Scottish Commission for Public Audit
1st Report, 2011 (Session 4)
Audit Scotland's Budget Proposal for 2012-13
Scottish Commission for Public Audit

1st Report, 2011 (Session 4)

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Scottish Commission for Public Audit

Remit and membership

Remit:

The main areas of responsibility of the Commission are:

(a) to examine Audit Scotland’s proposals for the use of resources and expenditure and report on them to the Parliament;

(b) to appoint a qualified person to audit the accounts of Audit Scotland;

(c) to lay before the Parliament and publish a copy of Audit Scotland’s accounts and the auditor's report on them.

Membership:

Colin Beattie  
Hugh Henry  
Alex Johnstone  
Angus MacDonald  
John Pentland

Secretary to the Commission  
Fergus D. Cochrane

Assistant Secretary to the Commission  
Jason Nairn

Audit Adviser  
Andy Munro
The Commission reports to the Parliament as follows—

INTRODUCTION

1. Under section 11(9) of the Public Finance and Accountability (Scotland) Act 2000, Audit Scotland must prepare proposals for its use of resources and expenditure and send the proposals to the Scottish Commission for Public Audit, which is to examine the proposals and report to the Parliament on them.

2. The Commission is pleased to report and hopes that it assists the Finance Committee in its wider scrutiny of the Scottish Government’s Draft Budget 2012-13 and Spending Review 2011.

3. Audit Scotland submitted its budget proposal for 2012-13 and fee strategy on 30 September 2011. The Commission took oral evidence on the proposal at its meeting on 27 October 2011 from Robert Black, Auditor General for Scotland (AGS) (the Accountable Officer for Audit Scotland), Russell Frith, Assistant Auditor General and Diane McGiffen, Chief Operating Officer, Audit Scotland.

4. In addition, Audit Scotland submitted a written response with additional information following that meeting on—

- its approach to business restructuring
- people costs
- operating costs

5. Audit Scotland states in the proposal that it is ‘responding to the current economic conditions’ and of the need, as highlighted in the Scottish Government’s Draft Budget 2012-13 and Spending Review 2011, to reduce public sector expenditure over the next four years. Its approach to this, building on last year, is

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1 [www.scotland.gov.uk/Publications/2011/10/04153155/0](http://www.scotland.gov.uk/Publications/2011/10/04153155/0)
4 Auditor General for Scotland, **Correspondence to the Commission, 31 October 2011**
to reduce its budget through ‘a number of planning and efficiency measures’. These include—

- continuing a targeted freeze on recruitment
- continuing an internal programme of review and efficiency savings
- continuing to restructure its business
- property rationalisation
- benefits from the tender exercise to appoint external audit firms

**COMMISSION CONSIDERATION**

**The budget proposal**

6. The budget proposal submitted aims to deliver on the following—

- audit fee reductions of 7.75%
- reduced revenue resource requirements of 4.2% from parliamentary funding
- running cost reduction of 6.2% from last year
- a second year of overall cost reduction and continuing to reduce the cost of audit by at least 20% in real terms over the next four years

7. Audit Scotland’s budget requirement for 2012-13 is £24,599,000. Of this, it projects £18,066,000 coming from the fees (£18,036,000) charged to audited bodies and £30,000 from bank interest and miscellaneous income. That leaves a resource requirement from the Scottish Parliament of £6,973,000. Audit Scotland states that this is a 3.8% real terms reduction over the 2011-12 budget.

**Consideration of the budget proposal**

8. The Commission had previously taken oral evidence from Audit Scotland on 4 October 2011 when it considered Audit Scotland’s annual report and audited accounts for 2010-11. The report, and the evidence session, highlighted work which Audit Scotland is doing to streamline public sector scrutiny and push forward with improvements in performance and efficiency across public bodies and within Audit Scotland itself. The previous SCPA stressed ‘the ever increasing importance of rigorous independent audit of public funds at a time of budgetary restraint’. We do not depart from that point and would wish to emphasise it again in this report.

9. There has been continuity in the examination of issues by us in looking at what Audit Scotland has done over the previous year, how it has performed and how it was bringing about efficiencies which informed consideration of the budget proposal for 2012-13.

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6 www.scottish.parliament.uk/parliamentarybusiness/31058.aspx
10. The Commission heard oral evidence from Audit Scotland on 27 October 2011. The Commission was pleased to note the level of detail and information provided by Audit Scotland with the budget proposal and fee strategy which assisted in broadening understanding of the proposal. The Commission was pleased to note that the budget proposal submitted was scrutinised “in considerable detail” by the non-executive members of the Audit Scotland board before it was submitted.

11. There were a number of issues which we pursued with Audit Scotland. These are touched on below.

Robustness of audit scrutiny

12. The Commission recognised that, during periods of reduced resources and increased pressure on public finances, the role and benefit of good audit must be supported to ensure the public purse achieves maximum benefit for every pound spent. We sought assurance from Audit Scotland that, given its ambitious, but welcome, savings targets that the quality and robustness of audit scrutiny of public bodies would not be reduced.

13. In oral evidence, the Auditor General for Scotland gave an “absolute assurance” that this would not be the case. The Commission recognised the long term planning and careful approach taken. Audit Scotland stated that the benefits of this were now being seen. For example, the benefits of introducing suitable IT packages which allowed for more e-working by staff to be undertaken.

14. We pursued with Audit Scotland the point that it has identified a further £1.2 million of savings from the fees paid to external firms who deliver, under contract, audit work. We were interested in how Audit Scotland monitors the work of such firms and ensures that the quality of the audits conducted is of the required and expected standard.

15. Audit Scotland stated that all firms are required to follow international standards, some of which relate specifically to quality and the systems which must be in place to ensure such quality and any post-audit review. It believes it has—

“pretty robust arrangements in place to ensure that the firms are producing the quality of work that we would expect, both in a technical sense through the inspections and cold review, and in the sense of getting everybody together to get common understanding and consistency”.

16. This appears a sound approach.

17. We asked Audit Scotland about the point made in its budget proposal (page 3) that—

‘Working with other audit and inspection partners we have reduced the time spent in councils on corporate scrutiny work by 39% while continuing to

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ensure that areas of concern are highlighted through our Best Value audit work’.

18. We were assured that this was not a reduction in the time spent on audit scrutiny but was achieved through the use of self-assessment by the audited body, reducing duplication, sharing information and other efficiency measures\(^{11}\).

Pay and staff

19. This was an issue which the Commission pursued with Audit Scotland during oral evidence on the annual report and accounts\(^ {12}\). We sought further clarification during oral evidence on the budget proposal\(^ {13}\).

20. The budget proposal (page 13) provides information about the projected staff reductions to 2014-15, which includes a reduction of five whole time equivalent members of staff in 2012-13. Audit Scotland states that –

‘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.’

21. Further—

‘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.’

22. The Commission pursued with Audit Scotland the mix of posts involved in this reduction and how it would know whether it would meet its target. We welcome the clarification given by it in the follow up letter it submitted on 31 October 2011\(^ {14}\).

Fee strategy

23. The final issue we pursued with Audit Scotland was on the fee strategy included with the budget proposal. As indicated above, income from fees in 2012-13 is projected to be £18,036,000. As also indicated above, Audit Scotland has brought about reductions in the fees charged for conducting audits and will

\(^{11}\) Scottish Commission for Public Audit, Official Report, 27 October 2011
\(^{12}\) Scottish Commission for Public Audit, Official Report, 4 October 2011
\(^{13}\) Scottish Commission for Public Audit, Official Report, 27 October 2011
\(^{14}\) Auditor General for Scotland, Correspondence to the Commission, 31 October 2011
continue with the process to 2014-15. Audit Scotland states in the fee strategy (page 2) that it—

‘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.’

24. Page 10 of the fee strategy\(^\text{15}\) states that—

‘the fee for the financial audit element of audit work to be undertaken at each body (is) based largely on historical experience’ but the ‘costs of firms and of in-house audit teams are pooled and shared between all audits across all sectors’. Auditors do have ‘discretion to agree fees within a range of + or − 10%’.

25. We sought clarification from Audit Scotland on whether the fees set are dependent on the size, complexity or apparent risks of the organisation concerned. Further, what are the incentives for audit bodies to enhance their internal control arrangements and is there any scope to reduce audit input and therefore audit fees by more than 10% if audit bodies regularly demonstrate that they are performing well with few or no audit matters arising from annual audit work.

26. The Commission welcomes the clarification given by Audit Scotland in its oral evidence.

CONCLUSIONS AND RECOMMENDATION

27. The Commission is satisfied at the detail and information provided by Audit Scotland, both in the budget proposal document and in oral evidence.

28. The Commission again stresses the importance of maintaining a high quality, independent audit function and this is an area which it will continue to monitor closely in the future.

29. The Commission recommends that Audit Scotland’s request for a total resource requirement of £6,973,000 for 2012-13, to be provided from the Scottish Consolidated Fund, be approved by the Parliament.

\(^{15}\) [www.scottish.parliament.uk/2011_10_27_SCPA_Meeting_papers.pdf](http://www.scottish.parliament.uk/2011_10_27_SCPA_Meeting_papers.pdf)
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