



OFFICIAL REPORT
AITHISG OIFIGEIL

Scottish Commission for Public Audit

Monday 24 June 2024

Session 6

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SCOTTISH COMMISSION FOR PUBLIC AUDIT

1st Meeting 2024, Session 6

COMMISSION MEMBERS

*Colin Beattie (Midlothian North and Musselburgh) (SNP) (Chair)
*Jamie Greene (West Scotland) (Con)
Daniel Johnson (Edinburgh Southern) (Lab)
*Richard Leonard (Central Scotland) (Lab)
*Mark Ruskell (Mid Scotland and Fife) (Green)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Professor Alan Alexander (Audit Scotland)
Vicki Bibby (Audit Scotland)
Stephen Boyle (Auditor General for Scotland)
Stuart Dennis (Audit Scotland)
David Jeffcoat (Alexander Sloan)
Owen Smith (Audit Scotland)
Martin Walker (Audit Scotland)

LOCATION

The Robert Burns Room (CR1)

Scottish Commission for Public Audit

Meeting of the Commission

Monday 24 June 2024

[The Chair opened the meeting at 10:00]

Interests

The Chair (Colin Beattie): Good morning, and welcome to the first meeting in 2024 of the Scottish Commission for Public Audit. We have received apologies from Daniel Johnson. I welcome Jamie Greene as a member of the commission. He is replacing Sharon Dowey, whom I thank for her contribution in her role as deputy chair of the SCPA.

Under the first agenda item, I ask Jamie Greene to declare any interests that are relevant to the commission's work.

Jamie Greene (West Scotland) (Con): I have no relevant interests to declare.

Deputy Chair

10:00

The Chair: Under the second agenda item, the commission's task is to choose a deputy chair. I nominate Jamie Greene for the role. Are members content to choose Jamie Greene for the role of deputy chair?

Jamie Greene was chosen as deputy chair.

The Chair: I congratulate Jamie on his appointment.

Jamie Greene: Thank you.

Audit Scotland Annual Report and Accounts for the Year to 31 March 2024

10:01

The Chair: Under agenda item 3, we will take evidence on Audit Scotland's annual report and accounts for the year to 31 March 2024, as well as the auditor's report on the accounts. Members can find copies of those documents, as well as a management letter from Alexander Sloan, in paper 1 of their meeting papers.

From Audit Scotland, I welcome Alan Alexander, who is the chair of the board; Stephen Boyle, who is the Auditor General for Scotland; Vicki Bibby, who is the chief operating officer; Martin Walker, who is the director of corporate support; and Stuart Dennis, who is the corporate finance manager.

I invite Professor Alexander and the Auditor General to make short introductory statements.

Professor Alan Alexander (Audit Scotland): Thank you, chair. Good morning.

As is clear from our annual report, we are at a crucial point for Scotland's public services. The services that we all use and that many of us rely on are no longer sustainable under their current structures and funding models. Radical thinking and, most important, real change are needed. Public audit has a vital role in that regard through the issues that it highlights, the recommendations that it makes and the support that it provides for scrutiny, improvement and transformational change.

In that context, in the year to which the report refers—2023-24—we published our statement of purpose, "Public audit in Scotland 2023-28", which sets out our vision and mission and, crucially, describes the way in which we intend to make a measurable impact on public spending and on the lives and experience of the people of Scotland. We are supporting public audit in Scotland through our new corporate plan, which sets out five priority areas for delivery and development. The annual report that we are discussing today reflects that purpose by reporting on our performance directly against those priorities.

My board's role is to scrutinise, challenge and support the organisation on its performance. Through that, we help to ensure that Audit Scotland can continue to deliver high-quality audit on financial probity and service performance, and to meet Scotland's current and future needs for audit. I am grateful for the hard work and drive of my colleagues in fulfilling that role.

This is my last meeting with the commission as chair of Audit Scotland's board before my term finishes. If I may, I will make three points in expressing a view based on the many years that I have spent in and around the public sector in Scotland.

First, the issues that we are seeing today with Scotland's public finances and public services were not caused by the pandemic or by the cost of living crisis. Those emergencies exposed weaknesses that have long been there. Calls for change have been made for at least a decade. That is why I say, both here and in our report, that business as usual is not an option. Radical change is needed.

The second point is that, as chair of the board, I have seen the forethought and hard work that the leaders of Audit Scotland have shown in recent years to steer the organisation to a position where it can play its part in helping public bodies to face the many challenges ahead. That has been done by anticipating changes in capacity, skills and resourcing, setting out a clear statement of purpose and, most recently, modernising how we carry out our work.

The third point—one that I have made before—is that, time and again, I have been struck by the commitment of Audit Scotland's people. There is a deeply held and strong desire to deliver high-quality work and to help to improve public services. It has been an honour and a pleasure to work with them. I will now hand over to Stephen.

Stephen Boyle (Auditor General for Scotland): Many thanks, Alan. Good morning, chair and commission members.

As Alan said, the key message across our work over the past year has been the need for sustainable public finances, underpinned by reform of public services. During 2023-24 I, as Auditor General, and my colleagues in the Accounts Commission and Audit Scotland, have stated what our contribution will be through the vision, mission and outcomes of public audit in Scotland. To achieve those and to make the tangible difference that we aspire to, we are focusing on timely and relevant high-quality audit work, on modernising our approaches and on understanding better the impact of our audit work.

Last year, we delivered 48 per cent of our audits to the timelines that we had set. Recovering from the disruption of recent years remains very challenging in Scotland and elsewhere. That is the case for many reasons, including the capacity of auditors and the challenges that public bodies are facing in preparing accounts and supporting the audit process. We were grateful for the commission's agreement earlier this year that we could hold on to our pensions underspend so that

we can invest in recovery of those timelines over the next few years.

We continue to have strong-quality results that reflect the investment and hard work that we have put into the process. We also continue to get very positive feedback from public bodies about the usefulness and quality of our work, and I look forward to the commission's consideration of our annual report, "Quality of Public Audit in Scotland: Annual Report 2023/24", later this morning.

We have now turned our focus to modernising what we need to do and to the skills, approaches and tools that we need in order to do that. We have launched our audit modernisation project and will talk more about that with the commission later today. We are also working to better understand our impact, which includes improved monitoring of the implementation and results of our recommendations and of how our diverse stakeholders receive and understand our findings.

Chair, I wish to draw your attention to one point in our accounts. We did not receive data from Civil Service Pensions in advance of certification of our annual report and accounts. As with all public bodies that are affected by that matter, that was outwith our control. However, we have worked with our auditors to achieve a resolution that allowed us to publish and certify our accounts in order to comply with the requirements of the financial reporting manual. The delay related to the work that all public sector pension schemes across the UK are doing in respect of what is known as the McCloud remedy to analyse the financial data of individual members of pension schemes.

As the chair of the board did, I would like to record my thanks to all my colleagues in Audit Scotland. At the heart of our work, we are a people-based organisation, reflecting the resilience, professionalism and care that our staff exercise towards one another.

If I may, I also wish, in advance of the end of his term later this year, to express my personal thanks to Alan Alexander for all his work as the chair of Audit Scotland and for the support that he has provided to me, as the Auditor General and Audit Scotland's accountable officer.

As ever, I and my colleagues on the panel will do our utmost to answer the commission's questions this morning, and we look forward to the discussion. Thank you.

The Chair: Thank you. We will move straight to questions.

On the table on page 29, Audit Scotland reports that the budgeted total resource that it required from Parliament was £18.471 million in 2023-24. That includes £12.2 million of cash requirement

which was sought by Audit Scotland in its 2023-24 budget proposal and approved by the SCPA on 14 December 2022, and a further £6.271 million of non-cash resource, which was required to provide resource cover for additional lease costs. Approval for that additional resource has not been sought from, nor given by, the SCPA.

In the past, all budget items have come before the SCPA, as is required—indeed, pension accounting charges used to come forward in the spring adjustments. Why, therefore, was approval of that item not brought to the SCPA in the normal way?

Stephen Boyle: I will start by offering an apology for that oversight. It is certainly not our intention to not engage with the SCPA on budget matters. I will pass the question to Stuart Dennis, who can set out the circumstances that relate to that amount. It is driven by new international accounting standards, with which we are required to comply and which we are required to reflect in our annual report on accounts in respect of leases, and by the issue of effectively moving leased assets on to the balance sheet of organisations. Although we pay for those assets on a revenue basis each year, the new accounting standards require us to capture the whole useful life of an asset, even though we do not technically own it, and to reflect that on our balance sheet.

It is largely a technical accounting matter, but I accept the point that you make. We will make sure that we engage fully with the commission and clerking teams to better reflect that in future agenda items.

It would be useful for Stuart Dennis to give you a bit more detail and background, especially on the funding issues that you referred to in your question.

Stuart Dennis (Audit Scotland): The issue is due to the transition to international financial reporting standard 16. From the perspective of the annual accounts, the matter is straightforward. However, from a budgeting perspective, there is more complexity. Because of the transition, we needed to recognise that sum on the balance sheet. As Stephen Boyle said, it is not a cash item but, as he also mentioned, we will in the future be able to come to the SCPA with figures.

A couple of years ago, we needed to provide two years' worth of estimates for the transition, and we are still trying to understand what the implications are, from a budget perspective. When it comes to central Government budgeting, there are various funding streams, as new streams have been developed in respect of non-cash capital items, and that needs to be recognised on the balance sheet.

As Stephen Boyle said, the actual cash requirement has not changed: the only thing that has changed is the way that we account for it. However, as he also mentioned, when we prepare budgets in the future, we will be able to come to the SCPA with more detail behind that.

Moving forward, the sum is mainly in respect of property, but we also have a car-lease scheme that we have to recognise. That is something that we will bring as part of our budget proposals in the future.

The Chair: Does the change in accounting processes cover all leases of any description?

Stuart Dennis: Yes, although there are levels where it does not apply. If the sum is below a certain amount—say, £5,000—it would not apply, but if you had a printer copier on a lease, for example, you would have to account for it in this way.

From our perspective, the change applies to our offices in Edinburgh, Glasgow and Inverness, as well as to our car-lease scheme.

The Chair: It would be helpful if members of the commission could get a short briefing on how that works and how it impacts on the balance sheet.

10:15

Stephen Boyle: The commission might recall from many previous discussions that, under the older accounting standards, leases used to be separated into what were known as operating leases and finance leases. As Stuart Dennis mentioned, operating leases tended to be for lower-value items that would be expensed through revenue each year. What the accounting standard setters have tried to do is to better reflect who derives the economic benefit, rather than focusing overtly on who holds the title to a particular asset. Where the standard setters have got to is that the lessee who is getting use of the assets has to show them on the balance sheet: we are in that transition process.

We are happy to take the matter away, chair, and to come back with a briefing for you and members of the commission.

The Chair: When was the application made to the Government for that additional funding, or notional funding?

Stuart Dennis: It would have been last summer, when we had to put information in for the Scottish Government finance directorate to negotiate with HM Treasury. However, we were still in that position when we were negotiating the leases for our Edinburgh office, so it was a moving target, as it were, at that point.

Potentially, we could have come to the commission when we submitted our budget, but we were still not sure of the full budget process. What I mean by that is that there are various elements, and although this is a non-cash capital item, there are also on-going elements. Instead of just paying an invoice for a lease—which we still pay—we also have to depreciate the item as a right-of-use asset.

We also have a notional interest charge. We have discount rates that we have to apply in December every year using HM Treasury guidance. We get notice of those. There was, therefore, a moving target, as it were, at that time. Now that we have a better understanding of how this is going to flow, we are in a much stronger position from which to be able to come to the commission at the time of our budget proposal and say what we will require, moving forward.

It was a transitional position, in effect, whereby we did not have a requirement for cash. We still came to the commission with our budget and said what we would require on the old basis to pay a rental invoice each month or each quarter. We now have a different accounting treatment and we will have to change the way that we present our budget proposals to the commission so that you can see that.

You will note that, in the accounts, under note 4, there is a right-of-use asset depreciation line, and the figure is now quite substantial. It has been moved out of car leasing and property rent down into depreciation. However, that does not mean that we have stopped paying the rental invoices. We still have to do that as an obligation under the leases.

The Chair: I look forward to getting some sort of detail on that. We will move on, but given the timescale and the fact that you have been aware of the matter for a year, there were plenty of opportunities to bring it to the SCPA and apprise us that it was coming up and that it was an issue. It is disappointing that that did not happen.

We move on to questions from Mark Ruskell.

Mark Ruskell (Mid Scotland and Fife) (Green): Good morning.

Stephen, you said that Audit Scotland is very much a people-based organisation, which has come through in many of the discussions that we have had in the commission. However, I remain concerned about your level of staff turnover. You wrote to us in December to say that working towards a 2 per cent vacancy factor, which is reflected in the budget, would be pretty challenging, but was nonetheless deliverable. However, we are now looking at a 9 per cent vacancy factor and there is reliance on temporary staff. What issues are affecting that figure? Are

you confident that achieving a 2 per cent vacancy factor can remain as an assumption for your future budgets?

Stephen Boyle: I will bring Vicki Bibby in to set out for the commission some of the thinking and analyses that we have done on our turnover rates and the volume of data that we get on our people. As I mentioned, we are a people-based organisation, and we need to invest in our colleagues. We see that through some of the material that—I hope—the commission has today.

We also operate in a challenging environment. The market for highly skilled audit staff continues to evolve. It is not just Audit Scotland that is looking to recruit and retain talent—we are competing against other public sector bodies and audit organisations to do so. You are right that our turnover rate has been creeping up, and we are giving some careful thought to striking the right balance between a realistic and not overly optimistic vacancy factor, and the financial risk that would flow from that if we do not get it right.

We always apply a degree of caution to the vacancy factor because, like most public sector bodies, we do not hold reserves, so we need to give ourselves some room in advance of a financial year, given that the vast majority of our costs are people based. Vicki can set that out in more detail for the commission.

Vicki Bibby (Audit Scotland): We have looked at the 9 per cent vacancy factor and highlighted that, throughout the year, there has been quite a bit of change in the organisation, with some people retiring, which has created opportunities.

On the positive side, we have seen quite a lot of internal promotions for vacancies that have arisen. The consequence is that that leaves gaps lower down, for which we have needed to recruit.

Ensuring that we are up to our full establishment has been a real focus for us. We are coming to Parliament for a budget evidence session in September. Although that will be for the 2025-26 budget, we would be keen to give you an update on where our establishment and turnover rate are, at that point. I hope that that will reassure you that we are closer to our expectation.

As Stephen Boyle said, we have been looking at the issue quite closely. Our turnover rate is 9 per cent, and we have looked at that against the rest of the public sector turnover for the same period. It is up at 14.6 per cent and, in some areas, it is at 28 per cent. For the United Kingdom, it has been at 16 per cent. Therefore, the Audit Scotland level is not something that we need to be concerned about, but we absolutely need to keep an eye on it. We want more detailed data. Work is on-going on turnover rates at various levels in the organisation, in the context of what a healthy

turnover rate is at each level and our target turnover rate.

We are bringing in more graduates as part of our budget and there is, naturally, turnover at that level. What would we expect? We want to bring fresh blood into the organisation, but we also want to ensure that there are promotion opportunities for staff in the organisation. We are closely monitoring that area. Turnover has its positives and its negatives, so we want to get more focused on what is right for Audit Scotland at the various levels.

On the last point about the 2 per cent vacancy factor that is reflected in the budget, we will look closely at that for the 2025-26 budget, but we are keen to provide a sustainable recurring budget. We do not want too much risk in relation to the vacancy factor, because that is not a sustainable way to fund our budget.

Mark Ruskell: Thank you for that. It paints a slightly bigger picture, so it is useful to know. It would be good to get more of that information.

Professor Alexander: I will add one thing to that. It is not just about technical audit staff and business support staff: we also have a real problem in recruiting people to our technological side, particularly in cybersecurity. If the market for auditors is hot, the market for people who have those kinds of skills is superhot. If you look at our risk register, the consistently red risks are all about cybersecurity and the possible ways of averting the kind of thing that has hit some public sector bodies over the past few years. That is all rolled up into the headline number about vacancies and turnover.

Mark Ruskell: Thank you, Alan. That is useful.

In April this year, you wrote to us about repurposing £287,000 to appoint five additional members of staff at auditor or auditor officer grade to increase your staffing levels in the short term. Can you give us an update on progress in recruiting those staff, given that, as you have said, there are various recruitment challenges, depending on which grade and specialism you are recruiting for?

Vicki Bibby: Our recruitment campaign closed last week. We are really pleased that we have had quite a good number of applications that are of a good standard. Interviews will be held not next week but the following week. We are really positive about that and appreciate having had that green light. The response shows that Audit Scotland is an attractive employer. We fully expect those people to be in place by September, with their recruitment happening over the next couple of weeks.

I want to add something that will, I hope, give you reassurance. To build on the point about digital, where we think our risks are, and our plans if we get vacancies in those areas, we take succession planning reports on key posts to our remuneration committee.

Mark Ruskell: Can you remind me whether the recruitments are to short-term posts in the organisation? Are they temporary or permanent posts?

Vicki Bibby: We asked for two years for the posts, in the budget. We took advice on fixed-term contracts from our human resources colleagues. We are committed to fair work employment, so we are conscious of the level of fixed-term contracts in the organisation. We have gone out for permanent recruitment in those posts, with the intention that we will manage that through trainee recruitment, to ensure that we are within the budget. We do not anticipate rolling that forward within the two years, as the commission asked for.

Mark Ruskell: Okay. Thanks.

Jamie Greene: I have a few supplementary questions resulting from that conversation before I move into my main line of questioning.

I should say good morning. I know that it is a Monday morning, but we will get through this together.

Following on from the staffing issue, I want to look at staffing costs and pay rises, in particular. I have just spotted year-on-year changes on page 48 of your 2023-24 annual report and accounts, under your fair pay disclosure arrangements. This is backed up by looking at the table. It seems to me that the average year-on-year increase for employees is around 5 per cent—I presume that that is a general inflationary measure that you have introduced—but the increase is much higher for the higher earners in the organisation. In particular, the highest-paid individual received an 8 per cent increase. Is there any particular reason for that?

Stephen Boyle: I will bring in Vicki Bibby in a second.

There are a couple of factors. Pay growth is a combination of two things: the cost of living award that is made to our colleagues and incremental pay progression. Audit Scotland operates a pay-scale arrangement. Such arrangements tend to involve around five steps. Each year, as well as any cost of living award, a colleague who has not reached the top of the pay scale will move up one step on it. There is a combination of both factors.

Vicki Bibby might want to say a bit more about some of the disclosures in our directors' pay table. There is not only the annual salary; there is also the pension. Audit Scotland operates two defined

benefit pension schemes. A small number of colleagues, including me, are members of the civil service pension scheme. Most people are members of the local government pension scheme. That is reflected in the calculations for the employer pension contributions, which can be subject to significant fluctuations. Those numbers are captured in the calculations.

10:30

Vicki Bibby: The pay award for our staff resulted in the application of an average of 6 per cent in the pay bill. Stuart Dennis will be able to explain the difference between the 6 per cent figure and the 5 per cent figure for overall staff costs. We had a tiered agreement with the unions, whereby modern apprentices received 10.2 per cent and band 1 staff got £15 an hour, which equated to an 8.2 per cent increase. The majority of our staff at band 2 received a 6 per cent increase, and those on the higher grades got 5.5 per cent. We agreed a tiered approach. That was against a figure of 3 per cent in our budget, which we had highlighted as a big risk. We funded the difference through our contingency. We have still not agreed the pay award for 2024-25, but we are in discussion with the Public and Commercial Services Union.

Jamie Greene: I understand. For clarity, there is a pension element to the proportionately higher increase for some of the senior directors and senior management, which accounts for that higher figure. Do you believe that the organisation acts as fairly and squarely as it can act across the board, with regard to pay rises?

Stephen Boyle: Very much so. Alan Alexander might want to say a bit more about governance around that. Given how central our pay costs are to the cost of running Audit Scotland and to the wider strategy that we have touched on this morning for recruitment and retention in the hot market for employees' skills, we must strike a fair pay deal that recognises fair work principles in the same way that we do as an organisation. We also need to have a close, effective and respectful relationship with our trade union colleagues. We must get that right, too.

If it would be helpful, I will bring in Alan Alexander to talk about governance oversight of that process.

Professor Alexander: The commission will know that we have a very spare committee system at Audit Scotland—we have an audit committee and a remuneration committee. The remuneration committee takes a very close and direct interest in how we approach the annual process of setting pay. The first iteration of that is to approve the general lines of what we will put to our recognised

union, which is the PCS. We then have a further report on its reaction. I see that Mr Leonard is smiling at that—he knows exactly how the process goes.

At every stage, it comes back to the remuneration committee and, by extension, to the board. That means that we are not simply sighted on what we are doing but that we have a very clear input to the process, not least because—perhaps peculiarly—the membership of the remuneration committee is identical to the membership of the board. Therefore, we are on top of that issue from about the late spring of the year right through until we reach settlement.

Sometimes settlement has been reached early, and sometimes it has been reached a bit late. This year, we are a wee bit later than we had hoped we would be, but we are on top of the issue and are trying to ensure that the settlement does not compromise our budget assumptions and that it is defensible in the public sector.

Jamie Greene: That is understood. Obviously, there are some very high-profile areas of the public sector in which requests have been made for double-digit increases in pay and staff. I am not expressing a view on that; I am simply stating a fact. However, that leads to the question how much money you will have to budget for and to ask for. There seem to be a lot of known unknowns in that, but it is a well-established process. Is that a fair description?

Stephen Boyle: Yes, I would agree. That is a process of which we exercise very careful management oversight, supported by non-executive governance oversight, to ensure that we strike the right balance between what is affordable for the public purse and what will allow us to deliver the services that the Parliament asks of us.

Jamie Greene: Do you find that most of your staff come from other audit companies? Is there poaching between the public and private sectors in that regard, as we see in other areas of the public sector?

Stephen Boyle: If I were to generalise, I would say no—other audit companies are not where we tend to recruit from. Most of our colleagues, certainly historically, have joined us as trainees. If they are doing a professional accountancy qualification, we take them through exams. A person who qualifies as a financial auditor can be quite hot property—if I can use that term—in terms of having options elsewhere. We want, in Audit Scotland, to instil values in relation to why our work is important, and we want to encourage people to stay. We are successful in retaining just over half of our trainees, who remain with us for the next stage of their career.

We recruit people from accountancy firms, as well. That gives us an advantage because it allows us to compare and contrast our approach with, and to learn from, other organisations. We also recruit from a wide range of other organisations, especially for our performance audit, best-value and corporate services teams. We have that reach to allow us to learn from people and to offer people rewarding careers in Audit Scotland.

Jamie Greene: I presume that you cover the costs of their training. You said that around half of those people stay in the business, but the other half presumably do not. What are the governance arrangements around the costs of training?

Stephen Boyle: There are a couple of things worth mentioning. Vicki Bibby might want to say a bit more about how that operates. We absolutely need to invest in our people. That is one of the important contributions that we make in Audit Scotland—if colleagues are going through the Institute of Chartered Accountants of Scotland training programme, we support them with the cost of exams and with study leave so that they can do that. As we set out in the annual report and accounts, we offer our people an average of 18 and a half days of learning and development time across the year. We have benchmarked that against the accountancy firms that we contract with to deliver public audit services, and we are above the average for that. Again, that is symptomatic of the fact that we want people to be well trained and feel appropriately invested in, so that they then return that to the organisation.

If I have picked you up right, you are interested in another element of that: what happens if somebody leaves right at the end of their training contract, after we have invested in them? To get the specifics of the clawback arrangement, I will bring in Vicki Bibby—or, indeed, Martin Walker, if he wishes to come in.

Vicki Bibby: We have an agreement with staff that they stay for a certain amount of time once they have qualified, and that is pretty standard across the profession. In addition to what Stephen Boyle said, we also compare ourselves with the national audit offices in Wales and Northern Ireland. I do not think that they would mind me saying that we have less of an issue with our retention. We have been keeping a close eye on it. This time last year, the market was maybe hotter—to use that terminology—and the firms were expanding; the firms are contracting a bit now. In our recent recruitment, it was really positive to see that level of people wanting to come to public audit and to Audit Scotland specifically.

We do have an agreement with staff around payback—they need to stay for a certain period once they have completed their exams.

Jamie Greene: That is fine. You do not need to go into too much detail on that today. It is really just to double-check that public money is being spent wisely.

One thing that you pick up on in your annual report and something that you admit is that the ratio of people in the organisation who have declared that they have a disability seems to be relatively low in comparison with other organisations or indeed the national average. Can you tell me what you are doing to improve that?

Vicki Bibby: Absolutely. As Alan Alexander was saying, this was an issue for the board and the remuneration and human resources committee—remco—as well as the exec team, because the other factors were higher than the Scottish average, but this one is significantly lower. We are doing a bit of work around declaration to ensure that staff feel confident and safe to declare any disabilities. We are also looking at ensuring that our recruitment processes are clear and that people feel supported. In particular, we are looking at new ways of recruitment in relation to accessibility and neurodiversity.

Our approach through our people strategy is twofold: to ensure that existing staff feel confident to declare a disability; and to look at our processes. We are all in agreement that our position is unsatisfactory compared with the Scottish position, and we need to work actively on that.

Stephen Boyle: Perhaps Professor Alexander would like to come in.

Professor Alexander: The board takes great interest in that area. It is very difficult—although I will not say that it is uniquely difficult—to balance the need for a diverse workforce with a commitment to excellence in recruitment. The way in which we approach that is by improving the recruitment process so that the kind of people whom we want to add to our staff come to us. We are not in a position, I think, particularly in the more technical areas, to compromise on the quality of expertise that people bring to the organisation.

Jamie Greene: I am sure that there are lots of disabled people who are very well educated in the technical space who might disagree with that point, but I understand the gist of what you are saying.

Stephen Boyle: There are a couple of specific things that we do. Anybody who applies for a role in Audit Scotland who declares that they have a disability is guaranteed an interview, subject to meeting the essential criteria that are very clearly laid out in the job role.

We have engaged with an organisation called Business in the Community to give us a better understanding of how we promote ourselves to prospective candidates, as although Audit Scotland is a diverse organisation, we want to be more representative of the Scottish population at large. There have been some changes in how the workplace has changed since the pandemic, and we are no different. We operate in a much more hybrid setting, typically. In the early stages of my career, I would have recognised the long travel—day in, day out—to be on site, but, although we still have an on-site presence, it is no longer the same. There are a range of factors that are making us a more accessible organisation, and we value the strength of that diversity. However, we have work to do, particularly around disability, to bring us up to the Scottish average.

Jamie Greene: That is great, and it is good news. That leads me sideways into another question, which is about your ways of working. The paragraph on that in the annual report is relatively short and does not really say much. We have had a lot of conversation about your high rent costs across your three offices, yet, post pandemic, you seem to be operating a much more hybrid model. Is there no way that you could reduce running costs rather than see them go up? They should surely be coming down.

Stephen Boyle: I am pleased to say that they are and will be coming down. We have reviewed our property arrangements over the past couple of years. As the commission will perhaps know, our office footprint is in Glasgow, Edinburgh and Inverness. The specific changes that we have started to make are in respect of Glasgow and Edinburgh. In the Edinburgh building where our office headquarters are, we are halving our footprint. In Glasgow, we are going to take some more accommodation, which is partly informed by ways of working and where we are more easily able to recruit colleagues. I do not think that it is reflective of the changes in how we are delivering audit work and the ways of working approaches, but it will result in a £2.2 million reduction in our property costs over the next 10 years.

It is safe to say—I hear Professor Alexander talking about this—that we are only a couple of years out of the pandemic. The ways of working in offices are not going back to how they were before the pandemic, but perhaps they are not fully settled yet, either. We think that we are in the right place in planning to reduce our office space and resiting where we need that space, which will come with savings to the public purse.

10:45

Professor Alexander: I might have said to the commission before that, as chair of the board, I

took the view that we should hasten slowly in deciding how to react to changes in working patterns. Members will recall that there was a lot of loose talk as we came out of the pandemic about the eye-watering sums that could be saved on property costs. I was always highly sceptical about that, because nobody was in any position to know how the balance would work out when people came back. My view was always that it would probably settle down with people working in a hybrid setting and doing either two or three days in the office, and so it has turned out.

We have been able to combine that judgment with the fact that we have an unbalanced workforce in terms of where they live. A larger number of our staff live in the west and the east, so we have been able to build that knowledge into our new estate strategy. If we had moved quicker, we might have regretted taking decisions too quickly.

I think that we are on the right course. We were fortunate that there was space available to expand in Glasgow. In other words, we did not have to find somewhere else entirely—there was somewhere else in the same building that we could expand into. We have been able to agree with our landlords on the reconfiguration of our offices in Edinburgh, so that we can have the amount of space that we require, given our experience over the past 18 months, and save something like £2 million over the 10-year period.

Jamie Greene: We look forward to seeing those savings on the balance sheet in due course.

My substantive question—I am sorry that I got sidetracked with some other questions, convener—is a specific one about the amount of money that is being paid in fees to external firms. That has increased considerably from just over £7 million to £8.1 million. Your annual report seems to suggest that that increase of more than £1 million is due to a lag in the completion of audits, if I interpret that correctly. You can correct me if I am wrong about that. However, the amount of audits that have been completed has marginally reduced by a couple of percentage points, so it does not seem to quite add up. Perhaps you could enlighten us as to why there has been such an increase in the amount of money that is being paid to external companies.

Stephen Boyle: I am happy to start on that, and I will bring in Vicki Bibby and others. First, by way of background, Audit Scotland contracts with six firms as part of a five-year contract arrangement. The first full year results of that are reflected in the set of annual report and accounts that is before the commission today.

In the previous six-year term—it was extended by one year due to pandemic-related delays—

Audit Scotland was offered significant discounts on market rates when we procured for that. We did not get that, nor did we expect that we would get that, when we contracted for the audits that started in the 2022-23 financial year. Then there is a degree of lag, as you suggest, when audits are concluded after the end of the financial year.

There are a range of factors. One factor is that we did not get discounts. Another is the year-one effect of the five-year audit round. Auditors, as required by auditing standards, are required to invest in the understanding of each organisation's environment, which typically takes more resource in the first year. There is also a bit of a lag, which is related to the fact that some audits took longer than was anticipated by auditors when they initially procured as they developed their understanding. Some of that is about their assessment of key judgments that they are required to make in the accounts of public bodies.

There are also some delays. I mentioned in my opening remarks that 48 per cent of audits are complete. To be absolutely clear, that number relates to Audit Scotland's work on the completion of audits. The percentage of completion for firms is slightly lower than 48 per cent—it is just over 40 per cent.

There is still work to do to ensure that we complete the audit work to timescales as part of the recovery phase that I mentioned, and that we do close management of the fees and any additional fee requests that audit firms make of Audit Scotland where they have experienced delays. The Audit Scotland audit quality and appointments team does an independent assessment what delays are attributed to, the reasonableness of delays that have occurred, the reasons why there have been cost overruns, and so on. I am sure that Vicki Bibby will want to say a wee bit more about some of those circumstances.

Vicki Bibby: Stephen Boyle has covered much of it. I will bring Stuart Dennis in to comment on the specific costs, but in relation to the firms, a big chunk of the cost relates to work being recognised from the year before. We have to account for the work that was in progress when the audits were completed, so there will be a roll forward from previous years, and the firms' work will not necessarily correlate with the number of 2022-23 audits.

Because we are in year 1 of the arrangement, we have seen additional fees from the firms, which were agreed with the organisation. Given some of the increases in the accounting standards, particularly on non-current assets on the balance sheet, the firms have had to do more verification. Our AQA team, which deals with the firms under the contract, has been in close contact with a number of them and there is assurance that the

costs are a result of the year 1 audits. Adjustments for previous years created additional work this year, but we have assurance that the additional fees that we saw in 2022-23 will not be a recurring theme. That is closely monitored under the contract management, and all the fees were agreed with the audited body if accounts were not prepared in time and so on.

If it would be helpful, I will hand over to Stuart Dennis, who can give you a breakdown of the additional fees.

Jamie Greene: In the interest of time, we may need to move on, as other members have questions.

Vicki Bibby: Okay.

Jamie Greene: It is just that there is a variance of 15 per cent between what was approved at budget and what was spent, which is stark. I guess that I was trying to get under the skin of why the costs went up so much. I wondered whether some of the external firms charged higher rates or different multiples, such as double or triple time, in order to get work finished. I am a little further forward in understanding the 15 per cent figure, but I still do not fully understand it.

Stuart Dennis: I am happy to provide some more information. As Stephen Boyle and Vicki Bibby said, this is year 1 of the contract. As well as the additional work that has been highlighted, there are a couple of other things to mention in relation to the increase, which was expected as part of the full-year impact of the contract.

There are two audit years within a financial year. In 2023-24, we have the wrap-up of the previous year, in which the costs were at a lower rate, and we have the new contract starting. For 2022-23, there is a lower base, and for 2023-24, there are new contracts for a full year. In year 1, we have the 2022-23 audits being finished off as well as the start of the 2023-24 audits, all under the new contract. That is part of the reason why the costs have gone up.

In addition, the contracts are linked to our pay award, so the costs will increase in relation to that. Our average pay award was 6 per cent, which will have increased the costs of the 2023-24 audit work as well. That will have an impact on the figures, in addition to what Stephen Boyle and Vicki Bibby mentioned.

Richard Leonard (Central Scotland) (Lab): Good morning, everybody. On that last point, we have heard figures from 40 per cent up to 48 per cent or 49 per cent. What is your target? What kind of completion rates of audits were there before the pandemic, for example? You mentioned that some of this is about catching up, as the work was knocked off its path because of the pandemic

and the very difficult circumstances that everybody was in at that point. What are your targets? What would you expect?

Stephen Boyle: I will ask Vicki Bibby to set out the specifics of the targets but, in broad-brush terms, almost all audits were done by the target dates that Audit Scotland set before the pandemic. They varied by sector, so all national health service audits would have been completed by the end of June, audits for local government by the end of September, and audits for central Government bodies, broadly, by the end of October, to allow for overview reporting and other factors.

Before I pass to Vicki Bibby, I should say that 48 per cent of Audit Scotland's in-house audits were completed by the deadline—we have an analysis of that by sector that we can say a bit more about.

A delay is a delay, but the scale of the extent of the delay is also relevant. Digging beneath that a little further, I note that around 85 per cent of audits by Audit Scotland were completed within two months of the deadline. Context matters, and I know that the commission will be familiar with the fact that local audits across the rest of the UK have experienced delays not of weeks or months but many years. At the risk of giving the impression of being complacent, that is not the case in Scotland.

We are experiencing delays; we have a recovery plan in place and we want to get into a good position more quickly. I think that we are seeing early signs of that at the moment, especially as we move over the next few years to recovery. This year's NHS audits, in particular, are almost all going to be complete by the end-of-June deadline. There are signs that the recovery that we have spoken to the commission about is happening, and that the support that you have given to us to enable us to invest in resources is getting us there. Of course, to step back, the difference between where we would have been, before the pandemic, and the progress that we are making now is relatively stark.

Vicki Bibby can give you more information.

Vicki Bibby: The plan that we shared, which we will continue to monitor and give feedback on in setting our budget, was to get back to 95 per cent delivery on time by the end of the procurement period, so we have a few years to go. We did not want to have hard targets each year, but we plan to be at 65 per cent for the 2023-24 audits. I do not want to tempt fate but, as Stephen Boyle said, the audit services group thinks that we are on track to have delivered all of this year's NHS audits by next week.

There is a balance to strike between speed and audit quality. We do not want the need to meet the

deadline to impact on quality. As Stephen Boyle highlighted, we want to get more sophisticated in our monitoring. Is it a question of a few weeks? Is there an issue with the bodies' audit committee meetings being scheduled within a week of the deadline? Is it a question of a month? What is our acceptable sensitivity to that with regard to our ability to report more robustly? Are there significant issues on our side, in terms of our delivery or the firms that we are using, or on the client side? We want to get much more rigorous. Those issues are being reported on every month to the executive team, and every quarter to the board.

We have had to be careful with regard to the message that we are giving to our staff around the question of balance between delivery on targets and wellbeing. We have conducted a number of staff surveys, and we know that staff can be a bit confused by the message that we send, which is, "We care about your wellbeing, but we are asking you to do more against the delivery time, because we are bringing back those timescales, which means that you will be working more than normal as you are doing more than a 12-month audit, which is what you usually would have done." Importantly, we are looking to get that balance right all the time. That is why we have set a five-year period in which to get back to that 95 per cent target.

Richard Leonard: You have mentioned on the record your aspirations around where you want to be and by when. As Professor Alexander said, to some extent, our job is to challenge and scrutinise, and that is what we are trying to do this morning.

I will go to another area, which is the operating cost variances that we see in the report and accounts. Why, even though a substantial increase in budget for 2023-24 was sought in that budget—with regard to rent and rates, for example—do we see an underspend? Why, when a substantial increase in budget was sought this year in relation to travel and subsistence, do we see a significant underspend? Why, when a substantial increase was sought in relation to legal and professional fees, do we see a substantial underspend? Can you explain that?

11:00

Stephen Boyle: I will do my best, and I will bring in Stuart Dennis to provide some of the detail.

It is absolutely the case that, when we bring our budget proposals to the SCPA at the end of the calendar year, in advance of the new financial year, we use the best assumptions based on the information that is available to us about what we are likely to spend in those areas. To give

assurance, I note that, in our budget submissions, there is no intention to pad out budgets to allow for virements or underspends. We look to provide those submissions in a clear and robust way, and, as you rightly suggest, they are scrutinised not only by the SCPA but by our audit committee and our board in advance of that.

There are a variety of reasons why the figures for rent and rates, travel and subsistence and legal and other professional fees did not come out exactly as we had intended. I will talk about travel and subsistence, and Stuart Dennis might want to come in on the others.

In relation to the discussion with the deputy chair, travel and subsistence continues to be quite variable. That is informed by what we see in the set of accounts for year 1 of the current audit appointment round. We use the best information available to us, based on patterns before the pandemic and subsequent to it, when considering how often auditors will have to be on site. We are finding that, particularly due to advancements in technology, auditors are not travelling to the extent that they were previously. However, it is important that there is still some travel, bearing in mind that audit is still a people-based profession. We have not yet entirely succumbed to the threats or opportunities of artificial intelligence, so people still needed to be on site, but not as much as we had assumed. When we submit our 2025-26 budget proposal to the SCPA for scrutiny, it will be informed by our actual set of results.

I will pause to let in Stuart Dennis.

Stuart Dennis: In relation to the briefing paper that was mentioned at the start of the meeting, the point about leases has had a major impact. Historically, the figure for travel and subsistence included car leases. With car leases now coming under the IFRS 16 budget treatment, you will notice that the depreciation in relation to car leases and property, which reflects the rental side of things, is now under a separate heading, so future budget proposals that come to the SCPA will be under the correct headings, with the correct budget allocation. When the budget proposal for 2023-24 was made, which would have been in the summer of 2022—it would have gone to the commission in December 2022—we were still in the early days of thinking about how we would treat that issue and how we would manage the budget process. That should answer that question. Those are not genuine underspends; the money has just been moved, as there is a different accounting treatment for it now.

In relation to professional fees, as you know, every two years, we have the national fraud initiative contribution, which is about £220,000. That has an impact in that the budget for which we ask the commission drops one year and increases

the next. That is why there are movements every year if you compare that figure with the one from the previous year.

Richard Leonard: I am not asking about year-by-year changes relating to the national fraud initiative, because those costs in your budget are entirely predictable. I am asking why you asked for a budget of a certain amount for legal and professional fees, for example, when you spent substantially less than that in that year. The issue is, in part, about transparency, but it is also about credibility when you come to us to ask for a budget this year.

Stephen Boyle: I absolutely accept that, and I reiterate that the draft budgets that we submit to the SCPA for its consideration are based on the best available information. Our proposals are informed not only by the results in the annual report and accounts but by the trajectory of in-month spend. For transparency, which you mentioned, we will look to clearly set that out when we bring our budget proposal to the commission later in the year.

Professor Alexander: It might be helpful to outline again the way in which we are now approaching the budgetary process. If we work back from the fact that we are having an early meeting with you at the end of September this year about next year's budget, that fits into an iterative process that the board and the audit committee have put in place to examine how the budget develops over a period of about eight months. In governance terms, we will have looked at exactly the kinds of issues that Mr Leonard is raising and asking how credible the estimates are. The board makes an informed judgment about that, but we cannot actually predict the future—some things do change. All that I can tell you is that, in governance terms, we give it very close and iterative scrutiny before we come to you with a final budget proposal at the back end of the year. This year, for the first time I think, we are coming to you with an interim statement on the budgetary process at the end of September.

Richard Leonard: The variances do not just cover underspends but overspends as well. Things such as IT costs are significantly more than what was budgeted for. Again, Mr Dennis, I suspect that we will get into the murky world of accommodation and international accounting standards, but other accommodation costs—I am not entirely sure what that line covers—were 40 per cent above budget as well. From the point of view of challenge and scrutiny in this public forum, could you explain why there were substantial overspends in those areas?

Stephen Boyle: I will start on the IT costs and then hand over to Stuart Dennis, who can say more on IT and accommodation. As Alan

Alexander mentioned, IT and threats to cybersecurity are our biggest risks, so we have had to respond during the year to further invest in our cybersecurity arrangements. Mr Leonard, you will understand why I do not go into too much detail, but we have been subject to a number of attempts throughout the year by unknown people to access Audit Scotland's network. That has required us to respond and invest in the right level of security. We have deployed some of the contingency in the organisation to allocate spending to that area. That decision was subject to scrutiny by Audit Scotland's executive team and the board to ensure that we keep the organisation safe, given that we are privy to a significant amount of—sometimes personal—information.

That largely explains why our IT costs went over budget. As an organisation and an executive team, we thought that that was the right decision, rather than being bound by the initial budget, to ensure that we allowed for the safe running of the organisation. Stuart might want to say more on that and, equally, on the other accommodation costs.

Stuart Dennis: That is exactly right. That is our biggest risk, and that is why we needed to invest in that. There was also unplanned investment in IT, where we needed to upgrade the finance system because it was no longer supported. That investment was not planned at the time that the budget was set, so we had to find the money from within our overall budget to invest in a cloud-based system, which also relates to cybersecurity, to be more protected in that area. As Stephen said, there are areas where the executive team and the board have had to make strategic decisions in-year to enable us to move forward as an organisation. Therefore, although it might be more than the budget that we originally set, we knew that we would be able to cover it from the resources that we have.

Richard Leonard: Okay, and what about the other accommodation costs?

Stuart Dennis: Other accommodation costs relate to service charges and facilities management for our buildings. There has been a knock-on effect around utilities and the huge increase in electricity bills and so on. Those costs will also include cleaning and various other things that support our office accommodation.

The Chair: I have one or two random questions. Given the number of vacancies that Audit Scotland has reported and the recruitment challenges that you have previously noted, can you explain the decision to approve an early release at a cost of £75,000?

Stephen Boyle: I apologise, chair—I missed the tail end of your question.

The Chair: You have reported that there are a number of vacancies, and you have previously stated that the organisation faces issues with recruitment. How does that fit with the decision to approve an early release at a cost of £75,000?

Stephen Boyle: Early release is available to any member of staff who wishes to be released early. We take such requests very seriously, and they go through executive team consideration. Such requests are also subject—as you would expect—to board and remuneration and human resources committee oversight.

In such circumstances, we weigh up the request in the context of the individual, their personal information and the benefits that will come to the organisation. Such events are rare in Audit Scotland, but we take such decisions in the round—that process includes oversight from the board—to ensure that we arrive at the right decision for individual colleagues and for the organisation.

I do not think that the issue that you raise speaks to the wider point about the availability of skills and talent that we are looking to recruit and retain in the audit market, but you are right in the sense that it is challenging for us to ensure that we have the right staffing levels in the organisation and the right people. Your point also speaks to the issue that the deputy chair raised earlier about representation. We know that we still have some work to do in such fields.

Mark Ruskell: I want to go back to the issue of accommodation costs. Is your model for office accommodation now pretty fixed, as we move further beyond Covid? You have a balance between an office in Glasgow, which is expanding its footprint, and an office in Edinburgh, which is declining in size. Will you continue to follow that model, or will there come a point at which you decide that you could make substantial savings by moving to a central office in Falkirk or Stirling, or somewhere else that is equidistant from Glasgow and Edinburgh? Do you think that there will continue to be a strong business case for having a footprint in both the major cities? Is that balance right? Any further changes that you make to your office accommodation strategy would have quite major financial implications.

Stephen Boyle: I will start, but I am sure that Vicki Bibby will want to comment, too.

Over the past few months, I have been reflecting on our situation in that regard. I first joined Audit Scotland in 2003. At that point, we had offices in Glasgow and East Kilbride and three offices in Edinburgh. We had a presence in Inverness, and we leased accommodation in Aberdeen. We have gone through various cycles.

Audit Scotland decamped from Glasgow and moved to East Kilbride, where it remained for many years. We eventually found that East Kilbride was not a great location from the point of view of our carbon footprint, because people tended to drive to our office there, and that it had a bearing on our recruitment and retention arrangements. We found that it was harder to recruit to non-city centre locations, especially in some of the markets that we operate in, which involve recruiting from not only other public sector bodies but other audit organisations, which tend to be based in city centres.

In response to your question about whether our position with regard to office accommodation is fixed, it is probably fixed for the duration of the lease arrangements that we currently have, notwithstanding the fact that, if there was a material change, we would look to negotiate with our landlords. We keep the situation under regular review. We actively monitor our desk booking arrangements to determine the extent to which our offices are being used.

We think that we are in the right place. As Alan Alexander mentioned, people need to come together for different parts of their work. We need to collaborate as teams. We also want to limit the extent to which we are impacting on the environment. We have various strategies to ensure that we have the balance right.

Vicki Bibby can add to that.

11:15

Vicki Bibby: We did a survey of what staff would like in relation to accommodation. Our recruitment has shown that there is strong staff preference for being based in Glasgow. We have Inverness and Aberdeen sites, too, but those offices are small and staff could not get desks. On staff preference—I hope that my colleagues do not take this the wrong way—it tends to be the case that a younger workforce and more trainees are based in Glasgow and that they enjoy the greater socialisation that being in the office brings. However, it is also critical to learning and development for trainees to have informal peer learning.

In terms of our staff demographics, more financial audit staff are based in Glasgow. That requires more on-site team learning. We also know that, for successful audit—this has been a subject of discussion by the board—we want on-site presence of our audit teams at organisations.

We asked staff what they wanted and their overwhelming response was that they wanted to have a greater presence in Glasgow.

We also asked staff who were based more in Edinburgh. Those staff tend to be—again, my apologies for saying this—a bit older, and they tend to deal with performance audits, which take longer. As such, the staff come together as needed, but that is not on a weekly basis.

There is a difference in our staff. There was an opportunity at the end of the lease with the Edinburgh office to reduce that, which we took. Although we have expanded Edinburgh, we are making savings, as has already been discussed.

There is a balance to be found. As we have said, every organisation, not just in Scotland but across the world, is trying to work out what the future of work is and to make decisions about leases, which organisations are tied to. We have a hybrid approach; it is not all home working. There is benefit to our staff coming together, and it is critical that they come together and learn from one another.

We have seen that the exam pass rate is really good this year—it is 95 or 98 per cent; it is certainly in the high 90s—compared with the pass rates during Covid times, when trainees were studying at home and not receiving team learning. We are really seeing the fruits of that shared learning.

As I said, it is a balance. We do not know what the future holds, but we have asked our staff and have also made judgments based on what we need from a work delivery perspective.

Jamie Greene: I have two supplementary questions. I will draw my line of questioning to a close by taking you right back to both of your opening statements. Auditor General, I will start with you. You mentioned something that I picked up in the opening pages of the annual report, which is the challenges that you face with other public bodies not preparing their accounts on time or properly. You expand on that quite eloquently on page 1. You seem to imply, and you can correct me if I am wrong, that many of the challenges that you face in concluding audits on time are a direct result of other public bodies—to use the phraseology in your report—facing

“significant disruption, including those who monitor and report on their own bodies’ spending.”

What is the issue, and how can we support those public bodies more?

Stephen Boyle: That is a fair assessment. Martin Walker might want to come in on this. I will set out for the commission some of the analysis that we have done about why audits are late. We are not in the business of apportioning blame, as some might believe. We are looking to see whether it is the auditor’s issue or the public

body’s issue. To be absolutely clear, it is a combination of those factors.

There are other elements, too. Vicki Bibby mentioned that there are new auditing and accounting standards. We are in the first year of an audit cycle, which takes more time, and we are confident that we will see the benefits of that as we move through it.

On the specifics of your question about whether all public bodies are able to support the audit, the answer is no—not yet, or not in the way that we would have recognised before Covid. There are, undoubtedly, capacity issues for some public bodies in how they prepare an unaudited set of annual reports and accounts that is ready for an audit team to audit in the most efficient way possible. As you know, deputy chair, auditors have to maintain their independence from public bodies in any setting. They are not there to support the preparation of public bodies’ annual reports and accounts. That is a clear and important distinction.

From an audit side, we have also had to prioritise. We want to deliver certain audits in a certain sequencing because audits are not always a stand-alone event. In the case of the Scottish central Government, many bodies’ accounts, which are important for public scrutiny and transparency in themselves, are also collated into the consolidation of the Scottish Government’s accounts. We work with auditors to make sure that that sequence happens properly. Although they are not consolidated, other public bodies’ numbers feature in the accounts, particularly in relation to our pension funds. The auditors of those bodies have to do the work quite early, so that they can provide assurance to other auditors. All of that sequencing really matters.

I will pause there, because it is important for the commission to hear from Martin Walker about the analysis that we have done of how that work is progressing and how we want to take it forward.

Martin Walker (Audit Scotland): In December, we did some analysis of what is causing the delays. As the Auditor General said, it is quite difficult to pin it down. There is not one single reason and there is not even one single reason in any individual audited body. There is often an interplay between a number of the different factors that we have talked about this morning, including the snowplough effect of the pandemic.

It is important to note that the target dates for the audit delivery for this year are earlier than they were when we were reporting to you last year. If you do a year-on-year comparison between the two years, you see that the performance has improved this year compared with last, but the change of the target dates masks some of that improvement.

Based on our analysis, around 40 per cent of the delays in audits are to do with issues within the audited body. There is a similar figure in relation to the auditor's capacity and ability to deliver and other priorities. We have other reasons in the mix, such as the timing of pension fund triennial revaluation, where new information becomes available and further audit work needs to be done. It is quite a complex picture to pin down, and it is not possible to pin it on one individual reason. There is a whole host of things.

The important thing for me is to look at, for example, where the delivery is now. As of Friday, 93 per cent of the financial audits are complete. We recognise that there have been delays, but that is where we are with them. That figure is 99 per cent in ASG and 83 per cent in the firms, so we are getting them over the line. Performance audit delivery improved this year, and the schedule is 89 per cent on time.

The direction of travel is positive but, as others have said earlier in the evidence session, it remains challenging because there are still a lot of factors at play that we need to address.

Alan Alexander mentioned the level of scrutiny that the board gives to delivery, and that is a regular feature of the board's quarterly meetings. As you would expect, the board wants to understand where we are, how close we are to getting back on track and what the factors are. Trust me—we are all over that.

Jamie Greene: I accept the point that it is not the job of the auditor to assist the body in the preparation of accounts—and rightly so. That opens up questions that are perhaps more for the permanent secretary, for example on how the Government can support those bodies in preparing accounts, which would make your job 10 times easier.

My final question is directed towards the outgoing chair of the board. It would be remiss of me to let the evidence session end without referring back to your opening comments, which were quite stark. You made three specific points in your opening statement, but number 1 on that list was your wider analysis of the direction of travel of many of the public bodies that Audit Scotland audits. You used some interesting and specific phrases—quite stark ones—and I noted them down. I thought that you might want the chance to elaborate on your point before we end the session.

For example, you used the phrase

“business as usual is not an option”,

you talked about “radical” change and you said that certain things are “no longer sustainable” and so on. You clearly have your own personal views on that. In general, that is quite worrying language

to hear. Could I give you the opportunity to share your thoughts on how you have come to these stark conclusions?

Professor Alexander: My question back to you, Mr Greene, is, how long have you got?

Jamie Greene: Probably not that long.

Professor Alexander: You can take the boy out of the university, but you can't take the university out of the boy.

A lot of my judgment on this comes from, as I implied, the fact that I have been around the block a few times over the past 40 years. What I was trying to emphasise is that it is very difficult to improve performance if the funding models are wrong or—let me be more specific—suboptimal, and if the structures, too, are suboptimal. In that kind of scenario, what an audit institution can do is reveal the areas where it believes improvement is possible. That is the reason why I made the clear distinction between financial probity audit and performance audit. It is very difficult to say that one of those is more important than the other. In particular, there are areas such as more joint working and changes to the structure of service delivery, which are subject to influence from the audit process, we hope, but in which, frankly, the decisions are for others—in particular, others in this building.

If you want me to be absolutely frank—given that I am not coming back, perhaps I will be—there has been a conspiracy of silence about the structure of the local public sector. It has been particularly clear for the past 20 years—it was highlighted strongly in the Christie report in 2010—that the structures through which we deliver vital public services are suboptimal. All that we, as an audit institution, can do is to point out, particularly in the performance audits that we do, where we believe that improvements can be made in sharing delivery of services, spreading best practice and all the kinds of things that you can make a list of.

However, you know the old saying about taking a horse to water. Somebody else has to drink—somebody else has to make that decision. All that we can say is that we perceive and have evidence to suggest that the performance of some public bodies is suboptimal and might be improved by joint working, changed structures and so on. The only place where we have done that is in the integration joint boards, but there are other areas, particularly in the local public sector, where that could be improved.

It is in that kind of thing that, in doing this job, I have found all the things that I concluded as an academic; to put it another way, I found that my prejudices were all confirmed by the kind of work that we are doing. That is what I was hinting at. I felt that I should hint at it and see whether any

member decided to draw me out on it. I am very glad that you have done that. I am happy to expand on that in other forums, if that would be helpful.

Jamie Greene: I understand, and I understand that this forum is probably not the place to go into policy matters, but I felt as though there was more to get out of you this morning. It sounds like the content of a good book—certainly one that I would read—so I hope that you write it.

Thank you for your forbearance, chair.

The Chair: As there are no further questions from members, I thank the witnesses for their attendance of this portion of the meeting, and I call for a short suspension so that we can change witnesses.

11:30

Meeting suspended.

11:32

On resuming—

The Chair: I welcome to the meeting David Jeffcoat, partner, and Jillian So, audit and accounts manager, from Alexander Sloan. Would either of you like to make any comments before we move to questions?

David Jeffcoat (Alexander Sloan): Good morning, chair, and good morning to the commission. I would like to give a summary of our work to accompany our audit opinion and our audit summary report. Alexander Sloan was appointed to carry out the external audit of the financial statements of Audit Scotland for the year to 31 March 2024.

As in previous years, our audit planning commenced in February and our audit fieldwork in early May; I signed the audit report on 18 June 2024. Our audit was carried out in accordance with international standards on auditing. We once again carried out our audit remotely, and this continues to be effective through the use of a secure portal to request and receive information electronically, with screen sharing and video calls to clarify and discuss matters as they arise.

Our audit opinion is contained within the audit report in the accounts, and it confirms that the financial statements of Audit Scotland give a true and fair view, as at 31 March 2024, that they have been properly prepared in accordance with international financial reporting standards and the Government's financial reporting manual, and in accordance with the Public Finance and Accountability (Scotland) Act 2000. Our opinion also covers sections of the remuneration report and confirms that those have been properly

prepared. For the record, I can confirm that adequate accounting records have been kept by Audit Scotland and we have received all the information and explanations that we require before issuing our audit opinion. Our audit opinion also confirms that expenditure has been incurred and receipts applied in accordance with the 2000 act.

As part of our audit work, we are required to prepare an audit summary report for the management of Audit Scotland, and a copy of that management letter has been sent to the commission. The audit summary report summarises our response to key audit risk areas and, where applicable, reports on any weaknesses in the accounting systems and internal controls that may come to our attention during the audit.

I will summarise our response to key audit areas. Our audit work on management override considered the authorisation, appropriateness and accuracy of bookkeeping and accounting journals, and related financial controls, and we identified no issues to bring to the attention of the commission.

Our audit work on revenue recognition considered the accuracy of recording income in the appropriate accounting period and is linked to our auditing of work in progress. Our audit work in that area concluded that income had been recognised appropriately. Work-in-progress debtor balance and work-in-progress creditor balance, as at 31 March 2024, were based on robust assumptions and were accurately calculated, and we are satisfied that they are accounted for appropriately.

Our audit work on accounting estimates included consideration of provisions within the financial statements, and we are satisfied that those have been appropriately and accurately estimated. Sufficient disclosure is contained in the notes on the financial statements.

Our audit work on the pension balance considered the consistency of the accounting treatment with that of the prior year, and we requested that an actuary's report be obtained to confirm the asset ceiling that would apply. The actuary's report confirmed that, under the IAS 19—international accounting standard 19—and IFRIC 14 accounting rules, the pension balance was appropriately reported as nil on the statement of financial position, as it was last year, and we are satisfied that relevant disclosures are made in the notes.

Our audit work on accounting for leases involved a review of underlying assumptions and calculations. We proposed some adjustments that were agreed and processed. Those are noted in the audit summary report, although the net effect

was not material to the financial statements as a whole.

Our audit work on disclosures considered a possible change to the layout of the reports and the accounts. The final version was similar to the layout in the prior year, so that disclosure risk did not transpire. We were aware of an additional disclosure risk arising from the omission of the accrued pension benefit figure in the remuneration report, due to delays in the pension scheme in calculating that. With that information not available, and following discussions with Audit Scotland and a review of an updated UK financial reporting manual—the FReM—which was released only on 12 June, we are satisfied that the guidance that was issued in the updated FReM was appropriately followed and that the prescribed narrative has been disclosed in the remuneration report and is compliant with the FReM.

Our audit summary report is also an opportunity to propose recommendations on the accounting systems or financial controls. I can confirm that, following our audit work, we did not identify any matters that we were required to raise with the management or the commission.

Finally, on behalf of me and my audit team, I record our thanks to and appreciation for the staff at Audit Scotland for their helpful and prompt assistance during the audit. I am happy to take any questions from members of the commission.

The Chair: Thank you. Just for completeness and for the official record, can you confirm that you have received all the necessary information and explanations that you require to form your opinion on the financial statements?

David Jeffcoat: Yes, I can confirm that.

The Chair: You touched on adjustments to the accounts. On page 8 of your audit report, you set out the adjustments that were identified in the audit and processed in the financial statements. One of the entries was for £114,000 and has an impact on Audit Scotland's expenditure. Will you explain the basis of that adjustment and how it was identified?

David Jeffcoat: That relates to IFRS 16, on accounting for leases. We reviewed the initial interpretation of that, including things such as discount rates and where the expenditure was allocated within the statement of net comprehensive expenditure. We carried out analysis of that and did some reperformance calculations—for instance, we discussed with Audit Scotland whether there should be a slight change to discount rates. When those were recalculated, there was an impact of £114,000, which affected the expenditure. For instance, the final line in the adjustments table in the summary report shows interest expenses of £49,000.

Compared to the initial calculations that were done in the draft accounts, the figure has been increased by £49,000 following the adjustments.

The Chair: Accounting judgments require detailed consideration and scrutiny by auditors. Can you confirm that you are content with the judgments that were made by Audit Scotland and the disclosure of those in the annual report and accounts? I mention that in the context of work in progress. Note 9, on page 86, refers to work in progress of £1.9 million. That is included as a judgment of work completed but not yet charged to audit bodies. There are significant sums involved.

David Jeffcoat: I am sorry—is that on page 9 of the audit summary report?

The Chair: It is in note 9, on page 86. I am just asking whether you are content with the judgments that were made.

David Jeffcoat: Yes. There is work in progress and also a work-in-progress debtor balance, but I am content with the assumptions.

The Chair: I have one other point. At the very beginning of the process, we raised the question of the approval for the £6.27 million sum. That is a significant sum, and you have probably looked at the approval process. I am told that that was first raised in summer last year. Did you become aware at any point up to the conclusion of the accounts of that and of the deviation from the approval process?

David Jeffcoat: Part of our work is looking at the regularity of cash expenditure, which covers things such as authorising expenses. As you say, that was a non-cash expense. Looking at non-cash expenditure can include things such as fixed assets. It would not immediately go into expenditure, but there would be a cash expense as a result of that. The £6 million was an accounting adjustment on both sides of the balance sheet; the assets have a £6 million addition, and there will, in effect, be around a £6 million increase on liabilities. There is no cash outlay whatsoever in that respect.

The Chair: There is no cash outlay, but you will undoubtedly be aware from previous years that pension adjustments, similarly, do not have a cash outlay but go through an approval process.

David Jeffcoat: Yes. We look at the budget but we do not focus fully on the budget. That is actually slightly outwith the scope of the audit, but we would consider, particularly on the cash side of things, whether expenses have been applied appropriately.

The Chair: So, you are only interested in the cash side and not in any notional figures.

David Jeffcoat: That is certainly more of a consideration in relation to the financial statement.

The Chair: Okay. Do members have any questions?

Jamie Greene: I believe that you were here, David, for the earlier evidence session, so you will have followed that line of questioning. At any point when you were looking at the accounts, did any of the issues that we identified in relation to where there was quite large variance in the accounts raise questions?

I will refer to two examples that might help you come to an answer on this. The travel and subsistence budget went from £500,000 to the reported figure in the accounts of only £82,000, which raises the question of whether there was just a change in the way that things are reported—that is, whether the line that such things appear in has changed due to changes in accounting practices—or whether there has been a huge reduction in the forecast figure versus the used.

The depreciation figure almost doubled from £500,000 to £1 million. Did those things raise flags as you went through the accounts, and were there any conversations around them?

David Jeffcoat: Yes. There are two elements to that. One is the actual figures for last year, and note 4 to the accounts shows those actual figures. Those are the figures that were audited last year, so we hold more assurance in those numbers. Part of our analytical review is to look at last year's figures, then look at this year's figures and obtain explanations if they have decreased. For example, the actual travel and subsistence figure came down from 2022-23 to 2023-24. That seems to be appropriate from what we understood in our discussions.

We do not fully look at the budget and audit against that, but we consider the budget in terms of forming expectations about what we might see. We certainly have more assurance in what was there last year, because those are the figures that were audited.

Jamie Greene: Are you generally content with the rationale and explanations that have been given, including what you have heard this morning?

David Jeffcoat: Yes.

The Chair: Members have no further questions, so I thank you for your attendance. We will suspend briefly for change of witnesses.

11:43

Meeting suspended.

11:46

On resuming—

“Quality of public audit in Scotland: Annual report 2023/24”

The Chair: Agenda item 4 is to take evidence on “Quality of public audit in Scotland: Annual report 2023-24”. This is our final evidence session today. I welcome back from Audit Scotland Alan Alexander, chair of the board; Stephen Boyle, Auditor General for Scotland; and Vicki Bibby, chief operating officer. I also welcome Owen Smith, who is senior manager, audit quality and appointments at Audit Scotland.

We will move straight to questions. From looking at the different themes and the suggestions that have been made, to what extent have the 2022-23 recommendations been actioned, given the decrease in the results that has been identified in 2023-24?

Stephen Boyle: I will ask Owen Smith to set out for the commission what we asked of auditors following the 2022-23 report and the progress that has been made, together with some background information—if you would find it helpful—on how we track and monitor the progress that auditors who have been appointed by me and the Accounts Commission are making in respect of the quality of their work. That is informed by the variety of sources that we use through our arrangements with the Institute of Chartered Accountants in England and Wales to conduct quality assessments and audit providers' internal quality arrangements, and we triangulate that with information that we get from various stakeholders who are recipients of audits.

I will say one thing before I pass the question to Owen Smith. I think that we expect recommendations for improvement almost every year. The bar for representative audit quality is getting higher—and rightly so. As the commission will have seen over many years, there have been instances—thankfully, largely in the commercial setting—in which there have been deficiencies in audit quality. The standard of what constitutes a high-quality audit is increasing.

In “Quality of public audit in Scotland: Annual report 2023/24”, there are some more examples of where we want auditors to improve. We also ask whether those are the same examples. Are we seeing an audit still not meeting what it should meet? Are the same issues still being identified by reviewers, or are newer or more specific things happening from one year to another?

I will pass over to Owen Smith to say more.

The Chair: Before Owen Smith gives us information, it might be interesting to note that the audit quality survey results for the audit services group have declined from 2022-23 levels, and they are in a low position compared with those for other audit providers. It might be good to touch on that.

Stephen Boyle: I will bring in Vicki Bibby to say a bit more about the survey results specifically. I omitted to mention that the views of our colleagues are also a key factor in considering how delivering audits feels and what is being picked up in respect of the expectations that Audit Scotland and the other providers set for them.

It is all well and good having rhetoric that says, "You are encouraged to deliver a quality audit," but the relevant question is whether colleagues feel that they have the right levels of resources and time to do so. That is set out in detail in the report that we are discussing.

If I may, I will first hand over to Owen Smith, and then perhaps Vicki Bibby could come in.

Owen Smith (Audit Scotland): Good morning, members of the commission. Our audit quality framework collects a range of performance or audit quality indicators, including ones that cover staff views. The key areas for improvement referenced in the previous "Quality of public audit in Scotland" report related to the cold reviews carried out by our regulator, which is the Institute of Chartered Accountants in England and Wales.

Every year, we write to each auditor who is affected by those inspections and ask them for an action plan so that we can see what they have done in response. We also ask for what is called a root-cause analysis, which is a detailed review that the audit firm itself will conduct to understand what went wrong and therefore what could be improved. We also encourage that approach for high-scoring inspections, to see what went well in those cases that could be shared across other teams and audits. We get the responses in the form of action plans, which we use to track improvements year on year.

As Stephen Boyle alluded to, the critical test for any improvement will have been whether the finding was repeated at the following year's inspection. I am pleased to say that, in the majority of the cases that were referenced in this year's report and last year's, all the improvements have been actioned and the adverse findings have not been repeated. We take assurance from the fact that audit teams took the recommendations seriously and put in place appropriate responses. When the ICAEW inspects the same audit firms and methodologies in the next year and does not find the same issues, that shows that the firms have been successful in trying to fix those problems.

The Chair: I will bring in Mark Ruskell.

Mark Ruskell: On the back of that question, I want to drill down into an aspect that staff have reflected on, which is the availability of training to enable them to deliver high-quality audit work.

It is clear that you offer your in-house teams more training days than private firms do. However, when you ask your own staff whether their training level is adequate to deliver such quality, significant numbers of them still feel that it is not. I want to understand what lies behind that. Is it because you have a lot of new staff coming in who feel that they have particularly high training needs? Does it relate to the points that we discussed earlier, about the need for peer-to-peer support?

It is a little concerning, so I would like to understand how you are addressing your staff's perception that, even though their training provision is good, as regards the high number of days that are available, it does not seem to give significant numbers of them the confidence that they need to deliver the highest quality of audit work.

Stephen Boyle: I ask Vicki Bibby to come in on that.

Vicki Bibby: I will also address your comment about the wider staff survey, because those aspects are all interrelated. That links to our earlier discussion about balancing recovery and getting back into audit timelines with staff wellbeing. It also relates to last year being the first year of the new audit cycle, which means that staff who go into new organisations have to build up. Even without the added pressure of recovery, the first year of an audit always brings extra pressure. We do a number of engagement surveys with our staff and the message that we hear back from them is consistent as regards balancing pressure and wellbeing. We take that very seriously.

I will turn to training in a moment. However, your point also links to the subject of our next session, which will be audit modernisation at Audit Scotland. I will not go into the detail of what we will talk about then, but I will say that our staff tell us that our systems are not fit for purpose in the modern audit sector, which they feel holds them back. At our next session, we will explain in more detail why we need to modernise our audit approach and the systems that are required to support that.

In addition to training, a number of accounting standards have come out. Our innovation and quality team is working closely with the audit services group to ensure that staff who are deployed on audits get the guidance and information that they need to apply the new accounting standards. It is about the timing of that, as some audits might be early, with some of the

information still working its way through. Our innovation and quality team and the audit services group are actively working on that, and the executive directors are working closely on it, too.

The point about training relates more to specific technical issues coming up and the timing of those, rather than the general training that we provide for staff. However, it is absolutely right that the training must be relevant and timely to be effective.

Mark Ruskell: That partially explains things, but I still do not fully understand the differences with the firms. Do staff in the firms not come up against those issues?

Stephen Boyle: The table just below paragraph 36 of the report shows a slight clustering of those who responded to the statement:

“The training and development I receive enables a high quality audit”.

The table analyses the trend over a five-year period, and the downward movement from 2021-22 to 2022-23 can largely be attributed to, as Vicki Bibby referred to, the introduction of our very complex auditing standard 315 and the assessment of the control environment when using digital tools and techniques. Colleagues have told us that it took a bit of time to get that right. Vicki Bibby is right that we have deployed a variety of training, seminars and materials to try to give colleagues the right level of insight and confidence to do the work, but we needed a further year. The uptick in the 2023-24 results shows that the approach has become more embedded, with the training being seen to be of value.

It is also about dialogue, because training is not done in isolation. The provider does not say, “Here you go—you’re now equipped.” We have to base things on feedback. Did the training deliver what was intended? Do people feel that they have the skills to do the work?

Vicki Bibby is right that there are other factors. We have new colleagues. Our turnover is higher than it has been in previous years. Such variables will all influence the situation.

In my role not only as the accountable officer but as the AGS, I take confidence when appointing auditors from getting feedback that shows that we are back up to a figure of 60 per cent or so on that issue in Audit Scotland this year. I am hopeful that the divergence will end as Audit Scotland gets back in the pack with other providers.

However, it is a tough environment. As Owen Smith mentioned, the auditing standards are becoming more regulated, and there is also the complexity of accounting standards for non-current assets. Regulators such as the Financial

Reporting Council and accountancy bodies take a view on whether auditors are doing things properly. That creates a degree of anxiety among members of staff about whether they are equipped. It will take a period of time before we satisfy existing standards, and there is an expectation that there will be more to follow.

Mark Ruskell: I understand. Thank you.

Jamie Greene: I want to pick up on a few issues that have come up, particularly the variation between in-house auditing and that done by external auditors. Do you have any statistical information that could allow us to compare performance or completion against targets, for example? That would give us a feel for whether external auditors are more on target than your internal teams, or not, as the case may be.

Stephen Boyle: I will ask colleagues to provide clarification.

In our report, we made a broad assessment of the quality of public audit in Scotland. We did that in a number of ways. For example, we considered the timeliness of the delivery of the work, and we did a retrospective analysis of the quality of judgments in relation to whether they were supported by the right evidence, documentation and so on. That is set out in the table at paragraph 71 of the report, which shows how the various providers are performing based on the assessment of the regulatory bodies.

I am happy to comment in whichever way you prefer, deputy chair. Is it about the timeliness of completion or is it more generally about the overall quality of compliance?

Jamie Greene: I ask you to stick to the timeliness of completion, as I have some other questions about that.

Stephen Boyle: In that case, I will hand over to Vicki Bibby and Owen Smith.

12:00

Vicki Bibby: In the first evidence session this morning, Martin Walker highlighted where we had got to as of last week. I think that the figures were 99 per cent for Audit Scotland and 83 per cent for the firms. The mixed model gives us data that we can use to compare the two. In this instance, we are performing better. It is not a competition, but we do not feel that there is any risk that we are not performing in line with the firms. In relation specifically to delivery, we are at a higher position than the firms.

Jamie Greene: Presumably, it is the case that some of that work is blended anyway, with some of it being done by external auditors and some by

your staff. Do they work together in that way, or are they very distinct in that respect?

Stephen Boyle: In some ways, it is both. I and the Accounts Commission appoint auditors from firms to audit the accounts of public bodies as part of the annual audit process, as well as named colleagues at Audit Scotland to be the appointed auditors. They deliver the annual audit with their teams and then, as you have just heard from Audit Scotland's auditors, they do something similar: they give an opinion on the annual report and accounts and they sign that in their own names as the appointed auditors. However, that is not to say that we do not work collectively; we do that through what we call sectoral arrangements. For example, the auditors of the NHS work in a collegiate way to share intelligence and support our public reporting work.

Through some of the work that we do in this first year under the new code of audit practice, you will see the results of our integrated best value auditing, and that, too, requires close co-ordination and discussion between Audit Scotland's performance audit and best value team and the annual auditors. You will see that through the reporting that the controller of audit provides to the Accounts Commission. Where appropriate, auditors regularly come together to share intelligence so that we can maximise our audit work to best effect.

Jamie Greene: That is helpful—thank you.

I am looking at the audit performance in terms of audits completed on time on a sectoral basis—we have touched on that, and you gave us an indication of some of the reasons behind it—and I note that there has been quite a stark drop over the past couple of years. If we look back to 2018-19, nearly every major sector was delivering audits on time. Looking at the chart, I guess that the figures were north of 95 per cent across local government, the NHS, central Government and the FE sector. In 2022-23, however, the numbers dropped considerably, with some areas performing better than others. The NHS was sitting at 74 per cent, at the high end of the spectrum, while the figure for local government was as low as 29 per cent. That is a stark difference.

Will you expand on what has happened over the past couple of years? Obviously, the pandemic is the number 1 factor and the buzzword there, but there was a drop in 2019-20, which was before the pandemic really hit. The numbers were already starting to fall in relation to the targets. I give you an opportunity to expand on that a little bit.

Stephen Boyle: I will ask Owen Smith to set out a bit more detail and drill into the point that you make.

There are variances by sector. We touched on that earlier when we discussed the prioritisation routes that auditors need to take for a variety of reasons where the delay is their responsibility. Under the consolidation arrangements that exist for some Scottish public sector accounts, there is prioritisation of pension fund reporting, because that has an impact on other accounting. However, some of the delays are attributable to the need for completeness in the preparation of accounts.

We are seeing capacity issues in some public sector bodies. Martin Walker mentioned that we are approaching completion of all the 2022-23 annual reports and accounts. Bearing in mind that we are now in 2024-25, that illustrates the fact that there have been significant delays.

You mentioned further education. I am still awaiting the completion of some audits from FE institutions in order to allow me to consider any statutory reporting on that sector. Historically, that would have been done much earlier than it has been.

The impact of delays is real, and it causes a degree of frustration for auditors, for me, as the recipient of those audits, and for the audited bodies.

I will pass over to Owen Smith to say more about the recovery and some of the underlying trends.

Owen Smith: The deputy chair is right in what he said about 2019-20, but we changed the target dates at the start of the pandemic, to give auditors and bodies more time to prepare their accounts. I cannot remember exactly, but that whole period was a period of shifting sand, in that the dates kept moving.

We will report on this year's audits next year. For the first time in a long time, we have had consistent dates for audit completion, which means that we have a basis for comparison. We have set out to all the auditors our expectations as regards improvement. As a minimum, we want audits to be signed off in an 11-month period, or a month earlier for those bodies whose audits are already late. All the auditors have plans for when they will deliver their audits. The fact that they have a broad portfolio was discussed earlier. They will start with the NHS, before moving on to local government and so on. Those teams are all prepared to move through the audits, but if one domino falls, that can have a knock-on impact on that planning. The NHS comes out best, because everyone is doing that audit work right now. There are no complications, other than prior year late audits.

The important thing for me, in my role in managing the contracts, the performance and the reporting on quality, is that auditors have plans in

place to deliver improvement, against which we can hold them to account. That is particularly important this year or next year, as we have consistent dates. The dates that we report are a cut-off in time—it is almost like a pass or a fail. Some of the information that was given earlier relates to how many audits were completed within, say, two months, which is more interesting. We are going to bring in more nuanced information, such as sub-key performance indicators, in an effort to capture that better and to understand what has happened.

Some of the bodies for which this year's audits were late were also late the year before. It is very hard to meet a target date on time when the previous audit was six months late. We need to see a recovery over the next two, three or four years, and that is what we are really invested in at the moment.

Jamie Greene: Do you get the impression that the issue is that the organisations in question simply do not have the capacity, or that they do not take the issue seriously enough? In some sectors, the delays are quite stark. Given that a huge amount of public money goes into those bodies, that raises eyebrows, if nothing else.

Stephen Boyle: We absolutely recognise that timeliness is a component of audit quality. An aspect of the quality of individual accountable officers is that, when they are appointed, they will be able to complete their accounts on time and to the highest standard, to support parliamentary and public understanding of how public money was spent. That is at the heart of the accountable officer role and the responsibilities that we have that go alongside that.

I am not detecting any unwillingness or a blasé approach on the part of public bodies about the importance of the preparation of accounts. That is not the feedback that we are getting. We know from the feedback that we get from all the public bodies that we deal with that they want their audits to be completed to timescales, to support their governance arrangements and the workings of their organisations.

To go back to our earlier discussion, the question is who it would be best to be responsible for that. Perhaps understandably, some public bodies have an expectation that the auditor will be able to support the preparation of the accounts to ensure that that process is seen through more swiftly. However, auditors are clear in their view that they cannot bridge the independence of their role. It is for public bodies to prepare their accounts.

As you mentioned earlier, it is important that public bodies have the right level of support and

training in that regard. More than 200 sets of accounts need to be prepared and audited.

In some cases, we are seeing that there is a limited pool of people who are best placed to do that, and the support that larger sector leaders are providing is inconsistent in that regard. There is work to be done to support the recovery of the shared endeavour of having a completed audited set of accounts.

Richard Leonard: You have a separate measure of audit quality, which involves your appointment of the Institute of Chartered Accountants in England and Wales to carry out performance reviews on a sample of—in this case—eight audits. If I interpret the findings correctly, the ICAEW said that only four of the eight audits of which it carried out a performance review met the standard that was expected. Is that your reading of the findings? If so, what conclusions do you draw from that?

Stephen Boyle: You are right that Audit Scotland, on behalf of myself and the Accounts Commission, appointed the ICAEW to act as an external assessor to assess the quality of audit work that was carried out by appointed auditors through the annual audit process. As Owen Smith mentioned, our audit quality framework also extends into our performance audit and best value work.

ICAEW scores individual audits on what is known as a cold review basis, and uses the Financial Reporting Council's scoring mechanism, where audits are ranked on a score of 1 to 4, with 1 suggesting that no improvements are required and 2 suggesting that minor improvements are required. That is the cut-off point that I and the Accounts Commission want. A score of 3 suggests that improvements are required, and a score of 4—thankfully, we have none—suggests that significant improvements are required.

I have a couple of points to highlight for the commission. Some audits were scored a grade 4 in 2019-20 and 2020-21, and I, the commission and the Audit Scotland board were clear that that was unacceptable—that is not a position that we wanted to be in with regard to our ability to offer public and parliamentary assurance about the quality of audit work.

We are happy that there are now no grade 4 audits. Three of the audits that got a score of 3 this year related to the work of the audit services group and one related to Forvis Mazars Accountants, which carried out one of the audits through the audit framework.

Where there is a score of 3 or 4, it results in engagement from Owen Smith and his colleagues—Owen might want to say a bit more about the root-cause analysis work and the

improvement plan that we ask for, and then perhaps step back for a second to address the issue of whether there are any trends or recurring issues in relation to the improvement action plan that the audit quality and appointments team requests. We take audit quality incredibly seriously. It matters in terms of the credibility of audit work and the reliability that can be placed on it.

There are a number of benchmarks with which to assess whether an audit was done properly, but the most fundamental is whether the audit opinion was sound. When an auditor puts their name to an audit opinion, that can be seen as reliable. The audit opinion is the judgment that they make about whether the accounts on which they giving their opinion contained any material misstatements. Thankfully, when ICAEW has made the assessment that some improvements are required, it has not cast doubt on the reliability of the auditor's opinion. However, as I mentioned, there is work to do in relation to audits that received a score of 3 this year.

Owen Smith: We contract with ICAEW to do those reviews in order to ensure absolute independence. However much I am independent from the auditors, I still work for Audit Scotland, so it is important that we have a regulator that is approved by the FRC to do that work. Importantly, as part of that inspection process—that is what the ICAEW calls it—the auditor, subject to review, will have to prepare an action plan in response to the findings, and we follow that through, as I indicated earlier. The table at paragraph 66—which gets me in trouble because it is quite complicated—tries to expand the sample of all the different types of reviews that we undertake in order to try to get a handle on quality.

It goes back three years to give a cumulative target. This year's results show that only one of the different cold reviews that are undertaken did not meet the target. Those are independent ICAEW reviews. The picture has improved quite a lot since 2021, which is one of the times that we started to do this.

12:15

There is a direction of travel over time, which we are pleased to see. As Stephen Boyle said, there are few repeat findings, so the regulator's focus will move over time, as auditing standards change. It is a moveable feast. We will always get recommendations, which is why we have a comprehensive audit quality framework to find out what needs to be improved and to take action to make that happen.

The other side of the AQF is to get assurance for the Audit General and the Accounts

Commission that the people who they audit are of a certain standard. I think that the direction of travel is the right one—the figures are going up.

Richard Leonard: Can I just probe that a little bit more? My reading is that the good compliance record was much higher the year before—the percentage was in the 80s. Is that evidence of things going in the right direction, or is it evidence of things going in the wrong direction?

Owen Smith: That is why I referred back to the previous table, which gives an average over three years and gives a wider base to come to that conclusion. The in-year results are important, but the year-to-year results show a drop. However, if you go back over the last three-year rolling period, it shows improvement over time.

Richard Leonard: It feels a little bit like you might be manipulating the figures, Mr Smith.

Owen Smith: No. I do not score those audits. An independent person does that.

Richard Leonard: It is pretty plain that no one wants a visit from you any time soon, is it not? Things have gone wrong if you are knocking on their door.

Stephen Boyle: Maybe I can add a couple of points. Owen Smith's point is fair. We want to make an assessment of the direction of travel of audit quality in both our financial audits and our performance audit and best value work.

On the latter, the assessment that ICAEW has made, and which is also informed by the internal cold review work that our innovation and quality department will do on performance audit and best value, is that the audits are consistently good. That means that the performance audit reporting, the briefings and the performance audits that I take to the Public Audit Committee and that the Accounts Commission receive meet the standards consistently. That gives me a lot of assurance that the work that I am presenting to the Public Audit Committee is reliable.

On the annual audits, there is a volume element. We are auditing more than 200 sets of accounts. We are appointing six firms and a significant number of Audit Scotland colleagues to audit individual public bodies. We are applying the learning that we get from one round of quality findings to the next. Having said that, there is always the possibility that an audit does not meet the required standard for whatever reason. You see that either through a documentation issue in which an auditor has not kept on their files the evidence with which they are making a judgment, or, more fundamentally, through their issuing an opinion that is unsound.

We are not in that latter category. That also gives me assurance that, although there is some

variability, the underpinnings through the audit quality framework are right, that there is follow-up in terms of root-cause analysis, sharing good practice and learning where things have not gone right, and that we follow through and track the recommendations in the action plans.

Vicki Bibby: To add to that, the executive team and the boards get the update report that Stephen Boyle referred to. We have already had the update report from the executive director of innovation and quality that the root causes of where the scores of 3 were identified this year have already been addressed in our audit approach.

Richard Leonard: The report says that there are examples of insufficient “challenge of management”. That has not affected the outcome of the assurance around the audit; it is just a methodology thing. Is that what is being said there?

Stephen Boyle: I will pass that over to Alan Alexander in a moment. It is important to say that there was insufficient evidence on the file. This is what ICAEW will be making its assessment of, as will our in-house quality team. A mantra is drilled into auditors: if it is not on the file, it did not happen. There has to be rigorous record keeping.

As we have heard, for a variety of reasons, that did not always happen in every audit. Often, when cold reviewers come in at a later stage, they say, “Okay, I can understand why you’ve made that judgment and have accepted it, and you might have documented that you took assurance from management or that you challenged them, but I cannot see the evidence of that on the file.” If that evidence is not there, that calls into question whether management assurances should have been adequately relied on.

The regulatory regime for auditors and accountants in the UK is strengthening. Although we do not yet have a transition from the Financial Reporting Council to the new planned regulator—the audit, reporting and governance authority—it is clear that the Financial Reporting Council is placing more emphasis on auditors’ reliance on other experts, whether they are management experts or auditor experts. That is absolutely central to the disclosure in balance sheets of non-current assets, fixed assets, equipment and so on, because the regulator, through the FRC, wants more evidence on how assets are being valued and on their ownership. That must play through to the work of auditors.

I hope that I have reassured the commission that we take the issue seriously and that we are responding to it through training and development, because I know that the firms that we appoint will want that level of evidence on their files before

they certify their accounts. It is a complex and moving environment.

I will bring in Alan Alexander to say a bit about how our board is dealing with the issue.

Professor Alexander: It is a sensitive and complex issue for an independent board. I am quasi-religious about the distinction between governance and management. We are there to provide good governance and scrutiny.

When I became the chair of the board in April 2020, I said to the then chief operating officer and the then Auditor General that I had one requirement: I wanted no surprises. Even if I would not be getting involved in an issue because it was a management matter, I wanted to know about it.

The first call that I got was about an unexpected drop in audit quality. My first question was, “What are we going to do about it?” One of the things that we did was to improve the quality and detail of reporting to the board so that, if the trajectory was not right, we could intervene at any point. The papers that the board gets are much more multitextured than they were in my first 18 months on the board. That allows us not only to say, “That’s not good enough”—I am being brief deliberately—but to say, “These are the areas that we think you should be spending more energy on.”

The result of that is that the board is now happier about the quality of public audit and the trajectory. We have managed to maintain a pretty impermeable Chinese wall between the audit quality and appointments team and the rest of the organisation, and the ICAEW is doing absolutely independent reviews. That has given the board confidence that the information is good and, therefore, confidence about any interventions that might wish to be made in areas that need closer attention.

I am content that the quality of public audit in Scotland is now at a generally higher level than it was at four years ago, but, like anything that we assess in this way, the last bits of improvement are always the most difficult to accomplish. The board is on the case, but it is very careful to not get into the nitty-gritty. One of the things that gives us confidence in that regard is the fact that there are two levels of independent scrutiny of our quality.

Richard Leonard: Thank you very much.

The Chair: As there are no other questions from members, I will bring the meeting to a close. In doing so, I acknowledge that this is the last meeting that Professor Alan Alexander will attend as chair of the board. I thank him for his significant contribution over a number of years.

Professor Alexander: That is very generous of you, but you do not get rid of me that easily—I will

be here on 30 September, albeit not in a formal meeting of the commission. It has been an honour and a pleasure to do this job. One of the impressive things for me is that, even at my great age and experience, I have learned a lot of things over the past four years that I wish that I had known when I was trying to improve the management of local authorities 25 or 30 years ago. Thank you very much.

The Chair: Thank you.

Meeting closed at 12:25.

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