



The Scottish Parliament
Pàrlamaid na h-Alba

SCOTTISH COMMISSION FOR PUBLIC AUDIT

AGENDA

3rd Meeting, 2011 (Session 4)

Thursday 27 October 2011

The Commission will meet at 12.45 pm in Committee Room 5.

1. **Decision on taking business in private:** The Commission will decide whether to take item 4 and future consideration of its draft report on Audit Scotland's budget proposal for 2012-13 in private.
2. **Audit Scotland's budget proposal for 2012-13:** The Commission will take evidence from—

Robert Black, Auditor General for Scotland, Russell Frith, Assistant Auditor General, and Diane McGiffen, Chief Operating Officer, Audit Scotland.
3. **Written agreement on the budget process:** The Commission will consider a revised written agreement between the Scottish Commission for Public Audit and Audit Scotland.
4. **Audit Scotland budget proposal 2012-13:** The Commission will consider the evidence heard.

Fergus D. Cochrane
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The papers for this meeting are as follows—

Agenda Item 2

Audit Scotland 2012-13 budget proposal

SCPA/S4/11/3/1

Agenda Item 3

Written agreement

SCPA/S4/11/3/2

Scottish Commission for Public Audit

3rd Meeting, 2011 (Session 4), Thursday 27 October 2011

Audit Scotland's budget proposal 2012-13 and fee strategy

Purpose

1. The purpose of this paper is to invite the Commission to consider the budget proposal for 2012-13 submitted by Audit Scotland. Also enclosed is its fee strategy covering 2011-12 to 2014-15. Copies of the budget proposal and fee strategy to the Convener are attached to this paper. Audit Scotland will give oral evidence to the Commission.

Budget proposal

2. Audit Scotland's income comes from two main sources, fees and direct funding from the Scottish Parliament. The budget proposal (p5) indicates a requirement of £6,973,000 for the 2012-13 financial year. Audit Scotland states that this is an overall cash reduction of 1.4% over the current budget.

3. The proposal (p7 & 8) sets outlines where it is 'generating its own efficiencies and cost reductions' through, for example, staffing number reductions, and revised approaches to procurement and property.

Fee strategy

4. The bulk of Audit Scotland's income comes from the fees charged to local government, the NHS, Scottish Water, central government and further education for audit work. In 2012-13 it estimates income from fees totalling £18,036,000 (p.9 of budget proposal). It states that in 2012-13 it will reduce the level of fees by 7.75% which is an increase from last year (p.6 of fee strategy).

Role of the SCPA

5. Section [11\(9\) of the Public Finance and Accountability \(Scotland\) Act 2000](#) states—

'Audit Scotland must, for each financial year, prepare proposals for its use of resources and expenditure and send the proposals to the Scottish Commission for Public Audit (constituted under section 12), which is to examine the proposals and report to the Parliament on them.'

6. The SCPA is required to consider the budget proposal and then report to Parliament. Under the [Written Agreement between the Finance Committee and the SCPA on the budget process in Session 4 of the Scottish Parliament](#) (members will recall the Commission approved this at its meeting on 4 October 2011), it—

'will provide to the Finance Committee no later than the end of the first week in November each year, its report on Audit Scotland's budget proposals for the next financial year.'

7. A draft report on the budget proposal will be considered at the Commission's meeting on 1 November 2011.

Conclusion

8. The Commission is invited to consider the attached budget proposal and fee strategy. Members may wish to seek clarification on any points with Audit Scotland witnesses.

**Secretary to the Scottish Commission for Public Audit
20 October 2011**

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Scottish Commission for Public Audit
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30 September 2011

Dear Convener

Audit Scotland's budget proposal 2012-13

I enclose Audit Scotland's detailed budget proposal for 2012-13, and I look forward to discussing this with the Commission in due course. I also enclose our September 2011 Fee Strategy.

In making this budget proposal, we continue to respond to the current economic conditions. It remains essential that Audit Scotland balances the need to deliver robust independent audit and comment on significant issues, and to reduce the cost of that audit where possible. We are mindful of the most recent report of the SCPA, which commented on the "the ever increasing importance of rigorous independent audit of public funds at a time of budgetary restraint. The budget you are considering has been reviewed and approved by the Board of Audit Scotland, who believe that it enables us to balance those sometimes competing objectives.

We have presented a detailed budget proposal for 2012-13 and, projections for the following two financial years, in line with the Scottish Government's Comprehensive Spending Review.

This year we are able to demonstrate through our budget proposal the continuing progress that we have made against our plan to reduce the cost of audit. We have, in fact, made faster progress than we anticipated at this time last year, and so are able to make faster progress towards our goal.

As we build up our working relationship with you, we are aware that you may have particular interests in the work we do, or new information needs. Please do not hesitate to let us know if we can provide any further information to support you in your role.

Yours sincerely



R W Black
Auditor General for Scotland

Budget Proposal 2012/13

Introduction

Audit Scotland provides services to the Auditor General for Scotland and the Accounts Commission. The principal activities of Audit Scotland are to carry out the annual external audit of around 212 public bodies and to carry out a programme of performance and Best Value audits across all parts of the public sector in Scotland.

Audit Scotland's funding comes largely from charges to audited bodies and partly from the Scottish Consolidated Fund. Audit Scotland is required to submit its budget proposals to the Scottish Commission for Public Audit (SCPA) for their consideration. The SCPA then make a report to the Scottish Parliament as part of the annual Budget Act approval process.

This paper presents Audit Scotland's budget proposals for the 2012/13 financial year - the second year of the four-year plan presented last year. This year we have also provided updated projections of resource requirements to 2014/15 aligning with the period of the Scottish Government's Spending Review.

The headings we use to present our budget proposal are consistent with the presentation of our accounts.

This paper should be read alongside the Fee Strategy.

This submission is presented in three parts.

- Background information
- Proposals for the budget year 2012/13
- Cost profiles for the three years to 2014/15.

Reducing the cost of audit

In making this budget proposal we are responding to the current economic conditions. The challenging financial position has been well documented including in Audit Scotland's reports 'Scotland's public finances – preparing for the future' and 'Scotland's public finances – addressing the challenges' and the report of Scotland's Independent Budget Review Panel. In the Scottish Government's Spending Review the Cabinet Secretary for Finance has confirmed the need to reduce public sector expenditure in Scotland by £3.7 billion (-12.8%) over the four years of the UK Government's Spending Review to 2014/15.

Our proposals build on the plans presented last year. We are able to propose a reduced budget over the next three years through a number of planning and efficiency measures some of which started in 2010 and are reflected in 2011/12 budget.

These include:

- Continuing a targeted freeze on recruitment
- Continuing an internal programme of review and efficiency savings
- Continuing to restructure our business
- Property rationalisation
- Benefits from the tender exercise to appoint external audit providers (firms).

Audit Scotland Budget Proposal 2012/13

Our 2011/12 budget proposals included plans to reduce the cost of audit in real terms by 7%. We are on target to deliver these savings and further benefits will arise from the tender exercise to appoint external audit firms. These actions have reduced our cost base in advance of the budget year 2012/13.

Our budget proposals for 2012/13 accelerate our plan to reduce the cost of audit, and deliver

- Audit fee reductions of 7.75% (for 2011/12 audits)
- Reduced revenue resource requirement of 4.2% from Parliamentary funds
- Running costs reductions of 6.2% from our 2011/12 budget
- A second year of overall cost reductions, continuing our plan to reduce the cost of audit by at least 20% in real terms over four years.

Background

About Audit Scotland

Audit Scotland:

- Is independent
- Works closely with other scrutiny bodies
- Is a resource for the Scottish Parliament
- Publishes the results of its work.

Our work helps the public sector to:

- Manage risks
- Improve performance and service delivery
- Save money.

We do this by:

- Checking the financial health of public bodies
- Assessing performance and service delivery
- Monitoring the governance of public bodies
- Helping to prevent and detect fraud.

Work programme 2012/13

In the coming year we (or the firms we appoint on behalf of the Auditor General and the Accounts Commission) will carry out the financial audits of every public body in Scotland – some 212 in all. We are increasing our scrutiny of financial planning, including looking at budgets, capital plans, efficiency savings and cost reductions.

During 2012/13 we will carry out a programme of performance audits on a wide variety of topics of current and public concern, including:

- Learning the lessons of public body mergers
- Major projects – managing capital investment in local government
- Scotland's Public Finances 3: Workforce planning in times of reducing budgets
- Efficiency of Clinical Services
- Outsourced contracts.

This is a sample of our planned work.

Working with other audit and inspection partners we have reduced the time spent in councils on corporate scrutiny work by 39% while continuing to ensure that areas of concern are highlighted through our Best Value audit work.

Our auditors are alert to fraud when carrying out their annual audit work and we continue to work closely with colleagues in England and Wales to extend the scope of and improve the results from the National Fraud Initiative which has now identified £63 million of fraud in Scotland alone. The results of the next round of this work will be published in spring 2012.

2012/13 Budget Proposal

Principal Budget Assumptions – 2012/13

The principal assumptions underlying the budget proposal for 2012/13 are:

Pay

Audit Scotland is currently in the second year of a pay freeze. We introduced a scale point pay freeze in April 2010 and this was extended by a further year in April 2011. Our pay freeze began one year earlier than most public bodies. The Scottish Government has recently announced a second year pay freeze effective from April 2012 with an expectation that modest increases may be possible from April 2013. Our budget for 2012/13 provides for the possibility of a pay award of up to 1%, following our two-year pay freeze. The Commission should be clear that this is a budgetary assumption and that we will enter negotiations on pay with our recognised trade union later this year. In line with our remuneration strategy, contribution-based payments will continue to be made – these equate to 0.83% of our pay budget.

Staff Vacancy Factor

In recent budget proposals, a vacancy assumption of 4% has been applied to our own staff budgets. We now have fewer staff, lower natural turnover and a much tighter job market. Therefore, we have reduced the vacancy factor from 4% to 2%. The effect of this change is to increase staff budgets by £155k.

Pensions

The majority of Audit Scotland's staff are members of the Local Government Pension Scheme. An actuarial valuation is being prepared as at 31 March 2011 but the results will not be published until December 2011. Our pension administrator has therefore agreed to set contribution rates for 2012/13 based on an extension of the rates set following the 2008 valuation. These are 14.5% for the current cost of pensions, plus a lump sum payment of £408k (3.8%) to contribute to the scheme deficit.

Appointed Auditors (Firms)

The budget assumes that payments to appointed auditors (firms) for 2011/12 audits will reflect the contract values agreed in the recent tender exercise. For 2012/13 audits it has been assumed that firms costs will rise in line with any scale movement for our own staff.

Restructuring Provision

Our budget proposal for 2012/13 include staff reductions of 5 w.t.e. followed by a further reduction of 18 w.t.e. in 2013/14. We anticipate our proposed staff reductions in 2012/13 will be delivered through natural turnover but this is not likely to be the case for 2013/14 and some form of early release scheme will be necessary. Last year we indicated that we would make provision for restructuring costs within our core budget proposal and for 2012/13 we have incorporated £300k to create a business restructuring provision to support staffing reductions in advance of 2013/14. Any surplus will be used to reduce the cost of audit and fees to audited bodies.

GDP deflators

A GDP deflator of 2.5% has been assumed for 2012/13. This is consistent with the rates published by HM Treasury and used in the Scottish Government's Spending Review. These are used to remove the effect of price changes (inflation) when comparing expenditure over time.

Summary of Resource Requirements

The following table summarises the 2012/13 budget proposal total resource requirements and provides a comparator with the approved 2011/12 budget. Further information on expenditure categories is provided in Appendix 1 which also provides information on actual expenditure levels in 2009/10 and 2010/11.

<u>Resource Requirements</u>	2011/12 £000	2012/13 £000	Change	
			Cash	Real Prices
Expenditure				
People costs	14,430	14,590	+1.1%	-1.4%
Other Administrative costs	11,788	10,009	-15.1%	-17.2%
Gross Administrative Costs	26,218	24,599	-6.2%	-8.5%
Income				
Income from charges to audited bodies	19,285	18,036	-6.5%	-8.8%
Bank Interest & Miscellaneous Income	113	30	-73.4%	-74.1%
Total Income	19,398	18,066	-6.9%	-9.1%
Net Operating Cost	6,820	6,533	-4.2%	-6.5%
Capital	250	440	+76.0%	+71.7%
TOTAL RESOURCE REQUIREMENT	7,070	6,973	-1.4%	-3.8%

Net Operating costs have reduced by 4.2% in cash terms from the approved 2011/12 levels. Capital expenditure has increase 76% from the approved 2011/12 levels. This increase is required to support property rationalisation plans which will generate long-term savings and business efficiencies.

The Total Resource requirement requested for approval by the SCPA is £6,973k which represents an overall cash decrease of 1.4% over the approved 2011/12 budget comprising a decrease in revenue funding of £287k (-4.2%) offset by a £190k increase in capital funding. In real price terms this represents a 3.8% reduction.

Expenditure

An analysis of expenditure by category is attached as Appendix 1. This provides information on actual expenditure levels in 2009/10 and 2010/11 and the approved budget for 2011/12. The expenditure budget is set after reviewing actual costs for each of the last two years and the current year budget and taking account of any planned developments and cost reductions. The breakdown of the budget in terms of income and expenditure aligns with the cost breakdown as presented in the annual accounts.

Gross administrative costs (our total operating costs) within the proposed budget for 2012/13 are 6.2% (£1,619k) lower than the approved 2011/12 budget. In real terms (2011/12 prices) these proposals represent an 8.5% reduction in expenditure and provide a strong contribution to our plans to further reduce the cost of audit by 15.5% over the three years to 2014/15.

The proposed budget identifies a staffing requirement for 270 w.t.e. excluding Board and Accounts Commission members. This number is 5 w.t.e. less than provided in the 2011/12 budget mainly as a result of continuing benefits arising from investment in new technologies over the past two to three years. These staff reductions will be delivered by natural turnover.

Although staff numbers in the 2012/13 budget proposals are 5 w.t.e. lower than included in the 2011/12 budget, the effect of pay growth, our proposal to include £300k to support business restructuring and the reduction made to the vacancy factor assumption means that in cash terms our staff budget is increasing by 1.1% when compared to the 2011/12 budget. In real price terms a 1.4% reduction is presented.

Other administrative costs in the proposed 2012/13 budget are 15.1% (£1,779k) lower than that provided in the 2011/12 budget. Most categories of expenditure have reduced, the most notable of which are appointed auditors (firms) fees and expenses, property costs, legal and professional fees (lower external consultancy support), information technology and depreciation.

Cost Pressures

The budget includes additional resource to meet a number of cost pressures that will arise in 2012/13. These pressures equate to 0.3% of our 2011/12 gross expenditure budget. Further details are provided below.

	£000
Payroll related items	51
Rental income	30
TOTAL	81

Payroll Related Items

Revised employer pension contributions within the Local Government Pension Fund will increase payroll costs by £51k.

Rental Income

Until March 2011 Audit Scotland provided office accommodation and support services to the Sustainable Development Commission (SDC). Our 2011/12 budget included £30k of rental income to be paid by the SDC but following a UK Government decision the organisation was closed in March 2011. Our 2012/13 no longer includes provision for rental income.

Efficiencies and Cost Reductions

The pressure on public finances affects all of the organisations that we audit. Audit Scotland is committed to assisting the public sector to meet these challenges and is also fully committed to generating its own efficiencies and cost reductions.

The table below shows the main efficiencies and cost reductions which have been incorporated into the 2012/13 budget proposals and which in cash terms amount to 7.4% of gross expenditure in the 2011/12 budget.

	£000
Staffing costs	140
Benefits of procurement - appointed auditors (firms)	1,253
Reduced legal and professional support	100
Property	307
Stationery and printing	29
Insurance	26
ICT and communications	36
Depreciation	43
TOTAL	1,934

Staffing costs

Staff costs account for 59% of our expenditure budgets. Our 2012/13 budget includes a staffing establishment reduction of 5 w.t.e. when compared to the 2011/12 budget. The cost savings generated from these reductions together with the effect of grade mix changes from business restructuring total £540k. These savings are partly offset by increased costs arising from pay growth, £245k and the effects of reducing our vacancy factor, £155k.

Benefits of Procurement - appointed Auditors (Firms)

In the spring of 2011, Audit Scotland completed the tender exercise to appoint external audit firms. This work is re-tendered every five years. The new appointments will take effect from the 2011/12 audit year and will run for five years. The tender exercise which was structured in way to encourage competition and will enable us to reduce the annual costs of audits by a further £1.2m in addition to the 20% reduction in the cost of audit set out in our plan last year.

External Legal and Professional Support

We have targeted a reduction of £100k (11% of 2010/11 approved budget) in the use we make of external consultancy support.

Property

Over the past year we have been working to rationalise our property portfolio. Plans are currently advanced to allow us to close one of our offices in Edinburgh in the spring of 2012. We have also re-negotiated and extended the lease for our Inverness office by five years to 2017 while reducing the annual lease cost by 29%. All our audit activity in the north of Scotland will be provided from our Inverness office. These changes will contribute to reduced annual property costs by £307k.

Stationery and printing

The greater use of electronic media and the introduction of shorter print runs will reduce costs by £29k.

Insurance

Earlier in 2011 we reviewed our general insurances and as part of the process we changed our insurance brokers. Annual savings of £26k will be generated.

ICT and Communication

Continuing investment in our ICT infra-structure, revised telecom and mobile systems and a rationalisation of our networks in support of our property changes will reduce costs by £36k.

Depreciation

Depreciation charges in 2012/13 are budgeted at £43k less than budgeted in 2010/11. The reduction is driven by lower levels of capital investment in ICT equipment as a consequence of increased asset lives.

Income

Audit Scotland is required broadly to break even, taking one year with another, for that audit work which is charged to audited bodies. Money voted by Parliament covers the cost of the annual audits that we cannot charge for, together with most of the performance audit work within the Auditor General's remit.

Audit Scotland's strategy for the fee charging arrangements is set out in the separate Fee Strategy paper.

The 2012/13 budget enables us to reduce the level of fees by 7.75% on average across most sectors for audits that are being completed during the year (2011/12 audits). This represents an additional 4.5% reduction from that planned (-3.25%) at this time last year. Benefits from the appointed auditor tender exercise are the main reason for this change. The actual reduction applied to each sector will be variable as the benefits from competition will be applied to the sector in which they arise. The reductions range from almost nothing in Further Education to 10% in the NHS.

We estimate that fee levels for all sectors will be reduced on average by a further 1.75% for audits which start during the year (2012/13 audits).

This budget results in an average 6.5% reduction in fees earned in the financial year 2012/13. In real terms (2010/11 prices) the proposed budget represents an 8.8% reduction.

**Audit Scotland
Budget Proposal 2012/13**

Income from charges to audited bodies by financial year is analysed below:

	Actual 2009/10 £000	Actual 2010/11 £000	Budget 2011/12 £000	Budget 2012/13 £000
Local authorities	13,183	13,429	12,526	11,844
NHS bodies	4,525	4,523	4,262	3,870
Scottish Water	222	205	198	145
Further education colleges	578	560	539	539
Scottish Government depts. & sponsored bodies	2,036	1,814	1,760	1,638
Total income from charges to audited bodies	20,544	20,531	19,285	18,036
% cash reduction in fees from 2011/12 budget				-6.5%

Capital

Our capital requirements for 2012/13 are £440k which is £190k more than approved for 2011/12.

Capital expenditure for 2012/13 will support Audit Scotland's rolling Information Technology replacement and upgrading programme, £190k and facilitate the consolidation of our property portfolio, £250k. We have the option to break the lease for our West of Scotland office in East Kilbride at no cost in early 2012. We are currently exploring options to relocate the office to a smaller footprint and to improve access to public transport. The £250k represents a provision to fit out a new office should we decide to relocate. Details of the 2012/13 capital requirements are provided below:

	£000
Mobile phone refresh	60
Communication room equipment replacement	25
Software	65
Thin client replacement	40
West of Scotland property relocation	250
TOTAL	440

Conclusion

Our budget proposals for 2012/13 deliver:

- A reduced cost of audit - gross administrative costs reduced by 6.2% from our approved 2011/12 budget. In real terms (2011/12 prices) these proposals represent a 8.5% reduction in expenditure
- A cost reduction target amounting to 7.4% of our 2011/12 expenditure budgets
- Fee decreases on average of 7.75% for 2011/12 audits which is 4.5% lower than previously notified to audited bodies
- A further reduction in the level of fees planned for 2012/13 audits of 1.75%
- A second year of cost reductions to audited bodies, continuing our plans to reduce the cost of audit by 16.7% over the four financial years to 2014/15 and fees by over 20% in real terms over the four audit years to 2013/14
- A reduced cost of audit by 15.5% in real terms over the three years to 2014/15.
- A reduced resource requirement requested for approval by the SCPA of 1.4% in cash terms over the approved 2011/12 budget. This comprises a decrease in revenue funding of £287k (-4.2%) offset by a £190k increase in capital funding. In real price terms this represents a 3.8% reduction.

Cost Profiles 2012/13 to 2014/15

Principal Assumptions – 2012/13 to 2014/15

The principal assumptions for 2012/13 are presented on page 3 of this submission. Where changes have been applied for 2013/14 to 2014/15 they are detailed below.

Pay

Audit Scotland is currently in the second year of a pay freeze. We introduced a scale point pay freeze in April 2010 and this was extended by a further year in April 2011. Our pay freeze began one year earlier than most public bodies. The Scottish Government has recently announced a second year pay freeze effective from April 2012 with an expectation that modest increases may be possible from April 2013. The budget for 2012/13 assumes that following a two year freeze Audit Scotland's salary scale points will be increased by 1% from April 2012. In addition contribution payments in accordance with our remuneration strategy will continue to be made – in 2012/13 these payments equate to 0.83% of our pay bill. Audit Scotland negotiates pay awards on an annual basis and actual awards will be determined as part of this process. However for planning purposes only we have assumed that in 2013/14 and 2014/15 pay levels will also increase by 2% per annum – 1% for salary scale increase and 1% for staff performance and contribution.

Vacancy factor

A vacancy factor assumption of 2% has been applied to our own staff budgets for 2012/13. For planning purposes we have assumed the rate will fall to 1% for both 2013/14 and 2104/15. This is as a result of both lower natural turnover driven by tighter job markets but also as a consequence of the reducing staff number profiles included in our financial plans for the period to 2014/15.

Pensions

The majority of Audit Scotland's staff are members of the Local Government Pension Scheme. The actuarial valuation on 31 March 2008 set employer contribution rates for the three years from 1 April 2009. Since then contribution rates for a fourth year (2012/13) have been agreed and estimates provided by the pension scheme administrator for 2013/14 and 2014/15. The rates for the three years of the projection are noted below:

	Current Cost	Lump sum scheme deficit	
2012/13	14.5%	£408k	advised by scheme administrator
2013/14	14.5%	£408k	advised by scheme administrator
2014/15	14.5%	£408k	advised by scheme administrator

Appointed Auditors (Firms)

Audit prices and volumes have for 2013/14 and 2014/15 have been set at the levels included in the 2012/13 budget proposal. The budget assumes that payments to appointed auditors (firms) will increase at 1% per annum in line with our payroll assumption for our own staff.

Restructuring Provision

Restructuring provisions of £150k have made in both 2013/14 and 2014/15.

**Audit Scotland
Budget Proposal 2012/13**

GDP deflators

The GDP deflator used for each year is noted below. The rates are consistent with those published by HM Treasury and used in the Scottish Government Spending review.

2012/13	2.50%
2013/14	2.70%
2014/15	2.70%

Cost Profiles 2012/13 to 2014/15

The table below highlights Audit Scotland's expenditure profile for the budget year 2012/13 and the three following years.

	Current Budget 2011/12 £000	Proposed Budget 2012/13 £000	Projection	
			2013/14 £000	2014/15 £000
Expenditure				
People costs	14,430	14,590	14,070	14,001
Other Administrative costs	11,788	10,009	9,821	9,888
Gross Administrative Costs	26,218	24,599	23,891	23,889
Bank Interest & Miscellaneous Income	(113)	(30)	(30)	(30)
Net Cost	26,105	24,569	23,861	23,859
Annual GDP deflators		-2.50%	-2.70%	-2.70%
Net Cost at 2011/12 prices		23,970	22,667	22,069
Cumulative savings at 2011/12 prices		2,135	3,438	4,036
Cumulative savings %		8.2%	13.2%	15.5%

Over the three years to 2014/15 net costs which have to be recovered from fees to audited bodies and SCPA support are projected to decrease in real terms by 15.5%. Over the period fees payable by audited bodies will also reduce in real terms by 15.5%. These reductions are in addition to the 7% real price reductions included in our 2011/12 budget.

Audit Scotland Budget Proposal 2012/13

The expenditure profiles as currently presented do not provide an even delivery of cost reductions. Smooth movements in fees between years are preferable to volatility – whilst audit charges may be a small element of an audited bodies overall costs they are often a significant item for the budget holder. Soundings of audited bodies show a clear preference for smooth movements and little volatility. Over the period of our cost projections we will be reviewing the delivery of cost reductions with the intention of smoothing the profile of funding required. This is based on the assumption of no changes in the volume of work required.

Staffing Projections

Reduced staff numbers and costs over the three year period are key to delivering real savings. Over the three year period we are projecting a reduction of 25 w.t.e. representing 9.1% of the staffing establishment in 2011/12. The table below provides details of our staffing projections.

	Current Budget 2011/12	Proposed Budget 2012/13	Projection	
			2013/14	2014/15
Staff excluding board and Accounts Commission members (w.t.e.)	275	270	252	250
Board members (headcount)	3	3	3	3
Commission members (headcount)	12	12	12	12
TOTAL	290	285	267	265
Change – annual		-5	-18	-2
Change – cumulative		-5	-23	-25

The achievement of the above staff reductions is a key component in the delivery of our reduced cost profiles. The process to reduce staff numbers started in the current year – our 2011/12 budget included staffing reductions of 16 w.t.e. and we are on target to deliver these. As noted in the 2012/13 budget submission we anticipate our proposed staff reductions in 2012/13 can be delivered through natural turnover. This is not likely to be the case for 2013/14 and some form of early exit package is envisaged along the lines of the VERA scheme we introduced in 2010/11. A provision of £300k has been included in the 2012/13 to support business restructuring in advance of 2012/13. Projections for 2013/14 and 2014/15 include restructuring of £150k.

Other Administrative Costs

Other administrative costs are projected to reduce further in the two years following our budget proposal for 2012/13. In this period the full benefits of our property rationalisation in Edinburgh will be realised and further reductions in our need to source external consultancy support will reduce costs by £100k.

**Audit Scotland
Budget Proposal 2012/13**

SCPA approved funding

In common with our plans to reduce our total costs over the next four years funding requested for approval by the SCPA is also predicted to fall. The table below provides further information on our projections.

Revenue support is predicted to fall over the three year period. As noted in our budget submission above, our capital budget for 2012/13 includes a provision of £250k for office fit-outs should we relocate our West of Scotland office.

	Current Budget 2011/12 £000	Proposed Budget 2012/13 £000	Projection	
			2013/14 £000	2014/15 £000
Net Cost	26,105	24,569	23,861	23,859
SCPA approved revenue funding	6,820	6,533	6,288	6,288
SCPA approved capital funding	250	440	200	200
TOTAL SCPA APPROVED FUNDING	7,070	6,973	6,488	6,488

**Audit Scotland
30 September 2011**

OPERATING COST STATEMENT

	Actual 2009/10 £000	Actual 2010/11 £000	Current Budget 2011/12 £000	Proposed Budget 2012-13 £000
People Costs				
Salaries and temporary staff	12,299	12,307	11,202	11,349
Employers on costs	2,954	2,929	3,003	3,014
Pension adjustments	-92	-6,219	90	90
	<u>15,161</u>	<u>9,017</u>	<u>14,295</u>	<u>14,453</u>
Accounts Commission Members	134	135	135	137
Total People Costs	<u>15,295</u>	<u>9,152</u>	<u>14,430</u>	<u>14,590</u>
Other Administrative Costs				
Appointed Audit firm fees and expenses	<u>6,408</u>	<u>6,255</u>	<u>6,165</u>	<u>4,912</u>
<u>Other Costs</u>				
Rent & rates	963	965	965	797
Other accommodation costs	656	619	693	554
Travel & subsistence	893	871	874	896
Legal & professional fees	794	614	1,063	963
Stationery & printing	262	205	279	250
Training	396	314	419	419
Staff recruitment	195	70	100	100
Communications (telephone, postage)	85	58	72	66
Insurance	106	107	113	87
Information technology	389	399	373	337
Internal Audit	32	30	35	30
External Audit - financial statements	18	27	25	28
External Audit - other work	8	0	0	0
Other	72	182	67	68
Depreciation	<u>658</u>	<u>639</u>	<u>545</u>	<u>502</u>
Total Other Administrative Costs	<u>11,935</u>	<u>11,355</u>	<u>11,788</u>	<u>10,009</u>
GROSS ADMINISTRATIVE COSTS	<u>27,230</u>	<u>20,507</u>	<u>26,218</u>	<u>24,599</u>
Income				
Fees and charges payable	20,544	20,531	19,285	18,036
Bank interest	4	5	30	30
Miscellaneous income	286	506	83	0
Other finance income - pensions related	-407	-39	0	0
Total Income	<u>20,427</u>	<u>21,003</u>	<u>19,398</u>	<u>18,066</u>
NET OPERATING COST / (SURPLUS)	<u>6,803</u>	<u>(496)</u>	<u>6,820</u>	<u>6,533</u>



FEE STRATEGY

September 2011

Audit Scotland Fee Strategy

Summary

Audit Scotland needs to play its part in responding to the unprecedented pressures on and reductions in public expenditure over the next few years. Scottish Government estimates are that the amount available to it would reduce by £3.7 billion in real terms over the four years to 2014/15.

This Fee Strategy covers the next four audit years from 2011/12 to 2014/15. In our 2010 Fee Strategy we said that we expected to reduce the average cost of audit over the four audit years from 2010/11 to 2013/14 by 19.75% in real terms. We are still confident of achieving or exceeding this target.

This strategy takes account of the UK Government Spending Review in 2010 and the Scottish Government Spending Review 2011.

As a result of initiatives already put into effect during 2010 and based on our plans for 2011/12 we are able to reduce audit charges for the 2010/11 audit year by an average of 7.75% (10.25% in real terms) building on the average 3.5% (5.5% in real terms) reduction for 2010/11 audits. This varies across different parts of the public sector as shown in the table below:

	Average Cash Reduction On 2010/11 charges	Real Terms Reduction
Local government	-6.9%	-9.4%
NHS	-9.8%	-12.3%
Central government	-5.4%	-9.2%
Further education	0.0%	-2.5%

The reductions in charges set out above total 15.75% in real terms and represent the bulk of the overall target set last year of a 19.75% reduction in charges over four years. The variations between sectors in the reductions for 2011/12 audits reflect the variations in discounts offered by firms in our recent tender exercise.

Audit Scotland is able to achieve this reduction, without compromising on the quality of our work as a result of reviewing the way in which we carry out audits and from the investments in new technology and ways of working that we have made over the last few years and continue to make.

Introduction & background

Audit Scotland's principal statutory objective is to provide services to the Auditor General and the Accounts Commission. Together these three bodies and firms appointed by them provide independent external audit to most public bodies in Scotland with the overall corporate aims of Holding to Account and Helping to Improve.

Audit Scotland makes charges to the audited bodies for a significant proportion of its work (around 75% of total income). This fee strategy paper sets out the principles and policies adopted in setting fees and charges to audited bodies and the application of those policies to the fee setting process for the 2011/12 and 2012/13 audit years and the 2012/13 financial year. This Fee Strategy should be read in conjunction with Audit Scotland's Budget submission to the SCPA for the 2012/13 financial year.

The remainder of this document is in two parts. Part 1 explains the principles and policies adopted in setting fees and charges. This part will be subject to annual review but is not expected to change significantly year on year. Part 2 considers the application of the policies to the circumstances of setting fees for the 2011/12 and future years.

PART 1

Objective of the fee strategy

The overall objectives of the fee strategy are to:

- establish a transparent framework for the setting of fees and charges
- enable Audit Scotland to meet its statutory and professional obligations as independent external auditors of public bodies in Scotland; and
- enable Audit Scotland to meet its corporate objectives of providing high quality public audit in Scotland whilst keeping charges to the minimum necessary.

Context for the fee strategy

The fee strategy does not exist in isolation. It is one part of the overall planning process within Audit Scotland. Medium term planning is led by the Corporate Plan 2009-12. On an annual basis Audit Scotland prepares a budget for approval by the Board and then the SCPA.

That process starts by establishing the nature and volume of activity to be undertaken and assessing its cost. That cost will be funded from a combination of charges to audited bodies and funding from Parliament. The fee strategy aims to show how the level of charges is determined. As some of the Parliamentary funding pays for similar activities to the charges to audited bodies eg the annual audit of the Scottish Government, the fee strategy is also influential in assessing the proposed level of Parliamentary funding.

Principal assumptions underpinning the fee strategy

- **Mixed market** – the Auditor General and the Accounts Commission require a mixed market for the conduct of financial audit to be operated involving around 37% of annual audit work being carried out by firms under five year fixed term appointments (with an option to extend for up to 2 years).

The benefits of a mixed market are that Audit Scotland can obtain access to developments in audit approaches in the private sector and that there is a degree of challenge to the cost and audit approach of in house audit teams. From the 2011/12 appointment round explicit price competition has been introduced for firms.

- **The level of charges paid by an audited body should not depend on whether the audit is undertaken by a firm or an Audit Scotland team** – indicative fees are set for all bodies in a sector irrespective of the identity of the appointed auditor and in the case of firms irrespective of the level of discount offered.

To the extent that the budgeted cost of in house teams is less than the estimated value of fees earned the difference will be used to reduce the fixed charge across all audits.

- **Smooth movements in fees between years are preferable to volatility** – whilst audit charges may be a small element of an audited bodies overall costs they are often a significant item for the budget holder. Soundings of audited bodies show a clear preference for smooth movements and little volatility eg councils would rather pay

towards best value audits each year rather than face a large charge every third year when a full BV audit takes place.

- **Charging should follow funding allocations** – where specific funding is distributed to audited bodies eg for best value audit then the audit charges should follow the funding distribution.
- **Indicative fees should be set on the basis of good systems of internal control and well prepared draft accounts** – the expected fee for an audit is based on the audited body operating efficient and effective systems of internal control and being able to prepare complete draft accounts with no material errors and which are underpinned by good quality working papers.
- **Final fees should be agreed between auditors and audited bodies based on local circumstances** – auditor and audited body involvement in fee setting helps to ensure that audited bodies understand the relationship between audit cost and the quality of systems and draft accounts and auditors are challenged on the value of their work.

Fee setting process and governance

Fee setting is one part of the annual budget process.

During June to August draft cost budgets are prepared for the following financial year. The implications of these for the levels of charges and Parliamentary funding are considered and draft proposals taken to the Audit Scotland Management Team for discussion. The discussions take account of new audit burdens, cost pressures, efficiency targets, outturn from the previous financial year and any potential End Year Flexibility available.

Following further refinement budget proposals including levels of charges are presented to the Audit Scotland Board for discussion and approval in mid September, and to the Accounts Commission for consideration of the level of charges to local government bodies, before being submitted to the SCPA at the end of September for their consideration as part of the Budget Bill process.

Because charges are set for audit years which run from approximately November to October the fee setting process related to each financial year covers two audit years. Therefore in September 2011 Audit Scotland will be confirming or amending the levels of charges for the 2011/12 audits which were provisionally set as part of the 2011/12 financial year budget in September 2010. We will also indicate our plans for charges over the next three audit years.

Implementing the strategy in practice

In applying the principal assumptions in practice a number of more detailed policies, estimations and apportionments have to be made. These are set out in Annex 2.

PART 2

Implementing the fee strategy for the 2012/13 financial year

Context

This year's budget and fee charging proposals are set against a background of economic recession and unprecedented pressure on public expenditure. In such an environment audit is an important part of the overall system of control which provides both assurance that high standards of financial management are being maintained and acts as a deterrent against temptation by managers to take actions to meet short term pressures which fall below the expected standards.

Audit Scotland recognises that it needs to play its part in responding to the financial pressures facing the public sector. We have therefore looked at how we can reduce expenditure and consequently audit charges whilst still meeting professional standards and the expectations of stakeholders. Our Budget Proposal for 2012/13 shows a reduction in the cost of our work of 6.2% building on the 7% reduction last year.

The 2012/13 financial year budget includes work on carrying out the final audits of the 2011/12 accounts and initial work on the 2012/13 accounts. Financial audit work mainly takes place in arrears and it is therefore relevant to note that The Total Managed Expenditure (TME) of the Scottish Government is still around £34 billion for 2012/13.

In preparing the 2012/13 financial year budget and charging proposals for 2011/12 and 2012/13 audits the following information and issues have been taken into account:

- Audit Scotland's approved revenue budget for the 2011/12 financial year is gross revenue expenditure of £26.218m funded by charges to audited bodies of £19.285m, sundry income of £0.113m and Parliamentary funding of £6.820m.
- Public sector pay levels – Audit Scotland pay scales take account of those in other parts of the public sector including local government. Audit Scotland has not increased its pay scales at 1 April 2010 or at 1 April 2011.
- Audit Scotland's audited accounts for the 2010/11 financial year show potential revenue End Year Flexibility of £1.275m. Audit Scotland has sought to carry £945,000 of this amount forward to provide a fee rebate to audited bodies.
- Changes in the public sector landscape – the budget and fee strategy take account of known changes in public bodies such as The Care Inspectorate but does not take account of any further possible changes. Where these are minor they have little impact on the amounts charged to remaining bodies although any major restructuring would lead us to revisit the strategy.

Options for the level of charges

Taking into account the above information there are several components which can be combined in different ways to produce options for future levels of charges:

- Maintain fee levels in 2012/13 reflecting the fact that gross expenditure of public bodies in cash terms has not yet reduced significantly and defer reductions in charges to later years.
- Reflect the cost reductions that we have been able to achieve in further reductions in fees for 2011/12 and 2012/13 audits.

Consideration of options

Given the progress made in identifying efficiencies and the pressure on all public bodies to reduce costs it would be preferable to propose an increase lower than the amount indicated a year ago.

A number of scenarios have been modeled to gauge their impact on the current financial year, 2011/12 and the likely effect on the first part of the 2012/13 financial year.

Taking into account the effect of proposals on the 2011/12 accounts and the 2012/13 budget it is proposed that average charges to audit bodies for the 2011/12 audits should fall by 7.75% in cash terms (10.25% in real terms).

Effect of proposals

The effect of the above proposals on the average level of charges for each sector for the 2011/12 audits is shown below.

Audit Years	Local Gov	NHS	FE	Central Gov
2008/09				
Annual increase	3.0%	3.0%	3.0%	3.0%
IFRS		4.6%		5.9%
Housing Benefit audit (2 nd part)	0.8%			
Rebate	-5.5%	-5.5%		-5.5%*
*chargeable audits only				
2009/10				
Actual increase	1.5%	1.5%	1.5%	1.5%
2010/11				
Actual decrease	-2.5%	-2.5%	+0.5%	-2.5%
IFRS		-2.2%		-2.2%
2010/11 Total	-2.5%	-4.7%	+0.5%	-4.7%
2011/12	-6.9%	-9.8%	0.0%	-5.4%

Note – for further education colleges the discounts offered by firms were considerably lower than in any other sector. Accordingly, in order for Audit Scotland to break even taking one year with another in this sector it is not possible to reduce fees for 2011/12 audits.

For 2012/13 audits, at this stage we expect to be able to make further reductions averaging 1.75% in cash terms.

Legislative provisions relating to Audit Scotland charges

Audit Scotland is subject to several statutory provisions in the setting of charges which are set out in the Public Finance and Accountability (Scotland) Act 2000. Specifically section 11 of the Act states that "Audit Scotland may impose reasonable charges in respect of the exercise of its functions in connection with" certain of its functions.

Further provisions specify that charges may be determined by reference to particular cases or classes of case and that in determining the amounts of those charges Audit Scotland must seek to ensure that the total sum received in respect of the charges is, taking one year with another, broadly equivalent to its expenditure in connection with the matters for which charges are made. Where an examination or study covers more than one body each body is to pay such proportion of the charge as is determined by Audit Scotland.

Sums received by Audit Scotland in respect of charges are to be retained by it and applied to meet the related expenditure. Other sums received are to be paid into the Scottish Consolidated Fund subject to any provision for them to be applied for any other purpose eg through the Budget Acts.

Any expenditure of Audit Scotland, so far as not met out of sums received and applied from charges is payable out of the Scottish Consolidated Fund.

The full text of section 11 of the PFA Act is set out at the end of this Annex.

Application of the legislation

The following paragraphs show which work Audit Scotland charges for and which it does not in order to comply with legislative provisions and existing precedents:

Work that Audit Scotland makes charges for

- Local government – all work (annual audit, performance audits, Best Value Audits, statutory performance indicators, housing benefit audit, cost of the Accounts Commission)
- NHS – annual audit + part of cost of performance audits (note 1)
- Central Government – annual audits except the Scottish Government, its Executive Agencies and the Scottish Parliament Corporate Body
- Further Education – annual audit
- Scottish Water – annual audit

Work that Parliamentary funding pays for

- Local government – none
- NHS – part of the cost of performance audits (note 1)
- Central government – annual audits of the Scottish Government, its Executive Agencies (note 2), Scottish Parliamentary Corporate Body, Scottish Consolidated Fund + performance audits
- Further education – performance audits
- Scottish Water – performance audits
- cost of supporting the work of the Parliament's public audit committee and the cost of the Auditor General.

note 1 – historically the NHS paid for all of its audit work through charges. Following devolution it was agreed that as the Parliament was the beneficiary of, at least some of the performance audit work, it was appropriate that it should bear some of the cost.

note 2 - whilst these financial audits are not charged for in cash, fees are calculated in the same way as for other financial audits and appear as a notional charge in the accounts of the bodies.

The requirement to determine charges by reference to particular cases or classes of case is interpreted as being by sector i.e. local government, health, central government, further education and Scottish Water.

Audit Scotland has the power to charge for all performance audit work except that relating to the Scottish Government, its executive agencies and other bodies receiving funds from the Scottish Consolidated Fund eg SPCB. In practice all central government, further education and water studies together with part of the cost of NHS studies are paid for through the Parliamentary funding. This is partly for historical reasons - pre devolution all national studies work carried out by the NAO was paid for by the UK Parliament whereas studies carried out by the Accounts Commission on the NHS were paid for by the audited bodies. Following the creation of Audit Scotland it was agreed with the then SCPA that it would be appropriate for performance audits to be largely paid for through Parliamentary funding as the programme of work is drawn up on a national basis taking account of national priorities and the resultant reports are laid in Parliament and considered by the Audit Committee. However, as the NHS bodies had previously paid for this work and continued to benefit from it, it was agreed that the NHS bodies should continue to make a contribution to the cost of this work.

Extract from the Public Finance and Accountability (Scotland) Act 2000

11 Audit Scotland: financial provisions

- (1) Audit Scotland may impose reasonable charges in respect of the exercise of its functions in connection with:
 - (a) the provision of services under arrangements made in pursuance of section 10(5)
 - (b) the audit under sections 21 and 22 of an account, other than one prepared in pursuance of section 19(1) to (3) or 20(1)
 - (c) the carrying out under section 23 of an examination, other than one in respect of an office-holder in the Scottish Administration or a body or other office-holder to whom sums are paid out of the Fund
 - (d) the audit of an account in pursuance of Part VII of the Local Government (Scotland) Act 1973 (c. 65)
 - (e) the undertaking or promotion of any study under section 97A or 105A of that Act
 - (f) giving of directions under section 1 of the Local Government Act 1992 (c. 19).
- (2) Charges under subsection (1) may be determined by reference to particular cases or classes of case.
- (3) In determining the amounts of those charges Audit Scotland must seek to ensure that the total sum received in respect of the charges is, taking one year with another, broadly equivalent to its expenditure in connection with the matters mentioned in subsection (1)(a) to (f).
- (4) Charges under subsection (1)(b) to (f) are payable by the body or office-holder whose account is audited or, as the case may be, in respect of whom the examination is carried out, the study undertaken or promoted or the direction given.
- (5) Where a charge under subsection (1)(c), (e) or (f) relates to an examination, study or direction in respect of more than one body or office-holder, each body or office-holder is to pay such proportion of the charge as is determined by Audit Scotland.
- (6) Sums received by Audit Scotland in respect of charges under subsection (1) are to be retained by it and applied to meet the expenditure mentioned in subsection (3).

- (7) Any other sums received by Audit Scotland are to be paid into the Fund, subject to any provision made by any enactment for such sums to be applied for any purpose instead of being paid into the Fund.
- (8) Any expenditure of Audit Scotland, so far as not met out of sums received and applied in accordance with subsection (6), is payable out of the Fund.
- (9) Audit Scotland must, for each financial year, prepare proposals for its use of resources and expenditure and send the proposals to the Scottish Commission for Public Audit (constituted under section 12), which is to examine the proposals and report to the Parliament on them.

Detailed policies for the implementation of the principles of the fee strategy

In implementing the principles of the fee strategy in practice a number of assumptions, estimations and apportionments have to be made including:

- **Total audit charges for a body comprise two elements** – the **agreed fee** (the amount paid to the appointed auditor for the annual audit work) and a **fixed charge** which covers the cost of performance audits, best value audits, National Fraud Initiative, Housing Benefit audit and a contribution to the central costs of running Audit Scotland. The proportion of the total fee which is represented by the fixed charge will vary according to which elements of audit work such as performance audits are charged for. Therefore, because local government bodies pay for the performance audits conducted by Audit Scotland central teams whereas central government bodies do not, the proportion of the total charge represented by the fixed charge is higher for local government.
- **Indicative fees and agreed fees** – indicative fees are Audit Scotland's centrally arrived at estimate of the fee for the financial audit element of audit work to be undertaken at each body based largely on historical experience. The appointed auditor is free to negotiate the agreed fee with the audited body based on their collective greater knowledge of the circumstances of the body in relation to that audit year taking into account such factors as the quality of internal control systems, the scope and extent of internal audit work, the quality of draft accounts and supporting papers and the scope of any additional audit work agreed. Auditors have discretion to agree fees within a range of + or - 10% of the indicative (30% for very small audits) without reference to Audit Scotland. Outside of that range fees can be agreed but only with the consent of Audit Scotland. This acts as a safety valve if either the auditor or the audited body is exerting undue pressure on the other.
- **Costs of financial audit** – the estimated costs of firms and of in-house audit teams are pooled and shared between all audits across all sectors.
- **Travel costs** – all cash costs of travel and subsistence relating to financial audits are pooled and shared across all audited bodies. In this way the amount paid by each audited body does not depend on the location of the appointed auditor (although the ability of each auditor to conduct audits in each area of Scotland is considered before appointments are made).
- **Best value audit in local government** – when the duty of Best Value audit was introduced by the Local Government in Scotland Act 2003 the additional funding for this new duty was distributed between councils in accordance with the normal funding formula. In order to reflect this pattern of funding best value audit costs are charged to councils based on relative populations. The charge is included in the annual total audit charge rather than being made only in the year in which the main best value audit is conducted in order to keep movements in total audit charges as smooth as possible.
- **Housing benefit audit/inspection function** – funding and charges are distributed in the same way as for best value audit.
- **Costs of performance audit work** – this is spread across audits in each sector on the basis of the relative indicative cost of the financial audit work.
- **Audit Scotland central costs** – costs of Audit Scotland central services such as finance, human resources, information technology and depreciation are spread across audit work in proportion to the budgeted direct cost of the work.
- **VAT** – Audit Scotland does not charge output VAT on its charges for statutory audit work as they are deemed to be statutory services. Audit Scotland cannot therefore recover most of its input VAT. However by agreement with HM Revenue & Customs Audit Scotland can recover the input VAT on invoices from professional firms for the conduct of local government statutory audit work only. The amount recovered reduces the fixed charge paid by all local government bodies.
- **Capital expenditure** – all capital expenditure is initially funded through a separate part of Parliamentary funding. The costs incurred are then charged to operating activities through depreciation over the lives of the assets and are thereby included in charges to audited bodies or Parliamentary funding as appropriate.

Scottish Commission for Public Audit

3rd Meeting, 2011 (Session 4), Thursday, 27 October 2011

The budget process: Session 4 agreement between the Scottish Commission for Public Audit and Audit Scotland

Purpose

1. At its meeting on 4 October 2011, the SCPA confirmed it was content with the terms of the revised written agreement on the budget process between the Finance Committee and the SCPA. At that meeting, it was explained that a separate agreement between the SCPA and Audit Scotland was being drafted by officials and a revised version would be submitted for consideration.
2. This revised agreement is attached (Annex A) and the Commission is invited to consider and agree the terms of it. A summary of the main changes is set out below. For information, the existing protocol is attached at Annex B.

Agreement between the SCPA and Audit Scotland

3. The written agreement between the SCPA and Audit Scotland has been revised by the SCPA secretariat in consultation with Audit Scotland officials. This has resulted in a shorter and simpler version which reflects current budget practices. It reflects the approach and wording, where appropriate, of the written agreement between the Finance Committee and the SCPA.
4. There are two main changes to this revised agreement—
 - Audit Scotland has been asked to submit its yearly budget proposal to the SCPA no later than 20 September, to allow it to report to the Scottish Parliament, no later than the end of the first week of November (as per the written agreement between the Committee and the SCPA)
 - Audit Scotland has been asked to submit its annual report and accounts to the SCPA no later than 16 days before the final meeting of Parliament, to allow the Commission to take oral evidence, should it wish, before the summer recess.
5. In addition, the opportunity has been taken to shorten and remove text which is not relevant to the purpose of the agreement e.g. on methods of communication. The secretariat will continue to discuss other issues e.g. the approach and responsibilities relating to appointments to the Audit Scotland board, with Audit Scotland and will, if necessary, bring further protocols/agreements to the SCPA for consideration.
6. Once agreed, this agreement will be published on the SCPA webpage (alongside the agreement between the Finance Committee and the SCPA).

Conclusion

7. The Committee is invited to consider and agree the revised written agreements between it and Audit Scotland.

**Secretary to the Scottish Commission for Public Audit
20 October 2011**



The Scottish Parliament
Pàrlamaid na h-Alba

DRAFT WRITTEN AGREEMENT BETWEEN THE SCOTTISH COMMISSION FOR PUBLIC AUDIT AND AUDIT SCOTLAND ON THE BUDGET PROCESS IN SESSION 4 OF THE SCOTTISH PARLIAMENT

Introduction

1. This document sets out the agreed administrative arrangements and procedures between the Scottish Commission for Public Audit and Audit Scotland in order to assist the SCPA in the discharge of its statutory duties under the Public Finance and Accountability (Scotland) Act 2000. It is not intended to create any legal rights or obligations on either body.
2. A separate agreement between the Finance Committee and the SCPA exists setting out the arrangements for the scrutiny of the annual draft budget.

Audit Scotland's budget

3. The expenditure plans of any body which has a prior call on the Scottish Consolidated Fund will reduce the total amount available to the Scottish Government for inclusion in its plans. Audit Scotland's budget falls into that category. It is therefore important that accurate information about Audit Scotland's spending plans is provided to the Finance Committee, through the SCPA, and the Scottish Government at an early stage.
4. To this end, the SCPA, as the body responsible for examining Audit Scotland's expenditure proposals, will provide to the Finance Committee (as set out in the agreement between the Committee and the SCPA) no later than the end of the first week in November each year, its report on Audit Scotland's budget proposals for the next financial year. To accommodate the SCPA's work cycle, Audit Scotland will provide the SCPA with a detailed annual budget submission no later than 20 September each year.
5. Where Audit Scotland believes that it may not be able to meet the 20 September deadline, it will consult the SCPA on a revised timescale.
6. Audit Scotland will keep the SCPA informed of any substantive changes to Audit Scotland's budget in recognition of the fact that these would affect the Scottish Government's expenditure plans and the Parliament's consideration of them.

7. The SCPA normally expects to consider and, when it considers necessary, take oral evidence from Audit Scotland on its annual budget proposals in October to allow the SCPA to report to the Finance Committee no later than the end of the first week in November.

8. The Secretary to the SCPA will give Audit Scotland as much notice as possible regarding dates for evidence taking sessions.

Audit Scotland's annual accounts

9. The SCPA is required to arrange for Audit Scotland's annual accounts to be audited and laid before the Parliament each year. To facilitate this, Audit Scotland shall arrange for an annual meeting to be held between it, the SCPA's appointed external auditor for Audit Scotland and, if necessary, the Secretary to the SCPA for the purpose of formally signing off the annual accounts. Once signed, Audit Scotland will formally submit, no later than sixteen calendar days before the final meeting of the Scottish Parliament before the summer recess, the accounts, and the auditor's report on these, to the Secretary to the SCPA who will arrange for the document to be laid before the Parliament and published.

10. Where Audit Scotland and/or the SCPA's external auditors believe that it may not be able to meet this deadline, it will consult the SCPA on a revised timescale.

11. The Secretary to the SCPA will seek to arrange for the SCPA to meet before the end of June each year in order to consider the accounts and the external auditor's report on these. The SCPA will, if it considers it necessary, take oral evidence from Audit Scotland and from its external auditor at this meeting.

12. The Secretary to the SCPA will give Audit Scotland as much notice as possible regarding dates for evidence taking sessions.

Review of this written agreement and annual work cycle

13. The SCPA shall keep this agreement under review and amend it as appropriate. In particular, it shall monitor any changes to the annual budget process and the implications this may have for the arrangements set out in the work cycle. It shall, in a timely fashion, seek and consider the opinion of Audit Scotland on any proposed amendments to the agreement. Audit Scotland may propose amendments to the agreement or work cycle whenever it considers necessary. Such amendments shall be discussed and then authorised by the SCPA if appropriate.

October 2011

Annex B

'EXISTING' WRITTEN AGREEMENT BETWEEN THE SCOTTISH COMMISSION FOR PUBLIC AUDIT AND AUDIT SCOTLAND**Introduction**

1. This protocol sets out the agreed administrative arrangements and procedures between the Scottish Commission for Public Audit ("the Commission") and Audit Scotland, in order to help the Commission discharge its statutory duties as set out in the Public Finance and Accountability (Scotland) Act 2000. This protocol is established for the benefit of both the Commission and Audit Scotland and does not impose a binding duty on either body.

Methods of communication

2. The primary route for formal communication between the Commission and Audit Scotland shall be between the Convener (on behalf of the Commission) and the Auditor General (as the accountable officer for Audit Scotland).
3. Audit Scotland shall ensure that all communications with the Convener which relate to the functions or work of the Commission as set out in the Public Finance and Accountability (Scotland) Act 2000, shall be copied to the Secretary to the Commission.
4. For more general administrative communication, the primary route between the two bodies shall be between the Secretary to the Commission and the Director of Corporate Services of Audit Scotland.
5. An agreed minute of any decisions taken or actions required as a result of meetings between the staff of the Commission and Audit Scotland shall be prepared and circulated as appropriate.
6. The Assistant Secretary to the Commission shall act in place of the Secretary when the Secretary so decides or is for any reason unavailable.
7. The Director of Audit Strategy shall act in place of the Director of Corporate Services when the Director of Corporate Services so decides or is for any reason unavailable.
8. In order for the Commission's business to function most effectively, electronic communication is the preferred choice for sending correspondence and other official documents. However, there shall be occasions when it is more appropriate to provide hard copies of documents by post.

Communication during a parliamentary dissolution

9. On any occasion when the Scottish Parliament is dissolved pursuant to a Scottish general election, all formal communications between the bodies

shall be between the Auditor General and the Secretary to the Commission.

Scrutiny of the annual budget for Audit Scotland

10. The Commission expects to receive relevant information from Audit Scotland in accordance with its annual work cycle (set out in Annexe A) and its agreement with the Finance Committee on the budgeting process¹.

This includes receiving:

- Outline annual expenditure plans no later than 1 March each year, or the first day thereafter on which the Parliament sits;
- A detailed annual budget submission no later than 30? September each year, or the first day thereafter on which the Parliament sits.
- Details of any substantive changes to Audit Scotland's budget throughout the period between March and January.
- Details of any in-year budget revisions.

11. As outlined in the work cycle, the Commission normally expects to consider and, when it considers necessary, take oral evidence from Audit Scotland on the outline annual budget proposals in mid-March and the final annual budget proposals in October/November.

12. The Secretary will give the Auditor General as much notice as possible regarding dates for evidence taking sessions.

13. Audit Scotland shall notify the Commission as soon as possible if, due to any unforeseen circumstances, it is unable to meet the requirements of the Commission's work cycle.

Audit Scotland's annual accounts

14. The Commission is required to arrange for Audit Scotland's annual accounts to be audited and laid before the Parliament each year. To facilitate this, Audit Scotland shall arrange for a meeting to be held between Audit Scotland, the appointed external auditor for Audit Scotland and the Secretary to the Commission. The purpose of this meeting shall be to sign off formally the annual accounts. This meeting shall take place annually, normally in mid-September. Once formally signed, the Secretary of the Commission shall arrange for the accounts and the auditor's report on these accounts to be laid before the Parliament and to be published.

Other statutory functions of the Commission

15. The Commission shall notify Audit Scotland should it be necessary, or should it so decide, to exercise any of its functions as set out in the Finance and Public Accountability (Scotland) Act 2000 which are not covered by the work cycle, or regarding any other matters which might arise requiring action by Audit Scotland.

Review of the protocol and annual work cycle

¹ Currently SP Paper 157 but in revision with the Finance Committee

16. The Commission shall keep this protocol and work cycle under review and shall amend it as appropriate. In particular, it shall monitor any changes to the established annual budgeting process and the implications this may have for the arrangements set out in the work cycle.
17. The Commission shall, in timely fashion, seek and consider the opinion of Audit Scotland on any proposed amendments. The Auditor General may propose amendments to the protocol or work cycle whenever he considers necessary. However, any amendments must first be discussed and then authorised by the Commission.