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## Scottish Commission for Public Audit

# Audit Scotland Budget Proposal for 2026/27



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# Introduction

1. Under section 11(9) of the Public Finance and Accountability (Scotland) Act 2000, Audit Scotland is required to prepare proposals for its use of resources and expenditure for each financial year. The Scottish Commission for Public Audit ('the Commission') is responsible for examining and reporting to Parliament on these proposals to support its wider scrutiny of the overall Scottish Budget. <sup>1</sup>
2. As Audit Scotland's budget forms part of the total Scottish Budget, the Commission reports its views to the Parliament to support its wider scrutiny of the overall Budget. Audit Scotland submitted its budget proposal for 2026/27 on 2 December 2025. <sup>2</sup>
3. The Commission took evidence on Audit Scotland's budget proposal for 2026/27 on 11 December 2025, from Stephen Boyle, Auditor General for Scotland and Accountable Officer for Audit Scotland and Colin Crosby OBE, Chair of the Audit Scotland Board, along with Vicki Bibby, Chief Operating Officer, Kenny Oliver, Executive Director Innovation and Quality and Waqas Sanawar, Head of Finance, Audit Scotland. <sup>3</sup>
4. In line with recommendations in our Report on Audit Scotland's Budget Proposal 2024/25 <sup>4</sup> aimed at enhancing scrutiny of future budget proposals, the Commission also held informal discussions with Audit Scotland during the year on its audit modernisation programme.<sup>i</sup> These informal discussions also included emerging thinking on budgetary priorities for 2026/27<sup>ii</sup>.

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i 23 June 2025

ii 29 September 2025

# Overview of the 2026/27 budget proposal

5. Audit Scotland’s budget is drawn from two main sources: fees charged to audited bodies, and funding which is top sliced from the Scottish Consolidated Fund (SCF). Audit Scotland’s 2026/27 budget proposal is based on total expenditure of £41.8 million and is comprised of:

- £25.6 million arising from fee income
- £16.2 million from the SCF (this includes £430,000 of spending rephased from 2025/26, which was returned to the SCF through the Spring Budget Revision (SBR)).

6. Audit Scotland sets out the key features of its budget proposal 2026/27, as follows:

- funding for core operating costs, an increase of £55,000 (0.4 per cent) in SCF funding on a like-for-like basis with 2025/26
- funding of £250,000 for the biennial, statutory National Fraud Initiative
- identified efficiency savings of £2.1m (5.2 per cent)
- audit fee increases of 4.3 per cent on average
- an assumed pay award of 3.0 per cent
- agreed investment in audit modernisation of £1.55m; this includes £430,000 rephased from 2025/26 and returned through the Spring Budget Revision for 2025-26
- employer national insurance contributions baselined into the core budget (previously fully funded by SCPA in 2025/26 budget).

7. Audit Scotland states that its budget proposal for 2026/27—

” ...sets out a budget that supports the ongoing delivery of high-quality audit and independent assurance, while enabling us to continue investing in the future of public audit.<sup>5</sup>

8. In Audit Scotland's letter to the Commission, the Auditor General for Scotland (AGS) explains that through the budget, Audit Scotland will deliver—

” ...annual audits of circa 230 public sector bodies and accounts, approximately 30 performance audits on key issues and service, independent and objective assurance over public spending, and work that drives improvements in public services.<sup>5</sup>

9. Audit Scotland states that the budget proposal has been prepared "in the context of significant cost pressures and operational risks".<sup>2</sup> In its Budget Proposal Audit Scotland identified those risks as being:

- the challenging financial environment and impact on public sector budgets

- the 2026/27 pay deal remains outstanding with an expected pay claim from Public and Commercial Services (PCS) Union in early 2026. The budget contains a 3.0 per cent pay award assumption with every additional 0.5 per cent representing a £134k cost pressure. We would look to our contingency in the first place to absorb any pressures but wish to reserve the opportunity to engage further with the SCPA as required
  - our vacancy factor will remain a challenge. We implemented a five per cent factor in 2025/26
  - cashflow challenges if audits do not progress to schedule and there is a material delay in the payment of audit fees
  - need to respond to in year demand changes such as additional audit work from either creation of new bodies or additional work in audited bodies to meet audit requirements.
  - future audit procurement costs.
10. In evidence to the Commission, the AGS said "we wanted to set out the clear picture that there are risks [...] However, we have the right structures and governance arrangements to manage the risks [...] If things change and there is significant variation in the variables that we have set out, we would look to continue having engagement with the SCPA." <sup>3</sup>

11. **The Commission asks to be kept updated on the impact on Audit Scotland's budget should these risks materialise.**

## Sustainability of efficiency savings

12. In our Report on Audit Scotland's Budget Proposal 2024/25, the Commission concluded that, "in future years, we expect to see more evidence from Audit Scotland on how it has undertaken to achieve efficiency savings and avoid underspends".<sup>4</sup>
13. In the Budget Proposal for 2026/27, Audit Scotland has identified £2,135,000 (5.2%) efficiency savings, which principally arise from:
  - the vacancy factor of 5 per cent (£1,293,000)
  - reduction in establishment (staffing) numbers (£294,000)
  - reduction in property costs in line with the Estates Strategy (£270,000), including £50,000 of newly identified savings at our Edinburgh office
  - absorbing costs in the delivery of the Future of Public Audit Model (£120,000)
  - reduction in overall spend and absorbing inflationary pressures (£118,000)
  - reduction in training costs (£64,000)
  - review of Business Support Services (£40,000)
14. Members of the Commission explored the proportion of recurring and non-recurring efficiency savings and the ability of Audit Scotland to continue to deliver efficiencies at this scale in future years.

## Vacancies and staffing

15. People costs represent 65% of Audit Scotland's expenditure. Its 2026/27 budget requirement is £660,000 (3%) higher in cash terms than the 2025/26 budget.<sup>2</sup>
16. The Commission sought clarification as to the reasons why staffing costs have continued to increase over the last few years. The AGS explained the main driver for the increase is "the absorption of the national insurance costs and the 3.8% pay award." He highlighted that a pay claim for 2026/27 from the trade union has yet to be received and so an 'assumed' pay award of 3% for Audit Scotland staff has been used, this is based on public sector pay awards as a reference point.<sup>3</sup> As noted earlier in this report, the Budget Proposal recognises that the 3% assumption presents a risk in the budget, with every additional 0.5% representing an additional cost of £134,000.<sup>2</sup>
17. Audit Scotland explained that the largest efficiency savings relate to the use of a 5% vacancy factor and the number of staff. The vacancy factor of 5% will result in £1,293,000 in savings. While a reduction in staff numbers has achieved £294,000 in savings. The AGS confirmed that the vacancy factor and staffing numbers are non-recurring savings.<sup>3</sup>
18. In our Report on Audit Scotland's budget proposal 2024/25, the Commission noted

that the 2% vacancy factor being used at that time appeared to be low given the actual level of vacancies in previous years. We therefore asked Audit Scotland to keep its vacancy factor under review in future years, with a view to ensuring savings are maximised and embedded within its budget proposals.

19. In its 2025/26 Budget Proposal, Audit Scotland advised that the application of an increased vacancy factor of 5% to its total staff budget represented a significant risk, particularly in the context of moving to a 35-hour working week from 1 April 2025.
20. The Commission enquired how Audit Scotland has been managing this vacancy factor as a way to realise savings and how it has addressed the potential risks with this approach in the longer-term, for example in relation to staff morale.
21. In response, the AGS said "for the time being it feels appropriate, as it ensures that we are challenging ourselves and that our request of the Scottish Consolidated Fund and of public bodies is reasonable." Audit Scotland has been tracking the effectiveness of the vacancy factor as a tool. He said—  

” Given where we are as an organisation—given that changes are happening in the auditing profession and the fact that we are using public money—Audit Scotland has to be satisfied that the posts that we have in our establishment remain the right ones when a vacancy arises.”<sup>3</sup>
22. Chief Operating Officer, Vicki Bibby, pointed out that these efficiencies are closely linked to Audit Scotland's workforce planning and audit modernisation programme. She said "we are achieving the vacancy factor by delaying recruitment in-year when a vacancy arises" adding "We monitor the vacancy factor on a monthly basis, and we discuss the matter regularly with the union."<sup>3</sup>
23. The AGS clarified that if key posts became vacant "we would not wait artificially for the next scheduled recruitment board to support recruitment".<sup>3</sup>
24. He added that Audit Scotland would continue to explore whether the 5% vacancy factor is appropriate and reassured the Commission that "the last thing that we want to do is override either the quality of our work or the delivery requirements on us".<sup>3</sup>
25. It was noted in the AGS's letter to the Commission dated 13 November 2025 regarding the Spring Budget Revision, how "disciplined vacancy management [...] has resulted in an expectation that we will not need to draw on our contingency by the end of 31 March 2026."<sup>6</sup>
26. On whether the vacancy factor reinforces a culture of change in the organisation, the AGS confirmed change is happening in Audit Scotland and it has "largely operated in that cycle for several years and, as an organisation, we are becoming more comfortable with change." Developing the point about acceptance of change, Colin Crosby, the Chair of Audit Scotland Board, pointed to the National Audit Office, which is ahead with its modernisation and where "staff are really excited by the change, [...] They do a better job, or are encouraged to do a better job, and some of the more routine functions have been taken out in an acceptable way."<sup>3</sup>
27. The AGS said a programme of coaching and development would be delivered early

next year to line managers to support conversations about the vacancy factor and recruitment.<sup>3</sup>

28. According to Audit Scotland's Budget Proposal, four whole-time equivalent (WTE) posts have been removed from the staffing baseline. The Commission enquired how the loss of these posts are being absorbed by Audit Scotland.
29. The Chief Operating Officer told the Committee that there has been no active decision to reduce graduate intake by four WTE. Professional trainees are on a three-year cycle. She clarified "this is just happening as part of that cycle. We need four fewer staff in this year's intake." She further explained that the workforce remains relatively static though there have been other staff changes, such as a reduction in business services. Audit Scotland has also replaced some higher grades by promoting more modern apprentices.<sup>3</sup>

**30. The Commission welcomes the decision of Audit Scotland to keep the vacancy factor under review, particularly as the public audit environment continues to change.**

**31. The Commission is pleased to see that in line with our report on Audit Scotland's 2025/26 budget proposal employers' National Insurance Contributions costs have been baselined into the 2026/27 Budget Proposal.**

## Reduction in property costs

32. Recurring savings are principally delivered through a reduction in property costs, with £220,000 of the overall £270,000 savings being achieved through a reduction in rent costs. In line with Audit Scotland's Estates Strategy, these savings would be accrued over a 10-year period, amounting to a total of £2.2 million.
33. When asked for further clarity around the remaining £50,000 savings, the Head of Finance, Waqas Sanawar, said it relates to the Edinburgh office and a mixture of rates and savings in other areas, such as maintenance and utility bills. It was noted, however, that these are non-recurring savings.

**34. The Commission notes the savings that have been realised in recent years through Audit Scotland's Estates Strategy.**

**35. The Commission recognises that in terms of sustainability of efficiency savings, it will be challenging to achieve future savings at this scale, given of the £2,135,000 efficiency savings identified in the 2026/27 Budget Proposal, only £220,000 are recurring and the staffing numbers are essentially static.**

36. **This is a challenge that is faced across the public sector, and will likely be more of a feature as the Scottish Government looks to public bodies to implement further savings as part of public sector reform. We note that this reform process may increase challenges for Audit Scotland in delivering its audit of public sector bodies going forward.**

# Future of public audit

37. Audit Scotland and the Accounts Commission are conducting a review into how public audit in Scotland will be delivered. According to the Budget Proposal, the review aims to future-proof public audit, by shaping a model that meets current needs and anticipates future challenges. It will also aim to balance quality, efficiency and wellbeing with delivering independent assurance that provides value for money and impact. A key part of this exercise will involve consultation on the Code of Audit Practice in February 2026 with a view to a new Code being published in June 2026. Following this, procurement will start for the next audit appointments under the new Code, which will apply from the 2027/28 audits for a five-year term.<sup>2</sup>
38. The AGS told the Commission that "we have had informal engagement with Scottish Parliament committees, users of public audit, public bodies and professions to get an early sense of and feedback on how the current set-up is working."<sup>3</sup>
39. As noted earlier in the report, one of the risks flagged in the Audit Scotland's 2026/27 Budget Proposal is the risk around future audit procurement costs.
40. According to its 2025/26 Budget Proposal, Audit Scotland received one-off support of £520,000 from the SCF for additional employer National Insurance contributions. In 2026/27, Audit Scotland will incorporate them into its operating costs and fee structure.<sup>2</sup>
41. Waqas Sanawar, Head of Finance, said "The increase in the fees to firms is linked directly to our pay award, because we are contractually obliged to offer the same increase that is awarded to our staff to those firms".<sup>3</sup>
42. The AGS argued although "our costs for firms will grow by 3.8 per cent, which was the Audit Scotland pay award for the previous financial year. That inherently transfers risk away from Audit Scotland on to firms", because "the fee model works in such a way that there is broadly a set fee, which can vary if an auditor, in agreement with the public body, has to undertake more work than would be considered necessary". He further clarified—  

🗉 Examples might be the implementation of new auditing standards or, in some cases, a public body not being reasonably ready to support the delivery of an audit. Those kinds of things can result in additional audit charges.<sup>3</sup>
43. Some changes, for example the creation, merging or closing of public bodies, can result in extra audit work. The AGS gave the example of the anticipated audit of some railway companies, expected in 2026-27. He emphasised that any future structural changes to public bodies are not covered in current Audit Scotland's Budget Proposal. The AGS said this would be of "particular note and of consequence to our income base."<sup>3</sup>

44. **The Commission has a direct interest in the Future of Public Audit Model in**

**Scotland and has previously heard from Audit Scotland on the risks associated with the market appetite for public sector audit work in the future. The Commission is aware that currently, private audit firms deliver approximately one-third of public audit work in Scotland.**

- 45. As with previous years, the Commission notes these potential challenges. Audit Scotland should continue to engage with the successor Commission and we have agreed to include this matter in our legacy paper.**

# Audit modernisation

46. The most significant amount of SCF resource funding, over and above core operating costs, relates to the Audit Modernisation Project (AMP). The AMP is supported through agreed SCF funding across three years for investment in a new software system and audit approaches. The approved software option is to partner with the National Audit Office, to use their audit software, with minimal system amendments.<sup>2</sup>
47. Audit Scotland states in its Budget Proposal that the required investment for the AMP in 2026/27 is £1,550k, which includes £430k of spending rephased from 2025/26. The amount rephased has been returned to the Scottish Consolidated Fund and is being sought in 2026-27. Kenny Oliver, Executive Director Innovation and Quality, explained the rephasing "is the result of the system being subject to a significant update, which is due to be completed by the end of March 2026, and is a precursor to the development of the system for our environment."<sup>3</sup>
48. **The Commission notes the progress that has been made in relation to audit modernisation and has agreed to include this in its legacy paper.**

# Conclusion

49. **On balance the Commission is content with Audit Scotland's budget proposal for 2026/27, including the total resource requirement of £16,207,000.**

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