

# Finance committee: inquiry into accountability and governance

## Submission from Robert W Black, Auditor General for Scotland

### 1. Introduction

- 1.1. I am pleased to have the opportunity to contribute evidence to the Finance Committee's inquiry. You have asked for comment from Audit Scotland's perspective in two areas: our role as auditor of public bodies, including independent, investigatory and regulatory bodies and, secondly, in terms of the process for the scrutiny of our budgets by the SCPA.
- 1.2. I would also like to take the opportunity to provide some background on another area of interest to your inquiry. The Committee's inquiry remit includes examining:  
*"the growth in the number of independent, regulatory and investigatory bodies and the associated growth in funds allocated since devolution"*.
- 1.3. Audit Scotland is concerned to ensure that audit, inspection and regulation work is undertaken in a way which provides assurance and helps to improve public services while minimising costs and burdens. As the single public audit agency for Scotland, we arrange for the audit of over 200 audited bodies, involving annual spending of over £27 billion.
- 1.4. Your inquiry is considering the role of independent, regulatory and investigatory bodies. It may be helpful to describe briefly the roles of the different types of body and how they relate to each other.
- 1.5. The first point to make is that there are different and distinct reporting arrangements for the various bodies. The audit process provides independent reports to Parliament, Ministers and the public on whether public money is being spent properly, wisely and well. Inspectors and regulators generally report to Ministers rather than to Parliament, although their reports are generally public documents. The Ombudsman and the various commissioners make public reports on specific issues and report annually to Parliament.
- 1.6. The second point is that the approaches of audit, inspection, investigation and regulation are distinct but complementary
- 1.7. **Audit** is the scrutiny of public bodies, covering their corporate governance and management, the financial statements and underlying financial systems; and performance, performance management and reporting.
- 1.8. **Inspection** is periodic, targeted scrutiny of specific services, to check whether they are meeting national and local performance standards, legislative and professional requirements, and the needs of service users.
- 1.9. **Regulation** focuses on providing a licence to operate and monitoring the quality of services provided. Regulation may also include elements of service inspection, and can be designed to drive up quality as well as to enforce standards.

1.10. In considering the growth of regulatory and investigatory bodies since devolution, it may be useful for the committee to consider the different remits that those bodies have against the above framework.

1.11. The processes of audit, inspection and regulation can be collectively called “scrutiny”. The various scrutiny bodies in Scotland have already put significant effort into working together to minimise the burden imposed on public bodies, while achieving our aims of accountability and improvement. This has been achieved primarily through the joint scrutiny forum and the inspectorate’s forum and through active and strong bilateral agreements. We could go further in a number of areas:

- Agreeing common principles
- Developing a shared code of practice
- Agreeing a joint scrutiny plan and programme
- Increasing information sharing
- Sharing resources and expertise
- Sharing best practice.

1.12. We also believe that scrutiny bodies should have a shared set of common principles, for example, that scrutiny should be:

- Risk-based and proportionate
- Independent
- Accountable
- Transparent
- Based on an agreed set of standards, to which the sector under scrutiny has contributed.

1.13. Agreement and consistency over the principles and practice of scrutiny would provide assurance to stakeholders and those scrutinised that arrangements are proportionate, and assurance to the public that scrutiny is independent and transparent.

## **2. Detailed comments**

You asked for views on specific points. These are set out below.

### ***2.1. How can budgetary control be balanced with independence?***

2.1.1. Effective budgetary control must sit within transparent and informative public reporting, because public reporting is the main accountability mechanism. Prime responsibility for effective budgetary control lies with the designated accountable officers. This arrangement applies to the functions of audit, inspection, regulation, the ombudsman and commissioners as it does to all other public bodies. Audit, as I have described, provides the independent assurance that budgets are being properly managed by accountable officers, including scrutiny and standards bodies.

2.1.2. Budgetary control must be distinguished from the setting of budgets. It is for those in charge of public bodies to estimate and apply for the resources that they need using the established systems and procedures that ultimately result in formal Parliamentary approval of budgets.

- 2.1.3. It is noted that the Finance Committee inquiry arose from its review of the proposed budgets for the Ombudsman & Commissioners. Parliament has set out in statute the responsibilities of the Ombudsman and Commissioners. It is for the office holders to determine how they should deliver against those responsibilities and to identify the resources required to achieve their objectives. This should be set out clearly in a business plan which will identify the main priorities of the body, expected outcomes and performance targets. In preparing their plans, it is for the Ombudsman/Commissioners to consider affordability and demonstrate value for money.
- 2.1.4. The SPCB (and subsequently the Finance Committee) can scrutinise the budget proposals to ensure they are robust and appropriate, before budgets are approved by Parliament. In my opinion, all of this happens in an open and transparent way, with opportunities throughout for the Ombudsman/Commissioners to submit a reasoned case for the resources that they require and to demonstrate value for money.
- 2.1.5. By statute, the Ombudsman/Commissioners are required to present annual reports to Parliament setting out what has been achieved. Should their ability to deliver their objectives or indeed their independence be compromised in any way, then it would be appropriate for them to highlight this in their annual reports. In practical terms, however, it is likely that any such issues would be identified and dealt with through routine business dealings.
- 2.1.6. Since the external audit also has a role to play in monitoring these activities, in the event of serious difficulties emerging the Auditor General for Scotland could make a report to Parliament.

**2.2. *Is it possible to implement section B2 of the UN Paris Principles and retain suitable budgetary controls?***

- 2.2.1. Yes.

**2.3. *What internal process occurs to establish Audit Scotland's required budgets for each financial year?***

- 2.3.1. Audit Scotland provides services for both the Auditor General and the Accounts Commission for Scotland. Each year a budget is prepared setting out the resources required for Audit Scotland to deliver the work programmes of the Auditor General and the Accounts Commission. This budget is considered by the Audit Scotland Board who consult with the Auditor General and the Accounts Commission regarding the charges to be made upon audited bodies to recover audit costs. It is for the Auditor General and the Accounts Commission to formally determine the charges. A budget submission is made to the SCPA for the balance of funding that is needed for the work that is not covered by charges to audited bodies. The SCPA considers and questions the Auditor General, in his capacity as accountable officer of Audit Scotland, before making its report recommending an allocation of resources. The Audit Scotland Board gives final approval to the budget annually.

**2.4. What is your view on how the process for scrutinising your budgets works in practice?**

- 2.4.1. Audit Scotland has a robust set of governance arrangements with appropriate opportunities for our budget to be scrutinised. Our governance arrangements include the Audit Scotland Board, which has an Audit Committee and a Remuneration Committee. The Board is limited by statute to five people. It consists of the Auditor General (who is the accountable officer), the Chair of the Accounts Commission (who chairs the Board) and it has two non-executive members. One non-executive member is a member of the Accounts Commission, and the other was appointed following advertisement. The Deputy Auditor General is an executive member of the Board and the Managing Director of Audit Services also attends
- 2.4.2. When the Audit Scotland Board is scrutinising the Audit Scotland budget, it therefore has a well-balanced range of stakeholder representatives and independent challenge.
- 2.4.3. The SCPA scrutinise our budget annually. It is supported in this work by the Parliament's Audit Advisor. The SCPA also appoints Audit Scotland's auditors who report directly to them on our annual accounts, and conduct economy, efficiency and effectiveness reviews of Audit Scotland.
- 2.4.4. The SCPA now opens its meetings to members of the public and a record of its meetings are placed on the Parliament's web site.
- 2.4.5. The SCPA perform an important and effective role in scrutinising the Audit Scotland budget. Their interest in Audit Scotland's effectiveness is clear and transparent, and the process ensures our accountability to those we serve, but in a way that maintains our independence.

**2.5. Do you have any observations to make about the differences which exist between the various commissioners and ombudsman and the above regulatory and investigatory bodies in terms of lines of accountability and budgetary control?**

- 2.5.1. The main components of budget setting and budgetary control should be broadly similar regardless of the lines of accountability. The essential difference is in the lines of accountability and the extent to which the bodies are associated with the Parliament or with the Executive. All of these bodies conduct their business in the public eye, and operate in an open and transparent manner. They are all subject to the public audit regime that I have described

**2.6. How does Audit Scotland go about assessing whether these bodies provide value for money? Are there any difficulties with this process due to the independent nature of these bodies?**

2.6.1. We have not so far undertaken any specific value for money studies to assess whether the bodies provide value for money. I would not anticipate the independent nature of the bodies would compromise our ability to undertake value for money studies or that such studies would impact upon their independence. As part of our annual audit we may comment on the arrangements the bodies have in place for securing value for money.

2.6.2. We are currently finalising a review of “shared services” across the Ombudsman & Commissioner offices which we carried out at the request of the SPCB Accountable Officer. Our review also included an examination of the accountability arrangements. We would be happy to share that report with the Committee when it is finalised.