

# Holding to account and helping to improve

A strategic statement for public audit in Scotland 2004-06

Prepared for the Auditor General for Scotland

March 2004



### Auditor General for Scotland

The Auditor General for Scotland is the Parliament's watchdog for ensuring propriety and value for money in the spending of public funds.

He is responsible for investigating whether public spending bodies achieve the best possible value for money and adhere to the highest standards of financial management.

He is independent and not subject to the control of any member of the Scottish Executive or the Parliament.

The Auditor General is responsible for securing the audit of the Scottish Executive and most other public sector bodies except local authorities and fire and police boards.

The following bodies fall within the remit of the Auditor General:

- departments of the Scottish Executive eg the Health Department
- executive agencies eg the Prison Service, Historic Scotland
- NHS boards and trusts
- further education colleges
- Scottish Water
- NDPBs and others eg Scottish Enterprise.

**Audit Scotland** is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Executive and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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## Holding to account and helping to improve

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## Introduction

As Auditor General for Scotland I arrange for the audit of most public bodies in Scotland and report the results to the Scottish Parliament. The Accounts Commission for Scotland arranges for and reports on the audits of Scottish local authorities. The Commission and I work closely together to ensure that a consistent, robust public audit regime applies to all devolved public spending in Scotland.

The public audit regime is based on three principles:

1. **Independence** – The Auditor General is independent of both the Scottish Parliament and the Scottish Executive, and auditors appointed by me are independent of the public bodies that they audit.
2. **Wider scope** – Because public money is involved, public audit is more wide-ranging than in the private sector. It covers financial accounts, the controls which management have in place, the regularity and probity of

expenditure, and it also examines and reports on value for money issues.

3. **Public reporting** – Reports by the Auditor General and final audit reports prepared by auditors are always public documents.

Audit Scotland provides the services and support required by both the Accounts Commission and me. I am the Accountable Officer for Audit Scotland, with responsibility for its budget and resource management. Two-thirds of the audits of spending bodies are delivered by Audit Scotland; private accountancy firms deliver the rest.

The early work of Audit Scotland was guided by a strategic statement that I prepared in 2001, and by the Accounts Commission's strategy. I have prepared this new strategic statement to build upon our experience of the last three years and set the context for the Corporate Plan of Audit Scotland. The Accounts Commission will review its strategy during 2004.

## The achievements of public audit

In the years since devolution, we have been successful in building a public audit regime that is objective, rigorous, open, fair, and effective. The regime covers over 200 public bodies including the Scottish Executive departments and its NDPBs and agencies, NHS boards and trusts, the further education sector, Scottish Water and (for the Accounts Commission) councils and joint boards.

Audit Scotland has produced over 40 performance audit reports, regular overviews of major sectors such as the health service and further education, and special audit examinations of issues of concern to the Parliament and the public (for example, the Holyrood building project, NHS waiting lists, issues relating to Scottish Enterprise, and organ retention practices in hospitals). We have had particular success in looking at complex service delivery issues that involve many agencies (such as the series of reports on dealing with youth offending in Scotland).

Our achievements are set out more fully in Audit Scotland's annual report.

## The changing environment

### Effective democratic scrutiny

Since devolution, public audit has taken on a new significance. It now supports the Scottish Parliament's scrutiny of the Scottish Executive and public bodies. Devolved public expenditure in Scotland is increasing, from £18b in 2000/01 to almost £26b in 2005/06 (Exhibit 1). Most of the spending takes place in bodies that are at arm's length from, or are largely independent of, the Scottish Executive and the Parliament (Exhibit 2). In some sectors, for example further education, there are several links in the chain of accountability and control, together with different sources of funding.

In future, public spending is unlikely to grow at the rates experienced in recent years. Pressures are likely to build from rising costs and the needs for new and growing services. Public bodies must demonstrate that the additional funding is leading to improvements in performance. Audit Scotland will explore how to strengthen its analysis and reporting on the economy, efficiency and effectiveness of public spending.

Public expectations are that the quality and availability of public services will improve as spending rises. My studies will give greater emphasis to the experience of service users, since this is the key test of whether better services are being delivered.

### Legislative changes and policy developments

**Best Value** is a new statutory duty in local government, and it has been introduced in other parts of the public sector through the Accountable Officers' responsibilities. The Scottish model of Best Value is based on the

principle that it is for public bodies to set their priorities, deliver results, and report on performance, while audit provides assurance on how they are fulfilling this duty. Starting in local government, Audit Scotland will deliver a new audit approach that gives a rounded picture of the performance of each body, as a basis for improved accountability.

**The NHS in Scotland** accounts for about one-third of devolved public expenditure, and absorbs a significant amount of annual public spending increases. There continue to be severe pressures on health budgets arising from cost increases above average inflation, new medical treatments, new ways of delivering health services, and public expectations for quality and equality in health services across Scotland.

NHSScotland is being re-organised to abolish NHS trusts and create 15 unified systems based on health boards. These boards will face great challenges in strategic planning, service delivery, and financial management and control. This highlights the need for an effective risk-based approach by Audit Scotland to audit in the health service, which reflects national and local risks and is based on a systematic risk assessment process. This will assist individual health boards and the Health Department to manage risks and performance. It will also improve the quality of information available to the Scottish Parliament to support effective scrutiny of the health service.

### New ways of working

The government places a premium on public sector bodies working across organisational boundaries to improve service delivery, for example through community planning and the Joint Futures agenda. These new ways of working offer the potential to improve the experience of service

users and make better use of resources, but they also raise new risks for audited bodies and new challenges in monitoring and measuring performance. Audit Scotland is uniquely placed to be able to look across sector boundaries and review the performance of all the public sector bodies involved in joint working.

In addition, the development of e-government is likely to give rise to significant structural change; Scottish spending plans include a large investment in ICT. Audit Scotland will look at whether major ICT projects are delivering value for money and better public services.

### The financial environment

#### New procurement methods –

The search for better ways of delivering services, together with restrictions on the availability of capital, mean that public sector bodies will continue to seek to use PFI/PPP for significant projects. These are generally large contracts with a high public profile requiring specialist expertise. Audit Scotland's work programme is likely to include studies of PFI/PPP projects.

#### Improving financial management –

The UK government is committed to producing Whole of Government Accounts over the next few years. This will throw up challenges in producing financial information more quickly, and relating inputs more closely to outputs in the form of services delivered and objectives achieved. We will work with others to ensure that WGA is delivered on time in Scotland.

#### Reviews of the auditing profession

Following on the collapse of ENRON and other corporate failures have resulted in proposals for change that will have implications for the public sector. Although the audit regime is more robust in the Scottish public

## Exhibit 1

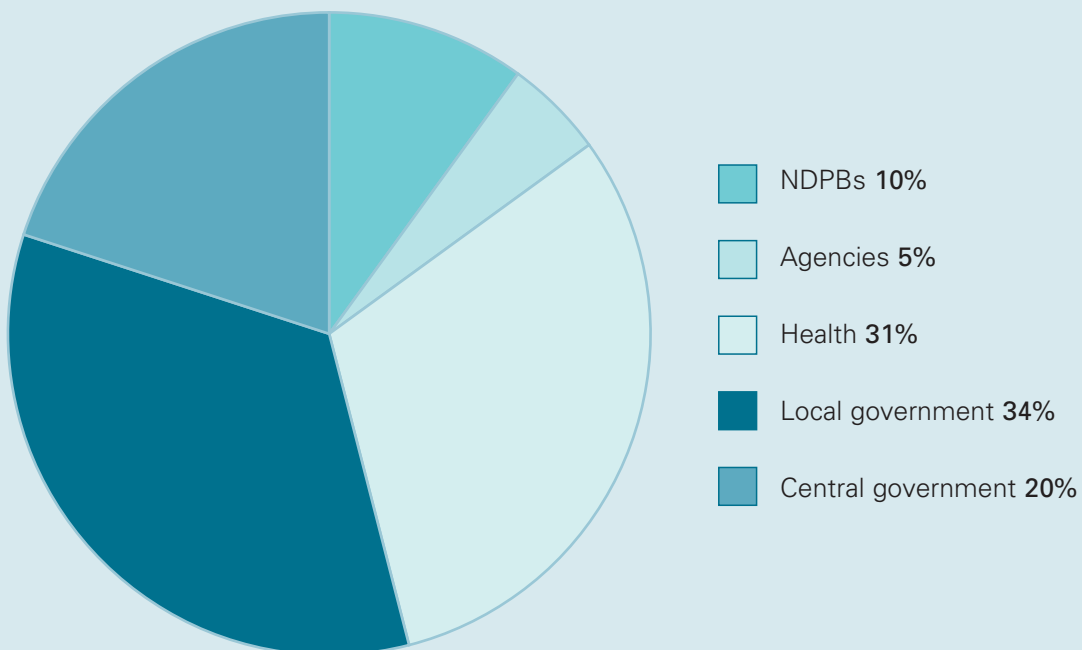
Total managed expenditure of the Scottish Executive

£m	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
Total expenditure	17,993	19,890	21,098	22,764	24,003	25,653
Annual percentage increase		10.5	6.1	7.9	5.4	6.9
Cumulative percentage increase		10.5	17.3	26.5	33.4	42.6

Source: The Scottish Executive budget documents

## Exhibit 2

Scottish expenditure 2001/02. Who spends the money?



sector, Audit Scotland will monitor the various proposals and advise on any implications for public audit.

### Impact

The government has developed and strengthened regulation, inspection and standard setting in a number of service areas (see Exhibit 3). Audit and inspection can be a real force for improvement, by providing information on performance, challenging public services to improve, spreading knowledge on good practice, and supporting public service managers. We are committed to ensuring that we work with other scrutiny bodies to maximise the impact of our work, while ensuring that it is risk-based and proportionate. This means developing a shared understanding of how our work can contribute to improvement, streamlining our working practices and playing to our strengths (Exhibit 4).

Auditing is undertaken both by Audit Scotland and by a number of private firms, for the Auditor General and the Accounts Commission. This “mixed economy” of provision strengthens the impact of audit because it helps to ensure all auditors perform to a high standard and allows sharing of best practice and knowledge. We will continue this arrangement, but the next round of procurement of audits must reflect the changing needs of the Auditor General and the Accounts Commission. We will consult on our procurement strategy later this year.

The impact of public audit in Scotland has been significant. The achievements set out in Audit Scotland’s annual report give an indication of this. We are committed to continuing to develop ways to demonstrate that our work contributes to real improvements in the management and delivery of public services in Scotland.

### Holding to account and helping to improve

In the context of this changing environment, audit can provide powerful support to effective democratic scrutiny of how public money is spent and what it achieves, and to improvement in the performance of public services. Since devolution, senior civil servants and managers in the public sector are more accountable than ever before. Weaknesses or failures in management or service delivery are more likely to be identified and challenged, and the Scottish Parliament has an important role to play in holding people to account and ensuring that lessons are learned. Audit supports this process by providing independent, objective analysis in the form of stakeholder reports for the Parliament and the wider public. These stakeholder reports should focus on issues of real importance, either due to their significance in an individual body, or because they affect a number of similar bodies across Scotland.

Stakeholder reports need to be complemented by high quality, risk-based audit reports to audited bodies, which challenge and support them in managing major risks and improving performance. It is unnecessary and counter-productive for all instances of weak management or performance to be reported to the Parliament and subjected to a rigorous process of holding to account. In general, auditors should be able to report to accountable officers, senior managers and the audit committees of public bodies, and management should have the opportunity to correct weaknesses without the need for a report by the Auditor General to the Parliament.

If auditors are to balance these roles – holding to account and helping to improve – then there needs to be a

clear understanding about how these roles are played and how they interact with each other. Audit Scotland has restructured to clarify these roles and deliver them more effectively.

The Performance Audit Group will produce stakeholder reports that, through the Auditor General, will be laid in the Parliament. These reports take various forms:

- overview reports on major sectors such as the NHS, which provide information on performance and on significant issues and risks, and anticipate issues of public concern
- reports on performance in particular public bodies and services
- reports on matters related to the audited accounts of public bodies
- investigations into issues of public concern.

The Audit Services Group will produce high quality, risk-based audit reports addressed mainly to audited bodies, to challenge them and support them in managing their major risks and improving their performance. Final audit reports for audited bodies will be prepared at the conclusion of each audit, summarising the main issues arising from the audit and the action being taken by management to address any risks or weaknesses that have been identified. They will be copied to the Auditor General but they will not be laid in the Parliament.

The new reporting framework will distinguish between reports that assist the Parliament in holding public bodies to account and reports that will challenge and assist audited bodies to improve. This framework will provide the basis on which



### Exhibit 3

Developments and proposals which affect the regulation and inspection of particular service areas

- Communities Scotland's role in regulating and inspecting local authority housing services
- HMI Education's role in inspecting education authorities
- the roles of HMI Constabulary and HMI Fire Services in Best Value inspection of police and fire authorities
- Care Commission's role in regulating and inspecting care services
- Quality Improvement Scotland's role to inspect clinical services in the NHS
- the Accounts Commission's role in examining risk plans in fire services.

### Exhibit 4

The respective interests of audit and inspection



Audit Scotland addresses the major strategic priorities for the next three years. These priorities are outlined below.

1. **Stakeholder focus** – Audit Scotland will develop reports that meet the needs of its principal stakeholders – the Parliament, the Auditor General and the Accounts Commission.
2. **Client focus** – Audit Scotland will develop its audit systems and outputs to challenge audited bodies and, while safeguarding our independence, support improvements in the management and delivery of public services.
3. **Running the business well** – Audit Scotland will achieve excellence in managing its people and its own performance.

### Capacity to deliver

Devolution has placed increasing demands and expectations on public sector audit, with a full programme of examinations that are reported through the Auditor General to the Parliament, to support the scrutiny exercised primarily by the Parliament's Audit Committee. The strategic goals set out above will ensure that we can continue to meet and exceed these expectations in future.

Audit Scotland has achieved significant success with only a marginal increase in the resources inherited from the pre-devolution arrangements. The main increase in resources has been required to deliver the new Audit of Best Value in local government on behalf of the Accounts Commission, for which extra funding is provided by Parliament to local authorities through the grant settlement.

Audit Scotland will produce a three year corporate plan, to be updated annually, setting out how the strategic goals of the Auditor General and the Accounts Commission will be achieved. This plan will outline the resource requirements for the period. It will set out Audit Scotland's commitment to investing in our people to ensure that they have the right skills to meet the challenges we face. It will also provide the basis for reporting our performance.



### Robert W Black

Auditor General for Scotland  
February 2004



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