and the SFC to see whether we could identify the specific spend by both organisations on this particular activity, but, to be frank, we have not been able to untangle that. It is, in effect, part and parcel of the work of SDS and the SFC. It is therefore difficult to quantify the amount of money involved, but the Auditor General is right to say that the issue is

more to do with the opportunity costs and the benefits that have been missed.

As the report shows, one of the objectives of the approach was to avoid duplication of effort and drive better value for money. Without that information, it is very difficult for us or anyone else to see the duplication of expenditure that has been avoided through the process or through what might be achieved. I guess that that brings us back to the issue of outcomes, which I am sure will be raised as the committee continues its deliberations.

**Sharon Dowey:** I think that you are right—the issue is the lost opportunity to bring benefits.

The report highlights that, although the Scottish Government made a commitment to skills alignment, there was a complete absence of strategic intent or a performance management framework to measure progress. Why were those fundamental elements not put in place? To what extent has that led to the significant lack of progress in skills alignment that is highlighted in your report?

**Stephen Boyle:** I will start, before asking Gordon Smail whether he wishes to elaborate.

In paragraph 8 of our report, we set out the broad intent around skills alignment—in other words, what the Government intended to achieve through it. However, that intent was not followed up with ways by which progress could be appropriately measured. There was no detailed set of milestones to enable that intent to be translated into outcomes.

In the report, we talk about the need for the Government to be clear about its strategic ambitions by setting milestones, performance measurements, targets and so forth. That would also—to build on what Gordon Smail said—enable the financial cost of skills alignment to be measured, which would help with one of the intended outcomes, which is an absence of duplication of public spending across the two organisations.

As we say in the report, there is no doubt that Covid-19 has had some bearing on the progress on skills alignment, but we also point to senior staff changes in the Scottish Government during the project and lack of capacity in the Scottish Funding Council to support elements of skills alignment. Part of the issue was a disagreement between the organisations about how the process would best work. There were a number of relevant factors, all of which have led us to what we say in the report about the lack of progress, the lack of clarity and the missed opportunities to progress an important strand of work to support Scotland's skills and economy.

I will pause there, as I am sure that Gordon Smail will want to say more.

**Gordon Smail:** I do not have much to add. What the Auditor General has said has drawn out the issue quite nicely.

The overarching finding from our audit work and from the evidence is about a lack of strategic intent. With any initiative, it is crucial that there be strategic intent, so that everybody is clear about what is expected from the overall programme and, indeed, what is expected of individual organisations as they work through it. That includes having a clear idea of what the outcome—exactly what it is expected will be achieved—should be.

As the Auditor General said, it is very important to have methods in place to monitor progress. We have identified a couple of points in that regard, such as the core point about duplication of spending and best use of money. In relation to the skills gap in particular areas, we talk about measures that it would have been possible to use to see how the gap was narrowing through the efforts of the work that was intended for the initiative.

**Sharon Dowey:** You have covered some of the issues that I wanted to touch on in my next questions. In 2021, the now disbanded skills alignment assurance group was tasked with agreeing a definition of “skills alignment”. That was just three years after the Scottish Government, SDS and the SFC agreed a road map for skills alignment. Is the lack of a shared definition of skills alignment indicative of a lack of a wider shared vision across the Scottish Government, SDS and the SFC? More important, how confident are you that a shared vision can ever be achieved?

**Stephen Boyle:** It comes through in the report that there have been disagreements between the parties on how to progress with skills alignment. I do not think that there is any disagreement about the necessity and importance of skills alignment, but there has been disagreement on how best to take it forward. It is clear that the Government needs to show leadership and, through its letters of guidance to the SFC and SDS, to drive forward a shared vision and clarity on what is to be achieved.

09:15

Rebecca Seidel might want to touch on some examples of where disagreements have manifested themselves. One example is the nature of the model. The skills alignment process started with a five-stage model and has now moved to a three-stage model, and there have been changes in governance and oversight with

regard to assurance committees, for example—how they would operate and where they would sit. Those factors have got in the way of progress.

As we say in the report, it is down to the Government to say how it intends skills alignment to work. We were pleased to see the Government's confirmation that it welcomed the report, and we understand that, in addition to the strategic framework that I mentioned in my opening remarks, the Government intends to issue further letters of guidance to SDS and the SFC to set out more clearly how it intends skills alignment to progress.

I will pause here, as Rebecca Seidel might want to say a few words.

**Rebecca Seidel (Audit Scotland):** As the Auditor General said, given the lack of consensus between SDS and the SFC on the way forward with skills alignment, and the lack of progress that has been made since 2017, the Scottish Government proposed a new approach in 2021. That approach involved moving away from the original five-stage model to which everyone had signed up; a slightly different three-strand model was proposed.

The intention for that model was slightly different from the original intention for skills alignment that was set out following the enterprise and skills review. The new model was proposed in mid-2021, but when we finalised our audit work at the end of November 2021, we found that timescales and success measures for some of the projects that had to be taken forward under the new model had still not been agreed. As we identify in the report, the obstacles that have prevented progress over the preceding years still prevail.

On your question about how confident we are that things will move forward, the new shared outcomes framework that the Scottish Government, SDS and the SFC are agreeing among themselves is, as the Auditor General said, a promising step forward, but it is early days. The framework was not finalised by the time that we finished our audit work, and we will be interested to see how it progresses.

**Sharon Dowey:** That brings me to my final question. The audit report takes us up to the end of November 2021. It is obvious that more Government involvement is needed. The Auditor General said that the Government welcomed the report and that it intends to issue further letters of guidance. Are we aware of any actions that the Government has actually taken since the report was completed?

**Stephen Boyle:** I will check in with the team again—perhaps Douglas Black can say a word about what we know of what has happened since.

Overall, the fact that the Government has welcomed the report and has committed to more action is, in itself, welcome; we share its own words in that regard. What matters is what actions follow, what changes are felt and, in particular, the impact of skills alignment. We refer back to the original intent to have a co-ordinated and coherent skills planning and skills alignment system between the two agencies so that learners and employers feel the benefit of it and, by extension, Scotland's economy feels the benefit, too.

That goes back to the committee's discussion last week about income tax and to the vital importance of the relative growth of the Scottish economy and how that translates into the public spending that is on offer in Scotland. I do not think that there is any debate about whether the subject matters, but what also matters is that we see an impact as a result of the changes that are being proposed. As Rebecca Seidel mentioned, Audit Scotland will continue to track and monitor that through our audit work and will consider any public reporting as necessary.

I invite Douglas Black to say a bit more about the strategic framework and what we are seeing from that work.

**Douglas Black (Audit Scotland):** Good morning. I am not entirely sure that everyone can see or hear me; I have had a couple of technology issues this morning.

I will focus on some key developments. First, there is an outcomes framework, on which work is being led by the Scottish Government in association with SDS and the Scottish Funding Council. At the time of writing our report, that work was at an early stage, so we will be interested to see how the framework captures the clarity of expectations on the part of the Scottish Government, and how it makes explicit the expectations of the two skills agencies and the associated performance management framework for capturing progress and reporting it to the Scottish Government and the Enterprise and Skills Strategic Board.

**The Convener:** Craig Hoy has a number of questions.

**Craig Hoy (South Scotland) (Con):** Before we go into some detailed questions on the structure, role and remit of the ESSB, I want to take you back to your opening remarks, Mr Boyle. I agree with your comment that the skills agenda is vital for the economy, business and individuals' career progression. I ask you to reflect on your second key message, which is:

"The Scottish Government has not provided the necessary leadership for progress".

You go on to say that the leadership and oversight functions have failed.

In paragraph 10 of the report, you refer to the letters of guidance. It strikes me that, if they were not fit for purpose, the whole system was set up to fail. Is it fair to say that the failures of leadership and oversight were failures of ministerial leadership and oversight in respect of everything about which we read in your report?

**Stephen Boyle:** We do not draw a distinction between ministers and officials in our reporting. We refer to a couple of sets of circumstances that are relevant to the judgment that we make, such as the high volume of turnover of officials in Scottish Government departments.

In exhibit 1 in the report, we set out the fairly complex skills planning landscape. There are two organisations—SDS and the SFC—and two Government directorates that are responsible for oversight of the agencies. Before May 2021, two ministers were also responsible for those arrangements. Following the recent parliamentary elections, we have one minister with overall oversight of skills planning. That gives a better opportunity for a single view and more clarity and oversight.

As we move into revised letters of guidance and a revised strategic outcomes framework, there is more opportunity not to have those missed opportunities that we talk about in the report, and there is a real need for impetus from Government to provide clarity on its expectations on skills alignment. It is writ large throughout the report that there has been broad intent that has not been sufficiently measurable in terms of outcomes or impact, but there are signs of optimism that we are moving into an environment that will provide clarity and additional pace on skills planning and alignment.

**Craig Hoy:** So, you welcome the consolidation of those two elements under one minister.

**Stephen Boyle:** That provides a better opportunity. As we have seen, with the turnover of staff, two separate directorates and, at the time, two ministers, it was inevitably harder to have clarity from Government. However, there is now one set of arrangements. Clearly, it is for the Government to determine its arrangements. It really matters that there is consensus and commonality between the letters of guidance on what skills planning is intended to achieve.

**Craig Hoy:** I have some detailed questions about the ESSB. You state in the report that the board

“lacks the authority to hold the skills agencies to account, limiting its ability to support progress by SDS and the SFC on skills alignment.”

Why has that been the case? To what extent has the lack of authority contributed to the lack of progress?

**Stephen Boyle:** I will start and will then invite Gordon Smail to say a bit more about the background to the ESSB and what it is designed to achieve, if that is helpful for the committee.

Governance matters. It is a recurring theme in discussions that the committee has. The lack of clarity on governance and on roles and responsibilities can get in the way of delivering impact, change and improved outcomes. The strategic board was not able to direct the work of the SFC or SDS in respect of skills planning. That is not necessarily right or wrong, but we have seen that the presence of that direction is a factor in how skills alignment ought to work. Coupled with some of the changes that have taken place over the past few years—there was a committee and an assurance group, which have ended, and then further changes have been made—that all points to a confusing environment in which to make changes.

I do not think that that is the only factor. There is a combination of reasons why it has not progressed as intended, but a lack of clarity about governance and roles and responsibility is no doubt one of the factors.

I will hand over to Gordon Smail to say a little more.

**Gordon Smail:** That is a good place for me to start, because in our opinion and as reflected throughout our report, one of the central issues is the complex governance arrangements that were in place involving the Scottish Government, the ESSB, SDS and the SFC. Quite often in auditing, I have experienced that, where governance arrangements are complicated, that leads to uncertainty about roles and responsibilities in crucial areas to do with governance and accountability.

The intentions were good in terms of what Government expected of the ESSB and the various missions that were driven through that body, bearing in mind that skills planning is one strand of the work, which involves bringing together a number of things that are directly involved in the economy. There is absolutely no doubt that there has been a lack of clarity about roles and responsibilities. Indeed, the accountability process has not worked as it should have. Had it done so, everyone would have been clearer about what was expected of them and there would have been regular reporting, which would have allowed a good degree of scrutiny and accountability. That is not just about holding people to account for progress; it is about a better understanding of the barriers—obstacles, as they

are termed in the report—and how they might have been resolved.

There is something to be said about the confidence that everyone involved in this type of activity has in the governance arrangements. Over the period that is covered by our report, there was a sense of frustration and a lack of confidence in how the governance worked; who was supposed to do what, and when and where they were supposed to do it; and who was accountable for that. Those are key things. To go back to the previous question, some of the things that we have seen since the report was published suggest that there has been a reset of some of those things and a rethink about how best to deliver on a crucial element of that Government initiative.

**Craig Hoy:** You touched on confidence in the governance process. I will turn to confidence in the board, because we know that the board became aware that limited progress had been made on skills alignment. However, despite that, requests for information were ignored or information was provided to the board at very short notice. Mr Boyle, do you think that the board is sufficiently respected by the Scottish Government and the skills agencies? If not, should its role be strengthened, or is there a case for looking again and starting afresh?

**Stephen Boyle:** I am not sure that I know what the motivations were behind some of the circumstances that you have outlined. In overall terms, we identified a lack of clarity on roles and responsibilities as the key contributor to the circumstances that we set out in the report, as distinct from any feelings of respect or otherwise. Of course, it is for Government to determine the governance arrangements. As Gordon Smail has mentioned, a lack of clarity has been a key contributor to the lack of progress, but it is not the only reason. We set out in the report that, if there had been a much clearer framework of what was intended from skills alignment, that would have fed into effective governance.

For any board of governance, it is very difficult to attempt to monitor and support progress without clear measurables. Inevitably, that is one factor that has impeded the governance arrangements, alongside the other factors that we set out in our report.

09:30

**The Convener:** Willie Coffey, who is joining us via videolink, has a number of questions about the report.

**Willie Coffey (Kilmarnock and Irvine Valley) (SNP):** Good morning, Auditor General and the rest of the panel.

Before I ask a couple of questions about the skills alignment assurance group, I want to pick up on the comment in your opening remarks on the pandemic's impact on the programme. In paragraph 18, you say:

"From March 2020, much of the skills alignment work was paused to allow staff in the Scottish Government"

and so on

"to focus on the emergency response to the ... pandemic."

What impact did that have on the entire programme? You go on to say that

"the Scottish Government asked the SFC to review the tertiary education system"

in light of all that. It seems that the impact on the programme was not insignificant, but can you tell us a bit more about the overall impact and whether the review that was initiated in June 2020 has been completed? If so, have you had a chance to assess its effectiveness?

**Stephen Boyle:** I am happy to start off, and I will then invite Rebecca Seidel to add to what I say.

We make it clear in the report that the Covid-19 pandemic was one of a number of contributory factors with regard to the lack of progress on skills alignment in Scotland. You are right to highlight it, but I should say that what happened was not unique to SDS or the SFC. At the start of the pandemic, many civil servants and public officials were diverted from their core role to focus on pandemic efforts. That was a necessary step that the Government took at the time.

The pandemic is one factor, but it is not the sole factor. I draw the committee's attention to exhibit 3 in the report, in which we track the chain of events dating back to 2016 and 2017, with the enterprise and skills review, and the progress that was made over a number of years before the pandemic. It is also worth saying to the committee that it is likely that we would have reported on this matter before now, had it not been for the pandemic. Indeed, we signalled in a briefing paper in 2019 some of the on-going challenges facing the skills alignment approach and in following through on the enterprise and skills review. The pandemic has undoubtedly been a factor, but it is also fair to say that there was a chain of events preceding it that led to some of the challenges that we note in the report.

I invite Rebecca Seidel to respond to your question about the SFC's work on the tertiary education review and the Government's response, and to say anything else about the impact of the pandemic.

**Rebecca Seidel:** The Scottish ministers commissioned the SFC to review the provision of

tertiary education, partly in response to the Covid-19 pandemic and in recognition of the fact that the landscape of further and higher education was changing and would need to change in the future to a more sustainable long-term approach to delivery and provision. The review, which commenced in June 2020, lasted a year, with the SFC publishing its findings in June 2021. As we have said in our report, the SFC had limited resources to devote to the skills alignment agenda, and in setting out on a review with such wide-ranging scope, it had to reprioritise some of its work and redeploy some resources in order to focus on it, which further impeded progress on the skills alignment agenda.

The Scottish Government published its response to the review's recommendations in October 2021. As I say, it was a wide-ranging review with a number of recommendations. Work is on-going between the SFC, the Scottish Government, SDS and other stakeholders on taking forward those various recommendations.

**Willie Coffey:** Has the review completely reshaped the entire skills alignment programme? Has it completely changed how we think about it and what we intend to do? Is it fair to say that it has had a major impact on rethinking the direction of travel for the programme?

**Stephen Boyle:** I am happy to start and I am sure that Rebecca Seidel will want to add her opinion. I think that they are two complementary but separate things. Rebecca is right that the SFC's capacity constraints are noted in the report and that undertaking the review of tertiary provision was another significant piece of work for the SFC to do alongside its important role in skills alignment. However, I do not think that there is a direct read-across to addressing the skills alignment factors that we note in the report.

To refer back to the strategic outcomes framework and the letters of guidance, we would probably point to a more direct contribution to the Government's intent around skills alignment. It is important that the Government's response is, of course, to the SFC's review of tertiary provision.

To summarise, I note that I think that they are two complementary things; they are not exactly the same thing. Rebecca can say a bit more on that.

**Rebecca Seidel:** I absolutely agree with what the Auditor General said. Some of the findings and recommendations from the SFC review will feed into the approach on skills alignment, but they will not be the only factors involved. Some of the things that came through in the review included the establishment of pathfinder projects to work in different regions with employers, training providers and so on, to try to get better at recognising local

skills needs and thinking about how those skills can be better delivered through colleges and universities. There are some recommendations in the review about engaging more effectively with employers in local regions. Some of those things will feed through to the approach on skills alignment but, as the Auditor General said, that is not the only thing that is at play here.

**Willie Coffey:** Auditor General, you tell us in the report that the Government established a skills alignment assurance group but wound it up less than a year after it was established. Can you give us a bit more information on what happened and whether the decision to wind it up was supported by the partners in the arrangement?

**Stephen Boyle:** I am happy to start, and I will ask Gordon Smail to say a bit more about the circumstances that led to that.

There is a bit of history around the work of the assurance group, which was intended to play a key role in driving forward some of the alignment. It may also be relevant to refer to my earlier response to Mr Hoy on the lack of clarity on how governance would best operate as part of the process.

The Government's decision to wind up the assurance group was clearly a decision for Government to make. We expect that that is part of its longer-term thinking about how assurance arrangements will complement clearer governance arrangements, with more clarity on roles and responsibilities.

I ask Gordon to say a bit more about what we found out through our discussions with the SFC and SDS in relation to the awareness of the other parties to that process.

**Gordon Smail:** We set out some of the chronology in paragraph 26 of our report. The intention behind the skills alignment assurance group was to try to reset how things were being done. As our report says, the Government's decision came as a bit of a surprise to some of the parties involved.

As I said earlier, all parties involved need to have confidence as to the direction of travel. The change was made, and the new group set up, after a few attempts by the SFC to get clarity and information about progress. The skills alignment assurance group clearly did not deliver on what it was intended to do, as has been borne out by the fact that the Government decided to stand it down and put in place a new arrangement with the shared outcomes assurance group.

Part of the overall story, and the common theme that is coming through this morning, concerns the governance arrangements and whether they are fit

for purpose in driving forward this important area of development.

**Willie Coffey:** Will you say a wee bit more about that? There has been a skills alignment assurance group, and now there is a shared outcomes assurance group. What is the fundamental difference between the two? Do you have confidence that the new group will be an effective way to monitor progress as we move forward?

**Gordon Smail:** That is a good question, and it probably tells us a bit about the overall story. The main difference is the move to the current group—the shared outcomes assurance group. The title is helpful, as the focus on outcomes should provide a bit of clarity in that regard. In addition, the composition of the group—who will be participating—is different. It is early days, as the group has only just been set up. As auditors, we can only go on the basis of the evidence that we can see, but I would hope that some lessons have been learned.

There is a general acceptance that things have not moved as quickly as they might have done, or in the right direction, and that they have not generated the benefits that might have been expected. Some of the audit work that we have been doing on this area over the past few months has helped to focus minds on the important aspects, and I hope that we have added some value through our audit work and subsequently through our report and recommendations.

In short, it is early days, but the composition of the group gives us hope that it will help to generate the momentum that is required at this stage. We need to move on with skills alignment quickly, given that, for all the reasons that we highlight in the report, it is a crucial part of Scotland's economy.

**Willie Coffey:** Thank you.

Convener, I hope to come back in later, but for the moment I pass back to you.

**The Convener:** Thank you, Willie—I will come back to you.

For me, there is a stand-out feature of the report. Over recent weeks, we have looked at section 22 reports on organisations that are quite small and have fairly limited resources, budgets and staffing levels. Here, we have two premier agencies of central Government—Skills Development Scotland and the Scottish Funding Council—which have a combined budget each year of £2 billion and more of public money. Despite that, the story in the report is that, going back to 2016-17, they have failed to agree, and therefore things have not happened. That is quite staggering.

The report infers that the Scottish Government has failed to provide leadership to address and rectify the situation. There have been a few reheated attempts to set up various committees and bodies to co-ordinate things, all of which—according to the report that has been laid before the committee—seem, largely, to have failed. Why do you think that is, Auditor General?

**Stephen Boyle:** You are right, convener. In the context of the committee's recent work programme, this issue is of a different scale and size. There is £2 billion in expenditure set out as the funding for those two organisations.

Before I address the rest of your question, I reiterate that our report looked at one aspect of the work of SDS and the SFC—not to the entirety of their operations. The report is only about skills alignment and skills planning. However, we are clear in our judgment; although we recognise that the Covid-19 pandemic has interrupted progress, the issues go back two or three years prior to it.

We made a very clear judgment and associated recommendation that the Scottish Government be clear about what it intends for skills alignment and the outcomes that are to be achieved. We also recommended that it provide the necessary clarity and leadership for arriving at those outcomes, by providing guidance and appropriate direction to SDS and SFC, if required, so that there is no ambiguity about what is intended and what progress is expected.

For all the reasons that have been outlined and which the committee is familiar with, there is a direct correlation between the performance of Scotland's economy, its performance relative to the rest of the UK and how that feeds through to Scotland's budget and its ability to support and fund public spending.

09:45

**The Convener:** I turn to the skills alignment actions, which are, as you say, the principal focus of the report that we are considering. The report notes that in 2018-19 the Scottish Government said that it planned to issue the same strategic skills guidance, through letters of guidance, to the boards of Skills Development Scotland and the Scottish Funding Council in order to support delivery of the enterprise and skills strategic board's strategic plan, once that was published. Has consistent and complementary guidance ever been issued by the Scottish Government to those agencies?

**Stephen Boyle:** I will ask Gordon Smail to talk about commonality in the guidance. As we have mentioned, one of the stated intentions that the Government noted following the report was that it plans imminently to provide new letters of

guidance to SDS and SFC. I look forward to reading those and to seeing that they are clear and that they set out outcomes, along with the new strategic outcomes framework.

Clearly, it is important that the previous letters are not replicated, because they did not provide clarity on the Government's intentions. As we note in the report, there are broad overarching themes that led to challenges in governance and accountability. There is important work to follow. I ask Gordon Smail to say a little more about the specifics of what happened previously with the respective letters of guidance.

**Gordon Smail:** Just to be clear, I note that the letters of guidance are an important part of the machinery of Government, as I would call it. They are crucial to the Government's articulation, through the sponsor arrangements, of what is expected of non-departmental public bodies. They have been in place and are a requirement of the accountability framework. The point is that they have clearly not done the job that they were intended to do in relation to giving clarity about expectations on skills alignment.

In relation to the convener's observation about our report, it is safe to say that the proof has been the lack of progress—the letters of guidance have not done the job that is required. They are an important part of the machinery; that relates to what we discussed in relation to the shared outcomes assurance group. Much more needs to be said in the letters of guidance about the intended outcomes, and there needs to be good read-across between the letters of guidance to Skills Development Scotland and the Scottish Funding Council. They need to be complementary and they need to demonstrate, through that part of the machinery of Government, clear articulation of, and reference to, how the two organisations will work individually and with the Scottish Government to achieve the required outcomes.

Finally, just to complete the set in terms of our recommendations, I point out that there needs to be clear articulation of reporting requirements and governance arrangements for the individual organisations as they change, through how things pan out through the ESSB and the shared outcomes assurance group. That will come through in our audit work and into the public domain; we will be able to see how much progress has been made in that important area.

**The Convener:** Thank you, Mr Smail. That was helpful.

Another aspect that is covered in the report, with regard to the skills alignment action plan, or strategy, is the skills committee. Someone coming to the issue for the first time might be a little confused about the skills committee. That is

because, as I understand it, there was a proposal to convert the joint Scottish Funding Council and Skills Development Scotland skills committee to a skills committee of the enterprise and skills strategic board. The report is quite illuminating on that, and says that the conversion

“did not happen because of the statutory requirement for the existing committee to be chaired by a SFC board member. No alternative governance structure was introduced at ESSB level, and the joint SFC and SDS Skills Committee has not met since August 2017.”

The report was written in November 2021. It goes on to say:

“The SFC consolidated the Joint Skills Committee with another of its committees, which has since become the SFC's Skills, Access, Enhancement and Learning Committee. SDS does not sit on this committee.”

That raises a host of questions, one of which is this: why did the enterprise and skills strategic board not seek to set up an alternative governance structure to allow the establishment of a proper co-operative and collaborative skills committee in which both organisations could have engaged?

**Stephen Boyle:** I will ask Gordon Smail to give you a bit more detail and say more about the chronology. I will say first that that part of the report makes for difficult reading. It relates to governance with regard to skills alignment, understanding expectations of the enterprise and skills strategic board, the roles and responsibilities of SDS and SFC and the lack of clarity and agreement on how things would work between the respective parties.

The example that you have cited best illustrates how it all felt challenging, muddled and lacking in clarity. Given the circumstances, the Government had a clear role to step in and say, whether through letters of guidance or other mechanisms, how it expected things to work. That did not happen, which led us to make our core recommendation—that the Government must be clear and show leadership with regard to what is intended from skills alignment.

Gordon Smail can take you through the specifics of the committee structure and the ESSB.

**Gordon Smail:** Mr Leonard is right to highlight that element of the report. It demonstrates well what I call the overlaying of governance mechanisms and, as we point out in the report, the varying degrees of success or otherwise of that. That overlaying serves to demonstrate the point that I made earlier about everyone involved needing to be confident about what governance looks like, about who is accountable to whom and when, and so on.

We should also bear in mind the timetable of the changes to the skills committee. It started off as a statutory responsibility of SFC that was then going to be changed to drive forward the agenda that we are talking about today, but that did not happen. It is interesting to look at that alongside the chronology of the overall situation that we have described in our report with regard to, for example, SDS being able to participate in the activity, understanding its purpose and role in being involved and, then, at the end of the day, not being involved at all. That gives you an insight into the overall picture.

Douglas Black or Rebecca Seidel might be able to shed more light on some of the detail, Mr Leonard. Is that sufficient, for the moment?

**The Convener:** If they think that they have something additional to say and want to come in, I am keen to hear their views. They do not, so I will move on.

I was also particularly struck by the strand of the skills alignment strategy relating to the appointment of a skills alignment director, which was a senior position. I will look again at the chronology—outlined in exhibit 3—after the rather dysfunctional episode with the skills committee. In February 2018, recruitment began for a skills alignment director. There was then a gap from February until October that year, when an interim director was appointed. In March 2019, the interim skills alignment director's term ended. There was then another gap until August that year, when the permanent position was filled.

I do not know whether Gordon Smail is in a position to explain that or whether the Auditor General wants to have a go. Efficiency and effectiveness are cornerstones of what we are looking at, but the recruitment process, which was seen to be a key strategic part of driving the agenda forward, seems to have been highly inefficient. On top of that, it was decided later, after the permanent skills alignment director had left, that the post was surplus to requirements. Could you explain that for us?

**Stephen Boyle:** Yes—I will say a word or two. I am sure that Gordon Smail will give his perspective.

The convener has drawn a comparison with the skills committee. I think that there was a similar set of circumstances in terms of there being lack of clarity about roles, responsibilities and accountability, which no doubt impacted on the attractiveness of the post. Anybody going into any job would want to be clear about what is expected of them, whom they are accountable to and what the intended outcomes of the job are. In that context, we have seen challenges in recruiting and retaining people in the post.

It is really significant and telling that the Government's intention is to not continue with the role, which is probably the right decision for the time being, rather than replicating some of the challenging circumstances. It sounds as though it will be difficult for anyone to demonstrate a successful impact in the job until the Government, SDS and SFC are clear about what is intended from skills alignment. Another recommendation in our report is that SFC and SDS work together to remove obstacles to further progress, which I think speaks clearly to those circumstances, so that the successor in shared leadership, as a single director, will have the best chance of success in the post. Gordon might say more about the circumstances that we note in exhibit 3.

**Gordon Smail:** I will pass to Douglas Black in a minute, if that is okay, Auditor General, because he has detail on the sequence of events relating to the director who was appointed.

To set us off, it is worth bearing in mind, as detailed in paragraph 10 of the report, that in 2017 the Scottish Government identified three actions to ensure appropriate guidance and oversight of the initiative. The guidance was the first action and the second was establishment of the skills committee. We have covered both those issues. The third action was the appointment of a skills alignment director; clearly, that appointment was part of the way in which the Government thought the work should be driven forward. I have set the scene to emphasise what an important part that appointment appeared to be at the start of the process. Douglas—could you take us through some of the detail of how things panned out?

**Douglas Black:** Sure. Looking back through the chronology of the sequence of events, we see that it was not ideal. The original recruit was, as things materialised, unable to take up the post, so an interim arrangement was put in place. The position was filled on a permanent basis in August 2019 and that person resigned in February 2021. Very shortly after that person's resignation, the skills alignment assurance group was established.

10:00

**The Convener:** Can you confirm that the position was originally advertised and the recruitment process begun to appoint a permanent skills alignment director in February 2018 but the position was permanently filled only in August the following year? That is a huge gap between the intent to recruit somebody to that critical position at what I presume was a critical time and somebody finally being permanently recruited.

**Douglas Black:** Yes. It is not ideal. The original appointment was made in May 2018 but it became evident that the person was unable to take up the

post. That is why the position was filled temporarily until a permanent person could be recruited to the job.

**The Convener:** Okay. I observe that there are huge gaps from the date of the post originally being advertised and it finally being filled permanently. However, there are also gaps in the coverage provided by an interim director or interim directors—I do not know whether it was one person or more. There were large spaces of time when there was nobody in post carrying out that function, which was seen to be pivotal to the delivery of the Scottish Government strategy.

**Stephen Boyle:** That is true, convener. As the exhibit sets out, there were gaps and not continuity. For any director coming into post—or for anyone starting a new job, to be fair—there is a period of induction, learning the role, asserting themselves, making an impact and so forth. Therefore, having such an interrupted recruitment campaign—an appointment, people leaving, interim arrangements, permanent appointments that follow and then, subsequently, there being nobody in the post—is one of the additional factors in the lack of continuity of leadership that we draw out in the report.

It is also fair to say that the issue does not involve only the skills alignment director post. We also note in the report that there has been a lack of continuity of leadership within the Scottish Government directorates that sponsor SDS and the SFC. It all channels up to the overarching view that there has been a lack of leadership and of clear expectations. However, the circumstances around the post of skills alignment director clearly have not helped.

**Craig Hoy:** I will ask briefly about the five-stage model and the move to a three-stage or three-strand model.

It strikes me that we have a vehicle that is going in the wrong direction. We have lifted the bonnet and seen that it is overly complex and difficult to maintain and repair and we do not know what component affects what outcome. As I understand it, three pilot projects were undertaken to assess the five-stage model: in early learning and childcare, in financial and professional services and in the Glasgow College region. It seems that the early learning and childcare pilot yielded some positive results. What factors contributed to the success of that pilot and what lessons were learned from it?

**Stephen Boyle:** I will invite Rebecca Seidel to say a bit about the five-stage model, the evolution into the three principles and the pilot results.

The case study on early learning and childcare that we note in the report is positive. Successes came out of that work and there were

opportunities to apply that learning across other aspects of the model. I would not want to characterise the entire report on skills alignment as saying that there has been no progress because that case study shows that there have been some aspects of progress but it has been challenging to apply that learning for a variety of reasons involving other circumstances.

One of the other conclusions that we draw in the report is that the current arrangements are unlikely to deliver the step-change that is needed in skills alignment. We are still seeing a lack of consensus between SDS and the SFC on the respective models and how they will be brought to bear. That issue also needs to be resolved; it relates to our recommendation that there has to be a consensus for this to work to best effect, whether it is a five-stage or a three-stage model. Both parties have to agree on how best to move forward with skills alignment so that there is that clarity.

Rebecca will want to say more about the pilots and the respective models.

**Rebecca Seidel:** As you recognise, Mr Hoy, those pilots happened quite early on in the process of trying to make the ambition around skills alignment a reality. The pilot projects were a good test of that five-stage model and provided some indicators of what could work well and perhaps what did not work as well.

As well as the things that contributed towards success in those pilots, they also highlighted at that early stage that there was a lack of understanding around what skills alignment actually meant, what it should look like and what the respective roles and responsibilities of those involved were, so that was flagged up quite early on.

As SDS and the SFC moved on from those pilots and tried to implement the five-stage model more broadly, it quickly became clear that there was that lack of consensus that the Auditor General just referred to between the two agencies around how skills alignment should work and how that model should be applied.

The SFC in particular found it difficult to see how the model could be applied effectively to further and higher education in practice and felt that it did not fully represent some of the mechanisms that work within those sectors.

On the elements that worked well in the particular pilot that you highlight, Mr Hoy, if it is okay with the committee, we can provide that information in writing—I do not have those details to hand just now.

**Craig Hoy:** On those areas of evaluation, paragraph 26 of our briefing paper says that there was no clarity on who should lead the process of

alignment—I think that you just referred to that issue. If we do not know who is leading it, how will it get off the ground? As we move to a three-stage process—the three strands of sectoral and regional projects, national initiatives and analytics—is there any clarity that this three-strand model, as it is now referred to, will make much more progress? Your report notes that that approach is already showing signs of stagnation, so is this model not just going to repeat the mistakes of the five-strand or the five-step model?

**Stephen Boyle:** We hope not, but there needs to be clarity and consensus among all three parties with regard to how the three-strand model will work. That is the basis for the third recommendation in our report. Unless there is clarity and consensus and a shared understanding, there is a risk of repeating the lack of progress on skills alignment that we have seen over the course of the past five years.

I do not wish to labour the point, but regardless of whether there is a five-stage or a three-strand model, it is important that it is understood, that there is a consensus, and that it is accompanied by milestones, intended outcomes, clarity and transparency over costs and impact. We will continue to monitor and track that through our annual audit work and consider whether any further public reporting is required.

**Craig Hoy:** I have one final question, on funding. Paragraph 14 states that in October 2019, the Scottish Government

“instructed SDS and the SFC to implement a new model for funding and delivering foundation apprenticeships ... and graduate apprenticeships”.

Those are two fundamental elements of what we are talking about, but your report raises concerns that sustainable funding for those two areas is still uncertain. Why has the Government not been able to provide clarity on where that funding will come from?

**Stephen Boyle:** I will invite Gordon Smail as the auditor of SFC and SDS to say a bit more about that, but ultimately that will be a choice for Government in distributing funding to the respective agencies. We have commented to the committee on a number of occasions on the need for greater transparency and clarity to support the long-term financial planning of all public bodies so that they, in turn, can be clear with the recipients of their work—in this example, employers, students and so forth—about what is available and what they can expect. Gordon might be able to provide some more detail on that, but we might need to come back to you in writing—or, indeed, the respective organisations might be better placed to answer that question.

**Gordon Smail:** I do not think that I have much more to say on this issue, although we certainly feel strongly about it. Indeed, in our routine annual audits and our wider core work, we look not just at financial statements, which are important, but at financial sustainability and other elements of public finance and governance.

With Skills Development Scotland, which has had responsibility for the whole range of apprenticeships, we have been flagging the issue of financial sustainability in the context of annual budgets and longer-term financial planning. After all, when someone commits to an apprenticeship, it will run for more than a year, and that is important for the individuals involved as well as the employers and the training providers.

It was therefore appropriate for us to flag in the report this particular change, which comes off the back of changes to the way in which some of the funding comes through from what was previously the European social fund, with responsibility for that transferring to the Funding Council. It is really crucial to ensuring a smooth transition, and we are just putting down a marker to say that we are not quite sure how that is going to unfold.

I agree with the Auditor General that the issue needs to be explored further with the two organisations at the front line, as it were, to ensure that things happen in the best way possible and that funding commitments into the future are clear. Such an approach will provide assurance to everybody—individuals, employers and indeed the public organisations—that the money will be available to ensure that people, off the back of their apprenticeships and with the skills that the economy needs, can be successful in Scotland.

**The Convener:** We want to explore a couple of other areas before we finish this evidence-taking session. I was struck by the following heading in the report:

“Staff capacity constraints within the SFC created tensions between the agencies”,

and I note that those constraints in the Funding Council were highlighted to the skills alignment joint programme board in February 2020. Who is represented on the board, and was any action taken at the time? What is your view of a situation in which there is an atmosphere of tension between two agencies, both of which are supposed to be serving the public interest?

**Stephen Boyle:** Douglas Black or Gordon Smail can tell the committee who is on the board, but on the wider question of the tensions between the agencies, it was clear from our work that those tensions manifested themselves through a lack of consensus on the different models that we have talked about, some of the governance arrangements that the committee has explored

this morning, the reporting lines and the contribution of different teams to different initiatives. They were all features of the evidence that we gathered for our report.

Before I hand over to the team, I want to reiterate that a new strategic outcomes framework will help, as will clear letters of guidance, but a culture in which the two organisations work together will be a key component of the successful delivery of skills alignment. Capacity constraints have been a feature, but the tensions that manifested themselves as a result need to be addressed, too, if skills alignment is to have the impact that it needs to have on Scotland's economy.

I will now hand over to the team. Perhaps colleagues can select among themselves who is best placed to take the committee through the membership of the board.

10:15

**Douglas Black:** We would need to get back to the committee on the details of board membership.

**The Convener:** That is fine. That would be helpful for us in navigating the myriad of organisations, committees and boards that are supposed to be working together to further the skills alignment agenda, but are not in all cases doing so.

A proposal to increase the funding to the Scottish Funding Council and the advanced learning and science directorate in 2022-23 was also mentioned in the report. Is that money that has been ring fenced to boost the skills alignment agenda or is it additional funding that will be given to the directorate and the agency?

**Stephen Boyle:** I will ask Rebecca Seidel to come in on that point. I am not sure that we would apply the term "ring fenced" or whether that is relevant in the circumstances. That relates to Mr Coffey's question about the SFC's review of tertiary education, which may also be a factor in some of the application of funding in next year's Scottish budget. Rebecca will want to say a bit more, and as ever, if we do not have that detail we can come back to you in writing.

**Rebecca Seidel:** The Scottish Government made the commitment last year to increase resourcing for the SFC, recognising the capacity constraints there and in the advanced learning and science directorate of the Scottish Government. The draft budget documents for 2022-23 do not include any specific information or details on what funding is available, so we are not clear on what that will look like, how much it might be or whether it is ring-fenced funding. We understand the

Scottish Government continues to have that conversation with the Scottish Funding Council. That may be an area that the committee wants to follow up with it.

**The Convener:** I am sure that we will consider that. I will bring Willie Coffey in before we begin the last lap of our evidence.

**Willie Coffey:** Auditor General, can you say something about the regional dimension of what we have been discussing? You mention in the report that the Government signalled a change to its approach to skills alignment in December 2020. How do we plan locally and regionally—for example, in Ayrshire—to match up skills to emerging economic opportunities? How does that shape up against the training and courses and so on that we offer in our colleges? Can you say a bit more about the regional dimension and what the impact of all your reporting is having on the successful delivery of that?

**Stephen Boyle:** I will do my best, Mr Coffey. I recognise that the landscape of skills planning and alignment across Scotland and the respective roles of the Enterprise and Skills Strategic Board, SDS and SFC is complex. It is also worth recognising the important roles of Scottish Enterprise, Highlands and Islands Enterprise and the newly created South of Scotland Enterprise. Other players are also relevant—notably, Scotland's colleges, which you touched on, and local authorities. They all have a role.

You asked about the impact of the reporting. Gordon Smail alluded to that in one of his earlier answers. We often hope that our audit work leads to improvements and change in how public services are delivered. We expect that, through this report, there will be more clarity in relation to how skills planning will work between the lead players, and that that will flow, not only down to the regional level, which is relevant to the question, but to individual learners and employers. They should see improvements in the planning of apprenticeships and relevant college courses, tailored to the employment and industry circumstances of different regions of Scotland and supported by the appropriate funding arrangements.

I do not need to tell the committee that the circumstances arising from the pandemic have led to challenges in various parts of Scotland. We know that some parts of Scotland are more reliant on leisure and hospitality service industries, and we know about the challenges that those businesses have faced. The skills alignment and skills planning for training courses, apprenticeships, college courses and so on therefore must be tailored to the different needs of Scotland's regions and council areas. It is important for that impact to be sustained, with the

value of skills alignment feeding through to the different areas of Scotland.

I will pause there. Gordon Smail may wish to say a bit more about his work on Scottish Enterprise.

**Gordon Smail:** The Auditor General's point about how the whole system works together is well made, and I absolutely agree with you, Mr Coffey: ultimately, governance, structures, letters of guidance and so on, which we have covered in our conversation this morning, are all important. Ultimately, however, it is about the difference that is made in post-school skills and workforce skills.

The information that we have about the regional approach here gives us some sense of what can be achieved when we look across the piece at apprenticeships and at how colleges and education work together towards better skills. That is the intention. It is worth us collectively keeping our eyes on the particular outcome, which is better skills that support the economy and fill the gaps, with the best use of public money. The point is well made, and we expect to be able to see evidence from Government and from those involved as the coming months unfold. That is very much aligned to the recommendations in our report, so that we can see progress and promote the scrutiny of progress and improvement, as the Auditor General says.

**The Convener:** We have a couple more questions that we wish to ask. I will bring in Craig Hoy in a minute.

First, one of the other substantive areas of the report concerns data sharing. One of the threads that seems to run through the report is a lack of consensus between the two agencies, with a lack of agreement on timescales, measures of success and so on. There also appears to be an inordinate delay in getting a data-sharing agreement into place that addresses the task at hand around skills alignment.

I want to understand why there was such a delay in getting the data-sharing agreement in place. It seems to me that data is fundamental to the planning of future demand in the labour market, given the skills that we are going to need in five years' time, 10 years' time and so on. That data and that evidence are absolutely critical. Why did it take so long to get to the point that we have got to? Even now, is that data-sharing agreement fit for purpose? Will it address the challenge that we face?

**Stephen Boyle:** I will shortly hand over to Rebecca Seidel to take the committee through the circumstances, but I agree with the premise of your question, that data sharing is a vital component of tracking impacts, outcomes and progress. It has been an unhelpful feature of

progress with skills alignment that, in order to assess progress, we need to have the data, and there needs to be consistency of data between the organisations. Unfortunately, that has not been the case.

Rebecca will take the committee through where we are now.

**Rebecca Seidel:** Data sharing is indeed an essential part of the skills alignment process and of being able to assess skills demand, so that SDS and the SFC can use the data collectively to help inform investment in skills provision. As the committee recognises, there were delays in getting a data-sharing agreement together. The permanent skills alignment director pushed that forward when they took up the post but, as you recognise, the delays in pulling it together impeded progress. We cite that in our report as one of the obstacles to effective joint working between SDS and the SFC.

Both parties identified gaps in data. We argue that there will never be perfect data and that organisations need to try to work as best they can with the data that is available. In our report, we recommend that SDS and the SFC work together to overcome the obstacles to joint working and we cite collectively using data as one of the specific obstacles in which we expect progress to be made.

**The Convener:** That is helpful. In the report, you describe the lack of data as "a barrier to progress" that needs to be broken down.

Craig Hoy will ask our final question.

**Craig Hoy:** Paragraph 1 of your report mentions the skills gaps and the effects that they will have on Scotland's labour market and, ultimately, its economy. We see those effects in the form of two costs. There are costs today, as we see in, for example, social care—your recent report identified the crisis in care and the costs that not providing preventative care causes at the other end of the spectrum. You also identify, in relation to digital and the climate emergency, a huge economic opportunity cost in not having the skills to meet the future demand in those sectors.

What confidence do you have that the Scottish Government and its partners are satisfactorily addressing the skills gaps of today and the future?

**Stephen Boyle:** Our audit takes us up to a certain point—the end of November—and we are highlighting the point that there are significant risks and challenges to overcome to address the challenges that Scotland's economy faces and ensure that it has the labour in place to tackle the skills gaps, the underutilisation and, historically, the challenges in terms of the relative productivity of Scotland's labour, which also needs to be

overcome. That relates to a point that we have touched on a couple of times today and last week with the committee: that the relative performance of Scotland's economy compared to the rest of the United Kingdom is highly important in light of the Scottish Parliament's increasing powers and that it will directly impact on the availability of public funds to Scotland.

Our report makes recommendations, as all of our reports do. In this case, they concern the need for urgent progress and leadership in the context of the issues that we set out in paragraph 1. I am not able to offer you assurance that that will happen, but there is an urgent need for it.

**The Convener:** That was the final question. I thank the Auditor General and his team—Gordon Smail, Douglas Black and Rebecca Seidel—for joining us.

We will have a changeover of witnesses, so I suspend the meeting.

10:28

*Meeting suspended.*

10:29

*On resuming—*

## **Section 22 Report: “The 2020/21 audit of the Scottish Environment Protection Agency”**

**The Convener:** The next item on our agenda is consideration of “The 2020/21 audit of the Scottish Environment Protection Agency”. We are joined by the Auditor General, Stephen Boyle, and, via videolink, by Morag Campsie, who is a senior manager of audit services in Audit Scotland, and Joanne Brown, who is a partner in Grant Thornton UK LLP and carried out the audit.

I invite the Auditor General to make an opening statement.

**Stephen Boyle:** On Christmas eve 2020, the Scottish Environment Protection Agency experienced a sophisticated ransomware attack that meant that its systems and data were inaccessible to its staff and customers. The majority of SEPA's data, including underlying financial records, was encrypted, stolen or lost.

Under section 22 of the Public Finance and Accountability (Scotland) Act 2000, I have prepared the report on the 2020-21 audit of SEPA to highlight the significant impact that the attack has had on SEPA's operations and staff, on its ability to deliver its services and on the preparation of its annual report and accounts.

SEPA had to recreate accounting records from bank and Her Majesty's Revenue and Customs records. That made it difficult for the auditor to gain sufficient evidence to substantiate about £42 million of income from contracts. As a result, the auditor, Grant Thornton, has issued a disclaimer of its audit opinion, which is an unusual choice for an auditor to make.

SEPA was able to prioritise and deliver some of its critical services within 24 hours of the attack. However, more than 12 months on from the attack, it continues to rebuild and reinstate its systems. The full financial impact of the attack is not yet known. Therefore, SEPA will continue to face financial and operational challenges in the years to come.

SEPA has demonstrated a willingness to learn, and to help other organisations to learn, from the attack. There are continuing investigations, and not all the findings can be made publicly available so as not to expose potential vulnerabilities. It is important that all public sector bodies learn from the incident. Independent reviews identified that SEPA had good cybersecurity arrangements in place, but 44 recommendations were made. SEPA has accepted them and is taking action on them.

No organisation can fully mitigate the risk of a cyberattack, but it is crucial that public bodies are prepared and have fully tested plans in place.

I am joined by Joanne Brown, who is the external auditor and will be able to support me in answering the committee's questions on the annual audit, its impact and how SEPA has responded. I am also joined by Morag Campsie, one of the senior managers in Audit Scotland, who leads on much of our digital work. Between the three of us, we will do our best to answer your questions.

**The Convener:** That is much appreciated. We will go straight to questions.

**Sharon Dowey:** The Auditor General touched on my first questions in his opening statement. Paragraphs 8 and 9 of the report state:

"SEPA commissioned independent reviews of the cyber-attack so that it, and the wider public sector, could learn lessons."

The reviews concluded

"that SEPA had a high level of cyber security maturity, but further improvements could be made".

They also

"made 44 recommendations for SEPA"

to take forward

"to enhance processes and controls in relation to information security."

Given that SEPA was found to have a high level of security maturity, 44 recommendations seems to be a lot. How likely is it that other public sector organisations that are also considered to have a high level of security maturity are at risk from a similar cyberattack? Have all the recommendations been passed over, and is SEPA taking action on them?

**Stephen Boyle:** Joanne Brown and, perhaps, Morag Campsie will want to say a word or two about that. Inevitably, the recommendations will be split between high, medium and low risk. Joanne Brown will say a bit more about the grading of those and the progress on their implementation.

That does not detract from the overall conclusion that we made in the report that SEPA was well prepared, as the independent reviews concluded. It had a high level of cyberawareness, it provided training for its staff and tested its systems, and it had emergency plans in place.

We should bear in mind that the organisation is a regulator that responds to emergency incidents, which have all fed through to create an organisational culture of preparedness. However, I stress the point that preparedness can take an organisation only so far. As we note in the report,

if there is determined criminal intent, any organisation can be vulnerable to a cyberattack.

By way of context, I note that, at the time of SEPA's incident, there were other incidents in the Irish health system and in a small public body in Wales. Even in the past few days, there have been further reported incidents in the Foreign, Commonwealth and Development Office. No organisation can entirely guard against a cyberattack. In that context, we concluded that SEPA was well prepared and had a high level of maturity, but even that did not prevent the circumstances that I am sure we will talk about further.

I will pause to see whether Joanne Brown and Morag Campsie want to add anything.

**Joanne Brown (Grant Thornton UK LLP):** The 44 improvement recommendations were pulled across from all the independent reviews. As the Auditor General outlined, those are categorised in terms of priority and risk. From speaking to SEPA, we know that approximately half the recommendations have been completed and that it is on track to complete the majority of them by the end of March. We will focus on that in our external audit for 2021-22.

SEPA routinely reports progress against the action plan to the agency management team and through to the audit committee. A couple of the recommendations require longer-term consideration, particularly in relation to investment and priority. SEPA continues to discuss such matters with the Scottish Government, so those actions might slip beyond 31 March, but SEPA is tracking the situation carefully, and a number of the actions have been completed.

**Sharon Dowey:** Thank you. I was going to ask about progress, but you have already answered my question.

**The Convener:** That is great. Willie Coffey, who joins us online, has a question.

**Willie Coffey:** Auditor General, one of the lessons from the attack is that the cybercriminal fraternity is a step ahead of the game, despite organisations' best efforts to have the best systems, including security systems, in place. I imagine that a number of the recommendations try to address that.

The cyberattack is still the subject of an ongoing police investigation, but are you able to tell us exactly where the attack managed to penetrate SEPA's systems—the route source—or will that remain confidential?

**Stephen Boyle:** As you would expect, we will say as much as we can today. As we set out in the report, the general consensus is that the route into SEPA's systems was through a phishing incident

or attack. Committee members will be aware that that involves an email—masquerading as a genuine email—that contains a link; typically, a member of staff clicks on the link, which sets off a chain of events through which virus ransomware gets into systems. Unfortunately, that means that it is likely that an element of human error allowed the attack to have a route into SEPA's systems. As is set out in the report, we have probably gone as far as we are able to on the specifics of that.

It is safe to say that, no matter how much training and preparation is done, such phishing attacks happen, even in well-prepared organisations with high levels of maturity. However, such preparation needs to be reinforced with training for information technology departments and colleagues across the piece, so that everybody exercises a degree of caution when they receive an external email and thinks really carefully before they click on a link.

**Willie Coffey:** I imagine that cyberattackers make a reasoned guess about how we all behave when we use computers. We are all vulnerable to inadvertently clicking on a link in an email—that seems to be a common route. It seems to me that all systems need the sophistication to guard against that, even when we make those mistakes. Perhaps your colleagues can talk about whether additional protections can be put into systems so that, if we are subjected to phishing and even if we click links, a degree of protection is still available.

**Stephen Boyle:** I will invite Morag Campsie to say more about what unfolded and how we might guard against the aftereffects of a successful phishing attack.

One unfortunate feature of the attack, as we say a number of times in the report, was its sophistication. That was what made it so debilitating. It is important that backups are available. When an attack happens, data is compromised or locked. Organisations typically have a backup server and can quickly recreate the information, but that did not happen in the SEPA case because the backups were also lost or hacked, as we set out in the report. The impact of that is still being felt as SEPA recreates its systems. It led to an audit qualification about the availability and reliability of the information in SEPA's accounts. The learning from that really matters.

I invite Morag Campsie to talk about what comes next and how a public body can guard its systems even when a phishing incident happens.

**Morag Campsie (Audit Scotland):** It is really important that everyone in an organisation is cyberaware. Training is crucial, as is the culture within the organisation. People must know what to do if they spot anything suspicious or if they think

that they might have clicked on a link. They must feel confident to notify the appropriate people quickly so that incident response plans can be put in place. Organisations must have a tried and tested cyber incident response plan in place.

A lot can also be done with infrastructure through network segmentation, authentication and ensuring that user access is controlled. The report on SEPA and the four independent reviews make a number of recommendations about protection of assets and how to detect, respond to and recover from attacks.

As the incident demonstrated, collaborative effort is needed. The Scottish Government cyber resilience unit, the National Cyber Security Centre and the Scottish Business Resilience Centre worked closely with SEPA on the response to ensure that SEPA took action quickly and that the rest of the public sector was kept informed throughout the process.

**Willie Coffey:** The backup data seemed to be targeted at an early stage. I am a wee bit surprised about how easy it was to access the backup systems. From my long experience of working in computing, I would have expected it to be logical for the backup data to be physically separate so that it could not be subjected to that sort of cyberattack. It should be completely protected and separate from the main data, but that does not seem to have been the case here. Should you recommend that SEPA and other organisations look more closely at that, and that they should separate and protect any data that is essential to keeping their business running?

10:45

**Stephen Boyle:** I will ask Joanne Brown to say a bit more about the recommendations and whether those relate to backups, but you have reached a fair conclusion, Mr Coffey. The principle of backups is that they are available in the event not just of an IT security attack but of a system failure, so that organisations can recreate, restore and pick up where they left off, as it were. It is also fair to say that the point about sophistication that we draw out in the report is that such a targeting of backups is one of the hallmarks of ransomware attacks.

For the record, I state that SEPA did not pay the ransom. Public money was not used to that effect. However, not having access to the backups has been debilitating to the organisation in relation to the availability of its records, the recreation of its accounts and so forth. It was a challenging set of circumstances.

I ask Joanne Brown to speak about how the recommendations relate to backups.

**Joanne Brown:** SEPA had in place a digital transformation strategy. As a result of the cyberattack, it has escalated that digital transformation. However, within the 44 improvement actions, there is something specific about backups. Part of that involves looking at cloud-based storage, including cloud-based backups, and strengthening the backup arrangements that are in place. That is captured in the action plan, and SEPA is taking the matter very seriously in the improvement plan.

**Willie Coffey:** Does that give assurance, though? There is bound to be another attempt at a similar attack on an organisation. In my opinion, it is still dangerous to have a direct link to the backup data and servers from the main data and servers. There should be some physical and logical separation of the two so that, if the attack is successful in one part of the operation's data, it does not succeed in the other. Does SEPA plan to consider that?

**Joanne Brown:** My understanding is that a number of conversations are going on with those who supported SEPA in the independent reviews on how best to ensure the security of backups. Obviously, the attack on SEPA was very sophisticated, and an attacker will do their best to manipulate and get around a system. However, SEPA is taking advice on how best to have that segregation and protect the backups, should something impact on it from a cyber perspective in the future.

**Willie Coffey:** That is good to hear. Convener, you will be delighted to hear that, in my day, when I worked in computing, our guys used to put the backup in a case and take it to the bank. We would actually take a hard drive away and make sure that it was physically protected so that, if something like that happened, the information could be immediately restored. There is a lesson from the past in that regard.

My final query is about staff training. It is recognised that SEPA staff were well trained in all those aspects and were aware of them. Are there further plans to improve training in relation to cyberattacks and to make staff more aware of the possibilities and the risks?

**Stephen Boyle:** I will start, and Joanne Brown might want to say a bit more.

It is a fair conclusion that, across the organisation, SEPA had a high level of cyberawareness. As we note in the report, 95 per cent of people were up to date in their training. It could be reasonable to ask whether it was one of the 5 per cent who clicked on the link, but I do not think that we know the answer to that. Inevitably, there is staff turnover. For whatever reason, people might not be available to do their training.

However, the 95 per cent figure represents a good level of confidence that an organisation is prepared, but further training is always important.

It is not just for the organisation but for individual SEPA staff members to follow through on the recommendations, and their experience must be shared with other public bodies. It is important to recognise that SEPA has been doing that. In a way that has probably been difficult for the organisation, it has laid out the circumstances that it faced and has reported publicly on the steps that it has taken. Such transparency is welcome, and there is a necessity for other public bodies to learn from its experience and to do their best—although there is no guarantee—to avoid a cyberattack like the one that SEPA faced.

I invite Joanne Brown to add anything that she wishes to add about training and next steps.

**Joanne Brown:** I will add only that training is also captured in the improvement action plan, which looks at mandatory training as well as a programme of greater awareness training. SEPA has more than 1,000 staff across its organisation, which is a high number, so it has considered mandating such training and how to ensure that all staff are reached by the training and complete it. SEPA has in place that forward plan, which has not just come off the back of the improvement plan. It is looking at how it can continue to strengthen training, especially awareness training, across the organisation.

**Willie Coffey:** Thank you very much.

**The Convener:** Thanks, Willie. I will come back to you before the end of the session for the other area of questioning that you have.

Craig Hoy wants to explore SEPA's response, both immediate and in the medium term, to the crisis and attack when it happened.

**Craig Hoy:** It looks as though the ransomware attack was quite carefully timed, coming as it did at midnight on Christmas eve. We are aware from the report that the staff member who was responsible was unable to contact any member of senior management to escalate the issue. Have you explored whether SEPA now has in place contingency plans to ensure that, should such a situation arise again, that channel of communication will be open and available?

**Stephen Boyle:** Joanne Brown can confirm this, but I believe that our understanding is that that is the case. SEPA has reviewed its immediate response protocols, and not just as they relate to the contactability of senior management, important as that is. Paragraph 15 of the report points out that SEPA's information services department was not part of the immediate response protocol,

either. Given the nature of the attack, that is clearly another learning point for the organisation.

I understand that both of those points have been rectified, but I ask Joanne Brown to confirm that that is the case.

**Joanne Brown:** Yes, I confirm that it is the case. I also highlight that the report, in paragraph 19, talks about business continuity plans and their storage. Unfortunately, those plans could not be accessed after the incident, so SEPA has since strengthened its security with regard to how it documents business continuity and who is aware of that.

**Craig Hoy:** That is reassuring. In paragraph 18, the report states:

“SEPA has been open and transparent from the start to ensure that staff, the public and other public-sector organisations”

were aware of what was happening. You have also referred to the fact that no ransom was paid. Can you outline the benefits of SEPA taking that approach? Are you aware of any other examples in the public sector in Scotland where that approach was not taken and, for example, public funds were used to make a ransom payment?

**Stephen Boyle:** I am happy to cover both of those questions. There is a balance to be struck on transparency. SEPA shared learning from the incident and helped other public bodies to, where possible, avoid the pitfalls that it experienced. I again state that we commend SEPA for taking that approach. The other side of the balance is that transparency exposes vulnerabilities that could put the body at risk of further cyberattacks. Our understanding is that SEPA is carefully treading that fine line, so as not to offer any further opportunities to criminal enterprise in respect of the Christmas eve incident.

SEPA has not paid a ransom, and nor are we aware of any other public bodies having done so. The context is important. Public bodies are subject to phishing attacks—attempts to penetrate their systems—day in and day out. Because of training and the sophistication of IT security, to date the vast majority of those attacks have been prevented. It also maybe speaks to SEPA’s point that, unfortunately, this will not be the last attack. There will come a day when there is another cyberincident and, in order for the effects to be mitigated as much as possible, SEPA sharing its experience is an important component of helping other bodies to respond to and prevent attacks.

**Craig Hoy:** With regard to lessons learned, the emergency management team identified 103 projects that were to be undertaken as part of the recovery plan and were due to be completed by June 2021. Have you assessed whether all 103 projects have been completed?

**Stephen Boyle:** We are seeing real progress, but 103 projects is no small undertaking, and they have varying degrees of importance and significance in their timing. With any action plan for following recommendations, it matters that the plan is clear, that it sets out who is responsible and that there is governance around tracking progress. Joanne Brown can confirm the status of progress against the actions.

**Joanne Brown:** In our 2021-22 audit, we will look closely at those projects and the status of their progress. It was a large number of projects and the EMT has taken them in order of priority, relating to SEPA services, customers, stakeholders and then staff. The 103 projects were prioritised in order to reinstate SEPA’s systems. In 2021-22 and beyond, there will be further projects, as SEPA moves through digital transformation and recreates and reimplements new systems. We will specifically look at that and comment on it in our 2021-22 audit.

**The Convener:** Auditor General, one of the striking things in your opening statement was the fact that the auditor issued a disclaimer of opinion on SEPA’s annual report and accounts for 2020-21 and, therefore, the accounts have not been signed off. You used the word “unusual” for that choice, and it is extremely unusual. You also said that that was principally because of unsatisfactory records or evidence around a notional £42 million of income from fees. Who takes the decision to put in that disclaimer and not sign off the accounts? Is it Joanne Brown at Grant Thornton, or is it you, the Auditor General, at Audit Scotland? At what level is that decision taken?

**Stephen Boyle:** I am happy to say a bit more about that, but Joanne Brown is the appointed external auditor. In her role at Grant Thornton, Joanne is appointed by the Auditor General to conduct the annual external audit of SEPA and she will arrive at her own judgments on the annual report and accounts that are presented to her with regard to auditing standards and the code of audit practice.

In a moment, I will pass over to Joanne to set out for the committee how she arrived at that judgment with regard to her independent auditor’s report and opinion. To put the decision in context, it is very unusual. There are very few examples where an auditor has been unable to see sufficient evidence to support the provision of an opinion on an annual report and accounts of a public body in Scotland. The circumstances have clearly contributed to the unavailability of accounting and banking records. Very specifically, as we note in the report, which is drawn from Joanne Brown’s annual audit report, that relates to income from contracts.

As we have touched on this morning, as a regulator, SEPA charges fees for some of its services, and Grant Thornton reached a judgment that it was not able to see sufficient evidence on income from those contracts. That has a pervasive effect on many components of the annual report and accounts. Joanne and I have spoken about that at length and I clearly understand why Grant Thornton was not able to give an opinion and thus issued its disclaimer of opinion.

That is probably enough from me. I am sure that Joanne will want to say more.

11:00

**Joanne Brown:** SEPA lost its entire financial ledger and all its financial records in the cyberattack. It had to recreate those financial records in order to recreate the financial statements. From the start of our 2020-21 audit, we were in conversation with SEPA's audit committee, which is charged with governance, about the difficulties of undertaking an audit, the alternative audit procedures, and what that could mean for our opinion. That challenge was recognised by management and the audit committee.

The individuals in the finance team in SEPA worked hard to recreate the financial records. They used bank records, data recovered via emails and whatever records they had to rebuild the financial position during the year and those financial statements.

Although we were able to get assurance about expenditure, we did not get audit evidence or assurance about income. We could see income hit the cash flow and see it in the bank, but neither we nor SEPA could match that to individual customers. The question for us is whether there is any material misstatement in the accounting records.

It is clearly unusual to issue a disclaimer of opinion. SEPA's audit committee and its board debated the timing and explored whether they could get the financial records that were needed, so that we would not put some form of qualification on the accounts. They considered what that timetable might look like. For example, I am aware of one organisation in England that experienced a cyberattack, after which it took almost three years for it to create financial statements for that year.

The SEPA management and board had a conversation about what they could practically do and what would make sense. They accepted that there would be a qualification in the accounts, due to the seriousness of the loss of the financial ledger.

**The Convener:** The report covers the year 2020-21. Will we at some point—even if it is three years hence—see signed off accounts for SEPA for 2020-21, or is that possibility gone forever?

**Joanne Brown:** We have signed off the accounts, although the disclaimer opinion comes with many caveats that say that we were unable to sign them off and give an opinion as we usually would.

It is our intention to audit the 2021-22 accounts. SEPA has put a financial ledger in place and has recreated its records. The controls in place for 2021-22 are those that SEPA had prior to the cyberattack. We are working closely with SEPA to be able to give an opinion on the 2021-22 accounts. We recognise that there will be opening balances relating to income. We want assurances about that to be able to give an unqualified opinion for 2021-22.

From an audit perspective, we will be able to provide an opinion in 2021-22. We just need to consider what that looks like when we do that audit work.

**The Convener:** Thank you for clarifying that. That is helpful.

You have inferred this to an extent, but one thing that comes out in the report is that temporary arrangements have had to be put in place for things such as paying staff salaries and paying suppliers. From your auditing perspective, were you satisfied that those temporary financial arrangements were sound?

**Joanne Brown:** We looked at the temporary arrangements that were put in place, such as the segregation of duties and approvals, and at the judgments or otherwise that the finance team made in making those payments. We were satisfied that controls were in place.

You mentioned payroll. Until the payroll system was rebuilt, there were satisfactory controls in place to ensure payment of staff through the banking system. For 2021-22, SEPA is looking to reinstate all the good financial controls that it had prior to the cyberattack in the new financial system and the new ways of working.

**The Convener:** I presume that that means that you—I do not know whether it is just you or a team—have to work closely with SEPA's finance people and audit committee to ensure that things remain on track and go at the fastest pace that can be done while retaining the integrity of the accounting systems. Are you devoting a lot of your time to developing the situation from where it has been?

**Joanne Brown:** As you would expect, we are working closely with SEPA. In the aftermath of the cyberattack, we had conversations pretty much

straight away with the finance team about the impact of the attack on the financial ledger. We also had a number of discussions during the audit about the financial controls that SEPA was putting in place and how we could effectively do the audit. Those conversations continue, particularly as we examine how SEPA implements the recommendations and as we consider how to plan the 2021-22 audit, what financial controls are likely to be in place and the timing.

We have a good relationship with SEPA. Its finance team has been open and honest about the financial controls and the judgments and estimates that it has had to make in creating financial records.

**The Convener:** Willie Coffey has at least one question that follows up that line of inquiry.

**Willie Coffey:** Before I ask a question on SEPA's financial sustainability in light of the cyberattack, I will ask about something else about which I am curious.

What volume of data are we talking about? In the report, I can see only a reference in the appendix, on page 9, to about 1.2GB of data being stolen. Is that it? Are we talking about only 1.2GB of data? That is a tiny amount of data that has had such a catastrophic impact.

I refer to my earlier point about offline storage. You can buy data sticks that accommodate huge amounts of data for £10 or £50. You can put almost your entire data set on separate physical data sticks. Nothing can hack them if you do that.

Is there any information on the volume of data that SEPA lost and whether the right strategy is in place to protect it?

**Stephen Boyle:** You highlight the appendix, where we say that 1.2GB of data is

"equivalent to a small fraction of the contents of an average laptop hard drive".

In the greater scheme of things, it is not a huge amount of data but, of course, 1.2GB can contain many tens of thousands of records and transaction histories. As Joanne Brown outlined and as we say in the report, that means that some of those vital financial and system records that SEPA needs to function were locked, encrypted or lost.

That probably speaks to the point that you make about our ever-increasing reliability on IT systems as we lead our lives and as public bodies deliver their services. However, as you said in earlier questions, Mr Coffey, it is important that, when such an event happens, sufficient back-up is in place to recreate records, notwithstanding the sophistication of the attack, which also targeted the back-ups.

Although, in the greater scheme of things, 1.2GB is small and could be held in the palm of your hand in an external storage drive, it can still contain tens of thousands of records, as was the case in SEPA's circumstances. To relate that to the audit qualification, it meant that Joanne Brown and her team were not able to see sufficient evidence for how that translated into the £42 million of income from contracts.

**Willie Coffey:** My final question is about the long-term implications for SEPA's financial sustainability. You said that we do not know the full cost of the cyberattack, but do you have any indications of how it will affect SEPA's financial sustainability?

**Stephen Boyle:** Yes. We touch on the financial sustainability point in the report, and I will say a bit more about that. SEPA's financial strategy had identified up to £17.9 million of vulnerability and variability in the longer term, to 2024. As Joanne Brown mentioned, there is now a digital transformation strategy, which SEPA is reasonably deploying. It is not necessarily trying to go back to where it had been but is perhaps using the incident as a catalyst for how it will deliver its services in the future and what that will mean for the nature of its activity and its work.

As is the case for all public bodies, SEPA needs to manage, track and profile its financial position and the sustainability of that into the future. SEPA has forecast that there will be a surplus of £6.2 million in 2021-22, and it will use that to support its recovery and transformation. As Joanne Brown mentioned, she will continue to track, monitor and report on financial sustainability during the annual audit.

**The Convener:** I have a final question. In a sense, it is absolutely critical that we ask it. Clearly, there are wider implications for the whole public sector of the incident on 24 December 2020. In paragraph 34 of the report, you make it clear that it is important that all public sector bodies review the recommendations of the independent reviews that have been carried out on SEPA's cyberattack, and that lessons are learned from what happened to SEPA. Will you talk us through your understanding of any steps that have been taken to date, either by the Scottish Government or by other public sector bodies, to make sure that lessons are learned and that the experience that SEPA has gone through is shared and acted on?

**Stephen Boyle:** I will start and will ask Morag Campsie to say a bit more about the Scottish Government's role and its cyber strategy, not just as part of the important learning from the incident but as part of how, more widely, it is leading in helping all public bodies in Scotland to learn from that and to safeguard against such incidents.

I will also make a point about external auditors. Between us, the Accounts Commission and I appoint the external auditors of more than 200 public bodies. Those auditors look annually at aspects of IT controls and will report through our annual audit reports on the extent to which those are robust, particularly in cases of any deficiencies. As ever, there is an onus on public bodies to be satisfied about their internal control arrangements and how robust they are. That includes cyber. There is an audit responsibility; there is also a responsibility on individual organisations.

I will bring in Morag to say a bit more about the strategy and the Scottish Government's intentions on cyber.

**Morag Campsie:** As we have said, SEPA and the Scottish Government have shared the three independent reviews, which are readily available to public sector bodies. There has also been a series of events to raise awareness.

As the Auditor General said, the strategic framework, which built on the cyber strategy, came out in February 2021 and sets out action plans for the public, private and third sectors. There is also an action plan for learning, development and skills. As we have said, it is key to ensure that employees are cyberaware and that IT specialists have the right skills. The committee took evidence earlier about skills planning, which is key in making sure that the skills pipeline is in place for computing skills. The Scottish Government is looking to ensure that that pipeline is invested in.

The national cyberincident response arrangements must be effective, as well. The Scottish Government intends to bring in a central collaborative function, to ensure that all resources and technical expertise are pooled. The public sector has a number of organisations with different skills and of different sizes, with different resources available to them. There is a role for the Scottish Government to ensure that organisations can go to a centralised function to get information, share intelligence and make use of resources so that they are as prepared as possible and can respond quickly. We will continue to monitor the implementation of those arrangements.

**The Convener:** Auditor General, do you want to add anything to that?

**Stephen Boyle:** Morag has set it out reasonably. Just to agree with her, it is an important point that there is a wide range in the scale of public bodies in Scotland. The ability to recruit and retain people with key IT skills is challenging for all of them. A vital component is that, through the Government, there are centres of excellence to support all public bodies to guard

against, prepare for, mitigate, and, if necessary, recover from a cyberincident.

**The Convener:** Thank you very much indeed. As you know, the committee retains a watching brief on information and communications technology projects, not least from the point of view of capital expenditure, but we will look at the security aspects as well. We all need to learn the lessons of the experience that SEPA has undergone. As is mentioned in the report, an organisation that is, by its nature, geared up to dealing with emergencies has had to deal with something that it might not have foreseen. The whole public sector needs to take broader lessons from that.

I thank Morag Campsie and Joanne Brown, who joined us online, and the Auditor General very much indeed for their evidence. It has been a useful session for us and we will shortly consider our next steps.

11:17

*Meeting continued in private until 11:41.*

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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