



AUDIT COMMITTEE

AGENDA

6th Meeting, 2003 (Session 1)

Tuesday 18th March 2003

The Committee will meet at 2.00 pm in Committee Room 3 to consider the following agenda items:

1. **Items in private:** The Committee will decide whether to take agenda items 6, 7 and 8 in private.
2. **Individual Learning Accounts in Scotland:** The Committee will receive a briefing from the Auditor General for Scotland on his report entitled 'Individual Learning Accounts in Scotland' (AGS/2003/3).
3. **Overview of the 2001/02 Water Authority Audits:** The Committee will consider a further response from the Scottish Executive on the report by the Auditor General for Scotland entitled 'Overview of the 2001/02 Water Authority Audits' (AGS/2002/7).
4. **Measuring Up: A Follow Up Report on Performance Measurement in the Scottish Environment Protection Agency:** The Committee will consider a response from the Scottish Executive to its report entitled 'Measuring Up: A Follow Up Report on Performance Measurement in the Scottish Environment Protection Agency' (SP Paper 739).
5. **How Government Works in Scotland:** The Committee will consider a response from the Scottish Executive to its report entitled 'How Government Works in Scotland' (SP Paper 753).
6. **Individual Learning Accounts in Scotland:** The Committee will consider its approach to the report by the Auditor General for Scotland entitled 'Individual Learning Accounts in Scotland' (AGS/2003/3).
7. **Legacy paper:** The Committee will consider a revised draft Legacy paper for the successor Audit Committee in the next session of the Scottish Parliament.
8. **Dealing with Offending by Young People:** The Committee will consider a draft report on its inquiry into the report by the Auditor General for Scotland entitled 'Dealing with Offending by Young People' (AGS/2002/8).

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The papers for this meeting are as follows:

Agenda Item 2

Report by the Auditor General entitled 'Individual Learning Accounts in Scotland' [AGS/2003/3](#)

Note from the Auditor General [AU/03/06/1](#)

Agenda Item 3

Response from the Scottish Executive [AU/03/06/2](#)

Agenda Item 4

Response from the Scottish Executive [AU/03/06/3](#)

Agenda Item 5

Response from the Scottish Executive – paper to follow [AU/03/06/4](#)

Agenda Item 7

Draft Committee Legacy paper PRIVATE PAPER

Agenda Item 8

Draft Committee report PRIVATE PAPER

SCOTTISH PARLIAMENT AUDIT COMMITTEE

MEETING 18 MARCH 2003

REPORT BY THE AUDITOR GENERAL FOR SCOTLAND

INDIVIDUAL LEARNING ACCOUNTS IN SCOTLAND

Individual Learning Accounts were a UK-wide scheme aimed at increasing adult participation in education and training by offering an opportunity to obtain discounts on the costs of a wide range of eligible learning. The report examines the administration of the ILA scheme in Scotland, and identifies the reasons for the non-compliant and potentially fraudulent activity by learning providers which led to its closure in December 2001. There are clear lessons to be learned for a successor scheme.

The report indicates that the public bodies which administered the ILA scheme could have introduced a number of measures to help reduce the risk of improper activity by learning providers. These include a greater involvement by the Scottish Executive Enterprise and Lifelong Learning Department (ELLD) in the design and implementation of the scheme; the adoption of better risk management procedures; formal accreditation of learning providers; an improved overall control environment; clearer guidance on the operation and administration of the scheme; and, the prompt introduction of effective monitoring and audit arrangements.

The report indicates that Scottish Enterprise and Highlands and Islands Enterprise estimate that up to £4.5 million of claims received under the ILA scheme in Scotland (out of a total £18.8 million received) may be irregular. Some 98% of the £4.5 million relates to claims received by Scottish Enterprise.

ELLD and the two enterprise bodies have identified 28 learning providers where they believe there is the highest risk of fraudulent activity having taken place. Acting on Crown Office instruction, the police have now executed search warrants in relation to 10 of these learning providers. ELLD and the two enterprise bodies are also currently seeking administrative recovery of monies paid in error to learning providers who have not strictly complied with the rules of the scheme but are not suspected of fraudulent activity.

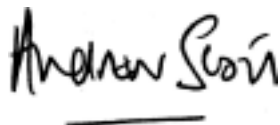
The Scottish Executive intends to re-launch the ILA scheme in 2003/04 and is continuing to develop proposals for the successor scheme. It has identified the key lessons from the original scheme but should take time to consider fully the implications of its proposals and how to safeguard any replacement scheme from fraud and improper activity.

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I understand that the Auditor General for Scotland intends to return to these topics in his review on Scottish Water's first year of operation. I should be happy to provide further explanation in the light of his report.

Yours sincerely



ANDREW SCOTT



SCOTTISH EXECUTIVE

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Dear Mr Welsh

**AUDIT COMMITTEE 1ST REPORT 2003: MEASURING UP? A FOLLOW UP REPORT
ON PERFORMANCE MEASUREMENT IN THE SCOTTISH ENVIRONMENT
PROTECTION AGENCY**

Thank you for your letter of 16 January about the Audit Committee's report, published on 15 January, on performance measurement in the Scottish Environment Protection Agency.

I am encouraged that the Audit Committee's report, and the Auditor General's report on which it is based, are positive about the progress made by the Executive and SEPA in developing the Agency's performance management systems. As the Committee acknowledges, the Executive has issued guidance to SEPA and put the Executive's policy priorities on a more formal footing. These are designed to assist SEPA to produce more meaningful, outcome-based targets that are focussed on the Executive's priorities and are able to measure SEPA's performance towards helping improve Scotland's environment.

Improvements in the performance framework are in a transitional phase, and we will ensure that SEPA continues to revise its performance measures to ensure that they provide clear indicators of environmental quality. This is not an easy task, as the Committee has heard in evidence. Progress in some areas is difficult to quantify and agents other than SEPA can affect delivery of outcomes. However, the new policy framework will assist SEPA to focus on the key priorities identified by the Executive. Performance targets to achieve these policies are agreed with the Agency through the annual corporate planning process. We will continue to seek to improve these targets and review the corporate planning arrangements with the aim of providing a full suite of outcome-based performance indicators.



The Committee has made two specific recommendations:

With regard to the accuracy of SEPA's performance results, we recommend that SEPA and the Department produce a written agreement on the methods of verification to be used and how they might be improved.

The Department supports the intention of this recommendation, as we are clear about the need for confidence in the results reported by sponsored bodies.

The Department has no reason to doubt the accuracy of SEPA's performance information. Nevertheless, I agree that the methods of quality control, quality assurance and verification of SEPA's key performance information need to be set out formally. I also agree that the Department should review these controls to satisfy itself that the methods are acceptable and to identify any areas requiring improvement. I would expect SEPA and the Department to have completed an initial round of this process before publication of SEPA's 2002-03 annual report.

I do not see a case for regular check auditing of the performance of sponsored bodies by the Department. This would create significant additional bureaucracy and, in the Executive's view, add little value over and above the performance audit service provided by Audit Scotland.

The Committee is concerned that SEPA has performance indicators that are inherently difficult to measure. We recommend that future information provided to Parliament reflect actual performance and, where SEPA perceive difficulties, for this to be recorded within annual reports.

I readily acknowledge that unless appropriate data systems are in place, it is difficult to quantify SEPA's performance against targets accurately. SEPA has taken steps to address this. For example, it is improving waste data collection to ensure it can measure and report the direction of key indicators in a consistent and comprehensive national format. Since giving evidence to the committee, we have also announced plans to significantly improve emissions data in the next 2 years.

It is clearly important that the Executive is able to measure SEPA's success, or otherwise, across the whole of the Agency's business. We strive to ensure that SEPA's key corporate targets use SMART (Specific, Measurable, Achievable, Relevant and Time-Specific) measures, wherever it is practicable to do so. SEPA's Corporate Plan already includes a number of good examples of such targets, notably in the water quality area. The Executive is working with SEPA to ensure that a wider range of SMART targets is developed to progressively cover a much broader range of activities.

I believe this combination of better data and SMART targets will address the Committee's recommendation. I expect to see progress in the 2003-04 Corporate Plan, especially in priority areas such as waste. Setting SMART targets in some other areas depends on first improving emissions data to define baselines from which improvements can be measured. As noted above, the data programmes are being put in place to create these baselines and I therefore expect to see progress in successive corporate plans.

The Department will continue to engage fully and closely with SEPA to address all the issues identified by the Committee. We will also seek to improve procedures and performance measures in the light of the Policy and Financial Management Review of SEPA.

I am grateful for the opportunity to comment on the Audit Committee's Report.

Yours sincerely

A handwritten signature in black ink, appearing to read 'John Graham'.

John Graham

**AUDIT COMMITTEE SECOND REPORT 2003
'HOW GOVERNMENT WORKS IN SCOTLAND'**

**RESPONSE OF THE SCOTTISH EXECUTIVE FINANCE AND CENTRAL
SERVICES DEPARTMENT**

INTRODUCTION

1. The Department welcomes the Committee's report and offers its reply in relation to individual conclusions and recommendations in the following paragraphs. Those recommendations which are for Audit Scotland to consider are excluded. However, the Department would wish to note that it welcomes the publication of 'How Government Works in Scotland.' The report provides a very useful mapping of the structure and management of government in Scotland. The Scottish Executive was pleased to contribute to the report.

COMMITTEE'S CONCLUSIONS

The Executive's guidance on the establishment and independence of NDPBs will be crucial in ensuring that there is consistency in the relationships between sponsored bodies and Executive departments.

2. The Department agrees that the guidance material is key to the relationship between sponsored bodies and Executive departments. However, it does not agree that there should be absolute consistency in every aspect of that relationship, given the diversity of public bodies in Scotland, in both size and function. The guidance provides a framework for the relationship.

3. The Committee were sent a copy of the guidance material that has been completed to date on 9 January 2003 and a copy is available in SPICe.

4. Since the review of public bodies in 2001, The Executive has been looking at ways to ensure that public bodies deliver advice and public services of the highest possible standard. Issues such as corporate governance and accountability are key. Work includes:

- Progressing with the abolition or review of 113 public bodies as identified in *Public Bodies: Proposals for Change*, the report which accompanied the Public Bodies Review. An update was sent to the Committee on 16 December 2002;
- the publication in February 2003 of an induction pack for board members;
- internal guidance and training for Scottish Executive staff covering the range of activities relating to public bodies including, for example, corporate governance and financial management, drawing on the principles in *Public Bodies: Proposals for Change*;
- the launch of the Public Bodies and Appointments Website in July 2002, providing a wide range of information on Public Bodies and Public Appointments in Scotland¹

¹ Link: www.scotland.gov.uk/government/publicbodies

- the publication in July 2002 of a Guide to Public Bodies in Scotland;
- the set up of the Standards Commission for Scotland which, through Codes of Conduct, will set out the standards of behaviour expected of local councillors and members of public bodies;
- the Public Bodies and Appointments Etc (Scotland) Bill which included provision for the establishment of a Scottish Commissioner for Public Appointments. The Bill was passed by Parliament on 5 February 2003; and
- a range of activities designed to encourage a more diverse range of people to come forward for public appointments, including a Parliamentary Notification System. Work is ongoing to centralise further some of the procedures relating to public appointments to ensure compliance with the Commissioner for Public Appointments' Code.

The Committee's experience in relation to earlier inquiries is such that it is not convinced that the Executive's "early warning" systems are sufficiently consistent or robust

5. The Executive has been embedding a risk management process since 2000 which includes NDPBs as well as the wider group of public bodies. Guidance on risk management is contained within the Scottish Public Finance Manual. This guidance also applies to public bodies through the responsibilities which are delegated to Accountable Officers. The Accountable Officer (often the Chief Executive) is required to ensure that risks, whether to the achievement of business objectives, regularity, propriety or value for money, are identified, that their significance is assessed, and that systems appropriate to the risks are in place in all relevant areas to manage them. A statement on the system for internal control (SIC) for inclusion in the annual report and accounts is also required.

In earlier inquiries the Committee has examined areas where there have been breakdowns in corporate governance systems and, accordingly, the Committee believes that the Executive needs to specifically examine corporate governance arrangements in individual public service sectors and to assess whether they are fit for purpose.

6. *Public Bodies: Proposals for Change* sought to clarify the corporate governance and accountability arrangements for public bodies. Sponsor teams have been issued guidance on corporate governance. The suite of controls – the Corporate Plan, the grant in aid letter, the annual report and accounts and, in particular, the Management Statement and Financial Memorandum, seek to define roles and responsibilities and ensure corporate governance and accountability arrangements are suitable.

REPORT RECOMMENDATIONS

The Committee recommends that the Executive produce a protocol setting out the types of issues within sponsored bodies which merit a particular response at a particular level – for example it should set out broad criteria for the circumstances and timescales in which Ministers should be alerted to emerging problems within sponsored bodies.

7. At present, there are a number of ways the Executive seeks to achieve this. A model Management Statement and Financial Memorandum form part of the Scottish Public Finance Manual and this is supplemented by additional guidance for sponsor teams. This defines the relationship between the NDPB and the sponsor department, and the parameters for that relationship; in particular respective responsibilities and lines of accountability. It also defines the roles and responsibilities of the sponsor Minister and Department in monitoring and facilitating the NDPB's work. This is supplemented by other guidance. It would be very difficult to establish a generic protocol which could apply to all bodies, given their diversity of size and function, and the Executive has no plans to do so.

The Committee recommends that the Heads of Scottish Executive sponsor departments ensure that public bodies within their remit have in place appropriate training and advice for board members. The Committee further recommends that providing such training should be a key indicator in the Performance and Financial Management Review cycle.

8. The Executive published an induction pack for Board members on 28 February. This has been sent to all NDPB board members and a copy has been placed in SPICe.

9. *Public Bodies: Proposals for Change* made it clear that training and information requirements will vary from Board to Board, depending on both the type of body and the nature of its functions. Each Board, in consultation with the relevant Department in the Scottish Executive, should ensure that tailored induction and ongoing development packages are made available that are relevant to the Board's functions. In particular there is an expectation that non-Executive directors of Executive NDPBs should receive training on risk assessment and financial and project management.

The Committee recommends that the Executive examine whether corporate governance arrangements in each devolved public service sector are fit for purpose given the increasing proportion of resources under their control. The results of this exercise should be published and should identify those areas where further review and development of corporate governance arrangements is required.

10. *Public Bodies: Proposals for Change* sought to clarify the corporate governance and accountability arrangements for public bodies.

11. Sponsor teams have been issued guidance on corporate governance. As stated above, the suite of controls seek to define roles and responsibilities and ensure corporate governance and accountability arrangements are suitable. The Executive does not wish to conduct a wide-ranging review at this point in time, but will consider further as part of the ongoing programme of work.

In addressing how performance against targets should be publicly reported, the Committee recommends that Ministers give consideration to publishing a single annual document that, as a minimum, sets out performance against the targets outlined in the budget documents.

12. “Recording Our Achievements” did of course set out our performance against targets in a single document. Ministers have not however committed themselves to repeat productions of that particular type of document on an annual basis – this will be reviewed post election. Although we cannot give firm commitments about how performance will be reported, we can give firm assurances that there will be public reporting (and indeed these commitments have already been made in *Building a Better Scotland* and follow up statements). As a minimum, performance on the 105 targets will be reported on in our budget documents.

13. The Executive has set out 105 detailed targets in *Building a Better Scotland*, along for the first time with detailed technical notes setting out how these are defined, and how and by whom progress will be measured. We will publish regular information on progress on these targets, for example, in future budget documents.

The Committee recommends that the Executive conduct a wide-ranging review of accountability for cross cutting initiatives. This review should address transparency of financial arrangements for local partnership bodies, such as Drug and Alcohol Action Teams, examining in particular monitoring systems to ensure that funds spent provide value for money and deliver the required results.

14. The Executive agrees that this is an important area. We have already taken forward a lot of work on these issues and continue to explore ways of ensuring that resources – including those allocated on a partnership basis - are properly targeted and deliver tangible improvements in public services.

**Scottish Executive
March 2003**