

**Accountability, audit and the further  
devolution of powers – call for evidence  
from the Scottish Government’s Public  
Audit Committee**

**A Submission by:**

**The Chartered Institute of Public  
Finance and Accountancy**

**April 2015**

**CIPFA, the Chartered Institute of Public Finance and Accountancy**, is the professional body for people in public finance. CIPFA shows the way in public finance globally, standing up for sound public financial management and good governance around the world as the leading commentator on managing and accounting for public money.

Further information about CIPFA can be obtained at [www.cipfa.org](http://www.cipfa.org)

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## **1. Executive Summary**

- 1.1 CIPFA recognises the importance that effective scrutiny and accountability plays in a robust system of public financial management. The proposed further devolution of powers set out in the command paper will present further challenges to ensuring effective accountability, scrutiny and audit arrangements are in place.
- 1.2 The current proposals from the command paper provide an opportunity to consider a new modernised system of accountability which is fit for purpose going forward, and satisfies the financial audit and scrutiny requirements of legislation and the Scottish Parliament. Our principal comments are presented in that spirit and can be summarised as follows:
- CIPFA would recommend that the Scottish Parliaments approach to financial accountability, audit and scrutiny of the proposed further devolved powers is underpinned by the principles of affordability, prioritisation and value for money.
  - The Committee should recognise that the current focus upon the financial statements and audit opinion does not facilitate a complete assessment of performance to be undertaken. Historic financial information will have to be supplemented with forward performance plans in a format to enable effective scrutiny of performance in Scotland.
  - The arrangements that are agreed upon should fully support the policy objectives of Scotland's updated fiscal framework and also support the assessment of Scotland's overall financial management position through completion of a Balance Sheet for Scotland.
- 1.3 These changes will present a need to consider present management arrangements on what information is collected and reported upon for activities in Scotland. This will however ensure that the organisation will have the ability to report activities relevant to Scotland within their formal segmental reporting within their financial statements.
- 1.4 We will be pleased to develop and expand on our comments further with the committee.

## **2. The Process of Scrutiny by the Scottish Parliament**

- 2.1 CIPFA considers scrutiny to be a key element in promoting 'good governance'. Scrutiny has a clear role to play in upholding the six principles of good governance as outlined in "The Good Governance Standard for Public Services."<sup>1</sup>
- 2.2 We consider that scrutiny of public spending should be integrated within the wider on going scrutiny function carried out by the Scottish Parliament. CIPFA worked with the National Assembly for Wales' Finance Committee to introduce a modernised system of financial scrutiny.<sup>2</sup> The system was implemented for the 2013-14 budget scrutiny round. The structure of the scrutiny was based on the following principles:
- *Affordability*; considers the wider context of whether the available resources are enough to meet the budget choices that have been made;
  - *Prioritisation*, limited public resources means that choices have to be made across and within programmes; and
  - *Value for money*, are public resources being spent economically, efficiently and effectively.
- 2.3 We have subsequently designed a cycle of scrutiny which would embed these three objectives of financial scrutiny into the pre-legislative period, through implementation and to the post-legislative period. Such an integrated process would mean a seamless link between legislative scrutiny and scrutiny of the Scottish Government budget.
- 2.4 CIPFA also believes that an essential tool for strategic management and scrutiny of Scotland public finances is missing. CIPFA has previously recommended the development of a Scottish Balance Sheet<sup>3</sup> to provide overall context and administration of the financial affairs of the devolved administration.
- 2.5 We believe that the establishment of this level of strategic reporting will underpin the achievement of Scotland's fiscal objectives contained within the overall fiscal framework for Scotland.

## **3. Financial Reporting to the Scottish Parliament**

- 3.1 Public Sector Financial Reporting in the UK is based on International Financial Reporting Standards (IFRS).<sup>4</sup> Within Central Government bodies, HM Treasury publish a financial reporting manual (FReM),<sup>5</sup> which outlines the financial reporting requirements including an adaptations or interpretations of IFRS for the public sector context.

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<sup>1</sup> Independent Commission on Good Governance in Public Services, [The Good Governance Standard for Public Services](#), , 2004

<sup>2</sup> National Assembly for Wales, Finance Committee, [Scrutiny of Welsh Government Draft Budget 2014-15](#), November 2013.

<sup>3</sup> CIPFA 'Scotland's Future in the Balance' June 2014

<sup>4</sup> The International Accounting Standards Board: <http://www.ifrs.org/About-us/Pages/IFRS-Foundation-and-IASB.aspx>

<sup>5</sup> HM Treasury's Government Financial Reporting Manual (FReM) <https://www.gov.uk/government/publications/government-financial-reporting-manual>

3.2 Under IFRS, there is a requirement to report segmental performance which is covered in International Financial Reporting Standard 8 (IFRS 8 – Operating Segments). Essentially this provides for users of the financial reports to gain an understanding of the entities performance from the perspective of management as the segmental analysis, contained within the notes to the accounts, should reflect what is reported internally to the Chief Financial Officer, which may be an individual or a board.<sup>6</sup>

3.3 The entities financial statements will reflect the organisations financial position and performance for the entity as a whole. We believe that the Segmental Analysis through adoption of IFRS 8 within the financial statements should provide the opportunity to assess performance across business sectors and territories and therefore could provide the analysis of Scotland only performance making the accounts more relevant to the Scottish Parliament for scrutiny and accountability purposes.

3.4 There will be two types of body:

- New entities laying their accounts before the Scottish Parliament and;
- UK-wide operating bodies that carry out functions that the Scottish Government have responsibility for

These bodies will be required to modify their internal reporting systems to collect and report upon the activities carried out in Scotland. Further, that the Scottish Parliament will have an expectation that such internally reported figures and data are reflected within the entities segmental reporting notes.

3.5 The committee must recognise that figures reported within the financial statements are based on historical data. For any accountability and scrutiny of public spending to be effective it will need to consider forward looking information and performance measures. It will be important for the organisations management and auditors to be directly accountable to the Scottish Government in that regard.

#### **4. Arrangements for Accountability to the Scottish Parliament**

4.1 In terms of formal external audit of the information within the public bodies' accounts, the annual financial statements are subject to formal external audit including the operating segments notes. Therefore the Scottish Parliament can gain assurance from the audit opinion about the reliability of the data contained within the territory analysis relating to Scottish service delivery.

4.2 The Audit arrangements for these entities must be able to satisfy the requirements of the Public Finance and Accountability (Scotland) Act 2000.

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<sup>6</sup> IFRS 8 – Operating Segments: Disclosure Requirements paragraphs 20 - 24

- 4.3 Sections 21 and 22 of the above act provide for who can audit the accounts and what the audit should report on in relation to the financial statements. CIPFA believes that while the accounts will have to be submitted to the Auditor General in Scotland, it is within the legislation for the Auditor General to appoint a suitably qualified person to carry out the work. Therefore if the National Audit Office is already the auditor for the body concerned, we believe that it is reasonable to make provision to continue with that arrangement. Any practical arrangement should not preclude the statutory requirement for the Auditor General to be able to make what are generally referred to as section 22 reports.
- 4.4 Section 23 of the above act makes provision for the Auditor General to initiate examinations into the economy, efficiency and effectiveness with which the bodies and office holders have used their resources in discharging their functions. In this regard, CIPFA would advocate that the Audit General for Scotland retains this remit for bodies reporting to the Scottish Parliament for their activities in Scotland or bodies where there is responsibility from the Scottish Government for functions carried out in Scotland.
- 4.5 The actual completion of reviews into economy, efficiency and effectiveness can be completed by Auditor General or in coordination with the NAO in order to maximise the efficient use of resources.
- 4.6 CIPFA believes that consideration must be given to the level of regulatory administrative burden on organisations and would therefore advocate that the level of co-ordination between the two audit bodies is assessed and that a suitable working agreement or memorandum of understanding is in place.

## **5. Joint Oversight of the work of the Department of Work and Pensions (DWP)**

- 5.1 With the proposal to meet some of the additional administrative and programme costs associated with some of these service by the Scottish Government, it is important that value for money is ensured and that the Scottish Government have scrutiny in that regard over all of its public spending.
- 5.2 CIPFA believes it is appropriate for the Scottish Government to receive reports from DWP on its performance in Scotland and would go further to ensure that such arrangements are managed on an open book contract basis.<sup>7</sup>
- 5.3 Effectively, the Scottish Government are contracting with DWP to provide services and in the same manner as other major contracts, performance measures and costs should be agreed and monitored.
- 5.4 The performance measures should be readily available from DWP data sources and should not generate an added bureaucratic process of data collection and administration specifically for this purpose. Therefore it would be important,

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<sup>7</sup> CIPFA Manifesto 2015 – section 5, financial transparency and accountability are key to restoring public trust. <http://www.cipfa.org/cipfa-thinks/manifesto2015>

through a service level agreement, or memorandum of understanding, to have agreed measures of performance, including the process for review, monitoring and payment for services delivered.