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Scottish Commission for Public Audit

Audit Scotland Budget Proposal for 2022-23



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Introduction

1. Section 11(9) of the Public Finance and Accountability (Scotland) Act 2000 requires that Audit Scotland prepares proposals for its use of resources and expenditure and sends these proposals to the Scottish Commission for Public Audit (“the Commission”). The Commission then examines the proposals and reports to Parliament on them.
2. As Audit Scotland's budget forms part of the total Scottish budget, the Commission reports its views to Parliament to assist Parliament's wider scrutiny of the budget for 2022-23. Audit Scotland submitted its budget proposal for 2022-23 on 15 December 2021.
3. The Commission took oral evidence on the budget proposal at its meeting on 22 December 2021 from Professor Alan Alexander, Chair of the Board of Audit Scotland; Stephen Boyle, Auditor General for Scotland and Accountable Officer for Audit Scotland; Martin Walker, Acting Director of Corporate Services and Stuart Dennis, Corporate Finance Manager, Audit Scotland. We thank them for their evidence.

Overview

4. Audit Scotland’s budget is drawn from two main sources. These are fees charged to audited bodies and funding approved by the Scottish Parliament and which comes from the Scottish Consolidated Fund. Audit Scotland explains that its budget proposal for 2022-23 will deliver:
 - Assurance over the significant increase in public money being spent in Scotland;
 - Audit of more than 220 public bodies;
 - Recovery from disruption to audit work;
 - Continuation of independent evidence-based public reporting on how well public money is being used to rebuild the economy, repair the damage to communities, address inequalities and create a fairer, more just society, and how well public bodies demonstrate good governance, transparency, financial management, fraud prevention and long-term planning; and
 - Develop a more flexible and agile way of working through enhancement to its digital and professional support capacity to ensure its audit reporting is keeping pace with the changes in public finances and services and technological developments.¹

5. Audit Scotland's budget proposal for 2022-23 is based on total expenditure of £30,601K¹. This represents an increase of £1,050K compared to its budget in 2021-22. This comprises of:
 - £19,214K arising from fee income (£477K increase from 2021-22); and
 - £11,637K of Parliamentary approved funding which represents an increase of £573K from 2021-22.

6. In terms of the funding for which Parliamentary approval is sought, £11,387K is revenue funding and £250K is capital funding. Audit Scotland explains that the budget increase of £573K arises from:
 - National Fraud Initiative, £220K;
 - Additional audit responsibilities arising from financial devolution to Scotland, £133K; and
 - increase in non-chargeable audit fees (new bodies and fee uplift), £220K.

7. The Auditor General for Scotland (and Accountable Officer), hereafter referred to as the AGS, explained that—

¹ K is used to denote £1,000

” The financial risks and issues that Scotland faces are now much bigger, and the role of audit has never been more important. Our job has become more complex, and we need to ensure that we have the resources, skills and capacities to fulfil our role now and into the future. Our budget proposal reflects that.²

8. Audit Scotland note that the budget has been prepared in the context of significant uncertainties which are listed below:

- the resources required to deliver public audit in Scotland to enable a full recovery from the pandemic and development of a future operating model;
- timing of budget statements from the UK and Scottish Governments;
- impact of public sector pay policy;
- outcome of firms' procurement exercise;
- timing of the implementation of the remaining financial aspects of the Scotland Act 2016;
- the cost of goods/services now that the UK has left the European Union; and
- financial assumptions used to estimate International Accounting Standard 19 (IAS 19) defined benefit pension costs.¹

Management contingency

9. In January 2021, the Session 5 SCPA recommended Parliament approve Audit Scotland's Budget Proposal for 2021-22. This proposal included 'an increase in contingency to £2,400k to implement a long-term sustainable resource programme to meet the ever-increasing demands on public audit in Scotland.'³
10. This increase in contingency arose for a number of reasons with the most significant (of £2,100K) being 'to implement a strategic improvement programme focusing on - digital capacity, professional support, the wellbeing of colleagues and a multiyear recovery plan from the disruption of 2020'. Audit Scotland explained that of this £2,100K, £1.5 million would be used for developing strategic improvement work and to meet the resourcing and financial pressures arising from Covid-19, and that:
 - £400k was earmarked for the cost of living pay award on 1 April 2021 and
 - the 'remaining balance of £500k provided some reassurance that any unplanned financial challenges arising in the year could be met without the need for an in-year budget revision.'³
11. Audit Scotland's 2022-23 budget proposal confirmed that, with the increased funding agreed for 2021-22, its head count had increased by 33 posts, which represents a 10% increase in Audit Scotland's overall staffing level. This included 24 additional auditors to provide increased capacity as well as staff with specialist and support skills.
12. Audit Scotland have provided quarterly updates on the use of its management contingency in 2021-22. In its latest update the Commission noted that it appeared that £107,000 of non-recurring surplus, arising from a phased approach to recruitment, had been used to secure "time limited external support" to support the delivery of Audit Scotland's strategic improvement programme.⁴
13. In January 2021, in response to questions on what might happen with any unallocated management contingency for the year 2021-22, Audit Scotland confirmed that—
 - ” If we identify any potential underspend against this budget allocation, we will indicate this at the earliest opportunity for a return to the Scottish Consolidated Fund.³
14. Given this commitment and the use of the £107,000 surplus in 2021-22, the Commission sought reassurance that any underspend in the £500K of management contingency being sought for 2022-23 would be returned to the Scottish Consolidated Fund. Responding the AGS confirmed that—
 - ” Yes, we give the same undertaking that, if Audit Scotland does not spend the money that the commission affords us in approving our budget, we will absolutely return it to the consolidated fund. That will always remain the case.²
15. The Commission also sought further clarification of the extent to which

management contingency funding was being used for purposes that gave rise to recurring costs and which then required to be funded in subsequent years. As such it noted that most of the increased management contingency of 2021-22 had now been absorbed into Audit Scotland budget bid for 2022-23.

16. The AGS explained that the request in 2021-22 recognised the uncertainty posed by the pandemic and that 'We did not know what would be expected of public spending and the associated assurance. We were grateful to receive support through contingency, which is how we managed that'.²

Covid-19 spend

17. The Commission sought greater clarity over the extent to which impacts from the pandemic had resulted in a necessary increase in permanent staffing levels which may, in future years, reduce as the impact of the pandemic lessened. Responding the AGS explained that whilst Audit Scotland had not attributed the percentage of those roles that relate to the global health emergency or the percentage that relates to previously agreed and committed investment —

” it is clearly the case that the majority of our recruitment of auditors during 2021-22 has been related to the Covid-19 pandemic and the public audit response to that.²

18. The AGS explained that future inevitable turnover as people move on and continue their careers elsewhere allows Audit Scotland to adjust and be flexible to future demands.

19. The Commission asked if Audit Scotland was able to identify the percentage of work in each audit that has arisen because of the pandemic and if this was tracked and monitored. The AGS explained that Covid-19 activities have been dispersed across all aspects of Audit Scotland's work. The Commission heard that annual audits are now taking longer as more audit input and more judgement about the spending of public money is required. The AGS identified several factors that contributed to audits taking longer than previously, these include:

- The need to undertake audits remotely;
- The disruptions caused by Covid-19 to both Audit Scotland staff and the staff of audited bodies;
- The additional sums of money that were received into the system at pace; and
- The quality of accounts that were received for audit.

20. In respect of the quality of the accounts that were received for audit, the AGS stated—

” ...it is clear that we are making the most significant amount of audit recommendations and adjustments that many of us have done at any stage in our careers. Some of that is a consequence of the additional sums that have been received and the money that flowed through the system at real pace—by necessity. We recognise that that is also causing delay.²

21. **The Commission recognises that the pandemic has added uncertainty to Audit Scotland's financial planning as they seek to manage planned development work alongside responding to the impact of the pandemic on existing work. It is therefore essential that there is transparency over how additional funding is used to respond to Covid-19 related impacts compared with non-Covid impacts. As important is clarity over whether additional funding sought will be used to support recurring expenditure (and which therefore represents an enduring financial commitment beyond the next financial year) or non-recurring expenditure.**
22. **We welcome the quarterly updates provided by Audit Scotland on how the £2,400K management contingency agreed for 2021-22 has been spent. We have, however, [written to Audit Scotland](#) seeking a more detailed breakdown of:**
 - **the amounts which are attributed to Covid-19 and non-Covid activities; and**
 - **which expenditure is recurring and which was non-recurring.**
23. **We will look to explore this further as part of our scrutiny of Audit Scotland's 2021-22 Annual Report and Accounts.**
24. **Looking ahead we recommend that Audit Scotland budgets in future provide more detailed identification of what is specific Covid-19 related funding and the extent to which any requests for additional funding are for recurring or non-recurring expenditure including in relation to any proposed use of the management contingency.**

Fee strategy

25. In its 2022-23 budget proposal, Audit Scotland states that—
- ” There will be a revised start to 2021/22 audit planning due to the ongoing extensions applied to the 2019/20 and 2020/21 audits which will impact on resource availability on 2022/23 to meet audit sign-off details. ¹
26. Audit Scotland is unable to charge audited bodies for work that has been not yet been undertaken. As a result of the extensions that have been applied to previous years audit work, a fee income lag has arisen. The Commission heard that whilst the budget proposal for 2022-23 assumes "a small element" of fees from catch-up it is not to the levels previously reached. It was explained that audits for 2020-21 were already well underway when the pandemic first arose whilst the audits for 2021-22 were the first to have been undertaken completely remotely. As a result it will only be when the 2021 audits are complete that Audit Scotland will have a clearer picture of the time and resources needed to complete audits remotely. ²
27. In terms of when Audit Scotland expects to 'catch-up' its audit work the AGS explained that whilst it is hoped there will be a recovery of some of the timescales next year, 'more realistically, it will probably be at the start of the next audit appointment round that we will work in conjunction with public bodies to recover the timescales of earlier financial reporting.' Audit Scotland currently anticipates returning to pre-pandemic reporting deadlines for the completion of audits in 2023. ²

28. **The Commission recognises the significant impact that Covid-19 has had on the ability of Audit Scotland to prepare and progress audits, particularly in 2021-22 when audits have been undertaken completely remotely for the first time. This has then impacted on when Audit Scotland can charge for completed work during each financial year.**
29. **Given this fee lag, the Commission recommends that as part of its Annual Report and accounts for 2021-22, and again in 2022-23, Audit Scotland identifies those fees received which relate to work on audits for the current year from those which relate to fees received for work 'catching-up' on the preceding year's audits.**

Property review

30. Audit Scotland's budget proposal for 2022-23 and its budget projections for 2023-24 and 2024-25 assume continued occupation of its three offices in Edinburgh, Glasgow and Inverness. The budget proposal states that 'As part of our strategic improvement programme, we are undertaking a long-term property review that aligns with our future operating model and contributes to our future commitment for net zero carbon emissions.'¹
 31. The AGS explained that Audit Scotland is currently tied into leases for all three offices, all of which end in successive years from 2025 onwards. However, its consultation with Audit Scotland staff over the course of the pandemic on ways of working has indicated working arrangements will be much different in the future and that there may be a preference for hybrid working.
 32. The Commission heard that any longer term requirements for social distancing will require to be factored into Audit Scotland's property review. Audit Scotland explained that they are keen to explore all options that may be available to them, including a model of having smaller satellite offices which provide readier access for staff with the need for less travel. Audit Scotland would also wish to retain any benefits from the current virtual working arrangements, such as staff not having to spend time travelling to work.²
33. **The Commission welcomes Audit Scotland's plans for a long-term property review and requests confirmation of the timescales for completing it. We endorse the Session 5 Commission's request that we be updated on the changes that are proposed to Audit Scotland's property strategy following its forthcoming review.**

Conclusion

34. **The Commission recommends that Audit Scotland's budget proposal for 2022-23, including the total resource requirement of £11,637K, be approved.**

- [1] Audit Scotland. (2021, December). Audit Scotland Budget Proposal 2022-23. Retrieved from <https://www.parliament.scot/-/media/files/scottish-commission-for-public-audit/202223-audit-scotland-budget-proposal.pdf>
- [2] Scottish Commission for Public Audit, Official Report. (2022, January 10). Retrieved from <http://archive2021.parliament.scot/parliamentarybusiness/report.aspx?r=13504&mode=pdf> [accessed 10 January 2022]
- [3] Audit Scotland. (2020, December). Audit Scotland Budget Proposal 2021-22. Retrieved from https://archive2021.parliament.scot/ScottishCommissionforPublicAudit/SCPA_Jan_21_Public_Papers.pdf
- [4] Audit Scotland Management Contingency Update. (2021, December 8). Retrieved from <https://www.parliament.scot/about/how-parliament-works/parliament-organisations-groups-and-people/scpa/correspondence/2021/audit-scotland-management-contingency-update> [accessed 12 January 2022]

