



OFFICIAL REPORT
AITHISG OIFIGEIL

Public Audit Committee

Wednesday 8 October 2025

Session 6



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PUBLIC AUDIT COMMITTEE

27th Meeting 2025, Session 6

CONVENER

*Richard Leonard (Central Scotland) (Lab)

DEPUTY CONVENER

*Jamie Greene (West Scotland) (LD)

COMMITTEE MEMBERS

*Colin Beattie (Midlothian North and Musselburgh) (SNP)

Joe FitzPatrick (Dundee City West) (SNP)

*Graham Simpson (Central Scotland) (Reform)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Michelle Borland (Audit Scotland)

Stephen Boyle (Auditor General for Scotland)

Keith Brown (Clackmannanshire and Dunblane) (SNP) (Committee Substitute)

Mark MacPherson (Audit Scotland)

Nicola Wright (Deloitte LLP)

CLERK TO THE COMMITTEE

Katrina Venters

LOCATION

The Sir Alexander Fleming Room (CR3)

Scottish Parliament Public Audit Committee

Wednesday 8 October 2025

[The Convener opened the meeting at 09:30]

Decision on Taking Business in Private

The Convener (Richard Leonard): Good morning and welcome, everyone, to the 27th meeting in 2025 of the Public Audit Committee. We have received apologies from Joe FitzPatrick, so I am pleased that we are joined by Keith Brown.

Agenda item 1 is a decision on taking items 4, 5, 6 and 7 in private. Are we all agreed to take those items in private?

Members *indicated agreement.*

Section 22 Report: “The 2023/24 audit of UHI Perth”

09:30

The Convener: Agenda item 2 is consideration of a section 22 report from the Auditor General for Scotland entitled “The 2023-24 audit of UHI Perth”. I welcome our witnesses. We are joined by Stephen Boyle, the Auditor General for Scotland. Alongside Mr Boyle is Mark MacPherson, who is an audit director at Audit Scotland. I am also very pleased to welcome Nicola Wright, who is an engagement lead for Deloitte and who carried out the audit of the college on behalf of Audit Scotland.

We have a number of questions to put to you on the report, but, before we get to those, I invite the Auditor General to make an opening statement.

Stephen Boyle (Auditor General for Scotland): Many thanks, convener, and good morning. I am presenting the report on the 2023-24 audit of the University of the Highlands and Islands Perth under section 22 of the Public Finance and Accountability (Scotland) Act 2000. My report focuses on the failure of UHI Perth to agree a budget for the financial year 2023-24 and the lack of a clear, recorded decision on why there was an absence of a budget. Reporting to college management on college finances was therefore limited by the absence of that budget.

That raises significant concerns about the financial controls and governance arrangements at UHI Perth at that time. Budgets help to inform decision making and contribute to the efficient use of public resources. The absence of a budget and limited regular reporting to college management on finances meant that there was no clear mechanism for identifying and remedying emerging financial issues or for holding college management to account for any variances.

UHI Perth recorded a deficit annual operating position of £2 million in 2023-24 and, since then, has made two requests for additional liquidity support to the University of the Highlands and Islands and the Scottish Funding Council. The college is currently experiencing significant financial challenges.

We note—not directly, convener—that the absence of a budget is the reason for the deficit, but we cannot help but conclude that that absence must have been a significant factor in the board of management being less able to control financial arrangements during that time.

I hope that our report is a useful tool not just for this college but for all colleges on the importance of strong financial management and governance

arrangements at a time of financial challenges in the sector.

In 2024-25, UHI Perth reinstated the budget-setting process. We have seen that it is taking steps to address the weaknesses in its financial controls and governance arrangements, and that it is finalising a financial recovery plan with the support of the SFC and UHI, which is the regional strategic body for UHI Perth. The internal auditor of UHI Perth is reviewing the college's budget and financial controls. Those are welcome developments, and we will continue to monitor their impact and implementation during future audits.

Lastly, my report also highlighted that several issues have occurred at UHI Perth since the end of the 2023-24 financial year, including its subsidiary company going into administration, errors in the 2024-25 budget and significant turnover in senior management and in the board of management. As those events occurred after the end of the financial year to which my report relates, they have not been subject to detailed audit work. However, you can be assured, convener, that Nicola Wright and her colleagues at Deloitte will consider those matters in detail during the 2024-25 audit of UHI Perth.

As ever, Nicola Wright, Mark MacPherson and I will do our utmost to answer the committee's questions on the report.

The Convener: Thank you very much indeed. I take you back to your second last point about the role of UHI, which is the regional strategic body that has some kind of oversight of the college, and the role of the Scottish Funding Council. What part do they play in oversight and governance of a college such as UHI Perth?

Stephen Boyle: You are right. They are both significant stakeholders for UHI Perth. I am sure that Nicola Wright and Mark MacPherson will both want to comment. Mark might want to focus on the role that the SFC plays in relation to colleges, and Nicola, with her experience of auditing the college, can say more about the role that the regional strategic body plays.

The roles of both those bodies are absolutely clear and each has a direct stake in the running of the college. UHI is the regional strategic body, which means that it is responsible for the strategic oversight and funding arrangements of UHI Perth. That does not absolve the board of management of responsibility for the delivery of strategy and financial management arrangements. I note that there are many facets to the circumstances that are captured in today's report.

I observe that both organisations are part of the financial recovery arrangements. UHI has provided liquidity support of £1.5 million and the

SFC has provided a further £1 million. There is an onus on the college board of management—given the turnover that I mentioned—the regional strategic body and the SFC to be satisfied, collectively, that some of the events that are set out in the report have been addressed and that there is sufficient capacity, with sufficient approaches in place, so that there will not be a repeat.

I turn to Mark MacPherson first to add further to that.

Mark MacPherson (Audit Scotland): We touched on that in the evidence that we gave on the Lews Castle College situation some weeks ago. There is clearly a hierarchy of accountability here, and the Auditor General has made quite clear that that starts with the college management and the college board. UHI is the primary funding body, but, of course, the funds come from the SFC. The SFC has a duty to ensure that the funds are being used in the way that was intended and that the college is complying with all necessary requirements to meet the code of good governance and financial performance information.

There is a financial memorandum between UHI and the college, which sets out the broad expectations. It does not get into the specifics of what exactly the information flow should be, but there is enough detail to make clear that UHI has an important role to play.

Beyond that, the SFC will have an interest, and it gathers information from colleges. It will also have an interest in knowing that UHI is close to the college. We have not examined the SFC's role in relation to the college. Quite clearly, the setting of a budget is primarily the responsibility of the college and its board.

Nicola Wright (Deloitte LLP): Our audit work was very much focused on the college and the actions that management took there. We were aware that UHI had observers attending some of the board meetings, but we were unable to be clear about what their involvement was with regard to some of the issues.

Once the events started to unfold in March, when UHI Perth's subsidiary went into administration, the resignations took place and the error was identified in the budget, we were aware that UHI had written to the college expressing concerns. UHI also appointed a financial consultant to support the college with the development of its financial recovery plan. Clearly, action was taken. Management's first responsibility was to take those actions, with UHI stepping in when things became difficult.

The Convener: But, as I understand it, the exodus of staff—or the big turnover of staff—

happened this year, in 2025, did it not? The report is on the financial year 2023-24, when there was the complete absence of any budget.

Auditor General, you are presenting this report to Parliament because you have serious concerns about what happened. I suppose that the question is why those serious concerns were not picked up at an earlier point by either UHI or the Scottish Funding Council.

Stephen Boyle: I do not think that I have a definitive answer that will give clarity about the role of the board, UHI or the SFC that would satisfy you as to whether one party over another is responsible.

There is a considerable tale to some of the events that are captured in the report. You will see that there are a number of references to capacity issues within the finance function. Auditors have been reporting on capacity constraints in the college going back to 2017-18, and the subsequent role of UHI, together with that of the SFC, is relevant. As Mark MacPherson says, the responsibility ultimately resides with the principal and the board of management. Then, as you have referred to, convener, there is considerable turnover at non-executive board member level and at official level, which is all symptomatic of the scale of governance and financial issues.

In the report, we have not sought to pinpoint a particular source or reason why it happened. There are multiple facets to the report that is before the committee, but it is a basic, fundamental requirement that a public body needs to prepare a budget to evidence its intentions and deliver its strategy, and the board of UHI Perth did not do that.

The Convener: One of the fundamental questions that the committee has for you is whether you can think of many other circumstances where a public body has not set a budget. Similarly, and related to that, you make the point in the report that the internal audit function could not be relied upon at all. You could not set any store by or place any credence in the internal audit function. Again, I cannot remember reading a report where that has been highlighted in such a way.

Stephen Boyle: I will shortly pass over to Nicola Wright as she might want to comment on internal audit and how the relationship works between external auditors and internal auditors.

On your first point, I similarly cannot recall, from my time in this role and during my career of auditing public bodies in Scotland, an organisation that has not prepared an annual budget.

We have tried to set out in the report some of the circumstances that contributed to a budget not

being prepared. You can see the references to financial challenges in the college, concern about what preparing a deficit budget might mean—would that have been met with favour by the Scottish Funding Council or otherwise?—and then a focus on addressing some of the challenges before the college of managing its cost base.

Our position is very clear that, even in challenging times, a budget gives an organisation an anchor with which to measure how it is progressing during the year. For this organisation, that would have enabled it to make some of the difficult decisions that it might have needed to take. I do not have a point of reference. That perhaps illustrates the seriousness of the matter, which prompted us to prepare a statutory report following Nicola Wright's annual audit report on the 2023-24 account.

Nicola Wright: I will explain the context in which we, as external auditors, consider internal audit. First, the way in which accounting standards are set out means that we cannot rely on internal audit work, but we can take it into account when we are performing our risk assessment. If internal audit finds any concerns that are relevant to the external audit, we will take those into account and design procedures to address those risks in our work.

The second point about internal audit is that, usually, a plan is set at the beginning of the year and that plan is approved by the management of the organisation and the audit committee. To a certain extent, internal audit works with management to address risks that management are aware of; they will have such a relationship in order to ensure that its work is used appropriately.

It is my understanding that, as part of the 2024-25 programme, due to the concerns that have been identified, internal audit is doing a wide-ranging piece of work to consider the budgetary controls and wider financial controls to give management assurance about how that function is operating now. Clearly, that was not picked up, identified and discussed back in the 2023-24 budget-setting cycle.

09:45

The Convener: Thanks. The final introductory question from me before I bring in other members of the committee is on something that you say in the report, and which again is very striking—indeed, I cannot remember seeing anything equivalent in the past. You say that you are unable to explain why no budget was set.

Stephen Boyle: Again, Nicola Wright can comment on this, if she wishes, but there is almost always a record of the process by which a public body arrives at decisions. There are committee

meetings and their minutes; board meetings and their associated minutes; and all of the accompanying papers. I think that it is quite reasonable to expect that, when it comes to setting a budget, that would be captured in a decision—a minute of a meeting would show that the board either did or did not set a budget. However, we could not find any record of a decision not to set a budget.

We make reference to that, and we attribute some of it to capacity issues in the college, particularly in the finance function. There was also the focus on progressing with the financial recovery plan. These are mitigations, I would say, but they are not strong enough not to have set a budget to underpin the progress being made with a financial recovery plan. So, convener, the answer is no, we have not been able to see any evidence to say definitively that a decision not to set a budget was taken by the board of management.

Nicola Wright can, by all means, add to that.

Nicola Wright: I absolutely support everything that Stephen Boyle has said about being able to find a written evidential pattern to support such a decision, but I should point out that we also have conversations with management to understand their perspective on what has happened. I think that what this demonstrates is the point about the churn in the finance team at senior and more junior levels, because the people with whom we were dealing were not those who had been around at that time. As a result, they were unable to give us any additional context.

Mr Leonard, you mentioned senior turnover post the audit year, but our experience through the audit year was significant churn at lower levels in the finance team, including the use of interim staff. As a result, you do not get that corporate history and knowledge of the entity; people take that with them, and it is not always written down. The challenge that you have mentioned actually illustrates the point about the impact of the churn in the finance team.

Stephen Boyle: I would add briefly that, ultimately, setting a budget does not happen by accident. An organisation should go through an engagement process internally with officers and then have both formal and informal engagement with a finance committee and the board of management when approval is being considered. Unfortunately, we do not have that record of what processes were gone through and what steps were taken.

Of course, it should come as no surprise to hear me say that an organisation needs to set a budget—that should have been part and parcel of the processes at UHI Perth. There was a

departure from standard processes in 2023-24. Those processes are set out in its financial regulations, which make it clear that the organisation is required to prepare a budget and to have it considered and approved by the board of management. Unfortunately, as we have said, this, in our judgment, represents a significant failure.

The Convener: Okay. I am going to move things along and invite Graham Simpson to put some questions to you.

Graham Simpson (Central Scotland) (Reform): On that point, you are saying that this was a one-off. The year that we are discussing is the only year for which there has been no budget.

Stephen Boyle: That is correct.

Graham Simpson: So, something must have happened that year. However, you cannot figure out what it is.

Stephen Boyle: What we cannot figure out is whether there was a documented decision not to have a budget for 2023-24. However, as we point out in the report and as Nicola Wright has just touched on, there were concerns about financial capacity in the organisation. Indeed, that has allowed us to go more widely, Mr Simpson, and suggest that, even if there were financial capacity issues, there was still an onus on the board of management to say, “Actually, we must consider a budget-setting process and ultimately, as a board, take a view on whether or not we plan to accept or set the budget.”

As I have said, we have, in mitigation, absolutely recognised that there were financial challenges in the college, and that it was exploring mechanisms to improve its financial position, with some quite difficult decisions being made about course arrangements and the number of employees that it would have to have. However, our view remains that those decisions would have been supported by better decision making and improved governance, had a budget been set, and we did not see that.

Graham Simpson: Okay. Paragraph 16 on page 7 of the report says:

“UHI Perth’s appointed auditor”—

who I assume is Nicola Wright—

“informed the board that the preparation and monitoring of a budget is a crucial element of monitoring the financial position of the college. The auditor recommended that the college produce and monitor a budget each financial year.”

That is just a statement of the obvious. At what point did you have that discussion, and what was the response?

Nicola Wright: Our 2023-24 audit work was performed towards the end of last calendar year, and part of our wider scope work was to look at

financial management and financial sustainability. We raised the matter with management, whose response was to acknowledge that that had not been done. We had a conversation about the underpinning reasons but, given the members of staff to whom we were talking, we were not able to fully get to the bottom of that. Management's response was that they were preparing a 2024-25 budget; clearly that was delayed, so they were responding to the issues that had previously happened.

We felt that it was very important to raise this in our wider scope work, but as we were completing our audit—there were delays to the audit, which we might or might not touch on—it came to our attention that there had also been issues with the 2024-25 budget that had led to the request for additional support. We felt that it was important that we raise the profile of the history of what had happened, given the issues that, although improving, were still clearly of concern to us.

Graham Simpson: I just want to get the timescales right. You came in when it was too late to rectify what had happened.

Nicola Wright: Yes, because budgets are set at the start of the financial year, and our audit work is retrospective.

Graham Simpson: So, in your view, there was nothing that could have been done to stop this problem arising.

Nicola Wright: It depends, I suppose, on whether you looking at it from an audit or a management standpoint. Clearly, at a board level, the fact that there was no budget could have been challenged at any point from when that budget should have been approved through the year, and that would have been management's responsibility. From an audit perspective, when we come in, the year has been completed. We flagged the issue, and then we looked ahead and had conversations with management about the position for 2024-25, given our concerns about what had happened in 2023-24.

Graham Simpson: So, as an auditor, you come in when something has already happened; it is too late, and there is nothing you can do. You just discover what has gone on, and the discussions that you have are more or less along the lines of, "Well, that shouldn't have happened. Don't let it happen again."

Nicola Wright: Essentially, yes.

Graham Simpson: Basically, that is what happens.

Nicola Wright: Yes.

Stephen Boyle: An audit is primarily a retrospective function, but I think that this comes

down to roles and responsibilities. The responsibility for preparing a budget rests with officers, and ultimately the board itself.

Perhaps paragraph 15 of the report captures as much of an insight as we have been able to get through the audit process into what was going on. The board seemed to be grappling with the recognition that it had financial challenges and that, therefore, it needed to explore whether it could or could not prepare a deficit budget. It was faced then with a number of accompanying decisions, which we set out in some of the bullet points in paragraph 12—that is, academic reorganisation, management of estates, reorganisation of other parts of the college and so on.

However, we made it pretty clear that, ultimately, these were decisions for the board. This was not just custom and practice; as I have said, the college's financial regulations make it clear that the annual budget is a fundamental part of its financial monitoring and control environment.

Graham Simpson: I will come on to paragraph 15 in a second, but I just want to go back to Nicola Wright and the discussions that were had. Once you had discovered what had happened, Nicola, you must have asked, "Why did this happen?" Did nobody explain it properly?

Nicola Wright: As the report sets out, we were given indications of causal factors. For example, there was a deficit budget; also, there was work on-going and a reduced capacity in the finance team to deal with it, which meant that there had been prioritisation of effort. However, the people whom we spoke to were not part of that. The senior members of the finance team with whom we were dealing were quite new to the organisation and so had not been part of previous discussions. Moreover, as Stephen Boyle has pointed out, the surrounding documentation was not very clear, so we were just able to draw inferences rather than be able to say definitively, "This is why it was done, and this is how it was documented."

Graham Simpson: Okay. We have already referred to paragraph 15, which says:

"Board papers show members discussed the possibility of agreeing a deficit budget and UHI confirmed it was an option that it would discuss with the SFC. The board wanted to achieve a balanced budget. There was a degree of reluctance to agree a deficit budget and uncertainty over whether the SFC would permit it. It is unclear from the board papers whether there was a resolution to those discussions."

Do you have any other information on the discussions that UHI planned to have with the Scottish Funding Council?

Stephen Boyle: Nicola Wright might well want to say more about this, but I think that I am right in saying that the college has now set a deficit budget for 2024-25. That is a mechanism that is available to it, but I do not have any detail to hand on the to and fro that took place between UHI Perth, the Scottish Funding Council and the regional strategic body. Perhaps Nicola can offer further insights.

Nicola Wright: Because our primary audit was of Perth, we did not have separate discussions with UHI or the SFC. However, I will just observe that, with regard to other matters, some of the evidence that we were seeking was contained in verbal conversations. The best evidence that can be given to us as auditors is written evidence—that is, correspondence between bodies—but, in some of the other areas we were looking at, a number of the interactions were verbal. We would need to follow that up if you were interested in exploring that matter further, but I expect that some of that detail would have been contained in verbal rather than written interactions.

Mark MacPherson: We know from reviewing college board papers that the regional strategic body—UHI, in this case—was liaising with the Scottish Funding Council about the college's financial pressures. Nicola Wright might know more about this, but I think that I am right in saying that, in autumn 2024 the Scottish Funding Council provided UHI Perth with £1.5 million of liquidity funding. It was clear that the Funding Council was aware of the challenges facing the college and was engaged with UHI and presumably the college, too. I do not think that that necessarily means that everyone was aware that there was no budget underpinning some of that, which you would have thought would have been an obvious thing to explore.

Stephen Boyle: I think that that is an important distinction. We are not challenging the fact that there was a breadth of understanding across the board of management, UHI and the Scottish Funding Council that the college was experiencing financial problems. What we are not clear on is whether there was a consensus—if I can put it in those terms—not to prepare a budget for 2023-24. At the risk of speculating, it feels unlikely to me that there would have been an acceptance that the college should not prepare a budget, or should not take a formal decision to do so.

Our point still stands that, regardless of the financial challenges, managing those challenges would have been better served by preparing a budget.

Graham Simpson: So, you are not really clear whether there was actually a formal decision not to have a budget.

Stephen Boyle: We have not seen that. There is no recorded decision not to prepare a budget and we think that, in any organisation, there needs to be a formal process for considering the budget and for the board to approve it, or not. After all, we are not talking about some binary decision when it comes to approving or not approving a budget. If you are not going to approve a budget, you need to set out the things that you want to be changed and then return it to the board for further consideration instead of having what feels like an elongated process of focusing on financial recovery measures and delivering against them, without having the formal mechanism in place.

You might ask, "Is this not a technicality?", but I do not think that it is. It is a fundamental part of how the board could have supported the college through some of the challenges. It would have known what it was targeting, and its strategic priorities could have been reflected in some of the financial choices that it would have made.

10:00

Graham Simpson: I want to go into this a little bit deeper. What I cannot get clear is why, when Nicola Wright discovered something that should not have happened—that is, that there was no budget when there should have been one—she did not ask why. If I were her, I would have found the people who were responsible for that and ask them why that came about. Did you do that?

Nicola Wright: We asked those questions but we were unable to get clear answers, and there is only so far that you can go. We report on the situation and we look forward. In this case, we looked at what happened in 2024-25 and then we moved on, looking to help make improvements. We asked those questions—we absolutely had the intellectual curiosity to ask them—but answers were not available to us.

Graham Simpson: Is that because the people you spoke to were trying to put you off the scent—waffling and dancing around the houses?

Nicola Wright: No. It is important to be clear about this. When we started the 2023-24 audit, it became evident that there would be delays and that there was insufficient capacity in the finance team to service an audit. At the point in an audit when that becomes clear, my role is to step in, speak to senior management and have a conversation about the fact that, given that the audit is not capable of progressing, action needs to be taken. My experience of the senior individuals I dealt with was that they were responsive, transparent and supportive of us. That transparency was also evident in March and April, as things unwound and we had to take further audit action.

Clearly, in those conversations, the fact that they were unable to articulate what had happened was uncomfortable, but, equally, I did not feel that they were being deliberately evasive. I felt that it was a reflection of the difficulties that the organisation had experienced, with lots of changes in staff and so on.

In any audit, you have to make a decision about the value of the effort and where you place it. We could have pursued that but, as you have mentioned, it was a done deal: the budget had not been set. Knowing that that was the case and that it had not been monitored against, we then turned our attention to what was happening moving forward, what recommendations we could make that would contribute to improvements in the organisation and what further actions we needed to take from an audit perspective to make sure that we were comfortable signing the financial statements.

Graham Simpson: Okay. Maybe we will have more luck if we get people in. You never know.

I have one more question, which relates to paragraph 14 on page 7. That says:

“Current college staff suggested to us that the college prioritised resourcing work to address financial sustainability over setting an in-year budget for 2023/24.”

Was it clear who in the college made the decision to prioritise resourcing work?

Stephen Boyle: I think that that has been the consistent theme. As I mentioned to the convener a few moments ago, the college did not find itself in a new situation with regard to capacity constraints. There had been constraints in its finance function dating back many years that do not appear to have been adequately addressed in a way that would allow it to support the effective management of public funding that goes to the college and governance decisions that need to be taken. A decision was taken—Nicola Wright may have more insight into who took this decision, recognising some of the turnover that took place—to prioritise some of the recovery steps that the board considered needed to be taken as opposed to focusing on the formality of the annual budget setting. Again, Nicola Wright may know more.

Nicola Wright: I am afraid that I have no insight into who made the decision, but, from my experience of audit and of organisations, that financial sustainability work feeds into the setting of a budget. You can set a budget based on the prior year, but it is a deficit budget. The financial recovery work was planned to feed into what would have been the budget, but capacity constraints meant that the two things could not run side by side.

Organisations such as local authorities or national health service bodies have a wide pool of

finance professionals and can deploy their resources differently from colleges, which have smaller finance teams. When colleges experience turnover or resignations, they find that their pool is not deep enough to enable them to redeploy staff, and the recruitment challenges that are subsequently faced mean that difficult decisions have to be made. I am not able to comment on who made them in the case that we are discussing today, because we were not able to unpick the history of that time very clearly.

Graham Simpson: Okay. There are a few unanswered questions, convener, but I will leave it there.

The Convener: I read a report that suggested that, under the principal and CEO who has now left but who held that position at the time of the audit, there were five different finance directors, which again is an interesting indication of the instability of that function inside the college.

Stephen Boyle: Yes, that is a striking example, and that level of turnover of senior people inevitably had a disruptive effect. The committee might want to explore the relationship between UHI Perth and UHI as the regional strategic body. As we note at paragraph 36, as part of UHI's support to UHI Perth in response to the situation, UHI's vice-principal for strategic projects joined the college's senior leadership team in a temporary role. Unfortunately, I am not clear about the extent to which UHI offered support at the time when some of the issues came to the fore.

The Convener: I think that we have some further questions on that area later, but I will now invite Colin Beattie to ask some questions.

Colin Beattie (Midlothian North and Musselburgh) (SNP): Auditor General, paragraph 16 of your report talks about “UHI Perth's appointed auditor”. That implies that it is an external third party who is fulfilling the audit function. Is that the case?

Stephen Boyle: Yes, that is correct. The appointed auditor is Deloitte. The model for public audit in Scotland is that I appoint the auditors of further education colleges, national health service boards and central Government. Typically, about two-thirds of the audits are carried out by members of Audit Scotland staff and the remainder are undertaken by firms. The appointed auditor is Nicola Wright, through her work with Deloitte.

Colin Beattie: Okay. Is the internal audit being done in-house?

Nicola Wright: No, I believe that another independent firm has been appointed to carry out the internal audit. The college appoints the internal

auditor as opposed to the external auditor, which is appointed through Audit Scotland.

Colin Beattie: Audit Scotland has no part in that appointment?

Nicola Wright: That is correct.

Stephen Boyle: We do not; it is very clearly a matter for the board of management of the college to determine the size, scale and personnel of any internal audit service. Mark MacPherson may want to comment on that issue, as I know that the committee has been interested in the size and scale of internal audit arrangements in colleges in previous years.

Mark MacPherson: I do not have much to add. As far as I understand it, nearly all colleges have a separately appointed internal audit function. It is rare for colleges to have an in-house team that does the internal audit. It is usually an accountancy firm or an audit firm.

Colin Beattie: Given the fact that internal audit is an external function and that the problems in the college have been going on for years, are you satisfied that that internal audit function was adequately reporting the issues that arose over the years, particularly the recurring one in the finance area?

Stephen Boyle: I think that that is more of a question for the board of management rather than for us as the external auditors.

Colin Beattie: There is an issue about having a neutral party looking in.

Stephen Boyle: Internal audit is described as a tool of management. The auditors are appointed by management and report to the audit committee. They have a programme of proposed internal audits that they undertake on behalf of the organisation and they report to the audit committee on those. It will be for the audit committee to determine the effectiveness of the work of the internal auditors. More often than not, the audit will be for a set period on a contractual arrangement and will be tendered publicly again thereafter.

Nicola Wright might want to explain some of the dynamics in the relationship between internal and external audit. As she mentioned, external audit is required to discharge its own responsibilities—in Scotland, that involves meeting the code of audit practice, complying with international standards on auditing and so on. In years gone by, it was usual for an external auditor to rely directly on the work of an internal auditor to almost augment some audit activity that the external auditor undertook, but recent changes in auditing standards and the need for external auditors to satisfy themselves of their own quality and compliance with the requirements of regulators have meant that that is

becoming more unusual. They both carry the title “audit” in their responsibilities and there is something of a parallel process rather than an overlapping one, but the question of the effectiveness of the work of the internal auditors is very clearly a matter for the judgment of the board of management.

Colin Beattie: The external audit work presumably looks at the internal audit processes and makes sure that they are adequate for the job.

Stephen Boyle: Nicola Wright can come in on this point to say how that worked in UHI Perth.

Nicola Wright: I will say a couple of things. First, internal audit is part of a wider control environment in an organisation. The primary responsibility for setting controls and ensuring that they are operating sits with management, which should have controls in place that operate to ensure that governance standards are met. Internal audit is a tool of management, so you can use internal audit to come in and independently give you assurance. You may think that controls are operating but internal audit will do some testing and confirm whether that is the case.

Internal audit’s programme is very much set by management. Internal audit will talk to management about the significant risks—business risks, operational risks and so on—that the organisation faces and will then have a conversation about the budget for the provision of internal audit services, what the highest risk areas are and what areas are the subject of concern. There may be a focus on some core financial controls each year, to make sure that they are operating. Internal audit will have a view about what should be done but management can direct internal audit to some degree.

External audit is based on a series of separately set rules and requirements. We are purely independent and follow a certain programme each year that management cannot influence. That is decided by the rules that are there. We would usually ensure that internal audit has been appointed and is attending meetings. Usually, internal audit reports to management each year on its compliance with internal audit standards. It will present a charter and talk about its own quality assurance processes to assure management that the work that is being done is up to a certain standard. As long as that is happening, we would not dip any deeper into what it is doing, because a number of things that it does are not directly relevant to the external audit. We tend to read the internal audit reports and consider whether any high-risk findings impact on our external audit work. If they do, we might do additional procedures to make sure that we are covering any risks that internal audit has identified.

Colin Beattie: You read the reports and, presumably, those reports reflect the deficiencies in the finance area extending over a number of years.

Nicola Wright: Internal audit will report on the controls that it has tested, but that might not involve a comprehensive review; it will involve reviews of specific areas as set out in the plan and as agreed with management.

Colin Beattie: I am not quite sure about parts of that answer, but I will move on. There were issues involving £1 million-worth of errors in the 2024-25 budget. Are those directly related to that particular financial year or do they extend back to previous years but were only found in 2024-25?

Nicola Wright: We have not completed our audit work for 2024-25; it is on-going, as we speak.

My knowledge of the errors is as follows. They came to light when we were due to sign our financial statements in March of this year. One of the procedures that we carry out as part of that process involves talking to management about subsequent events. Effectively, we ask them, "Has anything happened between the end of the year that we are auditing and the point of signing that we need to be aware of?", so that we can take any such issues into account in our audit. Management shared a range of issues with us. We have mentioned already the administration of the subsidiary, and there had also been staff changes at senior level. However, management also told us that it had identified errors in the 2024-25 budget that meant that it would need to go back and have conversations with UHI and the SFC about additional liquidity support. We became aware of the errors through that route.

10:15

Anecdotally, I know that they are specific to 2024-25. I do not wish to go into detail, because we have not completed our audit work, but they sounded like straightforward issues that were relevant to that year. We will absolutely look at those as part of our current audit, and we will consider any additional recommendations or findings that we need to report.

Colin Beattie: My next question was going to be: what are those errors?

Nicola Wright: We are in the middle of that audit work, so I am not quite sure that it is appropriate to go into the detail. I can say that they had been identified by management and had been flagged to UHI for consideration of their impact on the budget.

Colin Beattie: They are fairly important.

Nicola Wright: Yes.

Colin Beattie: I mean, £1 million is a lot of errors. What is the total balance sheet for the college?

Nicola Wright: Sorry—are we talking about income and expenditure or about overall balance sheet?

Colin Beattie: I am just trying to work out what £1 million represents in the overall picture.

Nicola Wright: For the individual college, in last year's accounts the overall income was £26 million; the balance sheet net assets were about £38 million or £39 million. Therefore, it is not insignificant.

Colin Beattie: It is not insignificant, no—but you cannot tell us what they are.

Stephen Boyle: My apologies. Could you repeat that?

Colin Beattie: You cannot tell us what the errors are.

Stephen Boyle: I hope that Nicola has conveyed that Deloitte's work on the 2024-25 audit is on-going. If we have more detail on that we can come back to the committee in writing. However, it is probably for the college itself, rather than the external auditor, to convey that detail to the committee in public. I hope that you are content that it represents a significant material sum that, by coincidence, is of a similar size to the level of liquidity support that the college is seeking, first from UHI and now from the Scottish Funding Council. Those are significant amounts that require—

Colin Beattie: So, what the college is looking for is in addition to the £1.5 million that is already agreed.

Stephen Boyle: Yes, that is correct. It forms part of the financial recovery process. It is perhaps indicative of my opening remarks, when I said that there have been signs of more optimism within the college's financial management and governance arrangements. A new committee was set up, within the board, to oversee the delivery of the financial recovery programme; there has been support from UHI, which has provided additional personnel; and there has been on-going fortnightly engagement to see that the process is working well. It is illustrative that those are significant, material amounts that the college needs to actively manage and monitor in order to support its financial sustainability.

Colin Beattie: Clearly, this committee is keen to understand the nature of the errors. We will want to know the details as soon as they can be released.

Stephen Boyle: I hope that the committee can be assured that, when Deloitte concludes its work, they will be set out as part of its 2024-25 annual report, together with any consideration that I might give to further public reporting.

As we set out in our report, there is an overlap of financial years by virtue of the delays that were encountered during the audit process, and because of the financial capacity issues. We took the view that it would tell an incomplete story to focus solely on the financial results for 2023-24. That is important context for this committee and for the Parliament's consideration of the financial challenges at UHI Perth.

We have set out some additional context but, as you have heard, I am not able to give the committee additional detail on the reasons. However, that detail will come out, either in advance from the college itself or in due course through our annual audit reporting.

Colin Beattie: But you can confirm that the £1 million relates solely to the 2024-25 budget.

Stephen Boyle: That is what we set out in paragraph 25 of our report, which says:

"UHI Perth identified around £1 million of errors in the 2024/25 budget."

Colin Beattie: There were also errors in the cash flow calculations for 2024-25. What were they?

Nicola Wright: Again, our work is on-going, so we do not have a definitive answer to that question. However, we are looking at it as part of our work programme that commenced this week, so we will bring more information in our report to the board and subsequently through Stephen Boyle.

Stephen Boyle: As I said, Mr Beattie, the detail can be provided by the college. We say that those errors, together with errors in the cash flow calculations and the overall budget, were of such significance to the college's financial sustainability that its requests for external funding support were warranted.

It is absolutely the case that the detail matters. It will be forthcoming, and it will be made available to the committee. Although the budget for 2024-25 was set—and that is welcome—it is not yet one that we can consider sufficiently robust to satisfy the board of management and the Parliament that it is adequate to give confidence that public money was being discharged properly. No doubt there will be other matters that the college still has to work on.

Colin Beattie: Is the cause of those errors related to the issues within the finance area?

Nicola Wright: I need to be careful, because my knowledge is a little anecdotal; it comes from the conversations that we had at signing. My understanding is that when you have a lot of churn in a finance team—particularly at senior levels, among the people who review budgets and are responsible for such aspects—you lose a bit of corporate memory, by which I mean things that are known by people who have knowledge of the organisation. It is my understanding that that will be a factor, and that people who were doing that work potentially did not have such knowledge of the entity. Again, though, I need to be very clear that we have not completed our work—it is really just starting. We absolutely are considering that aspect as we carry out the procedures for the year 2024-25.

Stephen Boyle: There are anecdotal aspects to attributing responsibility but, as the convener mentioned, given the scale of turnover at senior levels within the organisation it is not unreasonable to say that that will have had an impact on capacity and the support that senior finance officials were able to provide to the board of management as part of the scrutiny that ensued. In my view, all those points are related.

Colin Beattie: I will move on a little. Your report mentions that UHI raised concerns with the college following identification of the errors. Was that the first time that UHI had raised concerns with the college?

Nicola Wright: I am afraid that we do not know that. We have seen correspondence from around that time, but I could not comment on the previous history of interactions with UHI. That is probably a matter for UHI and the college.

Colin Beattie: Okay, so that closes that one down, too.

To move on a little further, this is the third section 22 report that the committee has considered in which a college has had problems with its commercial subsidiary, which has given it difficulties. Do you see any recurring theme here? Do colleges do not have the management skills to do that type of work?

Stephen Boyle: Nicola Wright might wish to say more about the circumstances as they relate to her audit of Air Service Training, which is a wholly owned subsidiary of UHI Perth. Some governance factors are relevant, which are perhaps localised at UHI Perth, and she might want to touch on those more broadly. Mark MacPherson might be able to offer a perspective on that, too.

Mr Beattie, you are right to say that in our previous reporting we highlighted that colleges undertake a range of activities. Some of those will be done under the umbrella of the colleges themselves and other more commercial activities

will be undertaken through subsidiaries, as is reasonable. Some commercial activities are successful, but others are not.

To an extent, we have stepped back and said that where colleges undertake those more commercial activities—I should say that those are not confined to colleges; they are relevant in other parts of the public sector, too—they should satisfy themselves that they have the right level of governance and the financial and commercial expertise to do so, that they are aware of the risks, and that they are appropriately managing those risks.

You mentioned that this is the third instance of a college having engaged in commercial activity with third parties that has been a contributory factor to circumstances that have been brought before the committee. I will pass to Nicola Wright, who can perhaps say a bit more about the circumstances, and then to Mark MacPherson if he wants to add anything across the piece.

Colin Beattie: Perhaps you could comment on whether a common theme underlies the reasons behind the failures.

Nicola Wright: Our work focused very much on the Perth situation and on our understanding of the circumstances surrounding the subsidiary. We are not auditors to the subsidiary, but we have had conversations about declining student numbers in its provision.

One focus area for our 2024-25 work—because it was an issue in March and April of this year—concerns the governance arrangements between the subsidiary and the college. We have already had initial conversations about separation in the context of governance. Was there separation between the subsidiary and the college? How quickly were issues reported once they became evident? Were they flagged on risk registers and reported appropriately at college level, to allow appropriate oversight and understanding?

From an audit perspective, it felt as though all that unwound quite quickly. However, we want to understand whether there was any underlying reporting that we were not aware of. Certainly, the governance arrangements between the two will be an area of focus for us, and they are currently a concern that we need to bottom out.

Colin Beattie: I will move on to one last area, which is the senior staffing situation that you mentioned previously. Paragraph 27 of your report says:

“The director of finance resigned in April 2025, and the principal resigned in May 2025. Five members of the board of management, including the chair, also resigned between April and May 2025.”

Can you provide any further information on those resignations and the recruitment that is taking place to replace the staff concerned?

Stephen Boyle: I will start by addressing those elements in reverse, then I can pass to Nicola Wright if she wants to add anything about the reason for there being such a turnover.

On replacement staff, we set out in the report that an interim principal is now in place, with arrangements that will last through to the spring of 2026. As I mentioned a few moments ago, an interim finance director is filling that vacancy, with direct support from a vice principal at UHI Perth, given the capacity constraints in the college, together with arrangements for chairing the board of management. Those measures are important for giving stability—I would put it in those terms—for UHI Perth.

In due course, through the right processes, the board, together with the regional strategic body, will want to satisfy itself that they have the right people and the right structures to enable them to deliver for the students and the community of Perth and the surrounding area.

I would characterise the situation as being that stabilisation has been happening. The volume of turnover at senior posts and on the board is hugely significant. It must carry the risk of having a destabilising effect on the college’s functions. What is currently happening is stabilisation rather than a measure that offers assurance to the committee or to students that matters have been fully resolved and that there is a clear plan for effective governance.

Nicola Wright might want to say more about the background to that.

Colin Beattie: Can you comment on the fact that all those resignations took place within a fairly tight period in 2025?

Nicola Wright: Yes.

Colin Beattie: Was there a trigger for that?

Nicola Wright: We did some audit work on that aspect. When senior members of an organisation resign, we want to understand whether there were underlying considerations, or any concerns about the organisation itself, that would mean that we would need to undertake additional procedures.

We had a series of meetings with some of the people who had left and with existing members of college staff. It is fair to say that there was a mixed set of reasons, some of which were personal—some people shared with us that they had their own reasons for not continuing in their roles. When there is a trigger, such as the administration of the subsidiary and the errors in the budget all coming together—in particular, for those who are

not remunerated or who are non-executives—they might want to consider whether their role is right for them. Those events all happening together perhaps prompted people to make up their minds about what they wanted to do in future. However, there was a mix of reasons and we were satisfied that, from an audit perspective, there were no additional issues that we needed to work on.

We recognise that the situation was destabilising, as Stephen Boyle said. We recognise, too, that a huge amount of work has gone into putting people in place to stabilise the organisation, but I note that a number of those roles are interim. Although there has been some stabilisation, clearly there will come a point when the college will be looking to make substantive appointments, for all the reasons that we have discussed around corporate memory, setting strategy and giving staff confidence.

10:30

Colin Beattie: Given the sheer volume of the turnover, even if the new people who are coming in are experienced non-executives, for example, they will still need support, because that is a huge wrench for the management of the college. Is there any external support for that—from UHI, perhaps?

Stephen Boyle: Yes. Support is being provided by UHI's vice-principal for strategic projects, who joined UHI Perth's strategic leadership team in a temporary, part-time advisory role. It will be for the board of management and UHI to determine whether that level of support is sufficient or whether they want to add more.

I touched on the external governance changes that have taken place at the college to see it through this challenging period. It is welcome that a new committee has been introduced at the college to oversee its financial recovery plan. We will monitor the operation of those governance arrangements through Nicola Wright's audit of the 2024-25 period. We would characterise the situation as steps having been taken, but that it is ultimately for UHI and UHI Perth to satisfy themselves that the investments of additional capacity are working.

Colin Beattie: I have a final question. Have you a view on whether the boards of public bodies should be held accountable for their failure to document or to act on key financial decisions? In the past, this committee has commented that when governance and other issues arise, the people concerned just resign, move on and get another job in another public organisation or another part of such an organisation. Where does the accountability lie?

Stephen Boyle: This is a live example of accountability in action. We are reporting publicly on how well an organisation in the Scottish public sector has performed in its use of public money, and on how effective those arrangements have been. Therefore, there is accountability to the Scottish Parliament. Similarly, through accountable officer arrangements there is direct accountability of appointed individuals to the committee.

In recent weeks the committee has heard from the Commissioner for Ethical Standards in Public Life in Scotland, whose oversight extends to public boards in the round. Beyond that lie wider consideration and discussion, which can be led by this committee, as to whether it is satisfied that that is sufficient or whether it wishes to explore more on accountability.

I never underestimate the impact of a public report and the work of this committee. I know that both public bodies and their board members take such matters very seriously. No public body relishes the prospect of being held accountable at this committee. Beyond that, the committee might want to lead discussion on whether that is sufficient.

Colin Beattie: On the back of what you have just said, is there any hint that some people who resigned during that period might have had concerns about the report that was coming out and so they got out before the report hit the streets? Might any of them have been held accountable for the errors and concerns that have arisen?

Stephen Boyle: I do not have any detailed insight into the personal motivations of officials or board members who sought to end their time with UHI Perth. Nicola Wright might have more detail to share.

The scale of the challenges that we are capturing were well known. As Nicola mentioned, people will want to consider what an issue means for their own service, reputation and career. They will take a view on whether they can better serve a public body by remaining there or by leaving. Resignation of public board members is an important tool in their armour if they feel that they have explored avenues to support change but have not been able to initiate it. I am not sure that I would always conclude that a resignation was indicative of somebody's failure in a role. The opposite might be the case; they might have done all that they can, but have not been able to support the change that they felt was necessary.

Nicola Wright: We are not aware of anybody who has left as a consequence of our report or any of the audit findings. However, I recognise that it is a challenging time for someone who is

working in an organisation with a lot of churn, because it might raise concerns about their ability to do their job and feel comfortable as a professional in that environment. I can see how that would put them in a difficult position and that they might think about how comfortable they would be if they were to remain in that role. However, we are not aware of anybody who has left for that reason. A lot of the churn that we saw was at the beginning of this episode—before these issues were even a consideration and when this was just about an on-going piece of audit work.

Colin Beattie: Thank you.

The Convener: I am conscious that two members of the committee still have questions to ask, so, if we could press on, that would be helpful. Deputy convener, over to you.

Jamie Greene (West Scotland) (LD): I thank Mr Beattie for covering many of my areas of questioning, which will save some time. I want to ask two specific questions: one is about the college's deficit and the other is about its capacity to produce reports.

I was struck by paragraph 15 of your report. I am perhaps reading between the lines, but can you explain to me what happened? I am intrigued by the board's role in all of this. It seemed to be reluctant or unwilling to produce a budget that showed a deficit. There was an appetite for producing balanced books, but that was obviously impossible, because there was a huge deficit. Did you get the feeling that there was any conflict in relation to the management data with which the board was presented? Where did the unwillingness to be honest about the numbers come from?

Nicola Wright: Clearly, any organisation expects to set a balanced budget, not a deficit budget. It is challenging for a board to set a deficit budget and to say that it cannot manage its financial position with its funding.

We do not audit the management data or the savings data, but I know that the organisation was looking at a series of workstreams. Those workstreams were quite challenging, because they involved a reduction in headcount, changing courses, redundancy schemes and so on. Clearly, the board was going to have to make some very difficult decisions. That is wrapped up in what we are talking about. Taking such decisions would have allowed the board to set a balanced budget, but it had not made those decisions at that time. I expect that the conflict came from the difficulty of the decisions that needed to be taken to produce a balanced budget.

Jamie Greene: In your experience, is it okay for an organisation to say that it is spending more

money than it has? That is just being honest, is it not?

Nicola Wright: It is about transparency. Interestingly, we sometimes have theoretical conversations—not with specific entities—about whether you report what you want the position to be or whether you report the position as is. A board has to be courageous and brave enough to say, "Actually, it is this bad," and it should report that to its regulatory organisation.

It is a cultural thing—there are different perspectives in different organisations. Clearly, we are talking about an organisation that, at that time, struggled to say, "We cannot balance our budget—we need to set a deficit budget." That situation unwound through the events that we have discussed today.

Jamie Greene: My understanding is that the root factors of the deficit stemmed from three particular areas. The first related to negotiating pay settlements as part of national bargaining, which obviously had a knock-on effect locally. Secondly, there were issues relating to the Air Service Training scheme, which I will ask about separately, because that was another interesting development.

The third reason for the deficit was a drop in student numbers—the difference between the projected number of full-time equivalent students and the actual number of students who took up courses. While you were speaking, I had a look at the college's course brochure. One could do a wide and varied range of courses, covering further education and higher education. Was there any feedback on why the number of actual students was so much lower than the number that had been forecasted?

Nicola Wright: We did not really look at that; we looked only at the actual outturn in the budget. I do not know whether Stephen Boyle wants to make any comments about the sectoral issue. From our wider work, we see that there is a challenge with student numbers, and optimistic budgeting can be a concern. I am not saying that that was the case here, but that is a challenge in the sector.

Stephen Boyle: As Nicola Wright mentioned, there is a sectoral issue. The three factors that you identified, deputy convener, all contributed in part to the college's £2 million adjusted operating deficit. In the next few weeks, Mark MacPherson and I will brief the committee on the overview conclusions that we have reached on Scotland's colleges and the challenge with student numbers. What are the relative assumptions? As you mentioned, are we talking about HE students or FE students? What does that mean for the

provision of courses and for the sector's financial position?

I am happy to say a bit more on that at the moment, if you wish, or Mark MacPherson and I can share our insight in more detail when we brief the committee on that report.

Jamie Greene: I look forward to that. There has been a lot of discussion about the wider sustainability of the college sector, and the SFC has reported that 22 out of 24 colleges have an unsustainable financial future. Does that reflect what you saw at UHI Perth? Is this just a small piece of a wider jigsaw of more systemic issues with college funding?

Stephen Boyle: There are undoubtedly significant financial challenges in Scotland's colleges. Colleges are taking steps to address those through changes to course provision or the management of headcount. In recent years, following our reporting on colleges, we have talked to the committee about reductions in staff numbers through voluntary or compulsory redundancy arrangements. In relation to Mr Beattie's questions about exploring other income sources, we have also talked about how colleges can augment their funding through other sources in order to address those challenges. Those are the recurring themes that we have set out in our overview report, and we will be very happy to get into some of the details in the coming weeks.

Jamie Greene: This is why I am a bit confused. Clearly, the college was trying, as a lot of colleges are, to expand its income streams by looking at sector-specific schemes that encourage commercial interest and can feed a pipeline of well-trained resource into growth industries. UHI Perth's Air Service Training subsidiary, which had been around for nearly 100 years and had trained thousands of pilots and engineers in a growth market, given the massive worldwide shortage of aircraft maintenance engineers, went bust. The market is there and the sector is growing, so did you see management issues or a strategic problem? Things are not marrying up to me—I do not understand why that business of all businesses went bust.

Stephen Boyle: I will say a couple of things to start, and then I will pass over to Nicola Wright if she is able to say more. The auditors of UHI Perth's Air Service Training subsidiary are neither Audit Scotland nor Deloitte, but we have tried, in today's report, to capture and reflect the financial consequences of what happened for UHI Perth, as the parent. We have not done an audit of the subsidiary because that is not our responsibility—I do not audit commercial subsidiaries of public bodies. Rather, we needed to satisfy ourselves that the governance, as it related to the college, was adequate.

I acknowledge your interest in the area, but there are boundaries relating to our responsibilities. Although some of the issues might be covered in Deloitte's 2024-25 audit, they will be covered only if they are relevant to UHI Perth and to any recommendations that Nicola Wright and her colleagues wish to make on UHI Perth's overall arrangements. We will not be able to give you details on why the subsidiary went into administration, but—

Jamie Greene: That said, this is not the first time that Audit Scotland has come to the committee with a section 22 report on a college that has had a commercial subsidiary. We can point to numerous examples. The evidence that you produce shows that a pattern is emerging and that there is a direct relationship between some of the commercial subsidiaries that colleges operate and some of the financial issues for colleges or the bodies that are partners to those entities, so there is an effect on college accounts and audits.

10:45

Stephen Boyle: Equally, it could be said that having a commercial subsidiary can be hugely successful. There are many examples in Scotland's colleges of such arrangements thriving and supporting the college's wider objectives and its financial position at the same time. Therefore, I am cautious about giving the impression that colleges or other public bodies should not do commercial activities—they should, as part of their scheme of establishment, standing orders, delegations and so on, but the arrangements should be managed and the risks should be understood. I do not want some of the recent reporting to suggest that what has happened is symptomatic of subsidiaries not being well managed by Scotland's colleges. Rather, we want people to recognise that there are risks to be managed.

Through Deloitte's 2024-25 audit of UHI Perth, we should be in a position to give additional insight on some of the circumstances relating to AST. If Nicola Wright wishes to say anything further, she is more than welcome to.

Nicola Wright: We will be looking at the governance and how that situation unwound. It is my understanding that the college explored options relating to whether AST could be commercially viable in a different form, but it is for the college to talk about that. We waited for the situation to play out—AST going into administration meant that we could go ahead and sign our opinion, because there was a resolution. However, there was a period when options were being considered.

Jamie Greene: In relation to paragraph 18, on capacity issues, I was struck that you seem to make a direct link between the board's inability to have a broad financial outlook at UHI Perth and a lack of capacity in the college's finance team. You say that the capacity issues were

"contributing to delays to starting work on the 2024/25 budget."

You go on to say that that has been an issue since 2018. It was reported back in the 2018 audit that there were capacity issues, so it is seven years, now, that there have been capacity issues, and the knock-on effect of that is where we are today. Is that not a concern?

Stephen Boyle: Yes, it is. The regrettable factor is that concerns had been raised over time about the importance of capacity to service effective financial management and support good governance and that not being addressed. The issue accelerated in recent times, given the volume of turnover at senior finance levels, which the convener mentioned earlier. So, it is a matter of concern.

I am sure that none of the board of management or principals anticipated that that would result in a budget not being set and then subsequent consideration by this committee. However, it is hard not to approach a conclusion that, had they invested in or been able to have some continuity and the right expertise at senior finance levels, some of what is before the committee today could have been avoided.

Jamie Greene: We know what the deficit was in that year. Do you know what the turnover of the business—I say "business" but I mean the operation—was over that same financial year? We know that it was spending more than it had, but can you put it into context?

Nicola Wright: In the audited financial statements for 2023-24, the college entity's income was just over £26 million.

Jamie Greene: Who was asking questions of whom throughout the process is ground that has been covered already. However, given that the funding would have come primarily via a third party—in this case, the Funding Council—it strikes me as particularly unusual that it would have signed off the release of those funds to a body that had not presented financial accounts to it. That seems to me quite unusual. Is that what has driven your report—the unusualness of that situation?

Stephen Boyle: I think that there is a slight technicality in the language. UHI Perth has prepared audited accounts, and Deloitte has given an unqualified—unmodified—opinion on the accounts for 2023-24. That is really important and

significant. Far be it from me to speak to Deloitte's opinion—you will cover that yourselves—but there was financial reporting and governance that would have given some comfort. Similarly, notwithstanding the errors in the 2024-25 budget, we mention that a budget had been prepared. There is progress also on the financial recovery plan that was agreed by the board of UHI Perth in August, which is now with the Scottish Funding Council and UHI for further consideration, going back to the request for liquidity support. So, there are signs of progress, but much of that needs to be sustained.

I am sure that Nicola Wright will want to comment further on that.

Nicola Wright: The audit commenced late, with an agreement with management that, because of the capacity issues, we would delay the start of the audit. However, the audit process itself, in January and February, went relatively well—all audits are challenging in different ways—and we were able to give a clean financial opinion. Although we had found some unadjusted and adjusted errors, there was nothing unusual and nothing high risk. We worked well together.

Management obviously had to focus on the audit at that time. There were issues around the budget and other things happening in the background, but the audit was prioritised and the focus was on getting it completed, which may have moved focus away from some of the more routine internal reporting. That just reflects a challenge around the capacity of the finance team to service all the different priorities.

Jamie Greene: In what was a relatively small organisation.

Nicola Wright: Absolutely.

Jamie Greene: Thank you for clarifying the language that has been used.

I am trying to understand the role that the SFC, as the funding body, would have played in all of this and its relationship—or lack thereof—with the board that had oversight and governance. You are probably aware of the session that we had with the Ethical Standards Commissioner—I am sure that you would have paid close attention to that—during which this issue came up in a much wider discussion of the quality and performance of board members across public sector bodies. Intriguingly, Mr Bruce made it clear that it is not part of his role to look at board governance. My question is, whose role should it be?

Stephen Boyle: It is clearly part of the work that we and the Accounts Commission ask the auditors that we appoint to do. In our annual audit reports on every public body, we set out how well the governance arrangements are working in those

organisations, and they are working well for the vast majority of public bodies. A consideration of governance, leadership and use of resources will be captured in our annual audit reports.

However, although audit has a role, the boards themselves and those who appoint board members also have a fundamental role in looking at how well governance is being discharged, whether that is in the college sector or in the regional strategic bodies, where they are in place. The Scottish Funding Council also has an interest in the matter, given the framework arrangements that exist.

More widely across the public sector, which you mentioned in relation to Mr Bruce's evidence, we produced a report earlier this year on governance in the NHS. That is another example.

Although Mr Bruce's view is that it may not be directly part of his remit, we are clear on the boundaries of the audit role. Ultimately, it is for the board, its sponsors and whoever appoints the board to be satisfied that the governance arrangements are effective.

Jamie Greene: In this case, would it not have been a primary function of the board to say to the organisation, "Have you prepared a budget for this financial year?" If the answer to that question was no, what on earth was the board doing?

Stephen Boyle: Regrettably, we are not able to get sufficient clarity about why the board did not raise a red flag and say, "We cannot progress to supporting expenditure in the absence of a budget." The financial regulations are clear that a budget has to be prepared and approved by the board of management. This ought not to have reached the stage that it did. Regardless of the financial challenges and the imperative to prepare financial recovery plans and look at individual workstreams, an underpinning budget should have been in place.

Jamie Greene: Thank you.

Keith Brown (Clackmannanshire and Dunblane) (SNP): That last point is of interest to me. I am aware of some organisations—one in particular—that customarily receive lots of small donations of £10 or £15 but are not able to show receipts for those or individual accounts, and, for that reason, their accounts have been qualified. Here we have an organisation that failed to set a budget—which, as you have just said, is a breach of the financial regulations—yet got a clean bill of health from the auditor. How does that work?

Stephen Boyle: In the public audit model in Scotland, I ask auditors to provide an opinion on a set of financial statements. Deloitte can speak to that. We also ask them to prepare an annual audit report. In the private sector, as the committee

knows, the independent auditor's report on a set of accounts will typically set out what the auditor has done and whether, fundamentally, the accounts give a true and fair view. However, a set of accounts can give a true and fair view but there can still be issues of governance within an organisation. The annual audit report for UHI Perth draws attention to some of those wider issues, one being that a budget had not been set. Both of those things can be true.

I will pass over to Nicola Wright to set out how she and her firm arrived at their clean audit opinion.

Nicola Wright: When you say "a clean bill of health", you mean that we issued an unqualified audit opinion. The audit opinion covers the financial statements themselves—the entries for income expenditure and balance sheet entries—which we test. We do a sampling methodology and we test them to evidence. As long as that evidence supports the accounting entries, we are able to give our opinion on the financial statements. There were some adjustments and some things that we did additional work around, but, ultimately, we were happy that, materially, the financial statements were accurate, so we gave a clean financial statements audit opinion.

However, in the narrative, wider-scope work, which Stephen Boyle just referred to, in which we look at the four domains, we had a number of governance concerns. If you read our more detailed report, which we presented to the board of the college, you will see that we comment on financial sustainability, some of the governance issues and the 2024-25 audit. I would not describe that as issuing "a clean bill of health". Within that element of the role, we raised a number of concerns for management to consider, and that led to Stephen Boyle's section 22 report, which picks up on some of the more significant elements to bring to your attention today.

There was a clean audit opinion, but I would not describe it as "a clean bill of health". We had concerns, which we raised.

Keith Brown: From a layperson's point of view, though, an unqualified opinion would give a level of reassurance that would be completely unjustified in this instance. They failed to set a budget; they failed to show why they had not set a budget; they were not able to provide evidence of any discussion as to why they had not set a budget, which is a breach of the financial regulations; and they were also making substantial errors in what they were doing. An unqualified opinion is surprising to me, as a layperson.

Deloitte was the auditor for the college.

Stephen Boyle: That is correct.

Keith Brown: It was then appointed as the external auditor—or am I getting that wrong?

Stephen Boyle: No, it is the same thing. It is an overlap in terminology.

Keith Brown: It seems, from what you said earlier, that the internal audit function has been denuded over the years—its importance, or the cognisance given to it by external auditors and perhaps by the Auditor General—so that it is now diminished to being a kind of management tool and not something that external auditors can rely on to give them pointers as to the financial health and propriety of the organisation.

Stephen Boyle: In some ways, that is a fair assessment. Internal audit remains a fundamental tool of management. It always has been a tool that management use to satisfy themselves that the finances are in good order, that governance is in place and working effectively, and that the activities and projects of the organisation are progressing as intended. It has always been the case—and it remains so—that an internal audit service will produce a programme of work to report to management, to the board and to its audit committee.

There have been changes in auditing standards. Nicola Wright is a practitioner and may want to say a bit more about them. Typically, if an internal auditor was undertaking a piece of work, an external auditor would, very reasonably, avoid duplication. However, the formality of that arrangement has changed. Now, an external auditor will take a wider view of the presence of an internal auditor and their work, and they will not say that they will not undertake a particular audit test as part of their external audit just because it has already been covered. That has been driven by changes in regulation, and the work of external auditors is now held to auditing and accounting standards overseen by the Financial Reporting Council. Auditors are careful not to duplicate work unnecessarily, but an external auditor has to do sufficient work to be able to give an opinion on a set of financial statements.

11:00

Nicola Wright: It is important to remember that the objectives of external and internal audit are different. As Stephen Boyle said, internal audits are a tool of management: they are about process, control and the governance framework. In an external audit, the product is the opinion on the financial statements. We take account of internal audit work only in so far as it relates to the production of the financial statements. Some of that work will inevitably touch on some of the things that we do, but our opinion needs to stand alone.

Over the years, auditing standards have clarified. At the beginning of my career, if internal audit had tested some payroll, we may sometimes have tested less because internal audit had done it.

That does not happen any more. Our work has to stand alone. Even if internal audit has done work, we will perform and document our own work to give ourselves that assurance over the financial statements, although if internal audit did some work and highlighted that there was a risk—for example, if there was a control it had identified as failing—we would think about whether we needed to modify our testing to ensure that the numbers in the financial statements were accurate. We are less interested in the operation of the control, which internal audit are interested in, than in how that leads to the numbers in the financial statements, because that is what our opinion covers.

Keith Brown: Is Deloitte involved only in performing an audit role for the public bodies for which the Auditor General is responsible, at the request of the Auditor General, or would Deloitte also do other work if those bodies directly requested it?

Nicola Wright: There are very clear rules about independence. As an external auditor, our primary objective is to remain independent, so we cannot do work for those bodies if it might impinge upon our independence. There are various factors to consider. If that work contributed to the production of the accounts, we would then be auditing our own work, so we could not do that.

From time to time, we can do additional work at organisations, but we tend to be quite careful and thoughtful about how we perform that work. If management was looking for additional governance-type controls work, it would probably go down the route of asking for an internal audit or asking a separate organisation for support on improvement.

Stephen Boyle: On that point, Mr Brown, I appoint auditors for a five-year term. Deloitte is appointed to conclude the five-year cycle of audits of UHI Perth and some other bodies on behalf of Audit Scotland and the Accounts Commission for the period up to the financial year 2026-27. Audit Scotland is currently reviewing its planned audit approach and what that might cover—we have engaged with the Public Audit Committee on this—and we will be consulting formally on that in early 2026.

Additional services are very rare now and any request from a public body for its external auditor—which is appointed either by me or by the Accounts Commission—to undertake additional services has to be subject to additional approval

by Audit Scotland. There are now next to no examples of auditors in the Scottish public sector undertaking any additional services that a public body might want. As Nicola Wright quite rightly points out, there are many other avenues for public bodies to receive that service and, for reasons of independence, it has become less and less appropriate for the external auditor to do anything other than the external audit.

Keith Brown: I agree that independence is a good thing.

I was not aware of the extent to which deficit budgets are used in the further education sector or the frequency with which they are used. I realise that I am asking you to make a bit of a subjective judgment here, but is there a possibility that a culture might start to develop such that people are thinking to themselves, “Well, there is always the option of a deficit budget”? Could that have been part of the reason why, in this case, they got a bit more lax about even setting a budget at all?

Stephen Boyle: I think that it is a real risk. Like you, I am only speculating about some of the motivations. However, if there is a suggestion that the body does not have to be solely responsible for its financial position—that there is a regional strategic body that could support a financial position or that the Scottish Funding Council might come in with liquidity support—there is a risk that that could influence a perception that others will come to support the financial position. We need real clarity that it is the board of management that is responsible for delivering the services and for taking what are inevitably difficult decisions—there is no question about that—on such things as course provision, staff numbers and other income.

Absolute clarity from the Scottish Funding Council and the regional strategic body about where they sit with deficit budgets will help organisations, including UHI Perth, to own their financial positions in the future.

Keith Brown: It is a bit like the difference between a tightrope walker knowing that there is a safety net or that there is no safety net and how that might impact on their decisions.

Can you say anything more about the impact? Jamie Greene mentioned three factors but the factor that I am interested in is the pensions estimates and the extent to which they are quoted as an influence. My experience is that the actuarial evidence or guidance can oscillate hugely from one year to another, which can create huge problems for organisations. Is that the case here or was the impact fairly minimal?

Stephen Boyle: Nicola Wright or Mark MacPherson might want to comment on the adjusted operating position, but I absolutely recognise your point. Pensions and pension

accounting can have an enormous impact on a public body’s financials—and not just public sector bodies, private sector bodies too. Pensions estimates are very sensitive to small changes, whether in the gilt rates or mortality assumptions, and that can impact pension funds.

We have seen these movements over the past few years, even in public sector pension schemes, where you have typically had deficits in some of the defined benefit pension schemes and then that swings quite significantly into a surplus position when there have been changes in interest rates or gilt rates.

Public bodies are following accounting rules about the recognition of surplus, but I think that it is a good thing that the college sector is focusing on the adjusted position so that the impact of pensions is not masking the underlying position and the position that has to be managed.

Nicola Wright: There is usually a complex estimate that goes into a set of financial statements that is produced by an actuary and that we look at very carefully. However, that is an accounting estimate and the cash impact from a budgetary perspective is the contributions that are made, because that liability is recognised as a long-term future liability that will be paid in future by the pension fund.

Among the issues identified here in relation to the budget, the pension itself was not really a driver. It is a complex estimate that has an impact on the financial statements, but, from a budgetary cash flow perspective, it was less of an issue compared to the other areas that we have talked about, such as staff costs, reduction in student numbers, and so on.

Keith Brown: Pension estimates—and the way that they have varied and gone very high and very low—can have a major impact on jobs and on all sorts of things. The same is true in relation to the Office for Budget Responsibility estimates or the Scottish Fiscal Commission estimates. Their estimates are very important to how budgets are set. If they are wrong—as they invariably seem to be, because they are constantly being reviewed—I would have thought that they deserve more scrutiny.

The issue about student numbers seems quite central to this, and to the sector as a whole. It might be hard for you to say—you mentioned that Mr MacPherson might have an insight into this—but from looking at the audit report that you produced on Scotland’s colleges, is it possible that the well-publicised reduction in overseas and other students has meant that the higher education sector has looked much more into the pool of people who would be going on to either further education or to higher education in the further

education sector and that such competition has meant that colleges are now struggling to get the numbers that they once had?

Stephen Boyle: Yes, that is very possible. Mark MacPherson may have more detail on that but I think that it has contributed to some of the challenges that some of Scotland's further education colleges have experienced, as they can find themselves facing more competition for students, depending on some of the choices that higher education bodies are making.

That is borne out in some of the results at UHI Perth, which could not realise some of the higher education assumptions that it had made because students were exercising different choices. That then impacted on its financial position. Proving a direct causal link between all of that is perhaps more challenging but it is a very active assumption that people are exploring that, as overseas student numbers fluctuate, Scotland's further education colleges are not immune to the implications of that.

Mark MacPherson: While offering no specific view on whether it is a good or a bad thing that students now have the option of going directly to university compared with what they did previously, which was perhaps to use colleges as a bit of a stepping stone if they needed to before they went on to university, it is definitely an issue and it is covered in our sector-wide report, which I hope we will discuss with the committee soon.

Keith Brown: I was not so much saying whether it was a good or a bad thing but, looking at my own area, we have Forth Valley College, and there is this potential dog-eat-dog approach where people are chasing student numbers because that is the basis of much of the income of both further and higher education institutions. Within a board area that has three different campuses, even if the two larger campuses decide that they want to be the ones to get the lion's share of the numbers, it strikes me as odd that there seems to be substantial unmet demand. For example, lots of students want to go to the Forth Valley College Alloa campus in Clackmannanshire, yet it cannot afford to fulfil those places because of the grant that it gets. It seems to me that there is more of a general dog-eat-dog approach between the different institutions. I have not finished reading your previous report so I do not know whether you have covered that, but it would have important implications and lessons around the direction for the sector more generally if that was the case. Are we looking at fewer students? What is the effect of the income that has been lost from overseas students in particular, and how do we get a more equitable distribution?

Stephen Boyle: It is a live issue. Some of those financial challenges are being borne out in some of Scotland's universities as well. The Scottish Funding Council has given a lot of evidence to the Education, Children and Young People's Committee around that. It is a real decision point for the funding council and ultimately for ministers about what support to give or what view to take on how higher and further education operates in Scotland and the sustainability of the model that is provided. I suspect that the competitive element is a relevant factor at the moment, and we are seeing that in the UHI Perth results and across the piece.

For completeness, convener, I should say that I do not audit higher education institutions in Scotland.

Keith Brown: I would certainly find these reports easier to understand if they included that larger context—for example, whether Brexit has driven away lots of potential students from the European Union who would have come otherwise, or whether visa restrictions have reduced the number of overseas students. Rather than just always seeing this as a challenge for the sector or for ministers, I would like to see what the overall context is, but that is just one of my wee foibles. That is enough from me. Thanks, convener.

The Convener: Thank you. As we have mentioned a few times this morning, an important report was produced last week on the funding position of further education. We will be having an evidence session on that broader palette and of course Mr Brown is very welcome to join us, either as the substitute member of the committee or as somebody who has a very particular interest in relation to his own constituency.

I will finish on the particularity of UHI Perth. The departing finance director, Gavin Stevenson, gave an interview to *The Courier* newspaper, in which he said that the college's financial position was "perilous" and that it was in a "desperately precarious situation". He even said that the "nuclear option" might have to be considered, by which I presume he meant the closure of all, or maybe part, of the education service that is currently provided by the college. Do you have any reflections on that perspective?

11:15

Stephen Boyle: Without using Mr Stevenson's language, convener, I recognise that some of the financial challenges to be overcome are significant, and the provision of financial support by UHI and SFC is clearly a factor in helping Perth College transition to a more stable place.

It is equally important that the governance and oversight of that is managed properly within the

board of management, that the budget process is integrated, and that the work of the committee and the external contributions by UHI all operate effectively. Through our own direct work—and the work of Deloitte as the appointed auditors—we will seriously consider, as we do every year, the financial sustainability of the organisation. We will keep a close eye on that and consider further public reporting on the back of the 2024-25 audit.

The Convener: Thank you very much indeed. We have come to the end of our time on this report. I thank Mark MacPherson, Nicola Wright and the Auditor General for presenting their evidence. The committee will need to consider what our next steps are. We are about to keep two of you, but lose Ms Wright, as we change over witnesses. To allow us to change witnesses, I briefly suspend the meeting.

11:16

Meeting suspended.

11:19

On resuming—

“Our impact: Monitoring and evaluation report 2025”

The Convener: Agenda item 3 is consideration of the Audit Scotland report “Our impact: Monitoring and Evaluation Report 2025”. We are again joined by the Auditor General, Stephen Boyle, and alongside Mr Boyle is Mark MacPherson—you are welcome back, Mr MacPherson—and Michelle Borland, who is the head of organisational improvement at Audit Scotland. We have one or two questions to put to you but, before we get to those, Auditor General, I invite you to make an opening statement.

Stephen Boyle: I am pleased to present to the committee our annual impact monitoring and evaluation report, which we published in September of this year, based on work up to May 2025. The report includes data covering our performance audits and our annual audit work. It also includes follow-up work on annual audits in the financial year ending 31 March 2024, together with performance audits published between July 2022 and February 2024, many of which will have been considered by this committee. For the communication monitoring part of the report, we looked at reports that were published more recently, between February 2024 and December of last year.

We think that we have good evidence that public bodies are accepting our recommendations, which are the primary vehicle by which we look to support assurance and improvement, and that they are responding positively to them and taking steps to implement our recommendations. However, there is also evidence that the pace of implementation of some audit recommendations is slow. Our performance audit teams assessed that more than half of the recommendations that were in scope for this audit impact report are work in progress, and, regrettably, that only 6 per cent have been fully implemented.

Recommendations about financial sustainability and the use of resources to improve outcomes have the lowest rates of implementation. Annual reports on the college sector and the NHS that I produce have shone light on fiscal sustainability issues and the need to accelerate progress on transformation and reform. We will continue to follow up those in the recent college report and the upcoming NHS annual report later this year.

The annual audit recommendations are being implemented more quickly. They focus on a single body rather than being sector wide, which in some ways makes it more straightforward to implement an audit recommendation, rather than having the

need for collaboration across multiple public bodies. Of the 2022-23 audit recommendations, 56 per cent have been implemented and a further 33 per cent are in progress.

We aim to be proportionate when evaluating impact. We are interested in a broad understanding of what is changing in public services due to our audit work. That is about more than just the number of audit recommendations that have or have not been implemented. Monitoring and evaluating our work is important, as it helps us understand whether we are making the difference that is expected of us by the Parliament. It also helps to identify improvements to our audit approach and increase our impact in the years to come. Later this year, we will publish our first evaluation report on how well we are delivering against the outcomes that the Audit Scotland board, the Accounts Commission and I agreed as part of "Public audit in Scotland 2023-28".

Lastly, following up audit recommendations is a critical part of understanding our impact. We recognise that there are boundaries to this work, with public bodies being responsible for implementing audit recommendations as they choose to do so. As we have discussed in recent times with the committee, we cannot compel a public body to implement a recommendation that it has previously accepted. However, we also aim to do this to support continuous improvement and to better understand the pace of progress and change in public services, as ever, to support parliamentary scrutiny.

Michelle Borland, Mark MacPherson and I look forward to answering the committee's questions.

The Convener: Thank you very much indeed. You mentioned the importance of monitoring and evaluation in making a difference. Could you explain how the monitoring and evaluation framework makes a difference?

Stephen Boyle: I am happy to do that. I might pass straight to Michelle Borland to set out some of our wider approaches and then I will be happy to come back in, with Mark MacPherson.

Michelle Borland (Audit Scotland): Thank you for the question about the impact framework. We share that framework in exhibit 1 in the report. We take a three-pronged approach to monitoring and evaluating our impact within public audit. We are looking at monitoring early impacts, so that we can get an understanding of the visibility of our work and the initial traction that it is getting. We then evaluate the early impact, within the first 12 to 18 months of a report being produced. That looks at what is happening with our recommendations, how our work is influencing change, where we are seeing change in public bodies as a result of

recommendations that we have made, and what stakeholder feedback is telling us about the quality of our work and how it is landing with stakeholders. The third tier of our impact, which is a critical aspect, is thinking about how that change is impacting on the outcomes that we set within "Public audit in Scotland".

The report that the committee has in front of it today looks at the first two layers of that framework: the early impact that we are having through our social media, media and communications engagement and then the early impact that we are having through our recommendations and the change that is happening as a result. We look forward to publishing, later this year, a further report on how that impact is influencing and contributing to the outcomes in "Public audit in Scotland".

The Convener: Mr Brown will ask some questions about social media and media in general and so on but, before we get to those, I invite the deputy convener to put a couple of questions.

Jamie Greene: Thank you for your report. I can see that you have sent somebody on a course on how to do lots of bar charts and pie charts. However, they were not all clear to me in setting out how you report data. I will go to the beginning of the report and to the high-level exhibit 6. Over the years 2022-23 and 2023-24, the data set that you used to produce the report covers 11 performance audits, which made 63 recommendations, and 235 annual audits, which made a total of 949 recommendations across the two years. Is that correct?

Stephen Boyle: You are correct. For those in scope for this report, there were 11 performance audits. For the annual audits, it is not quite correct to add those two numbers together, because, in effect, that is just the number of public bodies that we audited in one year and then the number in the following year. You will see that there is a difference in the number of audit reports in each year, with one being 115 and the other 118. The number of public bodies changes at the margins each year, depending on whether new bodies have been created, and the committee is sighted on some of those. That is broadly reflective of the scope of what we are evaluating this year.

We are grateful for any feedback that the committee has on the report. We try to recognise that there is a range of audiences. We consider accessibility, and we look, where appropriate, to bring in tabular or graphical formats to convey information. We are grateful for any views that the committee has on how effective that is.

Jamie Greene: I was trying to get my head round the bigger picture. The report goes into

quite granular detail on the different types of recommendations and the various stages that they are at, if you can work out what the dark blue and the light blue shading mean. However, once I have got over that, there is still a point that I am trying to get my head around. Taking the 2023-24 year, because it had the higher number of annual audits of public bodies, and the 459 recommendations that came out of all those reports, I simply want a top line. Of those 459, how many to date are fully implemented, how many are in progress and how many have not been touched at all? I could not find that information in any of the bar charts. If it is there, please point me to it.

Stephen Boyle: Again, I will pass to Michelle Borland to set that out very precisely for the committee, because I think that it is captured in the report. It is structured around four or five main headlines, which are drawn directly from the code of audit practice that frames how an external audit of a public body in Scotland is undertaken. You will see recommendations on the financial statements, which are on anything that an external auditor has directly identified to support improvement in a public body. Then the report goes into what is referred to as the wider scope of public audit in Scotland, with recommendations on financial management, financial sustainability, use of resources and governance and leadership factors. Those are the headlines.

Broadly speaking, a public body will sometimes receive no recommendations from an auditor, as there is nothing to bring to its attention but, in other cases, there could be a double-digit number of recommendations. The average, give or take, is around four recommendations per public body, but perhaps it is a bit too crude to say that that is reflected across the piece. Michelle Borland can build on my opening remarks about how many recommendations have or have not been implemented.

11:30

Michelle Borland: I can appreciate why that is confusing, Mr Greene. It is important to be clear about which audits are in scope for different aspects of the report. The annual audits in scope for 2022-23 are where we can assess the implementation progress that has been made, because that assessment is undertaken during the 2023-24 audit. For the 2023-24 audit, we have not yet undertaken all the associated follow-up, because that is done during the 2024-25 audit. That is why you would not be able to find that information in the report.

For 2023-24 audits that are in scope, we are reporting on whether the recommendations have been accepted. For the 2022-23 audits, we are reporting on the implementation status. In next

year's report, we will be able to report on the progress made on the recommendations in 2023-24, because that is followed up in 2024-25. I appreciate that there are a lot of financial years in there, but the reason is that the follow-up happens over a number of years.

Jamie Greene: As a member of the Public Audit Committee, I am looking for trends and patterns. There is a broadly similar number of bodies and recommendations, but is there a pattern of fewer or more recommendations being implemented in the early stage or in the long term, or in those that are just completely ignored? We make a big deal of the 93 per cent figure. Public bodies sit where you are sitting now and say, "Yes, we accept the recommendations of the report," but those are just words. It is about how many of those actually translate into action. We have a bigger remit. You have no statutory duty to follow up on the recommendations or any locus in that respect, but we do, so that is the sort of data that I need to see the direction of travel.

Stephen Boyle: I absolutely recognise that. Michelle Borland can come back in and Mark MacPherson might want to say a word or two about this as well.

You are correct that we have no statutory duty. I think that I have said a number of times in recent weeks to the committee that it is for public bodies to either accept or reject an audit recommendation and for them to follow up on that. We value the role that the Public Audit Committee plays in exploring whether a recommendation has or has not been accepted or implemented. However, we think that we have a locus in that, too, to explore through follow-up work, annual audits and our programme of follow-up of performance audits—and to an extent in the monitoring report—whether the original audit recommendations have or have not made a difference.

As we refer to in the report, we keep our methodology under review and consider the vehicles that we use to explore follow-up and progress and audit impact. As Michelle Borland mentioned, we refer to the further thinking that we will do following the evaluation of the "Public audit in Scotland" report later this year.

I will bring in Michelle Borland to say more on that point.

Michelle Borland: I will come back on the point about trends, because we are interested in that as well. As Stephen Boyle mentioned, our approach is evolving and we are continually improving it. We implemented the framework in our annual audit teams, for our annual audit work in 2022-23, so we do not have trend data yet but we will have that next year.

We have been working with the impact framework within performance audit for a little bit longer. That is why you can see some trend data on performance audit in this report. We have more years of data for performance audit where we have done the impact work. Through this year's audit work, 2024-25, we will be looking at the progress with recommendations made in the 2023-24 audit. We will be able to provide better trend data to the committee on that in next year's report.

Jamie Greene: That is helpful—thank you. On performance audits, in paragraph 36, you state:

“We do not currently have systems in place to follow-up recommendations made in national reports to all local authorities or multiple bodies.”

The term “follow-up” is a bit vague. What do you mean by that?

Stephen Boyle: Effectively, we mean whether the recommendation was implemented. We go through a process to explore evidence. That involves referring back to the original recommendation and considering whether it was accepted and implemented and what difference it has made. That involves going back a certain time after the original report to see whether it was effective and implemented.

Jamie Greene: But you cannot do that at the moment.

Stephen Boyle: We can, actually. Mark MacPherson, who leads our programme of performance audit development, can say where we have got to and set out some of our additional thinking.

Mark MacPherson: Obviously, it is a resource challenge to go back and check progress in every public body in Scotland on a range of reports. We are trying to find the right balance in how we get that information. We talk about the fact that, after publication of a report, we now engage more readily with audited bodies to determine when they will implement recommendations or whether they are not able to implement the recommendation for some reason.

It definitely requires a lot more thought to get that from multiple bodies. With a single-body audit, that is relatively straightforward. With a report in which most of the recommendations are to an individual body or to a small number of bodies—for colleges, that is the Scottish Government, the Scottish Funding Council and maybe the college sector as a whole—we can do it. We have always had an approach to assessing progress on recommendations but, in the past couple of years we have tried to make that more systematic and consistent. However, we recognise that we still have work to do to capture information where

reports relate to many bodies across the public sector.

Stephen Boyle: That issue has made us quite thoughtful about making recommendations to multiple bodies. We have explored that topic with the committee in previous discussions on reports on our impact. I hope that, through our reporting over the past 18 months, you will have seen that we have moved away from making almost catch-all recommendations to a particular sector in a performance audit to being more precise and making SMART—specific, measurable, achievable, relevant and time-bound—recommendations, for the reasons that Mark MacPherson outlined.

Effective follow-up and getting evidence from across multiple bodies would be extremely time-consuming and laborious. Almost as an upstream alternative to that, the recommendations are focusing on a particular organisation rather than multiple ones. In some cases, we will still do it. In future reporting that we do on the NHS, we will likely still make recommendations to NHS boards, because that makes sense for them, as a homogeneous group. However, we are quite thoughtful about that and will deploy that approach only where it is appropriate to do so.

Jamie Greene: Do you think that Audit Scotland gives enough cognisance to some of the factors that may explain why audited bodies have been unable to implement recommendations? There are a number of external factors. Your recommendations talk a lot about financial sustainability and workforce issues, but there is also a wider regulatory and legislative environment that these bodies are working in, which is outside of their control. Do you think that your focus is too much on whether a body did or did not deliver on the recommendations and does not acknowledge that, even if they wanted to deliver on them, it might be impossible for them to do so?

Stephen Boyle: I recognise the complexity of the issue. Many of our reports go into challenging territory, whether on fiscal sustainability, workforce reform or wider public service reform, rather than being issue specific. Our view is that that feels like the area in which public audit can best support assurance around public spending and public service delivery, and—this is at the heart of today's report—make well-considered, effective recommendations that support improvement.

I will bring in colleagues in a moment, because a couple of case studies in the report illustrate the point about accepting more challenging recommendations that can have an impact. We did a report on the criminal courts backlog. There is no question but that it was a challenging recommendation about the need for a wider consideration of reform. Some of those

recommendations have gone through public consultation and, ultimately, in the past few weeks, have been the subject of legislation that was considered by Parliament around digital evidence taking and so on.

I acknowledge that, even if our recommendations are accepted, they will not always be implemented in the desired timescale because they might be complex and consultation and engagement might be required with more than one body. However, I assure you that, when we make recommendations, we absolutely understand the complexity of the issue and the challenging circumstances that face public bodies.

Michelle Borland: Mark MacPherson can comment on the courts backlog recommendation and the impact that that audit work has had in particular. I will say that it is important that we reflect on the barriers to implementation for public bodies and recognise where it is challenging and, where progress is not being made, why that is. That can help us as an organisation to understand how to make recommendations in a better and more impactful way.

Stephen Boyle mentioned SMART recommendations, and it is important that our recommendations are realistic and achievable for public bodies to implement. The more that we reflect on the barriers and challenges, the more that we can craft recommendations that are meaningful and can be delivered by public bodies.

Since developing this work and looking at how we can improve, part of the guidance that we have developed for auditors has been that, where we make recommendations, we should consult with public bodies on what those recommendations look like as a result of the evidence that we find through the audit and give them an opportunity to comment on those, so that we can make sure that we shape them so that they are realistic, achievable and will add value and impact to what the bodies are doing, and so that we have a sense of how long it might take them to make progress on the recommendations and can put timescales in our reports, given our understanding of their ability to implement recommendations.

All of that is key and is part of what auditors will reflect on post-publication. When we look at the pace of implementation, the barriers are as Stephen Boyle mentioned: capacity, workforce shortages, financial pressures and so on. We will take all of those things into account when we craft the recommendations, so that we can make sure that they are realistic.

The Convener: I will bring in Keith Brown at this point.

Keith Brown: I have only a couple of questions. Looking at the data that you provided for the

validation that you might get from media reach—I think that that might be the way to describe it—do you see dangers in that? Some people say that there is a formulaic approach whereby reports are produced that are relatively straightforward and discuss the pros and cons of an issue, but contain a soundbite quote at the end that, if you publish it on the right day, is guaranteed to stir up a good amount of parliamentary discussion and media coverage. Is there a danger that you might be seen to be chasing headlines and adding to a preponderance of negative stories, given that the media will always prefer those to positive ones? Do you recognise that danger if you are looking to that metric for validation?

Stephen Boyle: It is a point to be really careful about. We need to get that balance right, so that there is a reach not just to media but to the public and Parliament. We look to make our reports accessible, first to people in the Parliament, always initially through this committee, but also to the subject committees that we give evidence to, whether that concerns our finance reports or reports such as the recent one that we produced on the adult disability payment, which is likely to be of interest to the Social Justice and Social Security Committee.

Parliament will always be the primary audience for our work but we recognise that public bodies and the public are interested in how public services are performing, and we want to present that information in a considered and balanced way. That is informed by the consultation that we do on our work programme—I consult this committee, and the committee decides thereafter whether to go out to the rest of the Parliament. We ask whether the topics that the Accounts Commission and I propose to audit are the right ones or whether there are other areas that we should be thinking about, and we look to capture that in the reporting that comes from the audits. There will always be a question about what happens next. What feels like the more important question is whether the audit recommendations made a difference, and we should approach that question in a balanced way.

The last point to make is that, when we produce a report that validates how a public service is performing, it does not always get the traction that a more critical report gets. I have referenced this before, but, on the day that I presented the report on the Scottish National Investment Bank, the deputy convener challenged me about the positive tone of the report. It was true to say that it was positive—it was an audit report that said that a public body had largely done what it was set up to do.

Underpinning all of that is that our reports are evidence based and our quality framework is a

robust process that follows auditing standards. We are subject to review by the Institute of Chartered Accountants in England and Wales—it currently provides that service. It reviews our work and goes through our files to confirm that we have the evidence to support the conclusions and judgments that we make publicly and, most importantly, to the Parliament.

11:45

Keith Brown: I remember that, 20-odd years ago, Audit Scotland did a best-value report on local authorities, in which the council of which I was leader—Clackmannanshire Council—came top. We never heard any comment on that apart from the comments of Clackmannanshire Council and myself, who shouted about it for years afterwards. However, that kind of positive evidence is important, not just for its own sake or because it might make people feel good, but because it demonstrates what is being done right and can be used as an example to help others to improve.

Sometimes there is a lack of context. When an area of public life in Scotland is being looked at, comparisons with what is happening in similar areas in England and Wales—whether things are better or worse—are meaningful to people because there is a relatively similar financial environment in all three areas and people can see whether, for example, Brexit is impacting on an area. However, instead of that, we get told that, for example, there is underfunding, which is a loaded term that relies on a value judgment. Surely, there must be a case for saying that there are times when, if something has been done well, we should broadcast that. Similarly, if something has been done badly—especially in relation to other parts of the UK where it has been done better, given the similar environment—that would be meaningful information for the public.

I come back to the public because, by talking about your social media reach and your public relations, you are recognising that the public are interested in these issues, which might be expressed through the Parliament. However, by and large, beyond the headlines that are generated, how much does your work register with the public? I hope that you can make sense of that question.

Stephen Boyle: Understanding the reach beyond the Parliament is challenging. As you will see in our report, we used to use downloads from our website as a proxy indication of engagement, but with changes in technology—bots, AI and so on—that has now become a bit redundant.

On the issue of good-news stories, I think that we are at a good point. The Accounts Commission

and I are considering the next cycle of the work that we will ask auditors to do. As you know from your local authority background, the Accounts Commission has a cyclical approach. It will produce what is known as a best-value assurance report on every local authority over the course of a five-year period. I take a slightly different approach, as I produce more sectoral reports, such as the college one that you referenced earlier, or ones on the NHS.

The work programme is the real driver in this area. We look to select audit topics that might be challenging or might be new—we try to strike a balance in that regard. The SNIB report is a good example of our approach. When we started the audit, I had no preconceptions about what that might produce, but it was good to see a validation of the bank as a vital and significant funding element in public service. At other times, we will produce a report that has more recommendations for improvement. We are always cognisant of the fiscal challenges, and we want our audit work, rather than drawing attention to issues in isolation, to make recommendations about how some of the fiscal challenges might be addressed and to stress the importance of public service reform.

On that last point, we were pleased to see the development of clearer strategies and plans around public service reform. Similarly, Audit Scotland has been making recommendations about the importance of medium-term financial planning for many years, so it is good to see the production of an annual medium-term financial strategy being integrated into the calendar of the Government's approach. Those are both good examples of audit impact.

I hope that I can reassure you that we are always aware of the importance of balance and clarity, and that the way in which we report our work is evidence based.

Keith Brown: I am delighted to hear what you say about SNIB, having had Cabinet responsibility for establishing it. Off the top of your head, could you mention one or two other examples where one of your reports on an area in which you have found good practice or excellent work has generated any kind of media response?

Stephen Boyle: The Queensferry crossing is a high-profile example—

Keith Brown: Another one for which I was responsible—thank you for that.

The Convener: You are on a roll.

Stephen Boyle: I am ticking all the boxes.

I do not want to repeat myself, but the public service reform strategy, together with the fiscal sustainability delivery plan and medium-term financial strategy, are important evidence of audit

impact, and I will add another example. Through our audit of the Scottish Government, we have drawn attention a number of times to how the national performance framework and the national outcomes are working. Those were clear ambitions, but, through our audit of them, we saw that they were not underpinned by good evidence or metrics. Thereafter, the Deputy First Minister signalled a pause and embarked on a stocktaking exercise. That is good evidence of the audit process delivering clearer outcomes that can support the performance of public services and demonstrate how public money is being spent.

The Convener: Graham Simpson has indicated that he does not have any questions. Colin Beattie, do you have any questions?

Colin Beattie: I am conscious of time, convener, but I have a couple of quick ones.

Exhibit 11 shows the progress on the implementation of the 490 recommendations from the 115 audit reports. It states that the status of 10 recommendations is unknown. Why is that?

Michelle Borland: That is related to how we pull the data through from the annual audit reports. Obviously there are a lot of annual audit reports in scope. The data for this report comes from an assessment of recommendations at the back of the report, and this is an area for improvement that we have identified in the report. Sometimes the assessment that we have made does not draw a clear conclusion about progress on the recommendation, so we are not able to identify exactly what progress has been made and classify it in one of the four categories—not implemented; work in progress; implemented; or superseded.

One of the things that we have identified in the “Next steps” section of the report is a need to improve the consistency with which we assess progress against recommendations within the annual audit, so that we do not have 10 of those recommendations where the status is unknown.

Colin Beattie: Thank you. I will leave it there, convener.

The Convener: On that note, I draw this session to a close. I thank Michelle Borland, Martin MacPherson and Stephen Boyle for their evidence on that report. It is a theme that we will return to, and I am sure it will be part of our deliberations when we consider our legacy report for the next session of Parliament.

As agreed earlier by the committee, I will now move us into private session.

11:52

Meeting continued in private until 12:05.

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