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Scottish Commission for Public Audit

Audit Scotland Budget Proposal for 2018-19



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Committee Membership



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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 particularly directs this report to the Finance and Constitution Committee in order to assist that Committee in its wider scrutiny of the Draft Budget for 2018-19.
3. Audit Scotland submitted its [budget proposal for 2018-19](#) and associated fee strategy on 12 December 2017 in recognition of the timescale for scrutiny of the 2018-19 Scottish budget. The Commission took oral evidence on the budget proposal and fee strategy at its meeting on [20 December 2016](#). Specifically, the Commission took evidence from Ian Leitch, Chair of the Board of Audit Scotland; Caroline Gardner, Auditor General for Scotland; Russell Frith, Assistant Auditor General and Diane McGiffen, Chief Operating Officer for Audit Scotland.
4. Mr Frith’s appearance before the Commission was his final engagement on behalf of Audit Scotland prior to his retirement. The Commission wishes to put on record its appreciation for the contribution that Mr Frith has made to the work of Audit Scotland and to the work of the Commission.

Change of membership

5. The membership of the Commission changed during the consideration of this Report. Jackie Baillie MSP left the Commission and the Public Audit and Post Legislative Scrutiny Committee on 22 December 2017.

Budget Proposal 2018-19

Overview

6. Audit Scotland's budget is drawn from two main sources. These are fees charged to audited bodies and monies approved by the Scottish Parliament from the Scottish Consolidated Fund. The budget proposal which the Commission is required to consider broadly funds the following areas of activity by Audit Scotland—

- Non-chargeable Central Government audits
- Performance audits
- The Auditor General
- The Accounts Commission
- A proportion of Audit Scotland senior management
- National Fraud Initiative
- New Financial Powers

7. Audit Scotland's budget proposal for 2018-19 is based on a total expenditure requirement of £24,356K. This represents an increase of £837K (3.6%) in cash terms from the approved 2017-18 budget of £23,519K albeit lower than the 2016-17 budget of £24,579K. The budget proposal seeks parliamentary approval for funding of £7,148K. This represents an increase of £617K (9.4%) in cash terms from the 2017-18 budget. Audit Scotland summarise the rationale for this proposed increase as follows—

” The new financial powers demands and the biennial National Fraud Initiative exercise are principal factors in the Total Resource Requirement for 2018-19 increasing by £617K from the approved requirement in 2017-18. ¹

8. The budget proposal is underpinned by three main assumptions. These are:

- The creation of eight new posts to deal with audit work arising from the devolution of new financial powers and constitutional change;
- An increase in the Audit Scotland pay bill of 2% (1% on pay scales and 1% pay progression); and
- An increase in pension scheme employer contributions of 0.5%.

9. In terms of the medium term financial profile of the organisation, the Auditor General commented, in correspondence to the Commission, that—

” We are planning a phased increase in resource requirements over the next four year period (2018-19 to 2021-22). This approach is aligned with the expected timeline for implementing new financial powers and establishing bodies that will require additional audit work. ²

10. The budget proposal notes that it has been prepared in the context of a number of uncertainties which impact on the Audit Scotland budget in the medium term. These include the impact of the Scottish Government's public sector pay policy, on-going devolution of financial powers, the impact of changes arising from the implementation of the Budget Process Review Group to the Scottish budget process and, lastly, the potential impact of Brexit. In relation to Brexit, the Chair of the Board of Audit Scotland, Ian Leitch, observed—

” On Brexit specifically, we do not have a worst-case scenario, because we do not know what we do not know. If we were to simply pluck a worst-case scenario out of the air it would mean cost. How do you put a figure on that? We have to take this bit by bit. The commission has asked questions on this in the past, and rightly so. It is a question that we ask ourselves constantly. We have made provision in our budget for looking at where Brexit is going but, frankly, until the powers that be know where they are going—I say this with respect, as it is not a political point—we cannot assume to know where they are going. ³

New Financial Powers

11. The main driver for the proposed budget increase is a consequence of the impact of the implementation of the devolution of financial powers arising from the Scotland Act 2016. As noted above, it is intended that eight new posts will be created to undertake audit work in this area. The Auditor General for Scotland commented on the workload for these posts as follows—

” Overall, the additional resources will enable us to carry out new work, including providing assurance to the Parliament as the financial and social security powers in the Scotland Act 2016 are implemented; further work to support Parliament as the complexity of the Scottish finances and the links to economic performance increase; the audit of the Scottish Fiscal Commission, where legislation does not allow us to charge a fee for the audit; work with the National Audit Office to provide assurance on income tax and, in due course, VAT income; and the audit of further taxes and social security as these are devolved. ⁴

12. The total cost of the additional eight new posts is £667K however the funding requirement being sought from the Scottish Parliament is £380K due to efficiencies generated within Audit Scotland. As outlined above, the response to the further devolution of powers in the 2018-19 Budget Proposal is the start of a phased response to the devolution of powers. Audit Scotland state—

” As financial and social security powers transfer on a phased basis, our mid-point projection of the full additional resource required by 2021-22 is 20 staff at a total cost of £1,200K. By that point we expect that around £2.9 billion of social security spending will have been devolved and that the Scottish Parliament will be responsible for raising income of £22 billion – more than half the total budget for Scotland. This is a seismic shift to the public finances. ⁵

13. The Commission sought further information on the basis underpinning the budgetary projections of the impact of the further devolution of powers. Diane

McGiffen, Chief Operating Officer, outlined the planning approach taken in the following terms—

” We have based our planning for the new financial powers on modelling that looks at a low point, a high point and a mid point. For now, the most prudent assessment that we can make is based on the mid-range of those assumptions. The budget that you are considering today contains the largest single growth—an estimated eight full-time equivalent posts. In each of the subsequent three years, we would be looking at an additional four posts if our mid-range assumptions hold true. We will revisit those assumptions continually throughout the years, particularly as the exact timetable for rolling out the new financial powers transpires, and we will revisit annually with the commission the question whether the assumptions are holding up. ⁶

14. The Commission recognises that the devolution of further powers will necessarily result in an increased workload for Audit Scotland. The Commission considers that the additional resources sought in the 2018-19 Budget Proposal are commensurate with the scale of that additional workload.

Pay Policy

15. The Audit Scotland Budget Proposal was submitted to the Commission prior to the publication of the Scottish Government’s Draft Budget. Audit Scotland’s budget proposal assumes a 1% increase in pay scales and a corresponding uplift of 1% in the fees paid to audit firms who conduct work on behalf of Audit Scotland. Audit Scotland’s current pay deal ends on 31 March 2018 and negotiations with the Public and Commercial Services Union (PCS), as the recognised trade union, are due to commence in 2018.

16. The Scottish Government’s 2018-19 Draft Budget seeks to guarantee a minimum 3% pay increase for public sector workers earning £30,000 or less and an increase of 2% for those earning more than £30,000 (limited to a £1,600 increase for those earning £80,000 or more). Each additional 1% increase in Audit Scotland pay scales equates to an additional £150K. The Commission queried what the impact may be if the budgetary assumptions regarding pay policy contained in the Budget Proposal did not hold following pay negotiations. The Auditor General responded in the following terms—

” We will be working very hard to balance what is affordable within our current budget with the expectations and the need to recruit and retain the staff that we need. If we end up in a position where we simply cannot reach agreement within the budget that we have here, we will look for further efficiencies internally. That gets more difficult every year, as it does for all public bodies, but we will look at that. We will look at fee setting for the next audit year, which starts in October 2018. As a last resort, we have the autumn and spring budget revisions to come back to you, but we work very hard to make sure that we never have to do that. ⁷

17. The Commission sought information on the pay ratio between the highest and lowest paid staff members within Audit Scotland and also with regard to the degree of any gender pay gap within the organisation. In terms of pay ratios, Russell Frith, Assistant Auditor General, stated—
- ” The disclosure in our accounts to March 2017 was that the multiple between the median salary, which is the one that is required to be disclosed, and the highest one was 3.4 times. ⁸
18. In later correspondence with the Commission, Audit Scotland highlighted the ‘[Equal Pay Review 1 April 2015 – 31 March 2016](#)’. The review found that “the gender pay gap for Audit Scotland shows that, having analysed data across the whole of Audit Scotland, women earn around 4.5 per cent less than men” ⁹. This gap, which is significantly lower than the UK gender pay gap in 2015 of 19.2%, was attributed primarily to more women being in junior roles within Audit Scotland and a “significantly higher proportion of males than females in senior roles”. ⁹
19. The Commission welcomes the active measures Audit Scotland take to monitor pay ratios and the gender pay gap within the organisation. The Commission recommends that Audit Scotland report annually to the Commission, as part of the budget process, with an updated position against these measures.

Audit Quality

20. The Commission, in its report on the 2017-18 Budget Proposal, highlighted that a reduction in fees charged could impact upon the quality of audit work undertaken. The Budget Proposal notes that Audit Scotland expects to continue to make real terms reductions in fees across all sectors of audit activity. In relation to funding to ensure the quality of audit work undertaken the Budget Proposal includes funding “of £250K to support an enhanced quality regime. This is an increase of £150K from the 2017-18 budget and is funded by internal restructuring”. ¹⁰
21. The Auditor General commented on the overall rationale for the funding of audit quality in the following terms—
- ” Members of the commission will remember that our budget proposal last year made mention of the fact that the procurement round that we had been through with the firms, which we have now appointed for an additional five-year period, had generated significant savings for us on top of the savings and efficiencies that we had made in ways of work across Audit Scotland. That was a good thing for the public purse, but we were very conscious that it also raised the risks of audit not being delivered to the quality that is required across the piece and we recognised the commercial pressures that the firms operate under”. ¹¹
22. In evidence to the Committee the Auditor General highlighted three main areas of activity that have been undertaken in recent years to provide assurance with regard to audit quality. These are firstly, the agreement of a new audit quality framework to provide quality assurance across all the audit work undertaken by Audit Scotland.

Secondly, putting in place independent assurance of all audit work. Lastly, the development of an enhanced reporting assurance which is in the process of being implemented.

23. The Commission welcomes the commitment of Audit Scotland to ensuring audit quality and the funding proposed to support this in the 2018-19 Budget Proposal.

Efficiency Savings

24. As discussed above with regard to the audit of new financial powers a substantial proportion of the proposed 2018-19 budget proposal to support 8 new posts in this area is being funded through efficiency savings. The Chief Operating Officer, Diane McGiffen, summarised the approach being taken to generate efficiency savings in this area as follows—

” ... the efficiencies will come from how we have built up the work that is required for the new financial powers along with a refocusing of some of the audit work that is already taking place in central Government and associated bodies. There is a bit of refocusing going on to deliver efficiencies that will contribute to the new financial powers work. ¹²

25. In evidence to the Commission additional areas of work which aim to generate efficiencies were also highlighted. This included activity in relation to the use of information technology to support audit and improved use of data analytics.

26. The Commission recognises the commitment of Audit Scotland to generating efficiencies and welcomes the continued commitment, particularly given the current fiscal environment, to obtaining efficiencies savings.

Conclusion

27. The Commission recommends that Audit Scotland's budget proposal for 2018-19, including the request for a total resource requirement of £7,148K, is approved.

- [1] Audit Scotland. (2018). Budget Proposal 2018-19, p.2.
- [2] Auditor General for Scotland. (2017, December 12). Correspondence , p.2.
- [3] Scottish Commission for Public Audit. (2017, December 20). Official Report, Col. 12.
- [4] Scottish Commission on Public Audit. (2017, December 20). Official Report, Col 5.
- [5] Audit Scotland. (2018). Budget Proposal 2018-19, p.6-7.
- [6] Scottish Commission on Public Audit. (2017, December 20). Official Report, Col 6.
- [7] Scottish Commission on Public Audit. (2017, December 20). Official Report, Cols 16-17.
- [8] Scottish Commission on Public Audit. (2017, December 20). Official Report, Col s 9-10.
- [9] Audit Scotland. (2017). 'Equal Pay Review: 1 April 2015 – 31 March 2016', p.8.
- [10] Audit Scotland. (2018). Budget Proposal 2018-19, p.8..
- [11] Scottish Commission on Public Audit. (2017, December 20). Official Report, Col 15.
- [12] Scottish Commission on Public Audit. (2017, December 20). Official Report, Cols 22-23.

