

Audit Scotland's annual statement on sustainable economic growth for 2015/16

The Public Services Reform (Scotland) Act 2010, section 32(1)(a) requires listed public bodies to publish a statement on sustainable economic growth as soon as possible after the end of the financial year.

The following statement sets out the steps that Audit Scotland has taken in 2015/16 to promote and increase sustainable growth through the exercise of its functions. Further information on this and our audit work is contained in our Annual Report and Accounts 2015/16 which is on our website at www.audit-scotland.gov.uk

Introduction

Audit Scotland is a statutory body that supports the Auditor General and the Accounts Commission in making sure public money in Scotland is used properly, efficiently and effectively by undertaking audits and investigations of Scottish public bodies. To ensure objectivity in our work, Audit Scotland is independent of the Scottish Government and ministers.

Sustainable economic growth and contribution to the Scottish Government's National Performance Framework

Strong and effective public services play an important part in ensuring sustainable economic growth. Public audit provides assurance to financial markets, investors and key decision makers that public money is well managed and that governance arrangements for public services are sound.

Audit Scotland has an interest in the extent to which the Scottish Government is making progress against the outcomes contained in the National Performance Framework. We do this by carrying out performance, Best Value and financial audits to provide assurance that money and resources are being used properly, efficiently and effectively and to highlight areas for improvement.

We audit public bodies, with a total spend of about £40 billion a year. In 2015/16, we audited 323 sets of accounts and completed 17 performance and Best Value audits.

Our annual audit reports cover the full range of audit work done in the year, providing the audited bodies and stakeholders with a comprehensive and independent view of financial management, governance and performance in public bodies. Auditors review the financial position and sustainability of public bodies and promote good financial management and planning. This year seven auditors opinions were qualified; two in the further education sector, one central government body and four charities.

We carry out performance audits across the public sector to help public bodies improve the quality of their services, do more with their money, and find more efficient and effective ways of working to the same or better standards. Our audit reports carry recommendations for public bodies to help them improve, and we publish good practice checklists and case studies.

Examples of how, through the exercise of our audit function, we help sustainable economic growth include:

- New financial powers are being transferred to the Scottish Parliament under the Scotland Acts 2012 and 2016. These will give the Scottish Government a direct stake in the performance of the Scottish economy through the tax revenues raised. Our

update report on implementing the Scotland Act 2012 showed that good progress was being made with implementing Scotland's new devolved financial powers. We reported that Revenue Scotland had successfully delivered two new devolved taxes (Land and Buildings Transaction Tax and the Scottish Landfill Tax). The report sets out how Revenue Scotland successfully managed to overcome delays in procuring a new IT system and appointing staff, to ensure the technology and people needed to collect and administer the taxes were in place by the time the new powers went live on 1 April 2015. It cost £5.5 million to implement the devolved taxes, £1.2 million more than originally estimated. This increase was largely due to staff costs, after Revenue Scotland identified that extra staff were needed to provide the skills and support needed to deliver the programme within the time available.

The report also states that the Scottish Government and HMRC are working well together in preparing for the introduction of the Scottish rate of income tax in April 2016. The Scottish Government has also developed clear structures for overseeing the introduction of new financial powers. Some arrangements to manage the powers in the Scotland Act 2012 beyond 2015/16 are still being developed.

- Audit work undertaken in 2015/16 resulted in our recently published report - *Common Agricultural Policy Futures programme: an update*. Our report is the fourth update on the progress of the five-year Futures programme, an IT and business change scheme started in 2012 to deliver European Union's Common Agricultural Policy (CAP) reforms. The CAP provides financial support to farmers, crofters and rural businesses. The programme has experienced considerable difficulties, particularly with the slow delivery and poor performance of a new IT system to process support claims. This has caused lengthy delays, missed payment targets, and rising costs. The delays have had a negative impact on farmers, many of whom were already experiencing financial difficulties caused by low milk prices and severe flooding. The Scottish Government made a number of decisions in order to speed up payments and meet ministerial targets, which then slowed the progress of other key stages in the programme. Originally estimated to cost £102million, the programme now has a final budget of £178million and a reduced scope. At the end of March 2016, it had spent £126million and funds could run out before the IT system fully meets European Commission regulations. If it does not comply, it may lead to financial penalties of between £40million and £125million being imposed on the Scottish Government. In our report we identified a number of problems with the programme's management, including significant tensions between teams, confused governance and accountability arrangements, and a failure to deal effectively with a significant conflict of interest held by a contractor on the programme.
- Our report *Efficiency of prosecuting criminal cases through the sheriff court system* said that around 88,000 people face prosecution in the sheriff court system every year but fewer cases are concluding within the 26-week performance target. The estimated annual cost of prosecuting sheriff courts cases is over £200 million. However, almost half of court appearances did not proceed as planned in 2014/15, with an estimated £10 million spent on cases repeating stages unnecessarily. The report notes that the establishment of the Scottish Government's Justice Board has improved joint working between key national bodies and management of the system as a whole and that this has helped manage a 10 per cent increase in the number of cases in 2013/14. We also recommended in the report that the bodies involved in the system take a fresh look at how they measure and report the performance of sheriff courts, and consider how to build upon the 26-week performance target to provide a broader public picture of the system's efficiency.

- In our report on the *Scottish Fire and Rescue Service (SFRS)* we said the creation of a single fire and rescue service for Scotland was managed effectively, and its performance is improving. However, a long-term financial strategy is now urgently needed to address a significant potential funding gap. Our report states that the SFRS is on track to exceed the £328 million of savings planned by 2027/28 but we estimate that potential future funding reductions may result in a funding gap of £42.7 million in 2019/20. The report recommends the SFRS agree a long-term financial strategy by the end of March 2016 to address these cost pressures and identify how to make further savings.
- Integrating health and social care services is a key Scottish Government policy, focussed on meeting the challenges of Scotland's ageing population by shifting resources to community-based and preventative care at home, or in a homely setting. Our *Health and social care integration* report reviewed the progress made to establish new integration authorities (IAs), which will be responsible for planning joint health and social care services and managing budgets totalling over £8 billion by 1 April 2016. While all 31 IAs are expected to be operational by the 1 April deadline, the report states that significant risks must be addressed if integration is to provide the substantial changes needed to health and social care. These risks include difficulties with agreeing budgets, complex governance arrangements, and workforce planning. The report states that IAs must set clear targets and timescales to demonstrate how integrated services will deliver care differently, to better meet people's needs. There is also evidence to suggest that IAs won't be able to make a major impact in their first year.
- The Scottish Government and central government bodies continue to encounter difficulties in managing Information and Communication Technology (ICT) programmes, though progress is being made to overcome these issues. Our report *Managing ICT contracts in central government: an update* states that ICT can help to deliver better public services, as well as reducing costs and meeting future demand. However, a lack of digital skills in the public sector remains a significant problem. The Scottish Government did not carry out a sector-wide skills assessment until August 2014, but now plans to develop a shared Digital Transformation Service to strengthen access to digital skills for central government bodies. The report also notes that the Scottish Government introduced an assurance framework in February 2013 to support bodies undertaking ICT programmes. However, the framework was not clear enough and the Scottish Government did not oversee its implementation effectively. Revised framework and governance arrangements are now in place, and these need careful management and strong leadership if they are to be effective.

All our reports are published on our website at www.audit-scotland.gov.uk

Audit Scotland also contributes to sustainable economic growth and the Scottish Governments National Performance Framework as an employer. For example:

- This year staff received an average of 5 days training and personal development to increase knowledge, skills, efficiency and effectiveness. We run one of the largest public sector accountancy training schemes in Scotland. We have 39 trainees and staff working towards professional qualifications thereby increasing the skills base of Audit Scotland, and Scotland in general.

- We continued to focus management and professional medical support to staff well-being and attendance. In 2015/16, our sickness absence remains low compared to the public sector average. Our sickness absence was on average 5.62 days which was a slight increase on last years figure of 4.59 days per employee but under the public sector average of 8.1 days.
- We have offices in Edinburgh, Glasgow and Inverness and have many staff located in audit sites across the country, making a contribution to many local economies.

We are now finalising our climate change plan for the next five years with 2015/16 being the base year for measuring our performance against. The move from two older offices in George Street to a single modern office in Edinburgh in November 2015 will bring significant long term benefits in reducing our carbon footprint.

Not all of the work that we do is carried out by Audit Scotland staff. We contribute to economic activity by appointing firms of accountants to carry out audits on behalf of the Auditor General and the Accounts Commission and specialists to contribute to performance audits. This amounted to £5.1 million this year.