



**OFFICIAL REPORT**  
**AITHISG OIFIGEIL**

# Meeting of the Commission

**Monday 23 June 2025**

**Session 6**



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Pàrlamaid na h-Alba

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**Monday 23 June 2025**

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**MEETING OF THE COMMISSION**

**1<sup>st</sup> Meeting 2025, Session 6**

**COMMITTEE MEMBERS**

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

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

- Vicki Bibby (Audit Scotland)
- Stephen Boyle (Auditor General for Scotland)
- Colin Crosby (Audit Scotland)
- Stuart Dennis (Audit Scotland)
- David Jeffcoat (Alexander Sloan)
- Owen Smith (Audit Scotland)

**LOCATION**

The James Clerk Maxwell Room (CR4)



# Scottish Parliament

## Meeting of the Commission

*Monday 23 June 2025*

*[The Chair opened the meeting at 10:00]*

### **Audit Scotland Annual Report and Accounts for the year to 31 March 2025 and Auditor's Report on the Accounts**

**The Chair (Colin Beattie):** Good morning, everyone. Welcome to the first meeting in 2025 of the Scottish Commission for Public Audit. We have received apologies from Daniel Johnson.

The first agenda item is to take evidence on Audit Scotland's annual report and accounts for the year to 31 March 2025, as well the auditor's report on the accounts. Members can find copies of those documents, as well as a management letter from Alexander Sloan LLP, in paper 1 of the meeting papers.

From Audit Scotland, I welcome Colin Crosby, who is the chair of the board; Stephen Boyle, who is the Auditor General for Scotland; Vicki Bibby, who is the chief operating officer; and Stuart Dennis, who is the corporate finance manager. I understand that this is the last meeting of the commission that Stuart Dennis will attend as he is due to retire soon. I express the commission's thanks to him for his work over the years, and wish him a long and happy retirement.

I invite Colin Crosby and the Auditor General to make short introductory statements.

**Colin Crosby (Audit Scotland):** Thank you, chair, and good morning, all. For public audit to deliver on behalf of Scotland's people, it must have impact. That is a priority for Audit Scotland's board and leadership, and it is an area on which we focus in this annual report.

Audit's impact is always important but especially so now. All of us here today are well versed in the significant pressures across public services and the effects of those on individuals and communities.

We aim to achieve impact on what we do, from our audits of individual financial statements to our reviews of national programmes, policies and projects. As is natural, there can be a tendency to focus on the issues or problems that we find and perhaps to think that that is the only way that audit has impact. However, the rigour of audit and the

independent assurance that it provides are crucial for all public bodies.

For the vast majority of public audits, we issue an unqualified opinion. Those two words speak volumes about the work that public bodies do to ensure that their processes and finances are in shape, the robustness of the audit and, most important, the confidence that that gives public bodies and the people who use and rely on services.

In the report, we draw attention to the many ways in which audit has added value and aided public services at an individual, local and national level. All that is central to us driving our vision that public money is well spent to meet the needs of Scotland's people. That feels more important now than ever before.

The role of my board is to challenge, oversee and support Audit Scotland in achieving that goal. This has been my first year in post, and I want to thank my fellow board members for their support and Audit Scotland's excellent and diligent executive team. I also want to thank Audit Scotland's staff. Their hard-working commitment to quality and independence is at the heart of our ability to provide assurance and drive improvement—in other words, our ability to have impact.

**Stephen Boyle (Auditor General for Scotland):** Good morning. Colin Crosby has quite rightly spoken about the importance of our impact. Our annual report and accounts contain examples of the many and different ways in which our work has a beneficial impact and of how we are supporting and improving public service reform. Those will continue to remain part of our priorities in the years to come.

However, for us to achieve our priorities and to serve the people and communities of Scotland, we need first to make sure as an organisation that we are effective, efficient and resilient. We are not exempt from the pressures of public service, nor from the need to show prudent financial management and good stewardship as an organisation. Again, like other bodies, we also need to make important changes and advances in how we are delivering our work.

During 2024-25, we continued to recover the timeliness of audit delivery, with 55 per cent of our audits delivered by target dates and the vast majority of the remainder delivered shortly thereafter. Our phased delivery programme is on track. We expect to meet our goal of 72 per cent in 2025-26 and to reach our ultimate expected standards during the next three years.

As with all public bodies, we remain in a tight financial environment and, quite rightly, we must demonstrate prudence in our use of public money.

In 2024-25, we achieved a £100,000 operating underspend while investing in the changes that we need to make. We also implemented our new people strategy, which is a key plank of our approach towards our target operating model for delivering quality and relevant audit work now and in years to come.

With the commission's support, we made good progress in our audit modernisation project. As we have discussed with the commission before, that is crucial to our ability to do the job that Scotland needs us to do, maximising our capabilities, capacity and potential. Aligned with that, we are beginning to look at the future shape of public audit in Scotland, and we are well under way with strengthening our resource and performance management.

I, too, would like to record my thanks to my colleagues on the board and our executive team for their work. More widely, I thank all Audit Scotland's employees for their hard work, expertise and unquestionable commitment to delivering public audit.

The four of us will do our utmost to answer the commission's questions this morning.

**The Chair:** Thank you for those statements. We will now move to questions.

I will start with a question on Audit Scotland's resource outturn for 2024-25. The table on page 28 of the annual report shows that Audit Scotland's total operating expenditure was underspent in 2024-25 by £1.96 million against its 2024-25 budget proposal of £13.589 million. Page 3 states:

"Year-end pension scheme adjustments accounted for £1.7 million of the underspend"

and that £0.2 million related to international financial reporting standards 16 lease capital, giving an operational underspend of £100,000.

The report also says that people costs were underspent by £569,000. It states on page 29 that that is mainly due to preparing for the planned increase in vacancy target from 2 to 5 per cent.

Will you give us more detail on the separate factors that have contributed to the reported underspend?

**Stephen Boyle:** I will start, before passing over to Vicki Bibby, and I am sure that Stuart Dennis will want to come in after her.

You have quite rightly homed in on the key drivers of the financial performance of Audit Scotland for 2024-25. First, on pensions, the commission will be familiar that that remains a volatile area of financial reporting, given that it has felt for many years as if there have been swings in

whether the pension scheme has been in a surplus or deficit position.

We now seem to be in a phase—I hesitate to call it an era—of pension surpluses. What we are reflecting in our accounts is by virtue of our membership of the local government pension scheme. Other than a small handful of staff—I am one of them—who are members of the civil service pension scheme, Audit Scotland is an admitted body to the local government pension scheme. A range of factors—Stuart Dennis can cover some of this in detail, if he wishes—is producing surpluses in the pension scheme, but that is being driven by the return levels on Government gilts.

I will pass over to Vicki Bibby to say a bit more about our staffing costs. Staff expertise, which I mentioned in my opening statement, is how we deliver our work. I am sure that Vicki will want to cover how we are progressing with the vacancy management factor. As we discussed with the commission when you considered our budget proposal in December, reaching our target of 5 per cent is one of our risks as an organisation.

The other more significant factor in relation to our overall costs and our position are the fees that we pay audit firms for the delivery of audit work. You are seeing two factors in our resource outturn. One is additional audit fees that we have paid for delivery of audit work, but you are also seeing a largely compensating contra entry of additional income that Audit Scotland has received for the delivery of audit work.

I hope that that is a helpful scene setter.

**The Chair:** Before others come in, I have a question. If there was no credit from pensions, what would be the underlying status?

**Stephen Boyle:** If we strip out that question from the others, I will bring in Stuart Dennis to respond to that.

**Stuart Dennis (Audit Scotland):** If we did not have the pensions element, the operating outturn would be, as we say in the report and as the Auditor General said, £100,000.

The capital saving on leases is a non-cash item—that relates to an area in which we have not had to purchase outright the lease element, such as for car leases. That is not, in effect, on the operating side of things. Our operating underspend, if we took out pensions, would be £100,000.

**Vicki Bibby (Audit Scotland):** Good morning. Building on that, I want to add that we have quite robust budget monitoring procedures throughout the year with the executive team and the board, and we focus on the operating position. There will be year-end adjustments because of pensions and leases, but, for us, the critical part in the statutory

obligations is the operating outturn. We are pleased that we were so close to our break-even target.

We look at a number of factors. Workforce is our biggest cost, so we have to closely monitor that. In 2024-25, our workforce vacancy factor, which was 2 per cent, ended up being 3.7 per cent. This is about our ensuring that we maximise the workforce in place in order to deliver, while meeting the budget pressures that we have coming up.

We now have a 5 per cent vacancy factor. From the moment that our budget was agreed in December 2024, we started a recruitment board approach to slow down recruitment. I think that we see the vacancy factor creep up towards the end of the year in anticipation of the 2025-26 budget and meeting the 5 per cent target that we agreed with you.

We said in our budget process that there is a fine balance between our recovery, our delivery and audit quality, and our budget pressures. We have, as you know, a contingency in our budget. That was used to pay for some of the work that we undertook in our offices in West Port and in Nelson Mandela Place in Glasgow. For that, we made a revenue-to-capital transfer. We have had additional costs associated with using project management expertise and staff for short-term projects. As you know, we have strategic performance improvement projects.

We have to balance all that, with close monitoring of our staff costs against budget, to deliver on our targets. We will probably get into a lot of detail on some of those points, but it is the operating outcome that we look at.

**The Chair:** How is the need to manage the vacancy target to help achieve your budget impacting on the operation of Audit Scotland?

**Stephen Boyle:** The issues are connected, and we are closely managing the situation. Vicki Bibby mentioned this, and I think that we discussed it with the commission when we looked at our budget proposal. We have spent maybe two or three years discussing the vacancy factor with the commission, referencing the Scottish Parliament's own vacancy factor and seeking to align our arrangements more closely with those of the Parliament.

With the adoption of a higher vacancy management factor, one of the main mechanisms that we brought into our internal governance arrangements is the recruitment board. When a vacancy arises in Audit Scotland, colleagues are required to prepare a submission that effectively says, "We would like to fill this post". The board looks particularly carefully at any vacancy that is over and above establishment.

10:15

On whether that is impacting directly on delivery, I do not think we have evidence to suggest that it is causing our performance to deteriorate. In fact, if anything, as I think that I mentioned in my opening remarks, our delivery performance is improving as part of our planned phased recovery. We acknowledge—I am very happy to get into more detail on this—that we are not quite where we want to be yet, but we are following the trajectory that we set ourselves to return to delivery deadlines. However, we have to be very careful. We have some specialist posts in Audit Scotland and some that are hard to fill, and we need to be careful that our governance fits with our delivery requirements. We consider that, as an executive team, day in, day out.

**The Chair:** You said that managing the vacancy levels has no impact on operational efficiency and so on. Does that imply that you do not actually need these extra bodies, to ask an obvious question?

**Stephen Boyle:** No, I do not think that it does imply that. As with all organisations in the public sector, we use our resources very carefully. In my role as Auditor General, I regularly talk about the need for public services to reform in order to support fiscal sustainability, and the same applies to Audit Scotland. Something may have been appropriate in years gone by in terms of the budget settlement, but we have to keep asking ourselves, "Is that post still necessary?" As I touched on, we have produced a new workforce strategy. We are still thinking carefully about our target operating model. We know that the skills and roles of today will not match exactly with what will be needed to deliver public audit in years to come. As we adopt new technology and approaches to artificial intelligence, what is required of public audit will evolve. We are right in the centre of that space at the moment. That is why we keep evaluating, as people change and as new people join the organisation, whether we still need particular posts. We are taking a careful approach.

Colin Crosby might want to say a bit more about that, because he gives us similar challenge through the audit committee and the board.

**Colin Crosby:** I do not know that I really do want to add anything. The real point here is that, as was reported on, of the pieces of work that have been done, something like 92 per cent of them have been done within the year. Barring 8 per cent, for which there are reasons, the vast majority of work in Audit Scotland has been done in the course of the year.

Quite what our establishment will need to be and what skills will be needed going forward is

subjected to great scrutiny by the audit committee and by the board in general. There is no doubt that what I will call advanced automation/AI will have an impact on that. As you know, part of our establishment has been devoted to implementing new systems, all of which gives a fluidity. I would guess that that relates to 10 per cent of the numbers employed. There is a core that has to deliver, but there is scope to move things around to accommodate different work flows at different times.

**Richard Leonard (Central Scotland) (Lab):** Good morning. I want to continue to look at your “year in figures” table and turn attention to the fees and expenses that are paid to external firms. You have, for a long time, operated a mixed-market approach to public audit in Scotland, so you outsource about a third of public audits to be carried out by private companies. We approved a budget for the last financial year of £7.7 million, but the table shows that the actual spend was almost £9.5 million. That is a rise of 21 per cent in one year, compared to the budget. Can you explain that?

**Stephen Boyle:** Yes, I am happy to start and I will bring in Vicki Bibby to give you a bit more detail, Mr Leonard.

As I mentioned in my opening answer to the chair, there is a contra set of circumstances for the additional expenditure on firms, with additional income. That largely reflects the fact that some extra work had to be undertaken by auditors to give assurance to the bodies that they were auditing, and ultimately to the Parliament, on the information that was presented in those public bodies’ annual reports and accounts. Before I pass on to Vicki Bibby to take the commission through that, the point that I will make is that that is not the norm. As has been touched on in relation to some of the timescales, the majority of audits are delivered to the timescales that the Accounts Commission and I set for auditors and public bodies. Most accounts are laid within the statutory deadline, but there are some examples—including some quite big examples—of a few public bodies where a degree of additional audit work had to be undertaken so that the auditor could satisfy themselves and give an opinion on the financial statements, which is the work that they are charged with doing. In all cases, that comes with a cost.

For balance, I should add that it is not only firms that are charging additional audit fees. Some of the in-house Audit Scotland teams are also charging public bodies additional fees—I have touched on the broad circumstances of audited bodies not being ready. I think that it would be helpful for the commission to hear directly from

Vicki Bibby on how we are tackling that and how we monitor as it as an organisation.

**Vicki Bibby:** There are two factors in this. One is that, because of our recovery deadlines, we will see more than one year’s audit-related income and expenditure in one year. Some significant examples from the earlier years are still about catch-up, and that is reflected. That has been a recurring theme.

The other factor is the additional work that is required. As the Auditor General just said, there have been some significant cases in that regard. Audit Scotland has been very proactive in this space. We recognise that this is public money, so we need to be absolutely sure that we have robust processes around the additional fees. Under our process and approach, and in the contract that we have in place, it is the auditor and the audited body that agree the final fees. It is for the auditor to assure themselves that they have done the necessary work to be able to sign off on the accounts.

Audit Scotland has a framework and a process in place, and there are trigger points whereby, if it is looking like there will be additional fees as a result of the additional work that is required, the auditor will be in touch with our audit quality team and then me about the additional fees that they need to charge. We do not agree them, but we give agreement that the auditor can have those discussions. Ultimately, however, it is the audited body and the auditor that will agree the fees. All the additional fees will have been agreed with the body.

We are trying to support the process further. The team has written out to audited bodies highlighting what they need to have to be prepared, what is included in the core fees and what increase they can expect as a result of changing audit standards. We stress that a successful and efficient audit is based on a good partnership between the audited body and the auditor, and that they need to have a clear discussion about the information that is provided and whether the accounts and the working papers are ready, and then the auditor will do their work on time.

We are closely monitoring what element of additional fees is a result of audited bodies not being ready and what element is a result of additional work being required to provide the audit opinion, maybe due to processes not being in place. There is an increase, but we hope that we will be returning to a more stable position, as the Auditor General said.

**Richard Leonard:** We accept, as a commission, that it is not a fixed-fee model and there is not necessarily a capped regime in place,

but 21 per cent is quite a big variance, is it not? Given the institutional knowledge that exists in Audit Scotland and your familiarity with the mixed-market approach, when we are asked to approve a budget, we expect that to be more or less the same as the actual spend. I hear what you say, Ms Bibby, about particular cases and so on, but as a rule of thumb, I might expect the variance to be 5 per cent or a single-digit variance from the budget, but this is 21 per cent. That is of fairly large magnitude.

My second question is whether, among the six firms, there are particular firms that have charged significantly more in the audit work that they have been doing.

**Stephen Boyle:** I am happy to start on that question—Vicki might want to say another word or two.

First, you are right that it is not a fixed-fee model. The auditors have to carry out the work to satisfy themselves as regulated entities. The audit firms that we appoint are subject to regulation by either the Financial Reporting Council or, in some cases, the Institute of Chartered Accountants of Scotland. The regulators tell them, “You must do this level of work to satisfy yourself before you give an opinion”, and I am quite sure the commission will be familiar with some of the examples of where audit quality has not been delivered to satisfaction. Auditors see that as an absolute top line: they must get the audit work done.

That can vary. For example, in the year in question—and this continues to evolve—we have seen new accounting standards and new auditing standards. Even in Audit Scotland’s own accounts, as Stuart Dennis has already mentioned, lease obligations are a new accounting treatment. That may or may not have been factored in by the auditor and the public body, and it can bring a significant level of additional complexity. Some public bodies, including some of Scotland’s local authorities in particular, have a vast array of assets that they have to disclose and account for. The valuation of public sector assets has been the subject of a lot of debate within public sector accounting. That issue has been a large contributor to some of the additional work that auditors have had to produce.

On whether there is consistency across the piece with audit firms, I have mentioned that there are some firms that are charging audited bodies higher fees. However, what I think is more consistent is the complexity of the public bodies that they are auditing, as opposed to there being an apparent driver within a firm.

I mention for balance that, when it comes to additional fees, the Audit Scotland in-house team

is the second highest of all the providers that the Accounts Commission and I appoint. I do not think that we have evidence here of an attempt at profiteering or a particular approach from one firm. Notwithstanding Vicki’s point that it is not for Audit Scotland to approve the fees—the relationship exists between the audited body and the auditor—across the piece, we are satisfied that there is a sound reason when additional fees have been sought.

**Richard Leonard:** Might you come back next year and share with us another quite big variance in the fees paid, compared to the budget that has been set?

**Stephen Boyle:** I probably will not give you assurances that we will not do that, but I hope that we are on more of a levelling-out path with additional fees. Notwithstanding the points that Colin Crosby made about Audit Scotland recovering our audit deadlines, it is still the case that some of the numbers in these accounts straddle three audit years. There is a degree of variability, complexity, new auditing standards and new accounting standards. I hope that we will get to a point of absorbing that and that we will return to single-digit variation for income and expenditure. I share your point that that is a more reasonable expectation, and it is broadly consistent with our expectations of the phased recovery of audits. By the end of this appointment round, we will move to delivery and largely more of a steady-state environment, notwithstanding the wider variables that continue to exist.

10:30

**Mark Ruskell (Mid Scotland and Fife) (Green):** Good morning. I would like to focus on some of the variances in operating costs. On rent and rates, for 2024-25, you requested 54.4 per cent more than you spent, and you spent only 14 per cent more than you spent in 2023-24. I remember that, last year, you gave the commission some quite granular information about your property costs and your strategy for accommodation. I felt that we had a clear picture of that, but your budget request does not match up with what you have spent. It feels as though that is a trend and that we come back to the same point year after year. I hope that I am not being too unfair, but the figures are quite stark in showing that you do not spend what you ask for. I am trying to understand the reasons for that trend.

**Stephen Boyle:** I will bring in Stuart Dennis to set out the background to why our expenditure on rent and rates has not been entirely what we anticipated it would be. We have been in a phase of evolving our estate, and we have produced an estate strategy. As Vicki Bibby touched on, we have now completed the investment that we

wanted to make in our Edinburgh and Glasgow offices. Those offices are now fit for purpose and better reflect the working requirements for our board, the Accounts Commission and, more importantly, our people. We now have some stability in our corporate estate, and, although this might not be reflected entirely in the annual report and accounts, we also want stability in the costs behind that.

I will bring in Stuart Dennis to set out some of the details.

**Stuart Dennis:** The rates figure increased from the previous year because the rates relief finished. The business rates relief that we had in 2023-24 did not exist in 2024-25, which is part of the reason for the increase. In relation to another element of the budget, our assumption was that there would be a reduction in relation to Edinburgh earlier than was the case. The work was not finished until the end of November. However, for 2025-26, our rates have dropped right down to our expectation levels, so we are quite confident that we are now in a good place to deliver the savings that we highlighted to the commission as part of our strategy.

**Mark Ruskell:** In relation to your budget request for next year, do you have certainty on the development of your properties and on potential rates?

**Stuart Dennis:** Yes.

**Mark Ruskell:** Will you be able to give a degree of certainty that you were not able to give last year?

**Stuart Dennis:** That is right. The work has now been done. We have been in contact with the valuation joint board to get the adjusted rates figures. For 2025-26 onwards, we are confident that we know the actual figures for our office leases.

**Mark Ruskell:** There will probably be no surprises next year.

**Stuart Dennis:** Yes.

**Stephen Boyle:** As Stuart Dennis said, we expect there to be more predictability in our costs and in our budget requests when we come to the commission at the end of the year.

**Mark Ruskell:** On a related point, your other accommodation costs for last year were 21 per cent over budget, so you clearly did not anticipate those costs. Can you explain what those costs were and why there was a significant increase?

**Stuart Dennis:** The costs increased from the previous year because we had minor building work done. Our office in Edinburgh was not a capital project like our Glasgow office was. A minor wall was put up to split the office, so we now have

reduced space in Edinburgh. The increase from the previous year covered the cost of that minor building work, which was finished in November.

**Mark Ruskell:** That was £127,000.

**Stuart Dennis:** Yes, that is correct.

**Mark Ruskell:** I was going to call it snagging work, but £127,000 is quite a lot. You do not anticipate a major piece of work being required. You are happy with your accommodation.

**Stephen Boyle:** We are happy with our accommodation. As I mentioned, we are grateful for the support that the SCPA has given us in reconfiguring our office estate. We have commercial contractual arrangements with the landlord, and we expect that we will remain in the building or have a footprint in it for many years to come. We do not anticipate any further works being required in the near future.

**Mark Ruskell:** I feel as though there is a similar picture with travel and subsistence costs, in that further explanation is perhaps needed. Those costs amounted to £280,000, which was 69 per cent under budget. That is quite a significant underspend. Again, it feels as though there is a bit of a trend. In relation to what your expenditure will probably look like in the year ahead, I am trying to understand why you requested quite a big budget that was then underspent.

The wider context is that, later in the meeting, we will come on to areas in which you are overspending. The overall budget seems to have quite a lot of flex in relation to underspends and overspends, but what you requested for travel and subsistence costs was clearly not what was needed. What was the story behind travel and subsistence? Again, it felt as though we had quite a clear understanding of where you were going in that regard last year. The return to in-person meetings and audit work was quite tentative, so I am interested in the story behind the figures.

**Stephen Boyle:** I am very happy to start, but Vicki Bibby might want to say a word or two on the issue, too.

I echo the word that you used—the return feels tentative. We set the budget that we are talking about in the summer of 2023. It was scrutinised within Audit Scotland, and the SCPA then considered our budget request in December 2023. Although we have more stability now, our organisation, perhaps like many others, was settling into a pattern of hybrid working. As you mentioned, it is true that audit teams have much more in-person, face-to-face engagement with audited bodies than they would have had two and a half or three years ago.

I would like to say that the travel and subsistence budget that we will present to the

SCPA next year will be borne out by reality, but there are many variables. We can do business effectively remotely, so we do not say to teams, "That particular meeting has to take place face to face." Team members have discretion in how they deliver their audits, although some meetings have to take place face to face in order to get the right evidence and so on.

We hope that we will move to more predictable budgets for travel and subsistence in the years to come, but we are not quite there yet. Another variable relates to the point that, over the course of an audit appointment round, an auditor's familiarity with an audited body, and vice versa, builds up. Initial investment in establishing relationships and so on takes place in the early years, and that might lead to more variability towards the end of an appointment round.

Vicki Bibby will have a take on that, too.

**Mark Ruskell:** Before Vicki Bibby comes in, I am interested in the extent to which you can predict that. Is there much variation between teams in the organisation? Some teams might like to meet in person all the time and will, therefore, need quite a large budget. Is there discretion in that regard? Do you budget for everybody meeting everybody all the time, with cost savings being made if teams prefer to meet online?

It feels as though it is difficult to pin down these costs. You were 69 per cent under budget last year and 83 per cent under budget the year before that. It feels as though Audit Scotland does not have a handbook or expectation in relation to how to deal with the matter. Is it about early engagement with new organisations that you will have a relationship with? When does that engagement tail off? What are the expectations for in-person meetings and online meetings? Do you maximise the budget by assuming that there will be in-person meetings all the time and think, "If we spend 69 per cent less than the budget, who cares?" I am sorry to seem a bit flippant, but that is what it looks like from the outside.

**Stephen Boyle:** Let me address that. We are not budgeting with a lack of thought. Our budget requests reflect our experience in the previous year and the trends. The travel and subsistence budget has changed dramatically. Five years ago, almost everybody worked face to face every day of the week, and there were considerable transport—mostly car—costs. How we deliver our audit work has absolutely changed, and we are not going to go back to the models that we used in years gone by.

We are about 12 months away from having reliable predictability in what this budget line will be from one year to the next. By that point, we will not be far away from entering a new appointment

round. It is not quite the case that we will be throwing the cards up in the air again, but, as I touched on, there will be variability as we move into that round.

I am sure that Vicki Bibby will say more on this, but I assure the commission that we look at the issue closely and carefully. We consider year-on-year trends and what happened in previous years to come up with a budget that looks reasonable and realistic, and we will continue to do that.

**Vicki Bibby:** Let me reassure you that we have in place robust procedures for budget setting and monitoring. We set the budget for 2024-25 between the middle and the end of 2023, when things were less predictable than they are now. I do not want to revisit the building costs, but, at that time, we used estimates, and we now know our full costs, so there is stability in that regard.

On the travel and subsistence budget, it is about finding the appropriate sweet spot. There is guidance for staff on the time that should be spent in the office, with clients and working from home. We are looking at how we balance that with our green agenda, which involves minimising our carbon output, and with the need to provide quality audits. It is important that there is sometimes face-to-face interaction to ensure that we have client sight.

However, it is not just about the clients. We are in a world where, as a training provider, we believe that it is vital that, in particular, graduates and school leavers who come into the organisation see people face to face. On travel, we need to find a balance so that we bring people together not just to deliver what we need to deliver now but to ensure that we have the right talent pool, skills and training. Particularly on the financial side of audit, teams come together face to face much more than might be the case for those involved in performance audit over a long period.

In relation to how we monitor the budget, we do not budget for everybody coming in and then hope for the best. We have assumptions that are closely monitored. As you will see from our approach to budget setting next year compared with that in previous years, the world has stabilised since 2023. I assure the commission that a robust process is in place.

10:45

**Mark Ruskell:** You expect to see that stability coming through in next year's figures. In effect, those decisions have already been made.

**Vicki Bibby:** Yes.

**Mark Ruskell:** Thank you.

**Jamie Greene (West Scotland) (LD):** Good morning. Continuing with this conversation, I note that the panel has talked once or twice about very “robust” budget-setting processes. I might take a slightly different line, based on the table that I have in front of me.

Among the things that concern me most is the high degree of variance between what you have budgeted for and what you have spent in quite a wide range of lines in the budget table that I am looking at. We are not talking about a small margin, either; I appreciate that there is a realm of acceptability when it comes to budget variance, but the numbers vary quite wildly. I will get into a few of them in a moment, but in many, the variance is over the 50 per cent mark. Please do not take this the wrong way, but in what way does that represent a good budgeting process?

**Stephen Boyle:** This is where we arrive at the range of variables that, as you know, Audit Scotland has to deal with. Indeed, we have already talked with Mr Leonard about audit delivery and audit fees. Although the territory that we are in is not as stable as we would want it to be—or as stable as we expect it to be—it is where we are when we have to deal with variables as significant as some that are related to audit expenditure and audit fees. As I have mentioned, some of that will be related to overhead and additional work that has had to be undertaken to deliver our audit.

Because Audit Scotland cannot hold reserves, we have to be careful that we do not exceed our budget allocation. We have not done so, Mr Greene, albeit with a pretty slim underspend of £100,000. If you had asked me at the start of the year where we wanted to be, I would have said that we would not want our spend to be too high, and we would certainly not want to be over our expenditure limit. Therefore, £100,000 feels like quite a successful overall outturn.

However, I accept your point. Between the lines of the more granular detail in our budget, there are some swings; indeed, we have just talked about one of those with Mr Ruskell. The fact is that we are not able to be absolutely certain about all of our budget lines, simply because of how we are tasked with delivering our work.

With conditions in the external environment evolving, we think that, in the budgets that we will produce and bring to the commission at the end of this year, and then 12 months thereafter, we will be in a more stable and predictable pattern when it comes to making budget requests. Our biggest priority, though, is managing the budget across the piece and not exceeding the lines. I am happy to share with you some more detail and background about specific budgets that might be of interest or concern.

**Jamie Greene:** That suggests to me that you are looking at the overall number as the centrifugal point of your budget processes. In other words, you seem to be saying, “Let’s make sure the overall number is there, or thereabouts, so the commission doesn’t come back to us and say ‘There’s been a wild underspend or overspend.’” That is fine, but it relies on some budgets naturally coming way under so that you can go way over on others. Indeed, the numbers reflect that.

On the one hand, your total operating expenditure is considerably higher than was budgeted for, while on the other you have had an underspend in people. Perhaps that is just a matter of luck, rather than something planned. If you had spent what you said that you were going to spend on people, you would have been wildly over on opex.

Is it good enough simply to rest on the top-level number? It is important that we do drill into some of these lines.

**Stephen Boyle:** I agree and absolutely accept that. Alongside the commission’s scrutiny, we are exploring the detail of this organisationally through our audit committee, our board and absolutely through our monthly reporting to the executive team, and we are looking at why we have such variances—some over and some under—against our budget.

I would not characterise this as an either/or, though. As I have mentioned, we as an organisation have to deliver a budget surplus, but we are also looking at the detail behind individual budgets.

I have said—and I am happy to say more about it—that some of the variables that we are dealing with as an organisation are driving some of the variances that you are seeing in performance against budget. Having set this budget and engaged with the commission on it at the tail end of 2023, we now—fast forwarding to the completion of these sets of accounts—have what are effectively three audit years reflected in the results. There is, I know, always a degree of difficulty in marrying up a financial year with an audit year, and when we multiply that by three, it gives us some of the challenges that are set out in today’s numbers.

We are, of course, satisfied that we have produced an underspend, but we anticipate that, perhaps 12 months from now, we will be able to share with the commission a more predictable and stable performance against some of those individual budget lines.

**Jamie Greene:** That was useful.

Another thing that jumps out at me is that, when you look at the year-on-year variance in what you

have spent across two budget years, the margins of variance are a lot lower. You have said that you think historical spend—or historical track record—is a good baseline for working out how much you want to come and ask for in future years. Indeed, if you did that, you would probably come out with a better outcome, because what you spent in 2023-24 was, in many lines, not wildly dissimilar to what you spent in 2024-25, while, in 2024-25, there is a wild variance between what you budgeted for and what you spent. Perhaps you could reflect on that. After all, you will be coming to us with future budget proposals, and there will come a point at which the commission will have to take a view on the amount of faith and trust that we can put in them, having seen the huge variance in what we have in front of us. Of course, that is more of a comment than a question.

In the interests of time, I will look quickly at some of the other big variants that jump out. The first is the “Other” line—that wonderful catch-all that is always at the bottom of a budget table. The variance in that line is 80 per cent, with a £457,000 underspend. What did you budget for in the “Other” line and then not spend?

**Stephen Boyle:** Stuart Dennis, do you want to set out the detail of that?

**Stuart Dennis:** To be honest, I do not recognise the figures that you are looking at. In the budget that we did in September 2023 for 2024-25 and then submitted to the commission in December, some of that line would have been about the leasing side of things. When it comes to some of the variances that you might have with a right-of-use asset, you might, in respect of property, have a higher budget, but the actual cost will have dropped down into the “Depreciation” budget line. The budget that was submitted to the commission in December 2024 made an adjustment to reflect that change in accounting treatment. I am a lot more confident with regard to the 2025-26 budget; as you have rightly said, Mr Greene, using the actuals from the previous year will reflect our position and where we are at much more.

As for the variance in the “Other” line, my guess is that that was where the £500,000 contingency was originally budgeted, and that money has been distributed to cover the capital needed for the Glasgow work. We have also allocated some for work on the Edinburgh office and some audit modernisation. That is where you will see the variances. The £500,000 budget is still there, but we have moved it around in year to cover certain requirements, as we reported to the commission in December when we submitted our 2025-26 budget.

**Jamie Greene:** I can work only with what I have in front of me, and the summary does not go into much detail.

You are right that the approved budget in the “Other” line was £578,000, while the actual spend was £121,000. As you have said, that could be because you have, in year, been able to distribute some of that money elsewhere, but it is quite hard to follow that.

On the obverse, the approved depreciation budget was £430,000, but according to the table, the spend turned out to be nearly £1 million, or 126 per cent over. Again, is that just a case of money being shifted around?

**Stuart Dennis:** Yes, it reflects the shift from the “Rent and rates” line that we talked about earlier. That budget has been moved to reflect the accounting treatment for a lease, where you depreciate the lease over its term, not on the basis of annual rental. When the budget was set, it would have been in the “Rent and rates” line, but we adjusted it to bring it into the “Depreciation” line. You will see that in the 2025-26 budget, which the commission approved, and it will all even itself out going forward. It just reflects the accounting treatment that we needed to adopt there.

**Jamie Greene:** When this budget was approved, was that change not already known about? The budget would have been approved, based on that information at the time, yet there is still this huge variance.

**Stuart Dennis:** The change would not have been known about at that time, because that was in September 2023, and we were still in the early stages of adjusting the budget to reflect this in the accounting treatment. As the Auditor General has mentioned, the experience on the audit side is that this difficult standard is being on-boarded across the whole of the public sector and its treatment in central Government budget funding streams is completely different. We have been trying to get it right, and we are confident that we have done so in the 2025-26 budget and going forward. The budget paper for 2025-26 has been adjusted to reflect what we had to do in 2024-25 to cover that budget adjustment.

**Jamie Greene:** Thank you very much for that explanation.

I turn to Vicki Bibby with a question about the IT budget, which the report flags up as having produced another quite big variance between what you asked for and what was spent. It says that the approved budget for IT was about £500,000, but at the end of the year the spend was sitting at more than £800,000, which was a 47 per cent jump. How did that variance come about?

**Vicki Bibby:** I might bring in Stuart Dennis on the detail, but first I point out that our IT budget contains figures for our cybersecurity work and also the purchase of new laptops for our staff, in

line with our rollout programme. That purchase will be subject to depreciation. We regularly need to increase our investment in cybersecurity, because cyberattack presents a huge risk. As will be the case for most public sector bodies, it is the highest risk on our risk register, which is why we are increasing our investment in that area. We brought forward parts of our laptop rollout programme to reflect the increased risks.

I am happy to bring in Stuart Dennis on the accounting treatment of those aspects.

**Stephen Boyle:** Could I come in first? Vicki Bibby is quite right to say that, with regard to cyber risks in particular, we need to invest in IT to safeguard our organisation by managing such risks across a couple of budgets. I will not mention individual organisations, but there have been high-profile instances where debilitating cyberattacks have happened in the public sector in Scotland; indeed, large commercial entities have been subject to them, too.

We have an excellent team who are incredibly diligent about keeping us safe. Our organisation is subject to attempts to access our information through malicious actors. We are making sure that we invest in the right technology, including security patches. From time to time that will require us to go beyond the budget. We are looking to manage risks across the piece so that we keep the organisation safe. Cyberattack remains among the top two risks on our risk register, so we are proactive about making sure that we have our IT right. If we have any more detail on that, we will be happy to get into it.

**Jamie Greene:** The added element of risk for you is that not only do you hold your own organisation's data but you deal with large amounts of data from other public sector organisations. Presumably, some of that data is quite sensitive. Will you give us an idea of the scale of the issue? How frequently do such attacks happen?

11:00

**Stephen Boyle:** We can perhaps come back to you in writing on the specifics of that. However, anecdotally, I can say that barely a fortnight goes by without our digital colleagues issuing an update about an attempt having been made and stressing the need for effective interventions. We have to keep our organisation running and make sure that our people are appropriately trained. Forgive me—I have lost track of the phrase that is used, but it is to the effect that, as individuals, we are all our own weakest points. Clicking on a link or not paying due regard to where we send an email is often the route through which a malicious actor can get into an organisation.

Although we are not talking specifically about the L and D budget here, that is another factor. We have to make sure that we have the right training. We have mandatory training for our colleagues on preventing cyberattacks, so that we can all continue functioning safely. You quite rightly made the point that it is not just our own information that we deal with; we have access to important, and in some cases sensitive, information from a range of public bodies.

Perhaps Colin Crosby will want to come in on that.

**Colin Crosby:** The board has a role on cybersecurity and IT matters in general. At every board meeting, we are given a digital update about what is going on and what is not happening. If anything, one of the most hawkish groups on cybersecurity is the board, because it is aware of the problems in that area, which are manifest for everybody to see. We are also conscious that, particularly for our people who are carrying out IT auditing and online auditing, everything that they do is online. It is not just their own audit system or internal system that is at risk; our work also involves interacting with the audit systems of the entire Government and our local authorities, so cybersecurity is absolutely key.

I give great credit to our team for achieving ISO 27001—I had to look at my papers to check that number, because I can never remember how many digits it contains. That is the top international standard for cybersecurity, and achieving it is no small task. Frankly, as a board, we would much rather have to spend a bit more cash to achieve it, because we want to be able to demonstrate to the SCPA, and indeed to the outside world, that we are on the case in that respect.

While I still have a red light on my microphone, which allows me to speak, I will come back to Richard Leonard's point about fees. The board knows that additional fees will be charged. We see that coming through in the budget because at every board meeting we get the budget and it is quizzed. However, the board is becoming hawkish about such fees not being charged. The flipside of that is that we become the sponge that has to absorb the additional cost, which we are not prepared to do. Whatever we do, we need to spend the money to do the audit. However, if people are not ready for us, or additional work is required, we should not absorb the cost of that. The board has increasingly taken that standpoint. We think that that is only fair on the audited bodies. At the end of the day, if they are not ready or cannot produce the stuff that is required, they should be the ones to get themselves organised. We accept that if we have not been able to be there, that is our problem and we should absorb

that cost. However, when somebody else's actions are the issue, we will pass the cost on.

**Jamie Greene:** Richard Leonard is welcome to come back in on that point if he wishes.

This is an interesting area. I was under the impression that you have fixed fee rates for external organisations that, if I recall correctly, are subject to reasonably lengthy contracts. The sheer level of the rise in external fees surprised me, though: it is nearly £1.7 million above what was budgeted. Are you saying that that rise has been driven not by understaffing issues in your organisation but by the clients that you manage?

**Colin Crosby:** Yes. To say that it is not about staffing issues within Audit Scotland would not be 100 per cent correct, but there is an interaction there. We have a plan, and the flipside is that the audited bodies themselves all have to have plans. If those merge and mesh perfectly, in an ideal world there would be no additional charge. However, if we are hit by somebody not being ready for audit at the time that they have been told it will happen, inevitably we will see slippage. There will be people to redeploy, and there will be gaps in our schedule, so the costs for the bodies that we visit will inevitably go up. That is not what we want to do, and it is not what the board wants to happen. Equally, though, you would not enjoy a situation where we did not charge and were producing a deficit. You would be asking, "Why do you have this deficit?" That is the flipside of what we are doing. We cannot make a loss or a deficit, which is why the board is hot on making sure that, cumulatively, we manage such situations as best we can.

If we knew the budget—for example, if the budget figures were going to be in the accounts—we could present this year's figures last year, when we were doing the budget. However, a budget is just that, and we know that there will be flex. Our board is at pains to make sure that we do not have to come back to you for additional moneys, because we know that some aspects will be over budget and some will be under.

**Jamie Greene:** There was a 20 per cent jump in what was budgeted versus what was spent on external organisations. That is not within the margin of small error; it is a huge variance.

One aspect missing from the table, on which perhaps other members will comment, concerns the IT issues that we have discussed previously. We have had long conversations about your big plans for upgrades and investments, but I struggled to find those reflected in the budget spend for last year. Is that because you have not spent the money, but the work is coming down the line and we will be hit with a big ask next year, or is that spend in there? I heard what you said about

laptops and cybersecurity issues. By the way, I am all for spending money on cybersecurity—and I am sure that the laptops are lovely—but given what we talked about at previous meetings I was expecting to see lines on major software or infrastructure IT upgrades that would propel you into the future.

**Stephen Boyle:** Vicki Bibby can give you the detail on that. The short answer is that the technology is coming. Our audit modernisation project is progressing well. We have spoken to the commission and, as I mentioned, we are grateful for your interest in and support for our key transformation project. We have also had successful engagement with the National Audit Office on the anticipated adoption of that technology.

As ever, it is important that we get these processes right. It is not just about adopting a piece of IT but about equipping our colleagues with a modified way of auditing. We are also learning from and engaging with the National Audit Office so that we get all the sequencing of that work done properly. That will be a significant feature of our 2025-26 programme and there will be further recorded investment in 2026-27.

That is the high-level story of why the 2024-25 accounts do not include the level of expenditure that we might have anticipated, but I am sure that Vicki Bibby will be able to say more.

**Vicki Bibby:** The position is exactly that. When we brought our 2025-26 budget to the commission in December, there was quite a significant ask around the audit modernisation, which would translate into the procurement of the system. As part of that budget approach, we said that we would try to absorb the internal staff costs through efficiencies, and we highlighted several areas where that was happening. You will absolutely see that coming through but, because of the lag time in the 2025-26 accounts, that is where we are at the moment. The business case for the audit modernisation final sign-off will be in November this year, which is when we will have to start handing out or paying over the cash.

As Stuart Dennis highlighted, this year's budget included project management costs relating to audit modernisation, which we used in our contingency in 2024-25. This is a huge and important investment area. One aspect of it involves moving audit work to a cloud-based approach, which will make things much more secure for us. If I might offer a bit of reassurance on the cybersecurity aspect, as the Auditor General highlighted, we are clear that what we hold on file includes sensitive data that could relate to personal information, which we would not need for audit purposes. In our training we are

clear with our staff that they should be rigorous in their protection of the data that we hold.

**Jamie Greene:** Thank you. I am sure plenty of people would argue about the security of having data in the cloud versus holding it on hard drives in your own office, but that may be a discussion for another day. Thank you, chair.

**The Chair:** I have a few questions but first I ask members whether they have any follow-on questions .

**Mark Ruskell:** I am still struggling to understand where the big transformative IT project is right now. Following Jamie Greene's questions, I am still struggling to see exactly where that spend is in terms of the work with procurement. It feels like it is within the role of existing staff members, as part of their everyday work, to deliver that. Stephen, you said that it is coming, but I am struggling to see how much of it has been delivered already, what phase we are at and where it sits within the budget that was presented for last year's spend.

**Stephen Boyle:** Vicki Bibby might want to set this out in a bit more detail, but it feels as if we are right on the cusp of the project at the moment. We have invested in project management, project governance and engagement with potential providers. In terms of project governance, we are between the outline business case and the final business case. The final business case will come shortly—in the autumn—and that is really about whether we have satisfied ourselves that this is the right step. Then shortly thereafter, we will start to see the spend that has been supported by the SCPA.

We are talking about a further two years thereafter. Of course, it is not just about the IT system and investment, as you rightly point out. It is also about the associated learning and development that we need to provide to our colleagues in order to apply the system to best effect. That will be potentially the hardest bit of the of the project because, as we adopt technology or artificial intelligence, we need to make sure that we ramp up equipping colleagues with the skills and give them the opportunity to ask the right questions and to challenge. We need to ensure that we are ready to apply the system—and, of course, to reap the benefits of that investment over the next four to five years. I hope that that is a helpful synopsis. We are working hard and proactively so that we get the conditions right.

As I have said to the SCPA before, we do not want to be an example of a public body not getting it right on IT investment. We are going through the right project governance on the investment with the Audit Scotland board.

By following that process and those steps, we hope that we will be in a position to engage with a

reliable system that is working well in other organisations. That seems to be the path that we are following. My description would be that we are cautiously optimistic at this stage.

**Vicki Bibby:** To add to that, we are seeing some of the costs coming through. Stuart Dennis will have the exact figures on this, but our professional and legal costs include the costs of two gateway reviews that have been undertaken to provide the governance and project management assurance that we are looking at the right things. That has flowed through the 2024-25 budget.

As we have highlighted, we are doing a shared service with the National Audit Office. That is in procurement and with legal colleagues at the moment. While we do not want to ramp up lots of legal costs, that is in the 2025-26 budget and you will see it coming through in the 2025-26 accounts. The gateway review costs have been included.

The costs predominantly up to this final procurement stage have been in staff time. A large part of our innovation and quality business group's time is spent on developing that and working with the National Audit Office to get us to the contract-ready position, which is planned for November.

11:15

**Colin Crosby:** Mr Ruskell, I can add something to this whole debate. The board is as interested as you are in making sure that the money is spent as quickly as possible. That is not in any way to detract from the caution that is required to make sure that we get this right but, if anything, we are trying to get it to go faster. We are probably on the backs of the team that is providing it asking, "Why can this not go faster?" As a board, we appreciate the significance of the project and the need to do it because we are using 10-year-old technology and we are trying to get a forward look in terms of what we can do. The National Audit Office has been mentioned and we have met with the board to ensure that everybody is aligned, and, from the top to the bottom, that is the case. The board is pushing to make sure that you will see the figures coming through as quickly as possible.

**The Chair:** As I said, I have one or two points for clarification. We have talked about travel and subsistence and, in the past, we have used that as an indicator for remote working on audit. There is a small increase over last year, but substantially it remains a low figure. Can you give an indication of the percentage of audits that are now being done remotely? Has that become embedded in your processes? What are the risks?

**Stephen Boyle:** We do not mandate that any audit should be done remotely or entirely in person. It is important that the right engagement

takes place and that the right judgment is made, and that those are reflected in the discussion between the audited body and the auditor. We expect auditors to have face-to-face or on-site presence when they need to. Most typically, that will involve engagement with the senior team of a public body and its board, council and audit committee, and getting access to evidence and physical verifications when the auditor needs to. I could go on about the range of tasks that are done in person relative to those that are done remotely.

I do not have a reliable percentage to give you on the ratio of offsite to onsite. Some audits lend themselves to having more of an onsite presence than others. Stuart Dennis referred to the complexity of some of the valuations and the lease assets. Auditors will have an onsite presence for that. That goes back to why some of our travel and subsistence costs are variable. We are nudging towards having a stable and predictable figure for travel and subsistence, but I would not say that that drives how we require teams to deliver audit work. They have the autonomy to decide how best to deliver audit work so that it meets our expectations on delivery performance and quality, and so that public bodies get the right experience and benefit from having their audits undertaken either by the firms that we appoint or by an Audit Scotland team.

**The Chair:** So the decision whether to do the audit remotely sits with the team.

**Stephen Boyle:** It is a shared discussion between the audit team and the audited body. The audit team will not unilaterally make that decision. I should be frank with the commission that some public bodies want an onsite audit and some want and are geared up to deliver a remote audit. You will see variable arrangements across Scotland.

The commission today is considering Audit Scotland's annual report and accounts. I should also point out that we have had a remote audit undertaken by Alexander Sloan, which was a positive and successful experience. I do not want to paint a picture that says that one model or the other has to be delivered for an audit to be successful, but on-site and face-to-face engagement matters. It is incumbent on auditors to know the business, and some of that is done face to face in complex circumstances.

**The Chair:** Surely that makes it quite difficult to budget. If ad hoc decisions are being taken by the audit teams, how do you get any accuracy in your budgeting?

**Stephen Boyle:** I would not say that it is universal—certainly, it does not apply across all aspects of our budget. The most significant lines in our budget are staff costs. We are not changing our staffing mix, whether auditing is done onsite or

offsite. It is probably in probably some of our more marginal costs that you will see variability.

Our organisation will not mandate or micromanage how an audit has to be done. I appoint the auditors and, whether the audit is done by a firm or an in-house team, these are relationships and we need to give audit teams discretion. They can adjust and flex their audit approach and the resultant judgments and reports to meet the circumstances of the audited body in front of them.

**The Chair:** Page 29 of the report says:

"Most savings came from staff costs, travel and subsistence."

Vacancy level management is one thing, but it is anticipated that travel and subsistence will also provide savings.

**Stephen Boyle:** But not indefinitely, in terms of savings on travel and subsistence. As we have touched on this morning, we hope that we are getting to a more stable and predictable travel and subsistence budget.

Far more significant is the issue that you started with, chair, which is the vacancy management factor that we apply through our budget. We have talked about that with the commission in relation to our budget proposal specifically. That is a risk to the delivery of the budget. We are tracking that carefully through the recruitment board and through monthly reporting. Our target is 5 per cent and currently, as we are coming towards the end of June, we are at 3.7 per cent. There is a bit of a way to go to make sure that that level of savings is delivered and that we can meet our budget requirements. To reassure you and, I hope, the other members of the commission, we are closely monitoring that.

**The Chair:** Will there be a change to the profile of efficiency savings, given what you say? The savings here of £1.5 million came from staff costs, travel and subsistence. If what you say is correct, going forward, that will become more challenging because you will have to look at other areas.

**Stephen Boyle:** Yes, I agree. That is fair. The context that we have spoken about this morning is about how audits are being delivered, with a number of different audit years all being delivered at once, and then the adoption of new auditing and accounting standards, together with our own investment in IT. I suppose that that is the macro context of how our savings performance will be affected.

Our organisation will change. I refer to the investment that we are making in technology. The application of artificial intelligence or audit automation means that we are looking carefully through our people strategy to what our target

operating model will be in the future. I can assure you that it will look different and that the profile of our savings will be different in years to come. When we present our budget proposal to the commission in December and then certainly 12 months thereafter, you will see a different look and feel to Audit Scotland, and that we are ready for the future and the challenges that we are here to absorb and to deliver. There is probably less evidence of a reliable trend in the line that shows where our savings have been to date. What might come in the future will change.

**The Chair:** I will ask a daft question. Page 21 says:

“We completed changes to our physical workplaces by reducing the size of our Edinburgh office, while creating more space in Glasgow. This will deliver £2.2 million in savings”.

Why not Paisley instead of Glasgow—or Livingston, where it would be even cheaper?

**Stephen Boyle:** It is a balance. Over the years, Audit Scotland has had a bigger footprint. At one point, our west-based office was in East Kilbride rather than Glasgow. We find that we are better able to travel productively and to recruit and retain people where we have a presence in larger cities. Particularly with Glasgow, it has been proven to be the case that we are able to recruit and retain. In particular, as was alluded to earlier, we are a large training provider. As our accounts set out, we have more than 50 trainees at any one point. The feedback that we get from surveys of and engagement with our trainees and prospective hires is that having a footprint in Glasgow and Edinburgh makes Audit Scotland a more attractive organisation to join. We are in competition all the time with other public bodies, firms and commercial organisations to recruit and retain talent.

I am sympathetic to the question that you ask. You are right that we would have a lower estate cost provision if we positioned ourselves outside the two largest population centres. However, we find that the benefits of being in those centres allow us to recruit and retain people who perhaps, to be absolutely frank, are unable or do not want to base themselves in other locations.

**The Chair:** Continuing on some of that trend, I noticed that Audit Scotland is a relatively small body but has five officers who are paid in excess of £100,000, which is the magic figure that people look at these days. Is that disproportionate?

**Stephen Boyle:** That is a question for the board. Colin Crosby will have a perspective on it. You will know that my terms and conditions are set by the Scottish Parliament—I think that you are referring to the other members of the executive team, and Audit Scotland’s board is responsible

for their recruitment and their terms and conditions. We looked carefully at reference points in the terms and conditions of senior people in other parts of the public sector in Scotland and elsewhere in the United Kingdom and came to a view that ours were commensurate with market rates.

I am sure that Colin Crosby will want to reassure the commission of the governance that we have around that.

**Colin Crosby:** The key point, chair, is that the five people who are all paid more than the figure that you mentioned are all professionally qualified, they are all at the top of their game and they are all in positions of significant seniority doing audits. If we compare that to the private sector at a similar level, we believe that we are comparable. The private sector is our biggest pool, either way. We are confident that we have well-qualified people doing important jobs and that they are paid appropriately.

**The Chair:** I am looking at page 49. It is hard to tell how far this affects the five who are at the top, but I see that, in 2023-24, there was an 8 per cent increase in what the highest-paid individual was paid and a 6 per cent increase this past year. However, staff this year got 2.5 per cent. Was there some element of salary compression in there that had to be adjusted?

**Stephen Boyle:** I am happy to explain that, chair. Over the page—on page 50—we refer to the pay settlement. All colleagues were awarded a 4.2 per cent pay award in 2024-25. The report goes on to refer to

“the movement from 2023/24 of the average percentage change for employees”,

which reflects our change in make-up. We have recruited more people at lower grades in the organisation, which slightly skews the percentage change. We are bringing more trainees, modern apprentices and school leavers into the organisation. That affects the ratio that is disclosed in the table.

**The Chair:** I am still looking at staff. Page 51 shows that the turnover rate for staff has continued to increase year on year, from 9.02 per cent in 2022-23, to 9.33 per cent in 2023-24 and to 10.09 per cent in 2024-25. What are the reasons behind that?

11:30

**Stephen Boyle:** Vicki Bibby might want to set this out, but there are many reasons behind that, and some of them are complicated—Vicki can get into that. We are broadly in a stable position now, and I think that it will be a more consistent, longer-term trend.

Historically, as with many parts of the public sector, Audit Scotland has people who have given their entire career to the organisation. Others who join us, especially our trainees, will do their training programme with us, and our expectation is that some of them will go on to have successful careers contributing to public bodies across Scotland or in a commercial setting.

However, the ratio is changing. It is absolutely the expectation that some people will have a career for many years in one organisation—in Audit Scotland—and of course we welcome that. However, for others, we see perhaps a skewing towards their being with us and contributing successfully for a number of years, but then going on to do different things. Vicki Bibby can speak to some of the factors driving that.

**Vicki Bibby:** Turnover has increased over the past couple of years, and as a result of that trend we are carefully looking at the issue. We have discussed it at executive team level and at our remuneration committee. Turnover is healthy for the organisation, and we want a healthy level of turnover, particularly as we are a training provider that, as the Auditor General highlighted, brings in graduates and school leavers. We are doing more modern apprenticeships, which last for a fixed term of two years. We see the level of turnover as quite healthy.

At the other end, the organisation has had some retirements. With our workforce planning and our target operating model, we are going into a greater level of granularity to see where turnover is healthy at each of the points with the different skill sets—whether that is at senior auditor, director or trainee level—and setting an aspirational turnover level to make sure that we have a healthy organisation. We are not concerned about where our turnover is at the moment; what we need to ensure is that there is turnover at the right points, and we are doing that work now.

With training and looking at skills as more AI comes in, we are saying to staff that AI will not necessarily replace jobs but that people will need to be AI ready as part of their job. The target operating model looks at skills, the use of artificial intelligence and our workforce plan at each level.

**The Chair:** How does managing your recurring costs by managing vacancy levels equate with the substantial increase in the cost of temporary staff? That seems like you are saving with one hand and paying out with the other.

**Stephen Boyle:** We will not change the recruitment board arrangements for managing the vacancy factor. That feels like an appropriate step for us in demonstrating our efficiency and allowing us to take stock in this period of change as an organisation.

To varying degrees, temporary staff have always been a feature of how we have delivered our work. We have particular peaks in how we deliver audit work. Almost all public bodies have 31 March as the financial year end, and, as you know, we stagger the audit reporting timescales to an extent, with NHS audits coming by the end of June and councils by September or October time. Only further education colleges are outside that cycle. Squeezing all of that into the midsummer and autumn months means that, at times, we bring in temporary staff.

You also see in some of those numbers the project management skills that we have brought into the organisation for the delivery of a couple of our key projects. One of those is the audit modernisation software project and the other is the implementation of our resource deployment system. The organisation does not need people with those skills routinely, day in, day out, but we source them for particular projects, and we hope that, following successful delivery, we will not need them to continue thereafter.

**The Chair:** I have one final question. Under “Other provisions” on page 91, the report says that

“In financial year 2021/22, a provision was raised to meet a legal obligation to rebate audit fees for an element of our ‘pooled cost’ charges.”

It goes on to say the obligation was “released” in 2024-25. Can you remind me what that was?

**Stephen Boyle:** I will pass that to Stuart Dennis so that I do not misspeak. He can set out the detail.

**Stuart Dennis:** During the pandemic, we budgeted for travel and subsistence at the firms. Pooled costs were included in there and were distributed across all bodies in the public sector. Everyone was working from home at that time, although we had budget for travel and subsistence. We set fees that included that and invoiced it out, but because we incurred no cost whatsoever, we put in a provision to rebate to all the public bodies the fees that we charged for travel and subsistence over a two-year period. That was phased in and the public bodies that paid fees for which we did not incur costs have now been repaid.

**The Chair:** Thank you.

As members have no further questions that they would like to ask, I thank Colin Crosby, the Auditor General, Vicki Bibby and Stuart Dennis for their evidence this morning. We will probably have a few follow-up questions to write to you with in due course.

I will suspend the meeting to allow a changeover of witnesses and to take a five-minute break.

11:36

*Meeting suspended.*

11:43

*On resuming—*

**The Chair:** From Alexander Sloan, I welcome to the meeting David Jeffcoat, who is a partner, and Jillian So, who is the audit and accounts manager. I do not know whether either of you wants to make any comments at the beginning.

**David Jeffcoat (Alexander Sloan):** Good morning, chair and commission members. I would like to give a summary of our work to accompany our audit opinion and 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 2025. Our audit work commenced with planning and interim work in February, our main audit fieldwork started in early May and I signed the audit report on 9 June. Our audit was carried out in accordance with international standards on auditing.

Our audit opinion is contained in the audit report. In the accounts, it confirms that Audit Scotland's financial statements give a true and fair view as at 31 March and that they have been properly prepared in accordance with international financial reporting standards, the Government's financial reporting manual—FREM—and the Public Finance and Accountability (Scotland) Act 2000. Our opinion covers the sections of the remuneration report and confirms that those were properly prepared. For the record, I can confirm that adequate accounting records have been kept by Audit Scotland and that we received all the information and explanations required before issuing the audit opinion. Our audit opinion also confirms that expenditure has been incurred and receipts applied in accordance with the 2000 act.

11:45

As part of our audit work, we have prepared an audit summary report for the management of Audit Scotland, a copy of which has been sent to the commission. The audit summary report notes our responses to key audit areas and, where applicable, reports on any weaknesses in the accounting systems and internal controls that come to our attention.

I will summarise our response to key audit areas. Our audit work on management override considered the authorisation, appropriateness and accuracy of bookkeeping in accounting journals and related financial controls. 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, which is linked to our work on Audit Scotland's work in progress. That audit work identified two adjustments relating to work in progress balances in respect of additional audit fees. Those proposed amendments were agreed with Audit Scotland management and the accounts were updated. We are satisfied that fee income has been accounted for appropriately and that the work in progress debtor and creditor balance at 31 March 2025 is accurately calculated.

Our audit work considered two key areas arising from the past couple of years; namely, lease accounting and pension accounting. Our review of the relevant balances and treatment of lease accounting identified no issues, and we are satisfied that that has been accounted for appropriately in the accounts and that the disclosures are sufficient. Our review of the accounting for pensions on the statement of financial position and the notes to the accounts also identified no issues. We are satisfied that the treatment of the nil balance is consistent with previous years and with the actuary's reports and that all disclosures have been noted appropriately in the financial statements.

Following on from last year's audit, another key area was the disclosure in the remuneration report of the value of accrued pension benefits. Last year, an explanation in the report was required to explain an omission. We were satisfied that that was permissible following an exceptional revision to the FREM accounting rules last year, but we were aware that no such revision would be made available in 2025. This year, the pension information required for disclosure was received from the civil service pension scheme, reviewed and checked on time, and we are satisfied that the disclosures in the remuneration report this year are accurate, appropriate and consistent with the FREM.

An audit summary report is an opportunity to propose recommendations to internal controls, and I confirm that no matters were identified that we are required to raise to the management or the commission.

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

**The Chair:** Thank you. I have one or two fairly formal questions. You touched on this already but, for completeness and for the *Official Report*, 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:** On page 8 of your audit report, you set out potential adjustments to the financial statements that were identified by the audit process. One of the entries is for £180,000 and has an impact on Audit Scotland's expenditure. Will you explain the basis of that adjustment and how it was identified?

**David Jeffcoat:** Yes. Part of our review of work in progress is to consider the spreadsheets that underlie the figures in the accounts. On review, there were a couple of entries omitted in the 2022-23 audit year, which, when looked into, added up to £170,000 that had not been included in that spreadsheet. That was identified through fairly standard audit work and assessment.

**The Chair:** Accounting judgments require detailed consideration and scrutiny by auditors. Can you confirm that you are content with the judgments made by Audit Scotland and the disclosure of those in the annual report and accounts?

**David Jeffcoat:** Yes, I can confirm that.

**The Chair:** I believe that you did a remote audit.

**David Jeffcoat:** Yes, we did.

**The Chair:** Was that the first one?

**David Jeffcoat:** No, we have done remote audits since 2020. We attended audit committee meetings. As the Auditor General said, certain things such as attendance at audit committees are useful additions to what was perhaps not permissible three or four years ago.

As the Auditor General said about how the audits are conducted, we adopt the approach of considering what is best for a particular audit. Is it mostly a remote audit, is it mostly an on-site audit or is it in between? For us, availability of staff is really important, as well as the ability to access records. If records are available electronically, that works in favour of being able to do an audit remotely. If the staff at an audited body are available—again, Audit Scotland has been really good at being available at any time during the audit period—that also lends itself to an audit being remote.

**The Chair:** As no members have any questions, I thank David Jeffcoat and Jillian So for being here today. We will have a short suspension for a changeover of witnesses.

11:50

*Meeting suspended.*

11:52

*On resuming—*

## **“Quality of public audit in Scotland: Annual report 2024/25”**

**The Chair:** Under agenda item 2, our final evidence session this morning is on Audit Scotland's “Quality of public audit in Scotland: Annual report 2024/25”. From Audit Scotland, I welcome back to the meeting Colin Crosby, chair of the board; Stephen Boyle, Auditor General for Scotland; Vicki Bibby, chief operating officer; and Owen Smith, interim audit director for audit quality and appointments. I open up the session to questions from members.

**Jamie Greene:** If I recall correctly, previous reports on the quality of public audit provided more information on audit inputs from your auditors, including internal auditors and external audit partners. Reports also included useful information from auditors who were surveyed for their opinions on, for example, whether they felt that they were able to carry out a high-quality audit, whether they had all the resources that were necessary to allow them to do their job and whether they were given the appropriate time, training and development to do so. It was quite helpful information, but it has not been included in this year's report. Why not?

**Stephen Boyle:** Good morning, Mr Greene. There are two reports. One is the report that you have before you, which is on the quality of public audit in Scotland. It is a summation of the totality of how well audit work has been delivered to the requirements set by Audit Scotland's quality framework, which applies to Audit Scotland's teams and the firms that we appoint.

We have the detail that you are asking for, and I will bring in colleagues in a moment who can talk you through some of that. However, as I mentioned, this is a summation report. Underlying it are transparency reports, which are produced by all the auditors who the Accounts Commission and I appoint. The reports set out how well they have done and how well they are performing against the external quality assessment of their work and any quality assessment that has been done by an in-house quality assurance team. They also set out, on the point that you are asking about, the views and experiences of the people delivering audit work.

I will pass to Vicki Bibby—Owen Smith might want to come in, as well—to give you some detail over and above what you have in the paper before you.

**Vicki Bibby:** Independently, but with approval from the Auditor General and the Accounts

Commission, the audit quality and appointments team—Owen’s team—sets up the framework for the audit quality standards. Section 5 of the report includes the audit quality survey based on what is asked. There were changes to the framework this year, which were agreed to by the Auditor General and the Accounts Commission. That is what the team went out and asked about, particularly in relation to the stakeholder perceptions in section 5. I will pass to Owen to give more detail on that aspect.

**Owen Smith (Audit Scotland):** Good morning. We revised the audit quality framework last year with the approval of the Auditor General and the Accounts Commission. We had previously included staff surveys from all appointed auditors. However, in reality, it was never that easy to gather information, because it is done differently by different appointed auditors or audit firms. The transparency reports, which the Auditor General mentioned, include information on audit firms’ responsibility to ensure that their staff are adequately trained and have enough resources. That is because the international standard on quality management was brought in, on which we have an audit quality indicator to ensure compliance.

There are two reasons for not including that information. We could not get consistent information across all the appointed auditors and, to comply with the international standard on quality management, they were doing it anyway and reporting results through their transparency reports. We tried to streamline the “Quality of public audit in Scotland” report and allow the transparency reports to be the place where appointed firms discuss what they are doing to ensure that their staff are appropriately trained and have enough resources.

**Jamie Greene:** To clarify, does that mean that you no longer survey the auditors in external firms and you rely on those firms surveying their own staff?

**Owen Smith:** We never surveyed the firms on that question. The approach relied on their existing procedures to meet the audit standards on whether their staff were—or perceived that they were—properly and appropriately trained, had enough resources and so on.

An important change for us was the bringing in, about two or three years ago, of the international standard on quality management. As I said, we have an audit quality indicator to ensure compliance with that, and we ask the Institute of Chartered Accountants in England and Wales to ensure that the arrangements in its review audit files are in line with what it expects to meet its standard. The standard is all about quality arrangements to ensure that audits are delivered

to standard; it includes aspects such as resourcing. We removed it from the “Quality of public audit in Scotland” report because inconsistencies in the data that we were getting back meant that it was not able to be trended. However, that data is reported in the transparency reports for Audit Scotland and the six firms.

**Jamie Greene:** Where would I find information on internal Audit Scotland staff? What level of surveying has been done there? How useful or reliable is the data on their happiness or contentedness with what they are given to allow them to do their jobs?

**Vicki Bibby:** As Owen said, elements of that are in the transparency reports. Separately, we undertake robust staff surveys. We are pleased to report that, as part of the Best Companies survey, which we have been doing for more than a decade, we have reached one star employer status, which we have only ever achieved during the years of the pandemic. That is a good result for us. The survey looks at how staff feel as part of the organisation and as part of their team and at whether they are appropriately trained to do their job. We got those results in March. We can get the data at high level and broken down by each team, and we take those details quite seriously. We also undertake health and wellbeing surveys, the next one of which will be done in September.

**Jamie Greene:** As a side question to that, in our earlier session we talked particularly about some of the costs involved, but I know that it has been a bit of a tough slog for many public organisations to try to bring people back together and get people back into the office. Is there a direction of travel on that for your organisation? Has it stabilised? Are you still trying to encourage people, particularly your auditors, to work face to face more? Has there been any resistance to that?

12:00

**Vicki Bibby:** There is a real drive around the benefit of people being together but we have purposely taken a balanced approach because, equally, having an attractive hybrid approach is a way to encourage people to work with us. However, we are clear that hybrid working is not home working. The definition of hybrid working is a mix of home working and being in the office.

As I highlighted earlier, it is not unique to us, but in our role as a training provider, although we can do some of the more technical training online, people also need that onsite training. It is absolutely vital that they get face-to-face training on the relationships and the curiosity that you need as an auditor. We can corroborate that; the Institute of Chartered Accountants of Scotland results for our training are really strong and have

improved year on year. The more that we do face-to-face training, the more that the results improve.

We are relatively small but we have 350 staff and bringing everybody together has a cost. We had a financial audit training session where we worked with a public sector host to bring our financial auditors together for training on some new standards, particularly on tricky areas such as asset valuation, and to show them what our new audit modernisation project would be like. We had a staff survey on that, and the training was seen as hugely valuable.

We are trying to take a balanced approach. I know that many organisations are going down the route of mandating the three days a week in the office. We are not there and we do not feel that we need to be there. We have been putting extra work into manager training on the expectations around face-to-face meetings. This year, we have introduced a new performance management framework that sets out the relationship between the manager and the individual and the expectation about the level of interaction. We are taking the approach of providing clarity around expectations without that top-down, draconian, “You must be in either three days or four days a week” approach.

**Jamie Greene:** There is a debate as to why not. It is a competitive working environment and other companies may offer different working practices that are more favourable to people, so you have to stay competitive, I guess.

I am happy to leave it there. I may have other questions on the audit quality later.

**Richard Leonard:** I have a couple of questions on audit delays. Paragraph 20 of the report tells us that 91 audits are delayed. In fact, when I look at it in a bit more detail, it tells me that 91 audits are late and “not making progress”, so they are not just delayed but stuck, it seems to me. I wonder whether you can address that. Can you also address this point? This is probably an unfair way of framing it but, if I could be simple in my approach, at the start of the report you talk about between 233 and 253 audits being completed; if there are 91 delayed audits, that is a ratio of between 35 to almost 40 per cent of audits that are delayed or “late and not making progress”. That is a huge proportion, is it not?

**Stephen Boyle:** It is absolutely higher than we want it to be in terms of the number of audits. An audit does not sit in isolation. It is an audit of a set of annual reporting accounts of a public body, so we are talking about a public body being able to lay its audited annual reporting accounts in Parliament or being able to meet a deadline set by the Government or the Accounts Commission.

Of course it matters because timeliness of delivery is a feature of the accounts, their usefulness and the quality of the audit. To reassure the commission, we absolutely recognise that and we are looking at the matter. It is broadly consistent with what we knew was going to be a phased recovery period.

On some of the statistics, it might be helpful to set the context of what we are talking about. In the 2024-25 year, 91 per cent of all the national health service audits were delivered by the deadline of the end of June—that is, within that three-month window from the end of the financial year to the end of June. That is an increase from 74 per cent the previous year. For further education, it was 70 per cent, up from 67 per cent; central Government was 60 per cent, the same as the previous year, and for local government, it increased from 29 per cent of audits delivered—a really low percentage—up to 42 per cent.

It also matters how late the audits are. In some cases, we are talking about a few days or a few weeks. They are still late and that still matters, but 90 per cent or so were delivered by the end of the calendar year. By way of context, as we talked about in the earlier session, in some cases, we are still auditing over a three-year period. There are some audits going back to 2022-23. We have a few additional ones in 2023-24, with the majority now in 2024-25.

I have confidence, Mr Leonard, that we are progressing in terms of the phased recovery period, given the hugely disruptive effect of Covid on the delivery of audit work, and that we are on the right path. I can bring in Owen Smith to give a bit of detail on any specifics and what it means for an audit to be late if you would find that helpful. You are right that we are not yet where we want to be, but I am seeing signs of progress.

**Richard Leonard:** Before you bring in Owen Smith, can you expand not just on “late”—we all understand “late” and that there may be understandable reasons for lateness in the completion of an audit—but the expression “not making progress”? That is of much greater concern to me than audits being late.

**Stephen Boyle:** Some of the wording is quite specific. Owen Smith can explain what that means.

**Owen Smith:** We have brought in the phrase “making progress” to try to show either inertia or movement towards improvement. That means that the audit is a month better than the year before. If an audit is signed off a month ahead of where it was last year, it is making progress.

Audits might look as though they are stuck and not making progress for many reasons. It could be because firms are prioritising the ones that were

on target and making sure that they do not become jeopardised. For instance, in the year ahead, I know that two firms plan on delivering all their audits on time; one firm had seven audits that were late last year but it is expecting only two to be late this year because it has prioritised staffing and resources, in partnership with the audit body, to make sure that it can bring the audit back on time.

There is no point in an auditor turning up and saying, “I am here to do an audit”, if the body is not ready. It is about that partnership and getting them aligned together. It might take a couple of years for some of these audits but it is about not jeopardising the ones that are on time and about making sure that the ones that need to catch up can do so at the right point in time. They will, I hope, be making progress in 2024-25.

**Richard Leonard:** But they are not like health and safety inspectors, who turn up unannounced, are they? I would expect that an audit is a planned operation between the public body that is being audited and the auditor—whether they are internal or from an external firm—who is carrying out the audit.

**Stephen Boyle:** You are quite right. There is a partnership, between the auditor and the audited body, to deliver the audit. There is no merit in an auditor turning up to a deadline that has been set by the Accounts Commission, by me or the Parliament, if the public body is not ready to support the delivery of that audit.

On the language, the phrase “not making progress” does not necessarily mean that audit work is not happening. It can be—and in many cases it is—still happening, but it is not yet accelerating the recovery from the deadline to where we want that audit to be.

Forgive me for repeating myself, but, although there are concerns about some of the delivery timelines, across the piece we are seeing progress, especially compared with last year. As we have seen from Owen Smith’s and Vicki Bibby’s support for and engagement with auditors and audited bodies, the key focus is the handful of audits of public bodies that are not making the progress that we want them to. Where there is that level of concern, for good reason, we are keen to avoid a situation where we would be straddling more than one five-year audit appointment cycle. Considerable effort is being made to recover the deadlines for all audits as we come to the exit from the current cycle in two years’ time.

**Richard Leonard:** In paragraph 18 of the report, you refer to one outlier public body, which has not had its audit for the financial year 2022-23 completed and, therefore, not had one completed for 2023-24 and, therefore, not had one completed

for 2024-25. Again, that rings alarm bells with me, both as convener of the Public Audit Committee and as a member of the commission. In the end, this is about public money. It is about assurance for that body, and the good governance of that body. I do not know how big that particular organisation is, but nonetheless we are talking about whether a proper audit of public money is being undertaken.

**Stephen Boyle:** As Auditor General, I absolutely share your concern about that organisation, with which I am familiar. As I mentioned, timeliness of delivery and laying of accounts is a feature of the quality of assurance that is given to the Parliament that the money that was voted for and allocated to that public body was spent in accordance with the expectations at that time.

There are some mitigating circumstances in respect of that organisation. As you are convener of the Public Audit Committee, you will know well that, as Auditor General, I can exercise the option to lay a statutory report on the audit of a public body’s annual report and accounts. That is one of the reasons why the audit has not yet been completed or laid. I can say that all the audit work has been completed, and in respect of that audit we are going through clearance with the public body on the comments on our section 22 report.

On the wider recovery issue, as Owen Smith has alluded to, we have seen evidence that the audit process does not stop for 12 months and then pick up again. We are seeing an acceleration and a compression of the recovery period, so that a quick catch-up process is now being undertaken. The work for the year 2023-24 is well under way, if not completed, and that for 2024-25 will be completed shortly thereafter. We can see that the various interventions and steps taken are making a difference. However, your overall point is absolutely fair, which is that all of us want to see audits being completed in a timely way so that they are useful and relevant.

**Richard Leonard:** Perhaps I can finish where I started, by going back to your figures, which say that 91 audits are late—or, to use Mr Smith’s terminology, “not making progress” according to his yardstick. However, you also give us a breakdown that, of those 91 cases, 46 are late due to the auditor, 27 are due late to the body that is being audited and 18 are late in circumstances that are “beyond the control of either”. Again, that is your explanation. I am not quite sure what “beyond the control of either” means. How can something be beyond the control of either the auditor or the public body that is being audited? That baffles me.

**Stephen Boyle:** All three of my colleagues want to come in, and I hope that they will be able to reassure you on those details.

**Richard Leonard:** Excellent.

**Stephen Boyle:** I will pass to Owen Smith, then Vicki Bibby and then Colin Crosby.

**Owen Smith:** The wording “beyond the control” is largely used of cases that were so late the year before that they could never have recovered within the year. That is not good, but a handful of those cases need to be looked at quite closely. The report says 18, but they are almost beyond the point where they can come back within the audit year in question. We are now in the third year of the five-year audit appointment cycle, which is where we expect recovery to start taking place. When we looked at the annual audit plans we found that 80 per cent of them were in on time, which reflects bodies’ plans to deliver the audits themselves on time, so there has been lots of good progress in year 3.

It can be very difficult to define exactly why an audit is late, which is why we have picked out the main reasons. The one that I mentioned earlier is about auditors prioritising audits that are already on time, and not jeopardising those that need recovery and work within the body if they are to come back in the next year or two to bring them back to operating on time. When the report says that the auditors are primarily responsible, that means that they will not prioritise the delayed audit at the risk of others that are already on time.

Given his expression, I wonder whether Mr Leonard wants to come in there.

12:15

**Richard Leonard:** I am sorry—that just reminds me of the narrative that we get on Ferguson Marine, which is that to get the Glen Sannox afloat we have to jeopardise progress on the Glen Rosa, through retrofitting parts from the Glen Rosa on to the Glen Sannox so that at least that vessel is afloat. However, what you described does not solve the problem of what is happening with the public body whose audit is being considerably delayed and jeopardised, does it? I understand that that is the way of working. The reason that I am making facial expressions is because it just reminds me of what we get told on other aspects of audit.

**Stephen Boyle:** The report that you have before you describes a pragmatic phased recovery of audit delivery. Our engagement with the SCPA, and the support that you have provided us with in modernising our organisation and during the early stages of the pandemic, has led us to where we are today. We did not look to seek a significant

injection of resource—even if it were available, which would have been debatable—whereby a pool of auditors would be waiting to come in to deliver public audit. That is regardless of the fact that, as Owen Smith set out, a public body might not be ready to deliver the audit through its own capacity and expertise.

Adopting something of a middle ground, by having a phased recovery, was the approach agreed among the Audit Scotland board, the Accounts Commission and myself to get ourselves to a point, by the end of this five-year cycle, whereby almost all the audits will be back on time and being delivered as expected. Broadly, I think that that was the right call. It allows for the fact that not all public bodies will have their audits delivered on time. As we have hoped to set out clearly today, in some cases that will be due to the capacity of the audit team or the audit provider, which has not been able to deliver in the way that they would have done before the pandemic. Therefore, at this stage we are in a place of recovery rather than having a perfect solution.

**Vicki Bibby:** I add that, if we stick to the plan that we have, we should be on track for the end of this contract term. We have been working with the Auditor General, the Accounts Commission and the controller of audit to monitor which local government bodies are now on track when measured against the plan, and to provide for early intervention where they might slip. We have a rigorous approach to that.

We are also writing out to audited bodies to reinforce the importance and priority attached to producing a set of accounts. We do not want to find ourselves in the unfortunate position that has been reached south of the border. We have been working closely with the Ministry of Housing, Communities and Local Government on what its approach with the local audit office will be. It is really important that we highlight and stress the importance of the public audit process producing audited accounts. The Accounts Commission is closely watching the issue as well. I want to highlight that on its behalf—not that I speak for it—and to assure you that it has been looking at that very closely.

**Colin Crosby:** Mr Leonard, I am delighted that you have taken that line of questioning, which is similar to one that our board and the audit committee take and which is very fair.

I am not quite sure about the analogy with the Ferguson shipyard. However, if we take March 2024 as being the 2023-24 year-end, and if we take the number of audits delivered by 31 March, using your analogy we have 233 boats that are floating, working and approved, and a balance that are still at the dock. The real issue with that, which the board is increasingly examining, involves

asking, “You have your critical path analysis of 253 audits. When are they going to land?” All the lateness criteria form part of our internal critical path analysis. Quite rightly, everybody internal to the process gets beaten up about lateness. However, the board has a slightly more holistic view of that and asks, “Are we are doing the bulk of the work that we say we will do, in the year in which we should be doing it? For the 8 per cent that have not been completed, what are the hiccups and hold-ups? Are they legitimate, or are they our fault?”

To that extent, according to critical path analysis, the key issue is that you cannot put the resources to the right place at the right time. However, because of the pandemic and one or two other things, we do not live in a perfect world where that can be put out automatically. That is why, in a way, the 233 cases out of 253 is a more meaningful number—certainly to the board—provided that we know what is happening to the ones that are behind, and why, and whether we can get them brought forward. That is what our line of questioning is. Therefore, it is a very valid and appreciated line of questioning that you are following, because it is absolutely at the forefront of the board’s thinking every time that we see this issue.

**Richard Leonard:** Thank you. I could continue, chair, but I do not think that time permits so I will pass back to you.

**The Chair:** You are quite correct. Time is tight, and I ask for questions and answers to be tight, too.

**Mark Ruskell:** I want to focus on the external quality review that the ICAEW conducted. I am aware that it looked at eight audits, five of which got a good bill of health. The other three, which were conducted by Audit Scotland’s in-house teams, included significant criticisms. Without repeating all the findings of those reviews, what were the reasons for those criticisms? What learning has taken place, and what actions have you put in place to weed out the organisations whose audits showed poor performance? We must bear in mind that only eight were looked at.

**Stephen Boyle:** We have had a long-standing engagement with an external quality provider. We are now with the Institute of Chartered Accountants in England and Wales, and we were previously with the Institute of Chartered Accountants of Scotland. External assessment, validation or recommendations for improvement are integral to our audit quality framework. Importantly, for me and the Accounts Commission, that covers not just our financial audit but our performance audit and our public reporting, too, so that we have assurance that we when make judgments publicly, through the Parliament, they

are reliable. The position is similar for our financial audit process, when the external quality provider gives us assurance on whether the audit opinion on public spending is reliable.

I will address the totality of the findings. On performance audit and best value, we are very pleased that we can see consistently strong results on our public reporting, our section 23 reports, and our best-value reporting. A score of two or one on each of those is very good. I am paraphrasing some of the language used in the findings, which is quite specific.

On our financial audits, we see a range of scores. For example, the exhibit on page 17 is on the quality of public audit reports. The audit services group of Audit Scotland has ticked every box, and we have scores of one, two, three and four for the financial audits. On the scores of one and two, again, it is very satisfying that the Institute of Chartered Accountants in England and Wales has said that our audit team is meeting the standards. Those are high standards. They are the same ones on which the regulator, ICAEW, will be holding all the big four, and the top 10 firms, to account on their audits of public limited companies, charities and every other commercial organisation. It is quite right that Audit Scotland has shown that it can meet those standards, and it is also satisfying. A score of three is not where we would want to be. It shows that improvements are required on the relevant audits.

I should point out that Audit Scotland audits a wide range of organisations, from the Scottish Government, large local authorities and health boards, down to some very small bodies and charities of local government. We require some of those bodies to meet the international standards on auditing. Therefore, for every audit that does not meet the required standard, the audit team is required first to do a lessons-learned or root-cause analysis—to find out what went wrong during that audit—and then to come up with an action plan of necessary improvements.

I will bring in Owen Smith if he wants to add anything, but I add first that, through the work of his team, we also examine whether there are any systemic issues with our audit approach that perhaps have been presenting as relating just to the body under review but might apply more widely. We will take that through our audit quality group and committee for them to look at our audit approach—again, so that we are satisfied that we are applying the learning points.

Given that it is what I do myself, day in and day out, I know that having their work reviewed can be stressful for teams; it can weigh heavily upon them to have their work checked. The purpose of the report is as much about giving assurance as it is about promoting learning. It is not necessarily

about holding people to account directly but about supporting change and improvement across their work, especially through root-cause analysis. That is the approach that we adopt: if we get a tough score, we apply the learning from it and take that through into our audit work.

I will pass to Owen Smith if he wants to add anything.

**Owen Smith:** The only point that I will add is that ICAEW identified a thematic issue in the previous year's reviews on valuations, and Audit Scotland took action to improve that. Page 22 of the report includes a summary statement that that issue was not found this year. That shows, in a simple way, how inspection findings are taken seriously by the team in innovation and quality and passed out to audit teams to make sure that improvements are put in place for the next year's audit. It was very satisfying that that issue had not happened again. That is reflected in the very good scores—top scores for a big council and an NHS board as well—because that was where issues had been found in the previous year. Therefore, that approach does work. It is never good to get a score of four, or even three, but the important thing is that the team does work to identify the root cause of why things went wrong and to improve them for the next year.

**Mark Ruskell:** You also mentioned systemic issues. Were any such issues identified through the scores of three that revealed poor quality?

**Owen Smith:** For this year, no. I used the word "thematic", which is what we use in the report, but "systemic" is a good equivalent. There were issues for the scores of three on investment testing, sufficiency of audit evidence, and a very small point of auditing practice. Audit files should exist on their own for the audit opinion, and one audit had done too much cross-referencing to a bigger audit to which it was affiliated on the system, so it was not treated in a standalone way. There needed to be more evidence on file to back up the full flow of the auditor in getting to his opinion, but that was not there.

**Mark Ruskell:** Should sample sizes should be increased in future years? Does a sample size of three from your own in-house teams provide a robust evidence base, or is that very much a random snapshot?

**Stephen Boyle:** Broadly speaking, the sample sizes are right. We want to cover all the providers that the Accounts Commission and I appoint. The Audit Scotland in-house team will receive more because, as we have touched on, they cover two-thirds of the appointments. Because we cover such a wide range of bodies, some audits are undertaken by colleagues of a different level of seniority. Therefore, we have tried to match the

smaller bodies, or the less complex ones, with our senior managers to give the audit opinion on those bodies, and an audit director will more likely sign a larger body.

I hope that this will be the final bit of reassurance that I will need to provide. In the event that we have not had the quality score that we want, which is a one or a two, we do a quick follow-up audit inspection of that audit and audit team to ensure that the root-cause analysis process has worked, the learning has been embedded and there are no repeat issues. Having evidence that the interventions are working and that the learning and development approach is correct broadly satisfies me that that level of sample feels about right for the time being, but we will keep that under review.

**The Chair:** Thank you very much for that. At this point we will draw the meeting to a close. I thank Colin Crosby, the Auditor General, Vicki Bibby and Owen Smith for their evidence.

I close this meeting and wish everyone a great summer recess.

*Meeting closed at 12:30.*



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