

Colin Beattie
Chair
Scottish Commission for Public Audit
The Scottish Parliament
Edinburgh
EH99 1SP

10 January 2025

Dear Chair

Thank you for the opportunity to provide evidence to the Scottish Commission for Public Audit (SCPA) in support of our 2025/26 budget proposal on 18 December 2024.

We are writing to provide additional information in relation to matters raised in the Commission's subsequent letter of 19 December 2024. I hope this clarifies the areas where you and your fellow SCPA members have asked us to provide more detail.

National Insurance Contributions

You asked for 'Further explanation of the reasons why Audit Scotland has chosen to 'ringfence' in its budget proposal for 2025/26 the increased employer costs of National Insurance Contributions (NICs) arising from the UK Autumn Budget 2024 and confirmation that these additional costs will be baselined from 2026/27 given this is recurring expenditure'.

As you are aware, on 30 October 2024 the Chancellor of the Exchequer announced an increase to employers' National Insurance Contributions (NICs) as part of the [UK Autumn Budget](#) announcement. We gave careful thought as to how these costs may be covered and have proposed that these are included as part of the budget proposal to be covered by the Scottish Consolidated Fund (SCF) for the following reasons:

- Clarity, transparency and accountability;
- There is a degree of uncertainty at present in terms of how much of the additional costs will be funded from the UK government and on the timing and method of resource transfer, including from the Scottish Government to public sector bodies
- We received confirmation from the Scottish Government Finance Directorate that they are expecting additional funding from HM Treasury for the NICs change. However, they also said this will not be confirmed until the Main Estimates process is complete, and they expect bodies to forecast these costs within budget submissions. To ensure that the SCF receives the funding to meet the full cost to the public sector in Scotland, it is preferable to make a single funding request of the SCF in light of the uncertainties above;
- Some 29 bodies, including the Scottish Government and the Scottish Parliamentary Corporate Body are non-chargeable bodies and the allocation of the NICS increase to fee paying bodies only would introduce cross subsidisation across sector;
- The audit year and the financial year cover different timescales. The NICs adjustment commences on 1 April 2025 while the 2024/25 audit work commences in October 2024.

Even though the majority of the 2024/25 audit work is completed in 2025/26 financial year, around 30 per cent will be completed in the 2024/25 financial year. The allocation of part year NICs to public bodies' fees will lead to significant additional administrative costs and overheads to ensure that they are accurately accounted for across hundreds of public sector accounts;

Please be assured we will review the approach in respect of future years once the funding and allocation position for Scotland is clear.

Funding approach for the Audit Modernisation Project

Similarly, you asked for further information on Audit Scotland's decision not to share the costs of the audit modernisation project across those public sector bodies that it audits given the wider benefits they might expect to see.

The direct SCF investment required in 2025/26 is £672k to meet the external development and implementation costs for the replacement of our audit software system. The other elements of the project are being absorbed from within our internal capacity and capabilities, drawing on reallocation of resource available, and using these in the most efficient manner possible. These include: redesign of our audit approaches; development of staff to deliver these approaches and to meet the demands of the audit profession in the future; and wider organisational development.

We propose to cover the software costs over the period 2025/26 to 2027/28 from the SCF as this represents an 'overhead' which is required to set up the new system and support the delivery of the public audit work in Scotland. Our view is that funding it in this way provides greater transparency, clarity and accountability than if it were distributed across the 200+ public bodies across Scotland (a number of which are non-chargeable bodies and where the funding would therefore still rest with the SCF).

If the request was not covered by the SCF, this would result in an increase in the 2024/25 audit fees by a further 1.8 per cent to a total fee uplift of 3.7 per cent. This is not our preferred option as:

- Legislation does not permit us to charge audit fees for all audited bodies, as a result, the costs for the new software would fall on 199 chargeable bodies
- This would effectively result in 'cross subsidisation' to cover the AMP costs and between the classes of audit as set out in the fees strategy (where each sector is defined as 'a class'). The Public Finance and Accountability (Scotland) Act 2000 states '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)'

We anticipate that from 2028/29, when the project is fully integrated into our delivery approach, we will incorporate any post system implementation costs of the replacement software within our core budget and cease seeking specific central 'ring-fenced' funding for this project.

Cost breakdown for the Audit Modernisation Project

The third area you asked for was a breakdown of the costs of the audit modernisation project, including the areas the £672,000 allocation for 2025/26 is due to be spent, and clarification of how £592,000 of this amount is to fund 'people costs' arising from the project'.

We have been following best practice in the development of the Audit Modernisation business case. HM Treasury’s Green Book Business Case guidance identifies a three-step approach to the approval of the business case and comprises:

- Strategic Outline Case (SOC), through to
- an Outline Business Case (OBC) and then the
- Full Business Case (FBC).

To date the software workstream of the Audit Modernisation Project has involved extensive research, including reviewing and assessing the software packages used by the other UK public audit agencies and the Firms, and the ‘off the shelf’ packages available from commercial suppliers. This market analysis informed an options identification process.

This approach includes the appraisal of all viable options and the potential value for money of the shortlisted options, and the preferred option, is assessed as part of this. In addition, we have commissioned external scrutiny in the form of two Gateway Reviews and an internal audit on the project governance arrangements to date.

The Strategic Outline Case was approved by Audit Scotland’s Strategic Improvement Programme (SIP) Board on 6 August 2024 and the Outline Business Case will be considered by the Audit Scotland Board at its meeting on 28 January 2025. Subject to the Board’s decision the Full Business Case will be developed and presented to the Board in Autumn 2025.

At the time of completing the budget proposal submitted to the Commission the estimated people costs element of the project for 2025/26 was £592k, this was primarily based on additional external people costs. Following further discussion with the NAO, our partner organisation for the project, we are clearer on the breakdown elements of the funding requirement with the actual breakdown of the £672k comprised of the following four areas:

Item	Cost	Notes
Additional/ external people costs	£250k	This is for project management, legal, procurement, external assurance and other specialist skills
Implementation	£275k	
Hosting	£117k	
Analytics	£30k	
Total	£672K	

While the total budget requirement remains of £672k remains the same, in terms of the ‘people costs’ element this is now likely to be £250k, with implementation costs of £275k relating to professional services, and hosting and analytics costs of £147k will need to be allocated to IT costs. Before the 2025/26 financial year commences budget virements will take place to ensure that the planned budget is accurately allocated to where the expenditure will be incurred. The external costs are indicative at this stage and are dependent on the timescale for implementing the new software and the supporting contracting arrangement with the NAO and the third-party supplier.

The Audit Scotland Board will consider the Outline Business Case at its meeting on 28 January 2025. We are happy to update the Commission on the Board’s decision as soon as possible following that meeting.

Following approval of the Outline Business Case, and in line with best practice, the Full Business Case will identify a more accurate cost profile. Whilst the profile may change amongst the subcategories, we do not expect the headline costs to change for 2025/26 and this will be managed robustly by Audit Scotland with oversight of the Board.

We hope the above information is helpful. Please contact us if we can be of further assistance.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Stephen Boyle', with a long horizontal flourish extending to the right.

Stephen Boyle
Auditor General for Scotland

A handwritten signature in black ink, appearing to read 'Colin Crosby', with a long horizontal flourish extending to the right.

Colin Crosby
Chair of Audit Scotland