

HM Inspectorate of Education

Report on the 2009/10 Audit to HM Inspectorate of Education and
the Auditor General for Scotland

27 July 2010

The logo for Audit Scotland, featuring a stylized blue checkmark inside a circle.

AUDIT SCOTLAND

HM Inspectorate of Education

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Key messages

In 2009/10 we looked at the key strategic and financial risks being faced by HM Inspectorate of Education (HMIE). We audited the financial statements and we also reviewed the use of resources and aspects of performance management and governance. This report sets out our key findings.

Financial statements

We have given an unqualified opinion on the financial statements of HMIE for 2009/10. We have also concluded that in all material respects, the expenditure and receipts shown in the financial statements were incurred or applied in accordance with applicable enactments and relevant guidance, issued by Scottish Ministers.

Financial position and use of resources

Scotland's economy is in recession and the public sector is under the greatest financial pressure since devolution ten years ago. It will be very challenging to maintain current levels of public services and meet new demands when resources are tight. It remains unclear what impact the current recession will have beyond 2010/11. The Scottish budget is likely to reduce in real terms but the full extent of this is not yet known. Two per cent efficiency savings will not be sufficient beyond 2011 to bridge the gap between public spending and the smaller budget available. In the current economic climate difficult decisions will have to be made across the public sector about priority spending programmes

Within HMIE, we found evidence of sound financial planning and budgeting arrangements with regular reporting to senior management. Actions taken by HMIE during 2009-10 enabled savings to be made by moving to web based reporting. Further savings were achieved for training costs but these were offset by staff related cost pressures. HMIE returned £0.1m of the 2009/10 budget approved by the Scottish Government, however HMIE are aware that tighter public sector funding settlements will require the delivery of further savings. HMIE are reviewing the way it carries out its business including their approach to inspections.

HMIE achieved a net surplus of £0.13 million in 2009/10. This is the difference between the net operating costs and capital costs for the year of £15.69 million and the funding received from the Scottish Government of £15.82 million. HMIE operated within the budget limits set by the Scottish Government for capital expenditure and operating expenditure.

Scottish Ministers have agreed a resource budget of £15.56 million for 2010/11, which includes a transfer of funding for three health and nutrition inspectors. The budget for 2010/11 represents a 1.6% decrease on the 2009/10 approved budget.

HMIE's 2009/10 target under the Efficient Government Plan for the three years to 2010/11 was non-cash releasing savings of £837k. HMIE exceeded this and delivered actual savings totalling £1.087m. This was



made up of non-cash releasing savings of £795k and cash releasing savings of £292k. The delivery of future efficiency savings will be a challenge for HMIE but there may be further opportunities arising from HMIE's ongoing review of the school inspection model.

Governance and accountability

Corporate Governance is concerned with the structures and process for decision making, accountability, control and behaviour at the upper levels of an organisation. Overall the corporate governance and control arrangements for HMIE operated satisfactorily during the year, as reflected in the Statement on Internal Control.

We examined the key financial systems which underpin the organisation's control environment. We concluded that financial systems and procedures operated sufficiently well to enable us to place reliance on them.

Performance

The updated corporate plan for 2008 – 2011 was published in February 2009. The plan focuses on four key strategic priorities; building capacity for improvement; giving professional, evidence based advice and securing HMIE's own continuous improvement. HMIE's overall objective is to give assurance and bring about improvements in standards and quality through the inspection process. HMIE completed its target number of inspections for 2009/10 and achieved, or exceeded, all of its key performance indicators (for example, issuing 95% of all draft inspection/review reports within six working weeks of the end of the inspection/review process).

Looking forward

The final part of our report notes some key risk areas and issues for HMIE going forward, including some national issues which affect all public sector bodies. These include the need for continuing efficiencies in the face of future funding constraints and managing business continuity risks associated with the transfer of responsibilities to Social Care and Social Work Improvement Scotland (SCSWIS).

The assistance and co-operation given to us by Board members and staff during our audit is gratefully acknowledged.

Audit Scotland
27 July 2010



Introduction

1. This report summarises the findings from our 2009/10 audit of HM Inspectorate of Education (HMIE). The scope of the audit was set out in our Audit Plan in accordance with the Code of Audit Practice, which was presented to the Audit Committee on 10 February 2010. This plan set out our views on the key business risks facing the organisation and described the work we planned to carry out on financial statements, performance and governance.
2. Our audit work for this year has been completed with no significant issues arising.
3. Best value duties apply across the public sector and are a formal duty on all accountable officers. Audit Scotland has adopted a generic framework for the audit of best value across the public sector and this has been further developed during 2009/10 with the completion of its bank of best value Toolkits which, although primarily designed for audit use, are available to all public bodies for reference.

Exhibit 1: Framework for a best value audit of a public body



4. A linked development here has been the Scottish Government's work to refresh its 2006 best value Guidance for Public Bodies. This latter initiative, due for issue later in 2010, will result in clearer guidance to public bodies, and particularly those in the Central Government and Health sectors, on



securing continuous improvement in performance, with due regard to the balance between cost and quality.

5. Another building block for our assessment of best value is the national study programme carried out by Audit Scotland on behalf of both the Auditor General for Scotland and the Accounts Commission. Where these have a bearing on the activities, risks or performance of HMIE, we make reference to these reports in this document. Full copies of the study reports can be obtained from Audit Scotland's website, www.audit-scotland.gov.uk.
6. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by management and members of HMIE during the course of our audit. This report will be submitted to the Auditor General for Scotland and will be published on our website.



Financial Statements

7. In this section we summarise key outcomes from our audit of HM Inspectorate of Education's (HMIE) financial statements for 2009/10 and the accounting issues faced. The financial statements are an essential means by which the organisation accounts for its stewardship of the resources available to it and its financial performance in the use of those resources.

Our responsibilities

8. We audit the financial statements and give an opinion on:
- whether they give a true and fair view of the financial position of HMIE and its expenditure and income for the period in question;
 - whether they were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements;
 - the consistency of the information which comprises the Management Commentary and the unaudited part of the Remuneration Report included in the Annual Report with the financial statements; and
 - the regularity of the expenditure and receipts.
9. We also review the statement on internal control by:
- considering the adequacy of the process put in place by the HM Senior Chief Inspector as Accountable Officer to obtain assurances on systems of internal control;
 - assessing whether disclosures in the statement are consistent with our knowledge of HMIE.

Overall conclusion

10. We have given an unqualified opinion on the financial statements of HMIE for 2009/10.
11. As agreed the unaudited accounts were provided to us on 26 April 2010, supported by a comprehensive working paper package. We concluded our audit within the agreed timetable and provided our opinion to the Audit Committee on 24 May 2010 as timetabled.
12. As required by auditing standards we provided a report to the Audit Committee on 24 May 2010 which summarised the main issues arising from our audit of the financial statements. There are no significant issues that need to be highlighted.



Regularity

13. The Public Finance and Accountability (Scotland) Act 2000 imposes a responsibility on auditors that requires us to certify that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and guidance issued by the Scottish Ministers. We have been able to address the requirements of the regularity assertion through a range of procedures, including written assurances from the Accountable Officer as to his view on adherence to enactments and guidance. No significant issues were identified for disclosure.

International financial reporting standards (IFRS)

14. UK Government departments and other public sector bodies prepared their accounts in accordance with International Financial Reporting Standards (IFRS) for the first time in financial year 2009/10. The transition arrangements to IFRS required bodies to prepare IFRS shadow accounts for 2008/09, including revised opening balances as at 1 April 2008.
15. During 2009/10 we were required to review the shadow accounts and report on them to the Scottish Government by 28 February 2010. The purpose of this exercise was to consider whether the shadow accounts had been properly prepared and report any matters that might prevent them forming a reliable basis for the first set of IFRS based accounts in 2009/10.
16. The shadow accounts and supporting documentation for the 2008/09 financial year were submitted by HMIE for audit for review by the deadline date of 28 February 2010.
17. The only significant issue emerging from the production of shadow accounts was the impact of accruing for untaken holiday entitlement and flexi leave. This resulted in HMIE's restated balance sheet disclosing a net liability position as at 31 March 2009. We agreed with HMIE that if the net liability position continued in 2009/10, the matter would be disclosed in the 2009/10 IFRS based accounts. The final reported position for 2009/10 showed that movements in debtor and creditor balances during the year had eliminated the net liability position reported in the shadow IFRS accounts.



Use of Resources

18. Sound management and use of resources (people, money and assets) to deliver strategic objectives is a key feature of best value. This section sets out our main findings from a review of HMIE

- financial position
- financial management

Financial Position

Outturn 2009/10

19. HMIE is required to work within its resource budget set by the Scottish Government. In 2009/10, HMIE underspent its combined operating and capital budget by £0.13m. See Exhibit 2 below. Of HMIE's final budget of £15.92 million, £0.1 million was returned to the Scottish Government to allow it to be utilised for other projects.
20. In 2009/10 HMIE's net operating costs were £15.582 million (£15.810 million 2008/09). This reduction was due a combination of factors; lower administration costs and depreciation totalling £521k; an increase in income of £360k and an increase in staff costs of £653k.
21. HMIE's balance sheet at 31 March 2009 shows net assets of £0.235 million (2008/09 net liabilities of £0.046 million). The main factors behind this movement are a reduction in net current liabilities totalling £0.387 million, offset by a reduction in non current assets totalling £0.123 million and other movements on plant and equipment totalling £0.017m.

Exhibit 2 – Performance against resource budget 2009/10 (£ million)

Limits	Budget	Actual Outturn	Difference
Operating	15.71	15.58	0.13
Capital	0.11	0.11	-
Total	15.82	15.69	(0.13)



Scotland's public finances

22. The Auditor General's report on *Scotland's public finances, published in November 2009*, contained an overview of the financial environment in Scotland and the pressures and challenges facing the public sector. The aim of this report was to help to inform the debate on the future of public finances in Scotland. The key messages from this report were:

Extract from Auditor General's report *Scotland's public finances*

The public sector is coming under the greatest financial pressure since devolution.

- Scotland's economy is in recession and the public sector is under the greatest financial pressure since devolution ten years ago. It will be very challenging to maintain current levels of public services and meet new demands when resources are tight.
- The Scottish Government and the wider public sector need to work together to develop better activity, cost and performance information. This information is needed to enable informed choices to be made between competing priorities, and to encourage greater efficiency and productivity.

The Scottish Government faces significant challenges in balancing the budget while also delivering on its commitments and meeting increasing demands for public services.

- It remains unclear what impact the current recession will have beyond 2010/11. The Scottish budget is likely to reduce in real terms but the full extent of this is not yet known.
- In many cases, the public sector uses income from various sources to pay for services. Income levels anticipated before the recession are unlikely to be realised, reducing the amount available to spend.
- The Scottish public sector faces significant challenges in balancing its budget while also delivering on its commitments. Changes in Scotland's population and rising unemployment rates will increase demand for public services.
- Two per cent efficiency savings will not be sufficient beyond 2011 to bridge the gap between public spending and the smaller budget available.

In the current economic climate difficult decisions will have to be made about priority spending programmes.

- The Scottish Government's annual budget is largely developed on an incremental basis which involves making adjustments at the margin to existing budgets. This approach is not suitable for budgeting in a financial downturn because it does not easily allow informed choices to be made about priorities, based on robust information about activity, costs and performance.
- The Scottish Parliament has an important role in scrutinising the government's spending plans. Better information linking spending to costs, activities and service performance, and a rolling programme of performance reviews, would support the Scottish Parliament in fulfilling this role.

23. HMIE is undertaking a strategic review of its activities, including inspection principles and frameworks. The review (Shaping Up) will be conducted throughout 2010/11 and may deliver further efficiencies. HMIE is also considering the effect on its business of the transfer of some functions/responsibilities to



a new body (SCSWIS) with effect from 1 April 2011. Notwithstanding these uncertainties, there remains a need for HMIE to maintain a tight control over its use of resources during 2010/11.

Financial sustainability and the 2010/11 budget

24. Scottish Ministers have agreed a resource budget for HMIE of £15.56 million for 2010/11. The Strategic Spending Review had allocated funding of £16.02 million, but this was abated by designated savings of £0.55 million. An additional provision of £0.09 million was agreed to cover the salaries of three permanently employed health and nutrition inspectors.
25. This is to be funded as follows:

Exhibit 3 – 2010/11 Resource Plan

Limits	Budget
	£million
Operating	15.54
Capital	0.020
Total	15.56

26. Current projections forecast expenditure to be within budget in 2010/11. However, HMIE will be expected to deliver 2% of efficiency savings per year from 2009/10 to 2011/12. Savings have already been achieved in 2009/10 through the use of Government Collaborative contracts and the use of video conferencing facilities to reduce business mileage. However, delivering further savings year on year while absorbing pay inflation and other cost pressures (including recruitment and retention allowances) represents a significant challenge for the organisation.
27. Capital expenditure is budgeted to be £0.02 million for 2010/11 (£0.11 for 2009/10) and HMIE is unlikely to undertake large capital projects, given the nature of the organisation and its activities.

National Studies

28. Audit Scotland is currently developing a more flexible approach to our national performance audit programme. Our focus continues to be on value for money, economy, efficiency, effectiveness and on



governance and accountability. We have developed the following five key themes to help underpin our programme:

Managing reductions in public sector budgets: in recognition of the cost pressures facing public services, and building on and developing issues arising from our reports on Scotland's public finances and improving public sector efficiency.

Investment: looking at accountability for the use of public funds; examining the scope for reducing cost overruns and improving project management; and assessing whether investing in services with early intervention leads to better outcomes and savings in the longer term.

Partnership working: examining the value for money of partnership working and whether this way of planning and delivering services is making a real difference.

User focus and personalisation: looking across organisational boundaries and identifying cost-effective ways of delivering services which better suit people's needs at the same time as delivering savings.

Environmental auditing: reviewing how Scotland is responding to the challenges of reducing carbon emissions and adapting to climate change.

Future studies

29. *Improving energy efficiency: a follow-up report* will re-evaluate the performance of the public sector in improving its energy efficiency. HMIE completed Audit Scotland's survey for that report and prepared a climate change action plan aimed at reducing the emissions from its own activities. HMIE has also made greater use of video conferencing facilities, to reduce business travel. The follow up report will assess progress made against the recommendations in the *Improving energy efficiency report 2008*, and look at changes in public bodies' energy consumption and spending on energy since 2004/05. It will also look at how prepared participating public bodies are for the CRC Energy Efficiency Scheme. It is due to be published in December 2010.



Governance and Accountability

30. High standards of governance and accountability, with effective structures and processes to govern decision-making and balanced reporting of performance to the public, are fundamental features of best value. This section sets out our findings arising from a review of HM Inspectorate of Education (HMIE) arrangements.
31. Increasingly services are being delivered across the public sector through partnership working, sometimes involving complex governance and accountability arrangements. Best value characteristics also include effective partnership working to deliver sustained improvements in outcomes.

Overview of arrangements

32. This year we reviewed:
 - Key systems of internal control
 - Internal audit
33. Our overall conclusion is that arrangements within HMIE are sound and have operated through 2009/10. We report that key controls were operating effectively, and that HMIE has adequate systems of internal control in place.

Systems of internal control

34. Key controls within systems should operate effectively and efficiently to accurately record financial transactions and prevent and detect fraud or error. This supports a robust internal control environment and the effective production of financial statements. In their annual report for 2009/10 the Scottish Government Internal Audit Division (the internal auditors) provided their opinion that, based on the internal audit work undertaken during the year, there was substantial assurance on the adequacy and effectiveness on the systems of internal control.
35. As part of our audit we reviewed the high level controls in a number of HMIE's systems that impact on the financial statements. This audit work covered a number of areas including budgetary control, payroll (starters and leavers) and accounts payable. Our overall conclusion was that key controls were operating effectively and that HMIE has adequate systems of internal control in place. We did identify



a number of areas where controls could be strengthened and agreed an action plan of improvements with management. This will be followed up in 2010 to confirm that improvements have been made.

36. In the interests of an efficient audit approach we also rely on assurances received from the auditor of the Scottish Government on work performed on shared systems that operate at HMIE, hosted by the Scottish Government. This approach ensures we are delivering an efficient co-ordinated audit that avoids unnecessary duplication and expense.
37. The central systems assurance letter provided by the auditor of the Scottish Government concluded that there was adequate assurance for all systems except payroll and travel and subsistence. Adequate assurance is where key controls and procedures are operating to enable reliance to be placed on the system. Limited assurance was provided for the payroll system and travel and subsistence (T&S). We carried out sufficient local work to allow us to place reliance on the payroll system and T&S system. There is no impact on our overall opinion on the financial statements.

Statement on Internal Control

38. The Statement on Internal Control provided by HMIE's Accountable Officer reflected the main findings from both external and internal audit work. This recorded management's responsibility for maintaining a sound system of internal control and set out HMIE's approach to this.

Internal Audit

39. The establishment and operation of an effective internal audit function forms a key element of effective governance and stewardship. We therefore seek to rely on the work of internal audit wherever possible and as part of our risk assessment and planning process for the 2009/10 audit we assessed whether we could place reliance on HMIE's internal audit function. We concluded that the Scottish Government Internal Audit Division operates in accordance with the Government Internal Audit Manual and therefore placed reliance on their work in number of areas during 2009/10, as we anticipated in our annual audit plan. This included reliance on aspects of internal audit's systems work to avoid duplication of effort

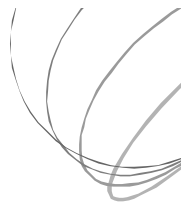
Prevention and detection of fraud and irregularities

40. During the audit we examined client procedures for recording staff expenditure (e.g. travel), gifts and hospitality. We also reviewed HMIE's Code of Conduct, which is based on the Scottish Government model. We are satisfied that HMIE has appropriate arrangements in place to prevent and detect fraud, inappropriate conduct and corruption, including policies and codes of conduct for staff and Board members.



National Studies

41. In August 2010, Audit Scotland will be publishing a national study on *The Role of Boards* which will be relevant to the governance of HMIE. Boards play a crucial role in ensuring that governance standards are maintained in public sector organisations. There are recent examples of the failure of public sector organisations to establish an adequate Board. We will assess how Board members are selected and whether the membership of Boards is appropriate. In this study we will also review how the performance of Boards is measured and the arrangements for induction and training for non-executive members. Feedback relating to HMIE will be provided in due course where appropriate.



Performance

42. Public audit is more wide-ranging than in the private sector and covers the examination of, and reporting on, performance and value for money issues. Key features of best value include:
- setting a clear vision of what the organisation wants to achieve, backed up by plans and strategies to secure improvement, with resources aligned to support their delivery;
 - a performance management culture which is embedded throughout the organisation and a performance management framework which is comprehensive and supports the delivery of improved outcomes.
43. In this section we comment on:
- HMIE's corporate plan (vision and strategic direction)
 - performance against targets
 - performance management arrangements

Vision and strategic direction

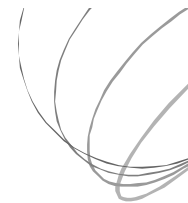
44. HMIE's principal activity is to promote improvements in standards, quality and attainment in Scottish education through first hand, independent evaluation. HMIE published its corporate plan for 2008 – 2011 in February 2009. The corporate plan focuses on four strategic priorities:
- Giving assurance and bringing about improvement in standards and quality through inspection and review
 - Building capacity for improvement
 - Giving professional, evidence based advice
 - Securing HMIE's continuous improvement.
45. By achieving these objectives, HMIE expects to contribute to the Scottish Government's strategic priorities and its related national outcomes and indicators.
46. The Public Sector Reform Bill (as amended), received Royal Assent in March 2010. The Bill contains provisions which will transfer HMIE's responsibilities for child protection inspection to a newly formed scrutiny body, (SCSWIS). However, HMIE's core activities are unlikely to change in the short term.



Scrutiny Co-ordination

47. Following the publication of the Crerar report in September 2007, the Scottish Government's response stated its aim of establishing a simplified and coherent approach to delivering local government scrutiny. A key aspect of this agenda is to better coordinate and streamline scrutiny and achieve greater effectiveness, whilst at the same time protecting the independence of scrutiny bodies.
48. In February 2008, the Accounts Commission was asked to take on the transitional gatekeeping role in respect of the scrutiny of local government. The local government scrutiny coordination strategic group was established to set priorities and oversee development activity. The following key priorities were subsequently agreed:
- Improving the planning and scheduling of scrutiny activity.
 - Developing a single corporate assessment.
 - Implementing a shared risk assessment framework.
49. The strategic group established an operational group to carry out the necessary detailed work in respect of these priorities. The group is made up of representatives from HMIE and other scrutiny bodies including Social Work Inspection Agency, NHS QIS, Care Commission, Scottish Housing Regulator, COSLA and Audit Scotland.
50. The most recent update to the Cabinet Secretary (January 2010) noted that:
- Local Area Networks (LANs) have been established to carry out a Shared Risk Assessment for each of the 32 councils, formally bringing together existing local scrutiny contacts including district inspectors, local auditors and contact managers for the first time. Each LAN was expected to produce a finalised local Assurance Improvement Plan by April 2010.
 - The Strategic Group has approved a draft Joint Code of Practice which will provide the governance framework for scrutiny improvement work in future. The Code has enabled the Group to clarify the roles and responsibilities of each of the scrutiny bodies involved and the Code is supplemented by practitioner guidance for LAN members.

These developments have been taking place during a time of significant reorganisation for scrutiny bodies. HMIE have had an active role in establishing, and developing, LANs across all 32 councils. We will continue to monitor HMIE's involvement in this important initiative.



Performance overview

51. HMIE's four strategic priorities are set out in Section 1 of its Framework Document and are underpinned by an extensive suite of key targets and performance indicators. Performance against the key indicators is analysed in HMIE's Annual Report for 2009-10.

- Strategic priority 1 – The key measures relate predominately to inspections, follow up reviews and the publication of reports. HMIE did not set a target for inspections but completed 785 inspections (708 in 2008/09) plus inspections of 48 learning communities in those local authorities which had not yet had these services inspected. HMIE also achieved its target to have 95% of all draft inspection/review reports issued within 6 working weeks (12 weeks in 2008/09) of the end of the inspection/review.
- Strategic priority 2 – A range of advice on self evaluation was published by HMIE in 2009/10. In addition, HMIE continued to add publications to its website on current practice in schools and colleges. HMIE held a number of conferences and seminars to disseminate and encourage the uptake of good practice in key sectors and aspects of education.
- Strategic priority 3 - Four targets relate to the provision of professional, evidence based advice. All of the targets were achieved, including establishing and building links with key organisations across the UK and abroad.
- Strategic priority 4 – Eight indicators relate to securing HMIE's own continuous improvement. Indicative performance was achieved in all eight indicators, including delivery of savings required under the Efficient Government agenda and taking forward approached to improving and maintaining the health of HMIE staff.

Performance management

52. The HMIE Board regularly reviews performance against the corporate plan, through quarterly performance reports. The reports are discussed in Board meetings and action taken and reported to resolve any issues.

Risk management

53. There a number of key challenges and risks for the Board in delivering its corporate plan. The Board is responsible for identifying, managing and reviewing corporate risks and the effectiveness of actions identified to control these risks. The Board has put in place robust systems for the identification and management of risk and established a Risk Management Group. The Risk



Management Group is responsible for overseeing risk management processes, monitoring the effectiveness of the Risk Management Policy and reporting to the Board and the audit and risk Committee.

54. A long standing risk to HMIE is that the organisation fails to recruit sufficient staff and of appropriate quality/expertise in time to meet operational needs in accordance with relevant legislation and Scottish Government policy. HMIE have taken steps to address this risk including working with the Scottish Government to ensure that salaries and working conditions are competitive.
55. The risks as identified by HMIE are complex and comprise multiple issues which will require careful management to resolve. The impact of the provisions of the Public Sector Reform Bill may also mean for HMIE that new risks emerge as part of managing any reorganisation of functions and remit. The new HM Senior Chief Inspector took up his post in February 2010, which will help HMIE move forward and we will continue to monitor the Agency's progress in each of these areas over the course of the next year.

Improving public sector efficiency

56. The Audit Scotland report *Improving public sector efficiency* was published on 25 February 2010. It provides a position statement on the first year (2008/09) of the Efficient Government Programme (the Programme), which aims to deliver £1.6 billion efficiency savings over the three years to 2010/11. It also gave an update on how the Scottish Government and public bodies have addressed the recommendations made in the 2006 report about the previous efficiency programme.
57. The report found that Scottish public bodies reported more efficiency savings than the Government's two per cent target. But there are serious financial challenges ahead – the biggest since devolution – and making the required savings through efficiency will become increasingly difficult.
58. The report recommended that to deal with reduced future funding and increase savings public bodies need to consider fresh approaches to improving efficiency and productivity. They must take a more fundamental approach to identifying priorities, improving the productivity of public services, and improving collaboration and joint working.
59. The drive to improve efficiency and productivity is not just an exercise for managers and service providers. It requires strong leadership and engagement from the very top of public bodies. Leaders and senior decision-makers within an organisation have a responsibility to check, challenge, monitor and support their organisations in delivering efficiency and productivity improvements. The report's recommendations highlighted areas that public bodies' key decision makers should look at to assess their organisation's development and to challenge existing arrangements (see below).



Extract from Audit Scotland report *Improving public sector efficiency*

In order to improve the delivery of efficiency savings public bodies should:

- ensure they have a priority-based approach to budgeting and spending
- continue to improve collaboration and joint working, overcoming traditional service boundaries
- consider using alternative providers of services, if these providers can improve the efficiency, productivity or quality of services
- improve information on costs, activity, productivity and outcomes, including setting baselines to measure performance against
- give greater urgency to developing benchmarking programmes
- maintain the momentum of activities and initiatives to improve purchasing and asset management and extend shared services
- ensure there is a joined-up approach to efficiency savings across the public sector, avoiding duplication
- ensure that plans are in place to deliver savings, clearly setting out what action will be taken, the level of savings to be delivered and how these will be measured
- strengthen the involvement of front-line staff, service providers and users in redesigning public services
- reduce reliance on non-recurring savings to meet financial targets and generally use these as part of a wider and longer term strategy
- report efficiency savings consistently.

60. To support these high-level recommendations, Audit Scotland, the Northern Ireland Audit Office and the Wales Audit Office have drawn on their combined experience to develop a detailed good practice checklist. The checklist is intended to promote detailed review and reflection and, if necessary, a basis for improvement. We recommend that those responsible for leading efficiency and improvement work should consider assessing themselves against each question, and recording the results.
61. HMIE's target for the Efficient Government Plan was to deliver non-cash releasing savings of £0.837 million through a more proportionate school inspection model. HMIE exceeded this target by delivering £1.087 million savings (£0.795 million non-cash releasing and £0.292 million of cash releasing savings). This was achieved through the use of Scottish Government Collaborative Contracts and the use of video conferencing facilities to reduce business mileage. All HMIE publications became web based in 2009/10, which resulted in further savings (printing costs).
62. HMIE is required to deliver 2% cash releasing efficiency savings for 2010/11, while absorbing pay and cost inflation. This will prove difficult for HMIE as its main costs are driven by inspection activity (staff costs, T&S and publication costs).



Looking Forward

63. HMIE faces a number of challenges in 2010/11, which include:

- **Efficiencies and future funding** - Scottish public bodies reported more efficiency savings than the Government's two per cent target in 2008/09, but there are serious financial challenges ahead – the biggest since devolution – and making the required savings through efficiency will become increasingly difficult. To deal with reduced future funding and increase savings fresh approaches to improving efficiency and productivity must be considered, taking a more fundamental approach to identifying priorities, improving the productivity of public services, and improving collaboration and joint working. HMIE needs to find savings over the next three years to achieve financial balance. The challenge for HMIE is to prioritise spending, identify efficiencies and review future commitments to ensure delivery of key targets and objectives.
- **Transfer of functions to SCSWIS** – The work to establish SCSWIS is progressing to plan, with HMIE's responsibilities for child protection inspection due to transfer from April 2011. It is envisaged that the staff associated with this work will transfer under TUPE arrangements and work to identify the staff affected is underway. These changes may impact on HMIE's future strategy and plans and we will continue to monitor the impact of these as part of our 2010/11 audit.
- **Financial management and affordability** - Scottish Government spending is set to decline significantly in the next few years as UK public finances come under increasing pressure. Effective budget monitoring and reporting arrangements will be crucial to HMIE achieving its financial targets within tighter funding settlements. We will consider HMIE's financial management arrangements as part of our 2010/11 audit.
- **Best Value** - The concept of best value is seen as a key driver of modernisation and improvement in public services. Audit Scotland has continued its commitment to extending the best value audit regime across the whole public sector and significant development work has taken place over the last year including the finalisation of its best value toolkits. This has been matched by the Scottish Government's commitment to refreshing its Best Value Guidance for Public Bodies. HMIE should continue to respond to this important initiative as it develops