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Public Audit and Post-legislative Scrutiny Committee **Comataidh Sgrùdadh Poblach agus Iar-reachdail**

Key audit themes



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Public Audit and Post-legislative Scrutiny Committee

Remit: To consider and report on the following (and any additional matter added under Rule 6.1.5A)—

- (a) any accounts laid before the Parliament;
- (b) any report laid before or made to the Parliament by the Auditor General for Scotland; and
- (c) any other document laid before the Parliament, or referred to it by the Parliamentary Bureau or by the Auditor General for Scotland, concerning financial control, accounting and auditing in relation to public expenditure.
- (d) post-legislative scrutiny.



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Membership changes

1. Membership changes of the Public Audit and Post-legislative Scrutiny Committee during the reporting period are:
 - Iain Gray MSP (from 10 January 2018 until 1 November 2018)
 - Anas Sarwar MSP (replaced Iain Gray MSP from 15 November 2018)

Executive Summary

The Public Audit and Post-legislative Scrutiny Committee scrutinises audits on an individual report basis. However, it has become increasingly frustrated that issues highlighted in audit reports by the Auditor General reappear in subsequent reports. The recurrence of the same issues is not limited to the audits of individual bodies or projects, however. The Committee continues to see the same themes arising in audit reports across the public sector.

The Committee recognises that, in some cases, the issues that have prompted the Auditor General to report, such as poor financial management or weak governance, reflect the specific circumstances and/or personnel within the organisation. However, in other reports, the concerns highlighted by the Auditor General have at their root cause broader systemic challenges which are being faced by bodies across the public sector.

In 2011, the Christie Commission warned of the need to significantly reform public services if such services were to meet future demand. Eight years on, public services in Scotland continue to face challenges in terms of financial pressures, public expectations and demographic change.

The impact of these pressures is clearly evident in the audit reports that the Committee scrutinises. Time and again, the same issues arise, which broadly fall under the following overarching themes—

- Leadership and workforce challenges
- Governance and accountability
- Data collection and evaluating outcomes
- Managing major ICT projects and structural change

Given the breadth of the audit reports that it scrutinises, the Committee is well placed to underline that many of these challenges are not unique to a particular sector, public body or type of project. As such, it is clear to the Committee that cross-sector, collaborative and long-term solutions are required.

The Committee is therefore calling for the Scottish Government to lead a debate across the public sector to address the key challenges that the Committee has

identified in this report. While the debate should be led by the Scottish Government, it should actively involve chief executives from all public bodies.

The Committee has made a series of findings and recommendations in respect of each of the themes discussed in this report.

Introduction

2. The role of the Public Audit and Post-legislative Scrutiny Committee is to examine whether public funds are spent wisely and to hold to account those who are charged with spending taxpayers' money. The Committee undertakes this work primarily through its scrutiny of reports prepared by the Auditor General for Scotland, who is responsible for scrutinising the expenditure and performance of directorates of the Scottish Government and most other public spending bodies (with the exception of local authorities).
3. While the Committee scrutinises audits on an individual report basis, it has become increasingly frustrated that issues highlighted in audit reports by the Auditor General, and in respect of which recommendations have been made, reappear in subsequent audit reports. The recurrence of the same issues is not limited to the audits of individual bodies or projects, however. The Committee continues to see the same themes arising in the audit reports it scrutinises across the public sector.
4. The Committee recognises that, in some cases, the issues that have prompted the Auditor General to report, such as poor financial management or weak governance, reflect the specific circumstances and/or personnel within the organisation. However, in other cases, the concerns highlighted by the Auditor General have at their root cause broader systemic challenges which are being faced by bodies across the public sector.
5. The Committee examined some of these challenges at its business planning meeting in September 2018 and explored with the Auditor General and representatives from the public sector how it might use the Committee's specific remit to address the broader context which lies behind many of the individual audit reports that it scrutinises. The Committee recognised that, given the breadth of the subject matter that it considers and the fact that this provides it with an overview of the way government works, it is well placed to offer an overarching perspective on the key issues which are affecting public services across Scotland and the impact that this is having on the way in which public funds are being spent.
6. The Committee therefore agreed to publish a report setting out the key themes that have emerged from its audit scrutiny from the beginning of this session and to place this discussion within the context of the broader challenges facing public finances.

The broader public sector context

7. In 2011, the [Commission on Public Services Reform](#) ("the Christie Commission") warned of the need to significantly reform public services if such services were to meet future demand, noting that this was in part due to "our failure up to now to tackle the causes of disadvantage and vulnerability, with the result that huge sums have to be expended dealing with their consequences." The Christie Commission identified a number of priorities including—
 - Working closely with individuals and communities to understand their needs, maximise talents and resources, support self reliance, and build resilience;
 - Prioritising preventative measures to reduce demand and lessen inequalities;

- Tightening oversight and accountability of public services, introducing consistent data-gathering and performance comparators, to improve services;
 - Driving continuing reform across all public services based on outcomes, improved performance and cost reduction; and
 - Implementing better long-term strategic planning, including greater transparency around major budget decisions like universal entitlements.
8. Eight years on, public services in Scotland continue to face challenges in terms of financial pressures, public expectations and demographic change. While there is a general recognition that public bodies need to deliver more preventative models of service delivery that address inequalities and improve long-term outcomes, progress has been slow. Audit reports have identified individual examples of steps to shift services to early intervention. However, the evidence presented to the Committee suggests that, in general, progress to transform services has remained small scale, meaning that many public sector bodies continue to struggle to meet demand. For example, in her [NHS in Scotland 2018](#) report published at the end of 2018, the Auditor General declared that the NHS was not “financially sustainable” in its current form.¹
9. Meanwhile, in the college, police and fire sectors, public sector structures have shifted from local to regional and national models. The Auditor General has emphasised that such structural changes require not only a significant cultural shift and different ways of working, but also new lines of accountability. A common challenge within this environment is delivering system-wide change which also requires collaboration. At the same time, there is rightly a greater focus on involving members of the public, service users and communities in the design, development and delivery of the services that affect them.
10. The Parliament has also acquired new powers in relation to tax and social security which have required new structures to be put in place, including intergovernmental arrangements.
11. The impacts of the pressures outlined above are clearly evident in the audit reports that the Committee scrutinises. Time and again, the same issues arise, which broadly fall under the following four overarching themes—
- Leadership and workforce challenges
 - Governance and accountability
 - Data collection and evaluating outcomes
 - Managing major ICT projects and structural change
12. The Committee notes that many of these challenges are not unique to a particular sector, public body or type of project. As such, it is clear to the Committee that cross-sector, collaborative and long-term solutions are required. Quite simply, a siloed approach to these significant challenges will not succeed.
13. The purpose of the Committee’s report, therefore, is to call for the Scottish Government to lead a debate across the public sector to address the key

challenges that have been identified in this report and which public services continue to face eight years on from the report of the Christie Commission. While this debate should actively involve chief executives from all public bodies, it should be led by the Scottish Government.

14. Part of that debate must involve identifying good practice, which should be shared, discussed, analysed and adapted, where necessary, across the public sector. The debate should also involve learning lessons from public bodies' failures, whether that is poor project management, weak governance, ineffective leadership or a lack of collaborative action.
15. As part of its contribution to this debate, the Committee intends to hold an initial series of roundtable sessions, including representatives from the public sector, on each of the key themes identified in this report.

Implementing recommendations

16. The discussion below explores the cross-cutting themes that continue to arise in audit reports. However, the Committee also wishes to examine why lessons are apparently not being learned by bodies that are the subject of audit reports and whether, and the extent to which, such bodies respond to the report's recommendations, with a view to “closing the loop”.
17. For example, when the Committee took evidence from the Auditor General on her report on the [2017/18 audit of NHS Highland: Financial sustainability](#) in 2018, the Committee was disappointed to learn that key reasons for the financial deficit in 2013/14 and identified in the predecessor Committee's report still remained, namely overspending at Raigmore Hospital and the use of medical locums. Similarly, mismanagement of major ICT projects has been recurrent theme during the course of the Committee's scrutiny. When the Committee took evidence from the Auditor General on the report [Principles for a digital future: Lessons learned from public sector ICT projects](#), the Acting Convener noted that—

” This is the third such report that we have received from Audit Scotland in five years. The committee has also considered critical reports about common agricultural policy futures and i6, both of which were major and expensive public sector information technology projects that, frankly, did not perform satisfactorily.

Source: Public Audit and Post-legislative Scrutiny Committee 26 October 2017, The Acting Convener, contrib. 2²

18. During that evidence session, the Committee sought to establish why the previous Audit Scotland reports and the action that the Scottish Government had taken in response had not prevented further ICT issues. ³
19. Similarly, when the Committee took evidence from the Auditor General on her report update on the [Common Agricultural Policy Futures programme: Further progress update](#) in June 2017, the Committee sought to explore why three out of the four recommendations from the previous report had not been implemented. ⁴

The Committee will explore with Audit Scotland how the Committee can follow up recommendations that have made by Audit Scotland in its reports to ensure that they are being effectively implemented and, importantly, to examine whether lessons have been learned from the issues identified.

Leadership and workforce challenges

Leadership

20. The Committee recognises that effective leadership is critical to the delivery of high quality public services which meet the needs of users of such services and also provide good value-for-money. The style and quality of leadership within organisations affects service users, staff, and the partners with whom public bodies need to work.
21. A number of audit reports that the Committee has scrutinised since the beginning of the session have demonstrated how weak leadership can be a key factor in allowing a culture of poor practice and a lack of transparency in decision making to persist. Incidences of poor leadership were identified during the committee's scrutiny of section 22 reports on the [2016/17 audit of the Scottish Police Authority](#), [the 2016/17 audit of NHS Tayside: Financial sustainability](#) and the [2015/16 audit of Edinburgh College](#).
22. For example, the section 22 report on the [2016/17 audit of the Scottish Police Authority](#) highlighted a series of instances of poor decision making on the part of the then chief executive, raising both governance and financial management concerns. These included the process by which the former chief executive had appointed the interim chief financial officer and the decision to authorise relocation payments to a deputy chief constable outwith the specified timescale in the absence of appropriate oversight.⁵
23. Similarly, the [2015/16 audit of Edinburgh college](#) identified poor leadership as a key contributing factor to the financial and governance problems that had been experienced by the college. The section 22 report indicated that, following a review, the new Principal had concluded that “there was a lack of leadership on curriculum issues, with no-one at the college taking responsibility for ensuring that the curriculum was updated and compliant with SFC guidance.”⁶
24. Further, when evidence of poor financial management at NHS Tayside came to light during the course of the Committee’s scrutiny of the 2016/17 audit of the board, the then Cabinet Secretary for Health and Sport took the unusual step of escalating NHS Tayside to stage 5 of the NHS Board Performance Escalation Framework, citing “concerns about the overall management of the Board’s finances and the ability of leadership to carry through the change required to bring the Board back into financial balance.”⁷
25. The Committee’s scrutiny of audit reports has also emphasised that the quality of leadership has been a contributing factor where problems have arisen in the delivery of major projects. For example, the Auditor General’s report on [Principles for a Digital Future: Lesson learned from public sector ICT projects](#) commented that—

” Many reports on failures of ICT projects include commentary on the impact of leadership, or a high turnover of senior officers, and a lack of commitment.”⁸

26. Similarly, the Auditor General's report on the [Common Agricultural Policy Futures programme: an update](#) concluded that "management failed to adequately address the seriousness" of significant tensions between the programme team and the ICT delivery team, adding to programme delays.⁹
27. Although the focus of the Committee's scrutiny inevitably tends to focus on where things have gone wrong, the Committee recognises the positive impact that strong leadership can have on governance, transparency and on the delivery of outcomes. For example, the Auditor General's report on the [Forth Replacement Crossing](#) concluded that one of several factors which contributed to the success of the project was "strong and consistent leadership", noting that the Project Director was "an engineer with extensive experience of managing major infrastructure projects, including several successful bridge projects around the world."¹⁰
28. The Committee further recognises that the style of leadership is also crucial for the successful delivery of projects and services. When giving evidence on the Auditor General's report on [Principles of a Digital Future: Lessons learned from public sector ICT projects](#), Fraser McKinlay from Audit Scotland told the Committee that—
- ” It is also important that there is a realism attached to the leadership, which must be both engaged and committed but also a little bit independent and separate. In a lot of the examples, people have been so drawn into wanting the project to work that they have lost a bit of perspective.
- Source: Public Audit and Post-legislative Scrutiny Committee 25 May 2017, Fraser McKinlay, contrib.
32¹¹
29. A number of audit reports have raised the importance of strong and effective leadership in creating a culture of openness and transparency, but also in driving forward transformational change. For example, the Auditor General's report on [NHS in Scotland 2018](#) noted that—
- ” Effective leadership is critical to achieving successful change. Leaders need to drive change and improvement, involve staff and the public in developing a common vision and work with partners to deliver it.¹
30. The Committee recognises that the challenge of recruiting suitable individuals for leadership positions is felt across the public sector, but that it is particularly evident in the health service. For example, the Auditor General's report on [NHS in Scotland 2018](#) listed leadership challenges at NHS Greater Glasgow and Clyde, Scottish Borders Integration Joint Board, NHS Orkney and NHS Highland. It also noted that chief executive positions at NHS Grampian, Highland and Tayside would shortly become vacant due to retirement.¹
31. The Committee has expressed concerns that difficulties in recruiting individuals of the required calibre may be caused by the apparently limited pool of individuals from which quality leaders can be drawn. In her evidence on the [2017/18 audit of NHS Tayside](#), the Auditor General told the Committee that—

” We need to have enough people of sufficient experience and calibre to do the jobs that we require. It is already difficult to recruit and retain enough of those people around Scotland.

Source: Public Audit and Post-legislative Scrutiny Committee 13 December 2018, Caroline Gardner, contrib. 89¹²

32. Leadership within the public sector is equally as important when things go wrong. It appears that sometimes there is a reluctance to address or halt poor practice even where early intervention might have prevented the situation from escalating. In the Committee's view, good leadership is about encouraging and nurturing an environment where employees feel able to highlight potential issues and problems at an early stage and are confident that leadership will act to address any concerns.
33. Part of the responsibility of the Auditor General and this Committee is to ascertain why things went wrong in order that, where relevant, improvements can be made to governance structures and/or financial capacity strengthened within an organisation. The process of identifying how such issues have occurred is an essential part of the improvement process, particularly where it involves the misuse of public funds. While part of this process will involve examining where responsibility lies, particularly at leadership level, this should never preclude a wider assessment of whether events have been prompted by, or can be attributed to, systemic matters.

The Committee recognises that effective leadership is critical to the delivery of high quality public services which meet the needs of users of such services and also provide good value-for-money. Conversely, poor leadership can lead to a culture where a lack of transparency and weak challenge and scrutiny persist.

The Committee further recognises that the wide-ranging and significant programme of reform that is required across the public sector will not be delivered without strong, visionary leadership, with the ability to bring along staff and service users. Making decisions in this environment requires leaders to take risks to pursue certain services and to stop providing others and, as such, leaders will need to possess the necessary skills and experience in order to do so.

The Committee considers that it is equally important that public sector leaders are vocal about the support that they require from the Scottish Government in order that they can carry out their roles effectively in an increasingly complex and challenging public service environment.

The Committee notes that, ultimately, leaders of NHS boards, colleges and other public sector bodies should be able to look to the Scottish Government for the leadership style which they should emulate.

The Committee is concerned that its scrutiny of a range of audit reports has revealed that leadership recruitment challenges are being felt across the public sector. There is also a suggestion that public sector leaders are increasingly being drawn from a limited pool of individuals.

The Committee considers that there is an urgent need to address the leadership challenges that the public sector is facing. It therefore considers that the Scottish Government should take action across its directorates, and in collaboration with other public bodies, to address this issue. Such action should include clarifying the qualities, skills and experience that public sector leaders require in an era of reform and transformational change; whether the right type of individuals, based on this description, are being attracted to applying for public sector leadership positions and whether and what changes need to be made to the recruitment and appointments processes to facilitate applications from a more diverse group of individuals.

Capacity and workforce challenges

34. The Committee acknowledges that workforce challenges are being experienced at all levels across the public sector, not only in leadership positions. A number of audit reports have highlighted recruitment difficulties faced by public bodies in respect of particular sectors and specific skill sets. By way of illustration, the problem of recruiting finance professionals and workforce challenges within the NHS are explored below. The specific issue of IT recruitment is examined later in this report under the theme of **Managing ICT projects**.

Financial leadership

35. The Committee's scrutiny has, understandably, frequently highlighted the importance of financial leadership within public bodies and the pivotal role of the finance director. For example, in his evidence to the Committee during its scrutiny of the [2015/16 audit of Moray College](#) Peter Graham, the then Vice-chair of the board, acknowledged that "there was a fair catalogue of errors and mistakes".¹³ However, he stated that—

” The biggest contributing factor was the poor performance of the then financial director during 2014-15, which was something that could not have been legislated for.

Source: Public Audit and Post-legislative Scrutiny Committee 22 June 2017, Peter Graham (Moray College), contrib. 3¹⁴

36. Similarly, the two instances of poor financial management that came to light during the course of the Committee's scrutiny of the [2016/17 audit of NHS Tayside: Financial sustainability](#), were a key reminder of the importance of the finance function. In March 2018, it emerged that eHealth funds intended for the benefit of all health boards had been “held” by NHS Tayside. The true status of the monies and the fact that they would require to be repaid was apparently not evident in the

reports to the board. In her evidence to the Committee, the Auditor General emphasised that—

” Directors of finance hold a significant responsibility... If they are not making that information available to board or management team members, it is difficult to see how the board can be expected to overcome that.

Source: Public Audit and Post-legislative Scrutiny Committee 19 April 2018, Caroline Gardner, contrib. 56¹⁵

37. A number of audits have pointed to the difficulty in recruiting finance staff and the consequences of this. For example, the poor financial management which was referenced in the [2016/17 audit of the Scottish Police Authority](#) appeared, in part, to be due to the temporary nature of the finance team within the authority at that time. In her evidence to the Committee on the section 22 report, the Auditor General told the Committee—

” At the point that these decisions were being made, the SPA had been in existence for more than three years and was still operating with interim senior officers in key financial positions. The fact that permanent staff had not been appointed over that period had led to problems with financial management and financial leadership and were still leading to the incurring of significant amounts of expenditure.

Source: Public Audit and Post-legislative Scrutiny Committee 21 December 2017, Caroline Gardner, contrib. 192¹⁶

38. Similarly, in her report on the [2015/16 audit of Moray College](#), the Auditor General noted that the Director of Finance had been on long-term absence from August 2015 until his retirement in July 2016. As a consequence, the Acting Principal took on the role of Director of Finance during that time, with day to day financial management provided by the accounts team. The auditor had concluded that “the team was competent, but that more capacity was needed.”¹⁷

39. In his evidence to the Committee on the section 22 report on the [2015/16 audit of Lews Castle College](#), Iain Mcmillan, the Principal, told the Committee that he was currently the principal and chief executive and also the senior financial officer. When asked by the Committee how long this situation would be allowed to continue, Iain Mcmillan replied—

” until we can find a solution.

Source: Public Audit and Post-legislative Scrutiny Committee 22 June 2017, Iain Macmillan, contrib. 329¹⁸

40. During the Committee's evidence session on the section 22 report on the [2017/18 audit of Community Justice Scotland](#) the auditor indicated that the Accountable Officer intended to appoint someone to strengthen the financial team. However, when the Committee took evidence from the Accountable Officer at the Scottish Government over a month later, officials were less clear about whether and when such an appointment might be made, indicating that: “There is active progress on that work”.¹⁹

41. Given the pivotal role of the finance function in the successful delivery of outcomes, the Committee was concerned to learn in the course of its recent scrutiny of the

Auditor General's report on [Health and social care integration: Update on progress](#), that there was a substantial variation in the role and remuneration of chief financial officers (CFOs) at Integration Authorities (IAs), with some IAs having only part time CFOs.

42. The Auditor General's recent report on [Social Security: Implementing the devolved powers](#) also indicated that the new agency had faced "challenges in recruiting suitably experienced finance staff." ²⁰

NHS workforce planning

43. The skills shortage is also particularly evident in respect of specific sectors. The difficulties in recruitment in the field of health and social care, for example, have been well-publicised and were examined in the Auditor General's 2017 report on [NHS workforce planning: The clinical workforce in secondary care](#). The report stated that—

” There are urgent workforce challenges facing the NHS caused by factors including an ageing population, an ageing workforce and recruitment difficulties. ²¹

44. The Auditor General's overview report on the [NHS in Scotland 2018](#), published in October 2018, again noted that “there is evidence that the NHS is struggling to recruit and retain the right people, and ensure they have the time and support they need.” ¹
45. The [2017/18 annual audit report of NHS Highland: Financial sustainability](#) noted that for underlying pay costs, the Board had underspent by £1.1 million against the budget, which was due to the level of unfilled vacancies. In December 2017, 4.86% of the Whole Time Equivalent vacancies were unfilled, “primarily though the inability to attract and retain skilled and experienced staff.” ²²
46. To help meet workload requirements, NHS boards are spending significant sums on agency staff each year. The 2017 report on [NHS workforce planning: The clinical workforce in secondary care](#) noted that thirteen of the 14 territorial NHS boards overspent against their original pay budgets in 2015/16 and that a key cause was a high spend on agency staff. ²¹ While the [NHS in Scotland 2018](#) report noted a decrease in agency spend, such spend still amounted to £166 million. ¹
47. The use of locum staff became a particular focus during the Committee's scrutiny of the [2017/18 audit of NHS Highland: Financial Sustainability](#) which revealed that almost £900,000 had been spent on two locum clinicians, including agency costs. The then chief executive of NHS Highland justified this figure, telling the Committee that—

” The figure on the table of £900,000 for those two individuals is stark. That figure is there because we have managed to secure people who have wanted to come back on a regular basis and, therefore, have been paid and shown as two individual costs... Having the same people coming in on a regular weekend basis helps the team. Having 10 people coming in 10 times would have cost the same but would not have provided the continuity of care.

Source: Public Audit and Post-legislative Scrutiny Committee 20 December 2018, Professor Mead, contrib. 79²³

48. The then chief executive went on to explain to the Committee that NHS Highland had 36 consultant vacancies and that 13 per cent of all consultant positions were vacant. She said—

” All those positions need to be covered. That will cost us £15 million in locums while we continue to provide the same models of care.

Source: Public Audit and Post-legislative Scrutiny Committee 20 December 2018, Professor Mead, contrib. 50²⁴

49. The Auditor General has regularly emphasised that there needs to be a shift in the way in which the NHS and other care services approach issues of capacity building and recruitment of staff. In her evidence to the Committee on her report on the [NHS in Scotland 2018](#), the Auditor General told the Committee that—

” The real challenge is in thinking not just about how to fill the vacancies that are likely to arise but about the workforce that the NHS and care services will need in the future as the changes come. The work that we have published so far has found that such workforce planning tends to be focused much more on the supply side than on the demand side of the equation. It is not taking a step back and asking, “If we are reducing our reliance on acute hospitals and providing much more care near people’s homes, what does that mean for the roles of doctors, nurses, allied healthcare professionals and care workers?”

Source: Public Audit and Post-legislative Scrutiny Committee 15 November 2018, Caroline Gardner, contrib. 48²⁵

50. Similarly, in his evidence to the Committee, John Burns, chief executive of NHS Ayrshire and Arran said—

” We need to continue to look at how we redesign our services to make them sustainable, because if we cannot get the medical workforce, we need to look at the workforce model that supports that service.

Source: Public Audit and Post-legislative Scrutiny Committee 20 December 2018, John Burns, contrib. 30²⁶

51. Claire Sweeney from Audit Scotland went on to suggest that discussion of this issue is starting gather pace now. She said—

” People are starting to think about what a different model of care for people in local communities will require in terms of staffing and support and what that will mean for social care services. The integration joint boards, NHS boards and local authorities are starting to think through those challenges. There is therefore more work to be done around workforce planning, but it has to be done in the context of all those bigger challenges.

Source: Public Audit and Post-legislative Scrutiny Committee 15 November 2018, Claire Sweeney, contrib. 53²⁷

The Committee’s scrutiny of a series of audit reports has highlighted capacity and workforce challenges in relation to specific skillsets and sectors, including finance professionals and the NHS workforce. In relation to these particular areas, the Committee comments as follows:

Finance directors clearly have a fundamental role in ensuring that public money is spent appropriately and wisely and that decisions about the use of such funds are transparent and subject to the requirements of good governance. As such, it is concerning to the Committee that a series of audit reports have highlighted specific weaknesses in the finance function either due to the specific actions or failings of the director of finance or because public bodies have been unable to recruit finance professionals on a permanent basis or at all.

Directors of finance hold a significant position of responsibility and, as such, their appointment should be a priority in any public sector organisation. The Scottish Government has a clear role in ensuring that this is actioned.

The recruitment and retention of staff in the health and social care sector has been a recurring theme throughout the Committee’s scrutiny. In particular, the Committee has publicly commented on the invidious position of NHS boards that are forced to spend unacceptably high levels of public funds on locum clinicians to ensure that patients receive the care that they need.

The Committee agrees with the Auditor General that the focus needs to be not on where the vacancies lie, but rather on the type of public services that are required. The Committee considers that this an issue which the new Director General of the Scottish Government’s Health and Social Directorate will wish to address as a priority, in collaboration with NHS leaders.

The Committee recognises that there needs to be a much wider debate about the public sector workforce in general and the skills and experience required across the public sector as demands for services shift and to reflect the increasing need

for collaborative ways of working. Such a debate should be premised on future demands for public services.

Governance and accountability

Weak challenge by boards

52. Concerns about transparency, the quality of scrutiny, and the effectiveness of accountability arrangements continue to feature as recurrent themes in audit reports on specific public bodies. The impact of weak scrutiny by boards has also been a theme in overview reports on the NHS and colleges. For example, the Auditor General's report on the [NHS in Scotland 2018](#) cited a survey undertaken by the Health and Sport Committee in June 2018 and stated that—

” Almost one in five (17 per cent) [of board members], reported that their board only sometimes or hardly ever sufficiently holds the chief executive and senior management team to account for the operational management of the organisation and the delivery of agreed plans to time and budget. ¹

53. Specific examples of poor governance were also highlighted during the Committee's scrutiny of the [2016/17 audit of NHS Tayside: Financial sustainability](#) the [2015/16 audit of Moray College](#) and the [2016/17 audit of Scottish Police Authority](#).

54. For example, in her opening statement to the Committee on the [2016/17 audit of the Scottish Police Authority](#), the Auditor General referred to "instances of unacceptably poor governance and poor use of public money". ²⁸

55. The report noted that while the proposed business case to make the post of chief executive redundant had been discussed at a private board meeting, the actual decision had been taken by correspondence. In her evidence to the Committee, the Auditor General stated that—

” We felt that, to reflect good governance standards, a decision of such magnitude should take place at a formal board meeting.

Source: Public Audit and Post-legislative Scrutiny Committee 21 December 2017, Stephen Boyle (Audit Scotland), contrib. 6²⁹

56. The Auditor General went on to indicate that part of the purpose of such a board meeting "would have been to consider all the options that were available to the board rather than simply the proposal that was finally agreed". ²⁸

57. Similarly, concerns about the challenge function exercised by the board were explored in the Committee's report on the [2016/17 audit of NHS Tayside: Financial sustainability](#) and [2017/18 audit of NHS Tayside](#). In particular, the Committee's report stated that—

” The Committee is concerned that there was little evidence from the former chief executive and the former chair of the board that the board had asked questions about the components of the deferred expenditure despite it being a significant amount. Instead, it appears that the board relied on the director of finance and internal audit to raise any concerns. ³⁰

58. Reports on the college sector have also shown the impact that governance and accountability failings can have on the effective use of public funds. For example, the report on the [2015/16 audit of Moray College](#), which raised concerns about financial management at the college, commented on the transparency of the board's decision making. It stated that—
- ” In 2014/15 the auditor stated that Board and committee minutes did not evidence decisions or agreed actions to address the college's financial challenges and concluded that there needed to be clearer evidence of the decisions taken by the Board and its committee following their consideration of the financial decision. While the college took steps to address concerns raised by the auditor in 2014/15, these were not sufficient. ¹⁷
59. Concerns about board decision making were also raised during the Committee's scrutiny of the [2016/17 audit of New College Lanarkshire](#). During the oral evidence sessions, the Committee learned that the board had not yet consulted staff on the college's business scenario plan, which was intended to bring back the college into financial sustainability. Dr McTavish, the then chair of the board, told the Committee that—
- ” Our view was that we would consult towards the end of the process. We might have got that very wrong—I accept that.
- Source: Public Audit and Post-legislative Scrutiny Committee 28 June 2018, Dr McTavish, contrib. 101³¹
60. The section 22 report of the [2017/18 audit of the Scottish Social Services Council: Governance and transparency](#) highlighted a number of governance concerns in respect of the council's digital transformation project, which included the process by which decisions were being made. The auditor expressed concerns that there was a risk that discussions at policy forum meetings might replace formal business at council meetings. The report stated that—
- ” This could have implications for the governance and transparency of the SSSC as meetings are held in private. No formal record of the policy forum is taken, but a summary of the discussion is reported to the next council meeting. ³²

The board of a public body provides an essential challenge function to the leadership team. In times of increasing budgetary pressures where alternative methods for obtaining financial sustainability may be pursued, that challenge function becomes even more important in providing a check on the potential misuse of public finances. Board members, both individually and collectively, must be prepared to account for their actions and should take steps to ensure that they are provided with adequate advice and documentation in reaching decisions and that their decision making processes are transparent and well-documented.

While there is a sectoral evidence, such as surveys carried out across the NHS, that board members do not always feel well-equipped to carry out their role, the Committee considers that there is a need for a more systematic analysis of boards to ascertain whether board members across the public sector feel

empowered and supported in their role. The Scottish Government should lead such work. Part of this analysis and debate should examine in more detail the induction programmes and the appraisal structures that have been put in place to ensure that board members have, and maintain, the necessary skills to carry out their challenge function.

Financial information and reporting

61. The Committee has also noted that boards may be hindered in their scrutiny by the volume and quality of the financial information provided to them. For example, a 2018 independent review by Grant Thornton LLP into the events at NHS Tayside concluded that—

” The overall quality of the finance papers presented to the Finance and Resource Committee up until 2015/16 were poor. Often updates appeared to be verbal and from the reading the papers that were presented we note: they were lengthy, confusing and hard to follow, particularly if you were of a non-finance background; they throughout the year presented a positive position even when certain aspects of the Board’s activities were overspending. ³³

62. The information made available to the board was also criticised in the [2015/16 audit of Edinburgh College](#). The audit report stated that—

” Board members told us that, during 2013/14, it became clear there were financial problems at the college, but that the root cause of the problems was not clear from the information provided to the Board. Although there was no indication that the financial data being provided to the Board was unreliable, it did not explain why the college was not meeting its credit targets. ⁶

63. Similar problems with regards to financial reporting arose in relation to the [2015/16 audit of Moray College](#). In her section 22 report on the audit, the Auditor General stated that—

” The auditor found that the management accounts analysed the areas of overspend but did not provide explanations for variances between budgets and forecasts. Neither did they indicate why the issues were not identified earlier so alternative action could be considered. ¹⁷

64. Murray Easton, then vice-board chair of Moray College, confirmed this in his oral evidence to the Committee. He said that—

” What we are talking about is deficiencies in the process of sharing management information with the senior management team and the board. Different information was being shared in reporting to the SFC; different information was being held on the accounting system for forecasts, not for the accounts themselves; and inconsistent information was being given—and not on a timely basis—to the board.

Source: Public Audit and Post-legislative Scrutiny Committee 22 June 2017, Murray Easton, contrib. 50³⁴

The Committee recognises that the volume and quality of financial information provided to the board impacts on the board's effectiveness and the transparency of its decision making. Board members need to be vocal about the documentation that they receive where they consider it does not provide them with information in a suitably accessible format to enable them to make decisions about the use of public funds.

The quality of financial information is one aspect of a board's governance processes that can easily be rectified and the Committee is aware of examples where, following intervention, this has been addressed. The Committee notes, however, that such changes have tended to be introduced following a critical report from the Auditor General as part of a broader package of measures.

The Scottish Government has a key role in ensuring that the boards of public bodies regularly and proactively review the information that is provided to them. This is a key area where good practice should be shared, publicised and widely disseminated across the public sector.

Government support for sponsored bodies

65. A number of audit reports have highlighted the important role of the Scottish Government in supporting boards in exercising their challenge function and ensuring that boards are aware of their responsibilities and the requirements of good governance. During its scrutiny of three college section 22 reports in 2017, the Auditor General told the Committee that—

” One of the important things is the relationship between the board and its sponsoring department in Government. Some of those relationships are direct and some of them are indirect through funding bodies such as the funding council, but the ability to spot problems early and tackle them seems to be very variable.

Source: Public Audit and Post-legislative Scrutiny Committee 18 May 2017 [Draft], Caroline Gardner, contrib. 67³⁵

66. Similarly, the [2017/18 audit of Community Justice Scotland](#) raised a number of questions about the support that had been provided to the board by the Scottish Government. The Committee learned that the Scottish Ministers had not appointed the minimum number of board members as required in the relevant legislation and that, during the period of one year when the chair had been absent, the remaining board members had agreed that three of them would take turns to chair board meetings. In addition, one of the board's committees had not met at all in 2017/18.
36

67. In his subsequent evidence to the Committee, Paul Johnston, Director General, Education, Communities and Justice at the Scottish Government said—

” I accept the conclusions and the findings of [the Auditor General's] report. In particular, I accept that there was a need to strengthen the board and increase the number of members. Part of our learning from the process and from considering carefully the Auditor General's findings is that we could have taken earlier steps to recruit additional board members.

Source: Public Audit and Post-legislative Scrutiny Committee 24 January 2019, Paul Johnston, contrib. 16³⁷

68. Similar concerns about Government support arose in respect of [2017/18 audit of the Scottish Social Services Council: Governance and transparency](#). In his evidence to the Committee, Paul Johnston, Director General, Education, Communities and Justice said—

” There are lessons that the Scottish Government can learn from the report. Those lessons will inform how sponsor teams monitor public investment in digital projects of this nature in the future. I am convening a session for sponsor leads across my areas with input from Audit Scotland, to ensure that there is clarity on the role that sponsor teams adopt in their support and scrutiny of sponsored bodies.

Source: Public Audit and Post-legislative Scrutiny Committee 14 March 2019, Paul Johnston (Scottish Government), contrib. 248³⁸

Recruitment of board members

69. Evidence to the Committee suggests that some failures in governance are due, in part, to the quality of board members and the difficulty in recruiting and retaining individuals with the requisite skills and experience. For example, the [2017/18 audit of NHS Highland: Financial sustainability](#) noted that—

” There continues to be a significant turnover in non-executive members and as a result a challenge in ensuring members have the skills, experience and training to support the organisation. ²²

70. During the oral evidence sessions on the [2017/18 audit of Community Justice Scotland](#), it emerged that the failure to appoint the statutorily required number of board members was due to the fact that the recruitment exercise had not resulted in a sufficient number of suitably skilled and qualified candidates. Neil Rennick from the Scottish Government told the Committee that—

” ...although it got a large number of responses and a number of people were interviewed, unfortunately that process resulted in only four people being identified as appointable.

Source: Public Audit and Post-legislative Scrutiny Committee 24 January 2019, Neil Rennick (Scottish Government), contrib. 20³⁹

71. Members of the Committee have heard anecdotally of cases where apparently well-qualified individuals have been unsuccessful in the first round of the application process. In response to questioning on this point from the Committee, the Auditor General told the Committee—

- ” We hear anecdotal concerns similar to those that you outlined about people not understanding why apparently qualified candidates did not make it through the process to be presented to ministers. Equally, we know from our work that the number of applicants has dropped over recent years, which is clearly a concern. If you are trying to attract high-quality candidates and diverse board members, you want a wide range of as many highly qualified people as possible to put their names forward in the first place. The issue is worthy of attention.

Source: Public Audit and Post-legislative Scrutiny Committee 18 May 2017 [Draft], Caroline Gardner, contrib. 69⁴⁰

Audit reports continue to point to the difficulties that boards are experiencing in recruiting members with the necessary skills, experience and diversity. In addition, there needs to be consistency across the public sector about the standard of board member that is now required. The Committee considers that the Scottish Government should take action, in collaboration with other public sector leaders, to clarify the skills and experience that board members now require; whether the right type of individuals, based on this description, are being attracted to applying for such positions; and whether and what changes need to be made to the recruitment and appointments processes to facilitate applications from a more diverse group of individuals.

Independent assurance (including internal audit)

72. In its scrutiny of individual audit reports, the Committee has been reminded of the importance of independent assurance arrangements within public bodies, including that provided by internal audit. In its report on [Principles of a Digital Future: Lessons learned from public sector ICT projects](#), Audit Scotland stated that—

- ” To work well, independent assurance should be planned in advance. Assurance from different sources such as technical assurance, internal audit and internal approvals should be co-ordinated.Leadership need to appreciate the value of independent assurance and ensure that recommendations are acted on.⁸

73. During its evidence sessions, the Committee has regularly raised queries about the role of internal audit and whether it is providing an adequate control and challenge function. During the Committee’s scrutiny of events at NHS Tayside in 2018, for example, questions were asked about the role of internal audit and the extent to which it had identified the financial management issues that subsequently came to light. The Auditor General told the Committee that—

- ” I know that internal audit raised some concerns and that, in the case of the endowment fund transaction, those concerns were not listened to.

Source: Public Audit and Post-legislative Scrutiny Committee 19 April 2018, Caroline Gardner, contrib. 30⁴¹

74. The Grant Thornton LLP review later reported that internal audit references to “significant concerns around the advice provided to Trustees and the assurance provided in respect of the endowment funds”, were subsequently removed from the Internal Audit’s Annual report to the Endowment Advisory Group.³³
75. The [2017/18 audit of the Scottish Consolidated Accounts](#) also raised concerns about internal audit arrangements within the Scottish Government. The report stated that—
- ” Based on the available evidence, we did not identify any internal audit reports where the underlying evidence would suggest an incorrect audit opinion or conclusion, but our review found that significant improvements are required in audit planning, audit documentation, audit reporting and management review.
42
76. The report advised that the Scottish Government’s Internal Audit Directorate was currently undertaking a ‘Back to Basics’ project aimed at embedding best practice across the Internal Audit Directorate in line with Public Sector Internal Audit Standards.

Internal audit plays a central function in a board’s governance processes, acting as one of the key controls of the board. The Committee is concerned by the evidence in a number of audit reports that suggests that, in respect of some public bodies, internal audit is not working as well as it should.

The Committee notes the action that the Scottish Government is undertaking to embed best practice across its Internal Audit Directorate. The Committee seeks clarification from the Scottish Government as to whether it intends to encourage internal audit functions across other public bodies to carry out such an exercise.

Restructuring and governance

77. The increasingly complex accountability frameworks within which public services now operate has also given rise to governance concerns. The Auditor General’s reports have commented on the issues that have arisen due to restructuring in various sectors, particular in the college and health and social care sectors.
78. For example, in giving evidence to the Committee in 2017, the Auditor General commented on college reform and the impact that this had had on boards. She said—

” It is difficult to overestimate the scale of change that those boards have been through over the past three or four years, given that there have been lots of mergers, regional bodies were introduced, the funding process and the way in which targets were set changed and there was a significant change in Government policy, which moved funding away from part-time students and towards younger full-time students who are working towards vocational qualifications. All that has created an environment in which it is difficult for board members to perform their roles.

Source: Public Audit and Post-legislative Scrutiny Committee 18 May 2017 [Draft], Caroline Gardner, contrib. 67³⁵

79. The Auditor General’s report on [NHS Scotland in 2018](#) similarly noted the accountability issues arising from multiple planning levels. It stated that—

” The arrangements for NHS planning are complex. There are now multiple planning levels from small localities through to national planning. Last year we said that it was not yet clear how planning at each of the different levels would work together in practice. This remains the case. ¹

80. The report further noted that—

” As new planning layers have been created, none have been removed. This multiplicity of levels and lack of clarity over their roles means NHS governance is confusing. ¹

81. Similarly, the 2018 report on [Health and Social Care Integration: Update on progress](#) drew attention to the multiple indicators and outcomes to which Integration Authorities (IAs) and Integration Joint Boards were subject. It pointed out that IAs are reporting to a range of different measures to demonstrate progress, which include the National Performance Framework, 9 national health and wellbeing outcomes, 12 principles within the Act and 6 national indicators. ⁴³

The Committee notes that audit reports on college and health and social care sectors have highlighted the need for clarity about accountability arrangements arising from structural reform. It is important that staff and service users are clear about where responsibility lies for decisions about the use of public funds. The Committee will continue to monitor this issue in its future scrutiny.

Severance payments

82. A key issue for the Committee throughout its audit scrutiny has been the level and transparency of payments that are made to senior individuals on departure from an organisation where there have been significant financial and/or governance failings.

83. In 2013, Audit Scotland published a report entitled [Managing Early Departures from the Scottish Public Sector](#), which stated that public sector organisations were spending approximately £280 million per year on early departure packages. The report set out principles of good practice in making such payments. The Committee

has since that time received an annual report on severance payments which have been made to senior public sector employees.

84. During this session, the Committee has scrutinised a number of reports in relation to which governance concerns have been raised about payments that have been made to senior staff on their departure from public sector bodies. The Committee has scrutinised instances of this at NHS Tayside, Moray College ⁴⁴ and the Scottish Police Authority.
85. For example, the Auditor General's section 22 report on the [2016/17 audit of the Scottish Police Authority](#) criticised the terms of the former chief executive's departure from the SPA as well as the process by which this decision had been made by the board. The process had led to the SPA incurring an additional three months' salary costs unnecessarily. In her evidence to the Committee, the Auditor General told the Committee that—

” I have no doubt that the Scottish Police Authority board could have structured the agreement that it came to with Mr Foley in a way that avoided payment in lieu of notice that was not worked. That is very clear.

Source: Public Audit and Post-legislative Scrutiny Committee 21 December 2017, Caroline Gardner, contrib. 30⁴⁵

86. Similarly, the Auditor General's section 22 report on the [2017/18 audit of NHS Tayside](#) concluded that, while the decision to reach a negotiated settlement with the former chief executive had been reasonable, there were “several weaknesses in the settlement process and a lack of good governance”. The process led to the chief executive receiving around £30,000 more than that to which she was entitled under her original contract of employment.
87. In its scrutiny of audit reports, the Committee has continually raised concerns around what it considers to be instances of using of public money to “reward failure”.

The Committee has continually emphasised that there should be no reward for failure. Therefore, where senior members of staff leave a public body as a consequence of evidence of poor financial management or governance failings, the Committee will continue to scrutinise any payments made to such individuals and publicly highlight examples of where it considers any such payments to constitute a misuse of public funds.

The Committee emphasises that the Scottish Government's new policy on settlement agreements must make robust provision in relation to the level, transparency and governance arrangements in respect of such payments. The Committee intends to take evidence on the policy as part of the debate on this report.

Data collection and evaluating outcomes

Data collection

88. A number of audit reports have highlighted concerns about incomplete and poor quality data and the impact that this has on decision making in respect of the use of public funds.
89. For example, the Auditor General's report on [Changing models of health and social care](#), stated that—
- ” There is currently a major gap in information about demand and activity for most community health services, including general practice services.It is essential to have good information on the patterns of use of general practice and demand for services to be able to design new models of care.”⁴⁶
90. Further, the Auditor General's report on [Early Learning and Childcare](#) (ELC) pointed to “significant gaps in the data” which included “a lack of accurate cost and spend data on funded ELC; incomplete data on staff providing funded ELC; and a lack of data on the number of hours of funded ELC children are receiving.”
91. The report also raised concerns about the lack of data in relation to eligible two year olds. During evidence to the Committee, the Auditor General indicated that—
- ” We make some recommendations particularly with regard to the eligible two-year-olds, because it is very difficult for councils to know which of the two-year-olds in their areas are among the estimated 25 per cent who are eligible as a result of coming from more disadvantaged backgrounds.
- Source: Public Audit and Post-legislative Scrutiny Committee 08 March 2018, Caroline Gardner, contrib.
48⁴⁷
92. In her evidence to the Committee, Alison Cumming from the Scottish Government told the Committee that there was also no national data on attendance levels among children.”⁴⁸
93. More recently, the Committee scrutinised the Auditor General's report on [Children and Young People's Mental Health](#), which stated that—
- ” “National data on reasons for referral and rejection is not collected, making it difficult to understand the nature of demand for specialist CAMHS. Collecting this data would help to assess the level of referrals that are not suitable for CAMHS and indicate the number of children and young people who would benefit from lower level support and services.”⁴⁹
94. Similarly, the report indicated that “poor data means it is not possible to identify total spending on CAMHS” in NHS boards because the boards report their spending inconsistently; the transfer of money from one board to another to pay for a CAMH service is not recorded and information in the spending summary is not comprehensive.

A number of audit reports that the Committee has scrutinised have revealed that key policy developments have not been underpinned by basic data. Recent examples of this are the reports on the provision of early learning and childcare and children and young people's mental health services. In particular, absent or underdeveloped data has meant that it was not possible to know with any accuracy how much was being spent on these key areas of public service provision. The Committee considers this to be unacceptable.

The Committee recognises further that the collection of data has become ever more important given its potential to assist public bodies to identify where productivity and efficiency savings can be identified and subsequently implemented.

The Committee will be looking to hear from the Scottish Government and other public sector bodies about the steps that are being taken to ensure that essential information about the spend on key policy areas is collated, including information about the key elements of policy implementation.

Data and outcomes

95. Despite the longstanding commitment to an outcome-based approach, the performance of many public services is still measured in terms of inputs rather than outputs and outcomes. By contrast, data to demonstrate improved outcomes or progress towards longer-term reforms are often absent or underdeveloped. A key impact of this is that it is difficult to measure whether a policy is making progress and delivering value for money.
96. For example, in her evidence on the report on [Early Learning and Childcare](#), the Auditor General told the Committee that—

” The bigger data problem that we have identified is that, with the expansion to 600 hours back in 2014, the Government did not set out how it would evaluate success. That is making it hard both to look back and see whether such a move represented value for money and to inform the decisions about how best to manage the expansion to 1,140 hours.

Source: Public Audit and Post-legislative Scrutiny Committee 08 March 2018, Caroline Gardner, contrib.
48⁴⁷

97. In particular, the report noted that the Scottish Government did not carry out economic modelling to assess the likely impact of the policy on children and parents and the outcomes expected from the additional funding allocated between 2014/15 and 2017/18. As a consequence, the Scottish Government did not have information on the policy's likely economic impact, such as additional tax revenue from parents taking up employment or longer-term changes to the economy when eligible children reach adulthood.

98. The report concluded that—

” There is no evidence that the additional investment has improved the quality of ELC services.⁵⁰

99. Similarly, the report on [Self-directed support:2017 progress report](#) in 2017 found that it was not yet possible to assess the extent to which this policy development had given service users more choice and control over their lives.

100. In a letter to the Cabinet Secretary for Health and Sport in respect of that report, the Committee stated that—

” We heard in both the AGS’s report and from stakeholders that there is a lack of baseline data to accurately measure progress of SDS; a lack of data on which of the four options people had chosen; and little to no information on outcomes.⁵¹

101. The Committee made a similar point in its report on [Children and young people’s mental health](#) which stated that—

” The role of the Committee is to ensure that public funds are being spent wisely. The absence of basic data in relation to a whole range of factors in relation to the provision of mental health services for children and young people has meant that it is not possible for the Committee to be reassured on this point. In particular, data is absent or underdeveloped on total spend, on the reasons for rejected referrals and, crucially, on outcomes.⁵²

102. The Committee’s report went on to add that—

” In particular, the Committee is concerned by Key message 3 of the Audit Scotland report which states that “Data on mental health services for children is inadequate, with a lack of evidence of what difference existing services are making to children and young people with mental health problems.”⁵²

103. More recently, the Committee considered the Auditor General’s overview report on the college sector, [Scotland’s colleges 2019](#). The report noted that while the Scottish Funding Council reported student satisfaction for the sector, it did not publish student satisfaction data for individual colleges. The report noted that—

” Publishing good-quality information on student satisfaction for individual colleges would allow students, and potential students, to determine whether a college provides a good experience for students. It also means that colleges can be effectively held to account by other stakeholders.⁵³

Planning for outcomes

104. Reports from the Auditor General suggest that part of the problem is that the intended benefits and outcomes of new policies are not always explored at the outset or are altered once the policy is developed. For example, the Auditor General’s reports on the [Common Agricultural Policy Futures programme: Further](#)

[update](#) noted a series of weaknesses and problems with the payment programme, but crucially noted that—

” Our May 2016 report highlighted that the programme would not deliver the wider benefits envisaged. The Scottish Government has reduced or removed some of the anticipated future savings and benefits. The system is not yet working efficiently as planned and will require significant additional investment. To date, the programme has not delivered value for money.⁵⁴

105. Changing the anticipated benefits and outcomes once the policy has been developed or is being implemented was also evidenced in the Committee’s scrutiny of the report on [Early Learning and Childcare](#). When discussing the proposed outcomes, Jane O’Donnell from COSLA told the Committee that—

” The intention was unclear before the policy was fully developed in the blueprint; there were a number of options. As some committee members have mentioned, there was a discussion about whether the point was to get parents into work. That is a laudable intention, and it is important for economic benefits for families, but we have clarified that the primary policy intention is quality early learning, and that will support efforts to reduce the attainment gap.

Source: Public Audit and Post-legislative Scrutiny Committee 17 May 2018, Jane O’Donnell, contrib. 83⁵⁵

106. While in his evidence to the Committee on the report on [Early learning and childcare](#), Paul Johnston, Director-General at the Scottish Government, told the Committee that the wider benefits of the ELC policy were still under development. He said—

” The detailed outcomes frameworks are what I have referred to as work that is very much in development... We [also] recognise the need to work on delivering that economic benefit and ensuring that this policy allows parents to access work. The ways in which we track and measure that will be subject to further development.

Source: Public Audit and Post-legislative Scrutiny Committee 17 May 2018, Paul Johnston, contrib. 94⁵⁶

107. In her evidence to the Committee on the [Early learning and childcare report](#), the Auditor General emphasised that the development of outcomes is just the first step in the process. She told the Committee—

” There is no doubt that it is much better to think about the outcomes that you want to achieve with public investment and public services than not thinking about those things. However, setting the outcomes is only the first step, and we think that this policy is an example of an area where planning for how outcomes are going to be achieved could have been done better, in terms of the priority given to both outcomes for children and helping parents back into work, and then the details of how the expansion is to be achieved by 2020 and planning earlier for that within what was already a short timescale. Planning for outcomes matters, and it could have been done better in this case.

Source: Public Audit and Post-legislative Scrutiny Committee 08 March 2018, Caroline Gardner, contrib. 133⁵⁷

Outcomes-based budget process

108. The need to link policy development to the intended outcomes has become even more critical given the new parliamentary budget process. In particular, the [Budget Process Review Group](#) (BPRG), on whose report the new process is based, recommended that new policies, strategies or plans should set out the outcomes they are aiming to achieve and the intermediate outputs, measures and milestones.
109. The BPRG further recommended that Scottish budgets should be clear about how spending on particular policies and strategies is expected to contribute towards improving specific national outcomes in the National Performance Framework (NPF).
110. Consistent with this approach, in her section 22 report on the [2017/18 audit of the Scottish Government Consolidated Accounts](#), the Auditor General recommended that the Scottish Government prepare a performance report that clearly links to the financial resources outlined in the Consolidated Accounts. The report notes—
- ” Greater transparency around the Scottish Government's own performance towards meeting its strategic objectives would provide greater accountability for the use of its financial resources. This would provide a more rounded account of the Scottish Government's overall performance and would enhance reporting to the Scottish Parliament and the public, and help strengthen accountability and scrutiny.”⁴²
111. In May 2019, the Scottish Government published an NPF baseline report, [Scotland's wellbeing – Delivering the National Outcomes](#). The report states that the “aim of the report is to bring together existing evidence and analysis on a number of key issues, trends and features of Scotland's performance which the evidence suggests are important to consider when making decisions on policy, services and spending.”⁵⁸
112. However, a [SPICe briefing](#) on the report points out that it does not include commentary on policy or Government spending decisions. As such, it notes that “it is not immediately clear how the baseline report, or indeed the new website, supports efforts to identify linkages between budget decisions and outcomes as recommended by the Budget Process Review Group.”⁵⁹

The Committee is concerned that a number of audit reports have revealed that data on outcomes in relation to key service provision was incomplete or absent, including in relation to early learning and childcare, self-directed support and children and young people's mental health services. This lack of data meant that the Committee could not be reassured that public funds were being spent wisely or whether such policies were making a difference to service users and their families. Audit reports have suggested that part of this broader problem stems from a failure to identify at the outset the intended outcomes of a particular policy development.

The Committee seeks information from the Scottish Government on the steps that it is taking across directorates to ensure that, when planning for a new policy development or other initiative, the outcomes are identified at the outset. Planning should also include identifying the data that will be collected throughout delivery of the project to measure its medium and long-term impacts and whether it is delivering value for money.

At a wider level, the Committee agrees that the National Performance Framework (NPF) should explicitly link to the Scottish Government's individual policies and strategies.

The Committee further emphasises that this requirement falls not just on the Scottish Government but on all public bodies, noting the recommendation of the Budget Process Review Group which stated that "public bodies should consistently set out how they plan to contribute towards specific national outcomes in the NPF in their published corporate and business plans. Where possible, this should also include links to planned spending, the specific outputs that are expected and how these contribute to national outcomes."

The Committee notes that each outcome in the NPF is underpinned by a series of indicators which are used to measure progress towards the outcome. The Committee notes that, in respect of several of the outcomes, "trust in public organisations" is listed as an indicator. The Committee's scrutiny of a series of audits, including the 2016/17 audit of the SPA and the 2016/17 audit of NHS Tayside and the evidence of poor financial management that came to light gives further force to the need for outcomes to be specifically linked to the way in which public bodies are managing their finances.

Managing major ICT projects and structural change

113. The final recurring theme to be explored in this report considers the challenges that many public bodies have experienced in managing ICT projects and undertaking major structural change.

Managing ICT projects

114. Since the beginning of the session, the Committee has considered a series of audit reports which have raised concerns about the management of ICT projects. In particular, audit reports have commented on the SPA's Management of the [Police i6 programme](#) and the ICT programme management difficulties linked to the [Scottish Government's Common Agricultural Policy Futures Programme](#). More recently, the Committee has taken evidence on the failed IT project at the [Scottish Public Pensions Agency](#) and the management of the digital transformation programme at the [2017/18 audit of Scottish Social Services Council: Governance and transparency](#).

115. The section 22 report on the [2017/18 audit of the Scottish Social Services Council: Governance and transparency](#), for example, described a series of concerns, stating that—

” The digital transformation strategy was not clear about the intended benefits, beyond an update to Microsoft Office, new IT infrastructure, and a new case management system. Since the termination of the ICT shared service agreement, the project now also includes setting up a new network and ongoing ICT support costs, which were not factored into the strategy.³²

116. In her subsequent evidence to the Committee, the Auditor General told the Committee that—

” What went wrong in the project was what has gone wrong in many others: people did not get the building blocks right at the beginning. Unless people are clear on what they are trying to achieve, have a clear scope and budget for the programme and have identified, assessed and managed the risks, things are likely to go wrong further downstream.

Source: Public Audit and Post-legislative Scrutiny Committee 07 February 2019, Caroline Gardner, contrib. 10⁶⁰

117. Communication issues between the public body and contractor have also been cited as a critical factor. For example, in her report on the [NHS24 IT project](#), the Auditor General noted that—

” There were weaknesses in partner engagement at planning and testing stages, resulting in incorrect assumptions about how the new system would integrate with the out-of-hours service in individual NHS boards.⁶¹

118. Similar issues arose in relation to the [Police i6 project](#). While the Auditor General concluded that there was no single reason why the project failed, she noted that, despite an 18-month competitive dialogue, there was a fundamental disagreement between Police Scotland and Accenture about the interpretation of the contract and the scope of the programme. The report noted that this “damaged relationships and trust between the two organisations from a very early stage”.⁶²
119. The [report on the i6 project](#) also noted that because both Police Scotland and Accenture were determined to deliver the project, this “may have led to optimism bias and a reluctance to pause or halt the project at an earlier stage.”⁶²
120. While the Auditor General’s report on [Managing the Implementation of the Scotland Acts](#) was generally positive about the progress being made in respect of the new social security system, some concern was expressed about the agility of the project to respond to any difficulties encountered in the delivery of wave one benefits.
121. In her evidence to the Committee on the [2017/18 audit of the Scottish Social Services Council: Governance and transparency](#), the Auditor General noted that a framework has now been put in place by the Scottish Government’s Chief Information Officer which “contains many more checks and more oversight of what is happening with projects, as well as the ability to draw on central expertise”⁶³.
122. However, she noted that the framework had tended to be applied to the larger bodies and IT programmes. She said—

” The problems that we are aware of at the moment tend to be in smaller bodies that do not have the skills and that underestimate the investment that is required to succeed.

Source: Public Audit and Post-legislative Scrutiny Committee 07 February 2019, Caroline Gardner, contrib. 47⁶⁴

123. Further, despite the existence of guidance and tools to assist public sector bodies manage such projects, the reports from the Auditor General suggest that these materials are not always used. In her evidence to the Committee on the [2017/18 audit of the Scottish Social Services Council: Governance and transparency](#), Joanne Brown, the auditor, told the Committee that—

” I know that the council would have been aware of all the guidance, the tools and some of the checklists, but those checklists were not used.

Source: Public Audit and Post-legislative Scrutiny Committee 07 February 2019, Joanne Brown, contrib. 104⁶⁵

IT skills

124. A critical factor highlighted in successive reports has been the difficulties faced by public sector bodies in recruiting individuals with the required level of IT skills. The 2017 Audit Scotland report on [Principles for a Digital Future: Lessons learned from public ICT projects](#) commented that—

” We have often found that public sector organisations undertaking an ICT project rarely have the right skills and experience already within the organisation.⁸

125. In her evidence to the Committee on the same report, Gemma Diamond from Audit Scotland suggested that organisations often underestimated the level of skills that were required. She indicated that an honest assessment at the start of the project of the skills of existing staff was essential in respect of what was required. She said—

” If an organisation has not done something before, it is easy for it not to know what it does not have. An organisation can assume that it has the skills and experience but, halfway down the line, it might realise that it does not have what it needs.

Source: Public Audit and Post-legislative Scrutiny Committee 25 May 2017, Gemma Diamond, contrib. 34⁶⁶

126. This issue was clearly illustrated by Audit Scotland’s report on [Superfast broadband: Further progress update](#). The report was critical of Community Broadband Scotland (CBS), which had been set up to provide support to rural communities not covered by BT and the commercial provider contracts. A subsequent review of CBS identified a series of failings, which included the skills and expertise of CBS staff. The report stated that staff—

” lacked the required procurement and technical skills. Instead they relied on consultants. Communities felt the support they received did not adequately meet their needs. All parties underestimated the complexities involved.⁶⁷

127. The section 22 report on the [2017/18 audit of the Scottish Social Services Council: Governance and transparency](#) similarly pointed to recruitment challenges. It stated that—

” Several contractors have been employed to oversee the project. In the last 12 months the ICT contractor employed as digital lead has changed three times, which means there has been no continuity in managing and implementing the project.³²

128. IT recruitment issues have also been cited as a key challenge in the Auditor General’s reports on the implementation of the social security system. Both [Managing the implementation of the Scotland Acts](#) and the follow up report, [Social Security: Implementing the devolved powers](#) discussed issues around delivery and IT capacity. Key message 2 in Part 2 of the later report stated that—

” The pace of delivery has put significant pressure on programme and agency staff. The programme has relied more heavily on temporary and contractor staff than planned because of difficulties in recruiting people with the skills and experience it needs.²⁰

129. During the subsequent evidence session with Audit Scotland, Gemma Diamond told the Committee that—

” This is a recurring problem that we have seen in many areas of Government in the past couple of years, particularly in major programmes. The programme is working really hard to get the staff that it needs, and that includes working closely with initiatives such as the digital academy, CodeClan, growing and developing skills and bringing them into the programme. That is a major challenge for the programme, and it features heavily on its risk register.

Source: Public Audit and Post-legislative Scrutiny Committee 16 May 2019, Gemma Diamond (Audit Scotland), contrib. 7⁶⁸

130. In correspondence to the Committee, the Permanent Secretary has highlighted the steps that the Scottish Government is taking to enhance IT skills within the public sector, including the creation of the Scottish Digital Academy and a new Digital Fellowship Programme.⁶⁹

Since the beginning of the session, the Committee has considered a series of audit reports concerning failings in public sector ICT projects, which have significantly impacted on public funds. The reasons for such failings have been multiple, but have included an underestimate by the public body about the level of skills and experience required in managing the project; miscommunication between the public body and contractor about what is required and a lack of oversight by the Scottish Government.

However, a key theme which continues to feature in audit reports concerning public sector ICT projects is poor planning. The Committee notes, in particular, that planning for such projects should include a clear sense of what the project is trying to achieve; a detailed business case; a clear scope and budget for the programme, including any long-term implementation costs and an assessment of the risks and how these can be managed. In particular, the Committee considers that public bodies should be using and deploying recognised development methodologies in carrying out such projects.

The Committee notes the technical and assurance framework that the Scottish Government has put in place to provide greater oversight of ICT projects with a focus on projects that have a minimum whole cost life of £5 million. While the Committee welcomes this development, it is concerned that smaller scale ICT projects will not receive the same level of support and oversight, even though the ICT project may concern a service area where the impact on users is high. As such, the Committee considers that further debate on this theme should look to standardise the support that is offered and provided to smaller scale ICT projects to ensure that the public body is using the range of tools, materials and technical support available to it in carrying out the project.

A series of audit reports on public sector ICT projects have underlined that a key contributing factor to the difficulties that have arisen has been an inability to

recruit and retain appropriately skilled IT staff. The Committee notes the various initiatives that the Scottish Government is taking to seek to address this issue. Nonetheless, given the impact on the public purse of failed ICT public sector projects, the Committee queries whether a fundamental rethink is required in respect of IT recruitment. Debate on this issue should be initiated by the Scottish Government, but taken forward in collaboration with both public and private sector leaders.

Managing major structural reform

131. The challenges facing public bodies in undertaking structural and transformational change have also regularly featured in the Auditor General's reports.

132. In March 2016, the Auditor General's report on [Changing models and health and social care](#) noted that—

” Transformational change is required to meet the Scottish Government's vision to shift the balance of care to more homely and community-based settings. NHS boards and councils need to significantly change the way they provide services and how they work with the voluntary and private sectors. Traditionally there has been an emphasis on hospital and other institutional care rather than the community-based and preventative approach outlined in the 2020 Vision. We have highlighted in previous reports that despite the Scottish Government's considerable focus and resources aimed at shifting the balance of care over a number of years, this has not changed to any great extent. ⁷⁰

133. The report emphasised the need for strong leadership from the Scottish Government. The report stated—

” The Scottish Government needs to provide stronger leadership by developing a clear framework to guide local development and consolidating evidence of what works. It needs to set measures of success by which progress can be monitored. It also needs to model how much investment is needed in new services and new ways of working, and whether this can be achieved within existing and planned resources. ⁷⁰

Staff and public engagement

134. The evidence to the Committee has underlined the importance of engagement with service users and staff if major projects and/or structural change are to be successful. Audit reports suggest, however, that this aspect often receives the least attention during planning. For example, the 2018 report on [Superfast Broadband in Scotland: Further progress update](#) noted that the Auditor General had previously recommended that the Scottish Government and Highlands and Islands Enterprise further develop how they made more information publicly available about the proposed reforms. While the reports noted that better information was subsequently provided, it stated that—

” We continue to receive correspondence from individuals and businesses wanting more information about when they may be connected or frustrated at the speeds received not matching expectations. As the Scottish Government looks towards future contracts it is important it considers how best to keep the public informed. ⁶⁷

135. Similarly, during its scrutiny of the [2016/17 audit of New College Lanarkshire](#) Committee Members were perplexed by the College’s decision regarding the timing of its engagement with staff in the development of its business scenario plan. In her evidence to the Committee, the Chair of the Board Dr McTavish stated—

” The thinking was that when we got further down the line full consultation could take place. We considered whether the scenarios were feasible. The things that were suggested to us were not feasible and would have caused problems.

Source: Public Audit and Post-legislative Scrutiny Committee 28 June 2018, Dr McTavish, contrib. 97⁷¹

136. In her evidence to the Committee, Professor Mead, then chief executive of NHS Highland emphasised, however, the challenges that were faced by boards trying to bring about change. She said—

” It takes time to have conversations, share the evidence and help people to understand all parts of the jigsaw in a local area that lead us to need to make a change. Time is the issue for us. We need to spend a lot of time explaining the need for change and why the current models of care are no longer sustainable.

Source: Public Audit and Post-legislative Scrutiny Committee 20 December 2018, Professor Mead, contrib. 18⁷²

137. In her evidence to the Committee on her report on [NHS Scotland in 2018](#), the Auditor General emphasised the importance of engagement with the public if transformational change within the NHS is to be delivered. She said—

” We are looking for people to be involved at national level, with Government and the national clinical organisations talking about the changes that need to happen and which will improve services. There needs to be debate at health board integration authority level and at the very local level, with individual general practices and communities.

Source: Public Audit and Post-legislative Scrutiny Committee 15 November 2018, Caroline Gardner, contrib. 27⁷³

The evidence presented to the Committee from a number of audit reports suggests that, in general, progress to transform services has remained small scale, meaning that many public sector bodies continue to struggle to meet demand. This is no more evident than in the NHS.

Meanwhile, structural changes within the college sector and health and social care sectors require not only a significant cultural shift and different ways of working, but also new lines of accountability. A common challenge within this environment is delivering system-wide change which requires collaboration.

At the same time, there is rightly a greater focus on involving members of the public, service users and communities in the design, development and delivery of the services that affect them. Again, a number of audit reports have highlighted the difficulties that public bodies are experiencing in carrying out such engagement.

The Committee agrees with the Auditor General that there needs to be a far wider public debate about the need to reform public services and what this means for staff and service users. Such a debate must involve learning from the good practice that is taking place at a local level throughout Scotland in order that such models can be debated and adapted, as appropriate, for use elsewhere. Essential elements of such reform include the need for strong leadership; continuing engagement with staff and service users; clear outcomes and transparent decision making.

The Committee also agrees that the Scottish Government needs to provide stronger leadership if transformational change in Scotland is to be delivered. In particular, it agrees that the Scottish Government should be—

- developing a clear framework to guide local development;**
- consolidating evidence of what works;**
- setting measures of success by which progress can be monitored; and**
- modelling how much investment is needed in new services and new ways of working, and whether this can be achieved within existing and planned resources.**

The Committee intends to explore with the Scottish Government in its future evidence session on this theme how it is progressing the action outlined above.

Conclusions

In 2011, the Christie Commission warned of the need to significantly reform public services if such services were to meet future demand. In particular, the Commission identified a number of priorities for public sector bodies including: working closely with individuals and communities to understand their needs; tightening oversight and accountability of public services; introducing consistent data-gathering and performance comparators to improve services; driving continuing reform across all public services based on outcomes, improved performance and cost reduction; and implementing better long-term strategic planning, including greater transparency around major budget decisions.

Eight years on, public services in Scotland continue to face challenges in terms of financial pressures, public expectations and demographic change. The Committee's scrutiny of successive audit reports suggests that many of the priorities identified by the Christie Commission are not being delivered. The Committee continues to see evidence of a lack of data on key policy implementation; confusion over intended outcomes and board members struggling to hold to account senior management in relation to key budgetary decisions.

Given the breadth of the audit reports that it scrutinises, the Committee is well placed to underline that many of these challenges are not unique to a particular sector, public body or type of project. As such, it is clear to the Committee that cross-sector, collaborative and long-term solutions are required.

The Committee is therefore calling for a debate across the public sector to be led by the Scottish Government to address the key challenges that it has identified in this report. This debate should actively involve chief executives from all public bodies.

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