

Date: 4 February 2022

Colin Beattie
Chair
Scottish Commission for Public Audit
The Scottish Parliament
Edinburgh
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Dear Chair

Thank you for the opportunity to give evidence to the Scottish Commission for Public Audit (SCPA) on 22 December 2021. We are grateful for the Commission's recommendation of our 2022/23 budget proposal to the Finance and Public Administration Committee.

We are writing to you in response to your letter of 14 January 2022. We hope that this clarifies the areas where you and your fellow SCPA members have asked us to provide you with more information.

Covid expenditure

As your letter states, our 2021-22 budget proposal included a request for additional management contingency funding. In the budget proposal we stated:

'We will initially hold the increase in our management contingency, allocating it transparently as we invest in skills and capacity throughout the year. This increase from £300k to £2,400k will enable us effectively to develop and implement a sustainable future operating model for public sector audit in Scotland to address new challenges, meet stakeholder expectations within existing financial rules while considering the longer-term implications for the funding and fees model. This increase in contingency equates to 0.03% of the additional £8 billion provided in 2020/21.'

When giving evidence to the SCPA on 15 January 2021 we said our existing contingency funding was too low to deal with the level of uncertainty in the external environment, even before the pandemic. The pandemic has exacerbated that volatility while creating new pressures on our resources.

We also advised that it would be difficult for us to be as precise as we would like about the proportion of the contingency funding that would be attributed to Covid activities and to non-Covid activities.

Our 2021/22 budget proposal supported:

- the recruitment of new staff, in both audit and specialist support roles
- investment in resources to deliver and develop our audit work
- and funding for unplanned pieces of work in response to emerging events.

The contingency was also used to cover the shortfall in fee income and prevent us being in a deficit position at year end. As the SCPA may recall, this was primarily a timing issue, with disruption to audit work delaying when we receive and can reconcile this income. We are working to resolve disruptions to audit timescales, but this remains an ongoing process and will take at least another year.

Since the pandemic began, we have prioritised the quality of the audit work to support the effective scrutiny of public spending during the crisis. We have also sought to safeguard the health, safety and wellbeing of our Audit Scotland colleagues.

In 2021/22 we are using the approved budget to:

- undertake specific Covid audit work with a programme of 'Following the pandemic pound' audits
- support the delivery of all our other financial, performance and best value audits. These continue to take longer than before the pandemic. We are seeing more complexity in our audits, additional audit quality requirements, and constraints on public bodies' ability to produce accounts of the appropriate quality
- recruit 32 new staff (22 audit and 10 support roles)
- invest £475k in new software, systems and training.

We said in the evidence session on 22 December 2021 that given the pandemic's impact across all aspects of our work, it is not possible to precisely distinguish between Covid and non-Covid expenditure in relation to new colleagues we have recruited, our operating costs and our capital spending. The additional resources have been deployed flexibly to support a range of audit work to meet the differing challenges we have faced rather than just having been dedicated to specific Covid-related work. The additional resources have also helped us to deliver the performance audit work programme and sustain the delivery of the financial audits. Covid has become a core part of all audit work, and Covid-related work is delivered by all staff, not just those recruited using the contingency funding.

We have produced a wide range of [Covid-specific reports and briefings](#) during 2021/22, including tracking the impact of Covid-19 on Scotland's finances, and reviewing the vaccination programme, PPE procurement, and following the pandemic pound. In addition, the risks arising from, and responses to, the pandemic are considered in the [annual audit](#) reports of public bodies. At the time of writing, the Auditor General for Scotland has published eight Section 22 report on the 2020/21 audits, and 94 per cent of the 2020/21 annual financial audit reports have been published.

Our performance audits have also addressed Covid's impact on a range of policy and service delivery areas, such as educational outcomes, the NHS, skills and investment and social care. The pandemic's impact and Scotland's recovery are core themes of our [forward work programme](#) for coming years.

The additional funding has been essential in supporting the delivery of all this work.

Eighty-six percent of Audit Scotland's expenditure is on staffing, and on payments to private sector accountancy firms for audit work. The full year recurring commitment of the additional capacity is £1,500k. This comprises £1,299k of additional audit capacity to support high quality audit and £201k for specialist and support capacity. The timing of the in-year recruitment programme during 2021/22 has enabled some non-recurring investment to be identified. Currently this is £107k and is being used to obtain expert knowledge in specialist areas to support our strategic improvement programme.

Our 2022-23 budget proposal continues the investment required to meet the increase in our audit work arising from Scotland's devolved financial powers, supports the multi-year recovery in audit timescales from 2020, and invests further in digital and strategic capacity to respond flexibly and quickly to the challenges facing the public sector and the auditing profession.

The budget will help to ensure that our independent audit role meets the needs of the Scottish Parliament, its committees, and our wider stakeholders as we provide independent assurance and comment on public finances, to help inform the way ahead.

We keep our workforce requirements under constant review and are able to reduce staffing if necessary. However, in our current circumstances and given the anticipated demands on us, we do not currently plan to reduce posts.

Chargeable rates

Your letter sought clarification on why the chargeable rates for the audit/support officer had reduced between 2020/21 and 2021/22.

The position of staff on the pay scale is a major factor when calculating the hourly rate for the direct costs (basic pay, employer NI, employer pension contributions). This drives the allocation of indirect and direct overheads. The reason the hourly rate has reduced in this group is that there are more staff and vacancies at the lower scale point for this grade, compared with the calculations in previous years.

Capital expenditure

Your letter also sought clarification on our capital expenditure. As noted in your letter, our approved 2021/22 capital allocation of £250k was earmarked for IT hardware, software and digital strategy/office configuration. A further lockdown and staff wellbeing measures have led to some delays in potential office re-configuration investment, and we now anticipate these taking place in 2022/23.

Our focus has been to invest in IT equipment and software that meets our digital strategy objectives and enables colleagues to work efficiently, effectively and in a secure IT environment from any location. We have also identified the need for a cloud based secure integrated business management system that delivers improvements to our current stand-alone HR, payroll, and learning and development systems. This investment was essential to mitigate the risk exposure that might arise from continuing to use independent systems.

Digital security is one of the major risks on our risk register and, given that Audit Scotland colleagues work at multiple locations across Scotland when auditing public bodies, we need to ensure that we minimise this risk, particularly in the context of the increasing and ever-changing cyber security threats. We have therefore also undertaken a budget virement from revenue funding of £350k to further enhance our investment in this area to support a prevention-based approach. The 2021/22 Annual Report and Accounts will include detailed commentary on our capital investment.

The £250k budget for 2022/23 will ensure that we have a safe working environment to enable the successful delivery of a hybrid working model that incorporates office, home, and onsite client working. In addition to investment in offices (eg, re-configuration, furniture) we will continue to invest to meet our digital strategy objectives of using the latest security enhanced IT equipment and cloud-based software.

Looking ahead

As you know, Audit Scotland cannot hold reserves and any unused funding at the year-end is returned to the Scottish Consolidated fund. In recent years, we have returned £64k in 2018/19 and £134k in 2019/20, and we will, of course, return any unused funding we have at the end of 2021/22.

We are looking forward to meeting with you and your members at the business planning session in February. Audit Scotland colleagues are currently engaging with your clerking team on the focus and format of the day.

We anticipate that the planning session will provide the opportunity to discuss Audit Scotland's response to the pandemic in terms of the audit response and our organisational response, how we have managed the risks and how we have ensured business continuity. We are also keen to discuss what you describe as 'the new normal' may look like in delivering the audit work in 2022/23 and beyond.

Yours sincerely

Stephen Boyle
Auditor General for Scotland
and Accountable Officer

Professor Alan Alexander
Chair