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Scottish Commission for Public Audit

Audit Scotland Budget proposal for 2020/21



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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 2020/21. Audit Scotland submitted its budget proposal for 2020/21 on 7 January 2020. The Commission took oral evidence on the budget proposal at [its meeting on 15 January 2020](#). The Commission took evidence from Ian Leitch, Chair of the Board of Audit Scotland; Caroline Gardner, Auditor General for Scotland and Accountable Officer for Audit Scotland; Diane McGiffen, Chief Operating Officer for Audit Scotland and Stuart Denis, Corporate Finance Manager, Audit Scotland.
3. The Commission also thanks Ian Leitch, the outgoing Chair of Audit Scotland, for his hard work and diligence.

Budget Proposal 2020/21

Overview

4. 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 for Scotland
 - the Accounts Commission
 - a proportion of Audit Scotland senior management
 - management contingency
 - National Fraud Initiative
 - Auditing related to the new financial powers, fiscal framework and social security
 - Assuring the quality of public audit in Scotland.
5. [Audit Scotland's budget proposal for 2020/21](#) is based on total expenditure of £27,098K (a 4.7% increase in real terms since 2018/19). This comprises of—
 - £18,383K (a 0.3 % real term increase) arising from fee income and
 - £8,865k of Parliamentary funding (an increase of £1,273K from the approved requirement in 2019/20 or 14.9% in real terms).
6. In terms of the funding for which Parliamentary approval is sought, £8,715K is revenue funding whilst £150K is for capital spending. Audit Scotland explain that the budget increase of £1,273K for 2020/21 comes from—
 - additional audit responsibilities for Scotland's New Financial Powers - £425K
 - the biennial National Fraud Initiative (NFI) - £220K
 - the cost of other new audits, pay awards and increases in employer pension contributions following the 2017 actuarial valuation - £628K. ¹
7. The Auditor General for Scotland (and Accountable Officer), hereafter referred to as the AGS, explained that a significant part of the 14.9 % increase arose as a result of two factors—

” Most of the new bodies that we have taken on responsibility for this year, including Social Security Scotland, Revenue Scotland and the Scottish Fiscal Commission, sit in that category: we cannot charge them a fee, therefore the cost of the audit falls on the funds that the SCPA approves and oversees for us each year. That is the biggest part of the shift that you see.

At the same time, there has been restructuring in the public sector. For example, the forestry bodies have come out of the fee-charging category and have moved into the group of bodies that we cannot charge. Again, that represents an increased call on the funding that the commission approves for us. ²

8. In terms of the NFI, this initiative is carried out every two years on a UK wide basis and involves using data matching to look for duplicate payments or unwarranted payments made in a wide range of public bodies. The cost arising to the NFI represents the payment made to the Cabinet Office to cover the number of bodies in Scotland and the number of data matches that will be carried out. ³
9. In its budget proposal for 2020/21 Audit Scotland highlight that "on completion of the 2016/17 NFI, we reported that it had found £129.2 million of potential fraud and error in Scotland's public bodies over the previous 10 years." ¹
10. Audit Scotland note that the budget has been prepared in the context of significant uncertainties (listed below) almost all of which were also highlighted in the budget proposal for 2019/20—
 - timing of budget statements from the UK and Scottish Governments
 - public sector pay policy
 - timing of the implementation of the remaining financial aspects of the Scotland Act 2016
 - the impact of the UK leaving the European Union
 - financial assumptions used to estimate International Accounting Standard 19 (IAS 19) defined benefit pensions costs. ¹
11. Audit Scotland's budget proposal for 2020/21 notes that it was advised in October 2019 by the Official of National Statistics that it has been reclassified for the purpose of national accounts, public sector finances and related national statistics. This will bring Audit Scotland into the same categorisation as the other UK audit agencies. The AGS confirmed that, following due diligence, "we believe that there are no implications that we or the commission need be concerned about" but that the Board will monitor the situation. ⁴

New financial powers

12. In relation to Scotland's new financial powers, Audit Scotland has a four-year plan in place (to 2022/23) to respond to the audit requirements for those new powers. The

budget proposal for 2020/21 represents an increase of £538,000 from what was projected by Audit Scotland in 2019/20 - at the upper end of the range of estimates provided. ¹

13. The AGS set out the two aspects that account for that upper end estimate—

- firstly the scale of change, particularly in relation to Social Security where complex delivery arrangements have been put in place involving different arrangements for different benefits. There is significant reliance on the delivery systems of the Department of Work and Pensions at a UK level, all of which has led to extra work.
- secondly the pace of change, with a number of benefits brought forward and new benefits introduced to tight timescales. All of this has meant that Audit Scotland has had to increase its capacity to carry out the audit of Social Security Scotland more quickly than had been expected. ²

14. In terms of future costs arising to Audit Scotland, in relation to Social Security related work the AGS observed that the upper end estimate provided in the 2020/21 budget proposal "is a timing issue rather than an increase in the volume of work. We are getting a clearer picture of the situation and we are building capacity, so I would not expect the budget to continue to increase due to social security." ⁵

15. The Commission heard that where there has been growth in the new financial powers, an efficiency is built in. The AGS explained that—

” We have not set out explicit efficiency savings this time in the way that we did previously. That is partly because we are in a growth situation—and we are at the top end of that. We know that the growth has been offset by efficiencies that we have made elsewhere. ⁶

16. Diane McGiffen of Audit Scotland explained the approach that Audit Scotland takes to identifying efficiencies—

” At a business planning level, each business group is looking at how it can be more efficient in terms of its staff mix and skills mix, and how it uses people. In addition, because we have been growing and taking on more audit responsibilities, we are looking at how we can meet the new audit responsibilities in a way that delivers quality and value for money....We also report in our annual report and accounts on the efficiencies that we have achieved each year. ⁷

17. The Commission recognises that changes in the timing of the operation of Social Security powers has required Audit Scotland to bring forward some of its planned Social Security activity. We therefore consider that the increase in budget being sought in 2020/21 to meet this expedited timescale is necessary.

18. The Commission notes the explanation of how efficiency savings are identified and will explore further the savings achieved when it considers Audit Scotland's Annual report and accounts for 2019/20.

Funding and Fees Strategy

19. Audit Scotland confirm that this budget proposal will see a fee increase for each sector of 2% for 2019/20 audits (a real term increase of 0.1% on 2018/19 charges). In line with its Funding and Fees Strategy, Audit Scotland's budget proposals result in 68% funding coming from audit fees for audited bodies, with the 32% balance funded through the Scottish Consolidated Fund (SCF). SCF monies fund the annual audits that under legislation Audit Scotland cannot charge for (such as Revenue Scotland and Social Security Scotland) and for performance audit work within the AGS's remit. ¹
 20. In its budget proposal Audit Scotland sets out its proposed income and expenditure for 2020/21 on a sector by sector basis (such as AGS, Accounts Commission, governance) to demonstrate how its expenditure lines are funded - either from fees charged to audited bodies or from funding approved by the Scottish Parliament. ¹
 21. The Commission sought an explanation of how funding approved by the Scottish Parliament was apportioned to each sector. The AGS explained that whilst some costs can be easily allocated to a particular sector (such as the audit costs for a specific local authority) others such as building and governance costs are more challenging. The Funding and Fees Strategy is therefore underpinned by "clearly argued and agreed allocation mechanisms for each category of costs" which includes a "fair and transparent" allocation of those costs when it is less clear where they should sit (such as the costs for Audit Scotland's management team). ⁷
 22. These underlying assumptions are revisited regularly to ensure they remain appropriate. The Chair of Audit Scotland made clear, however, that there is no cross-subsidy of sectors. That is, local government was not being subsidised by funding received for health sector audits or vice-versa. ⁷
23. The Commission welcomes Audit Scotland's confirmation that there is no cross-subsidy of sectors.

Staffing

24. Audit Scotland notes that most of its expenditure is on staff costs (66%) with the balance split between payments to external firms for undertaking audit work (16%) and administration costs (18%). The 2020/21 budget includes an increase of £425,000 an estimated increase of 10 whole time equivalent (w.t.e) staff —
 - 6.6 w.t.e for new financial powers resourcing requirements
 - 3.6 w.t.e relating to changes to resourcing requirements following departures or adjustments to working hours (this includes increasing the number of modern apprenticeships to 4 w.t.e).
25. For 2020/21 Audit Scotland have assumed its new pay agreement could add 3% per annum to its pay bill (2% for increases in pay scales and up to 1% for pay

progression). In the Commission's report on Audit Scotland's 2019/20 budget proposal we welcomed the active measures that Audit Scotland had taken to monitor pay ratios and the gender pay gap within the organisation. The Commission therefore explored the extent to which the budget proposal for 2020/21 would support further improvements in these areas.

26. In relation to Audit Scotland's 2020/21 budget proposal the AGS explained that the pay ratios are reported every year in the Annual report and accounts while the gender pay gap is reported every two years. In relation to the pay ratio for the 2018/19 financial year (which is published in June 2020) the AGS expected that it will show a reduction because—

” the movement of pay for staff in Audit Scotland has been more significant as a result of how pay progression works in the organisation than it has been for the most highly paid person in the organisation, whose pay is set differently. My pay is set on a different basis by the Scottish Parliamentary Corporate Body. Therefore, I expect the ratio to have reduced again. ⁸

27. The gender pay gap is more difficult to predict because, as the AGS explained, it is more sensitive to changes in the composition of the workforce and where on the pay scale new staff join. The most recent gender pay gap report showed that the median pay gap was driven largely by an increase in the number of women (57%) who joined the professional trainee scheme at the lower end of Audit Scotland's pay scales. Should those women move up through the organisation then the gender pay gap might reduce in future. ⁸

28. Diane McGiffen, of Audit Scotland explained that it had undertaken a lot of work to ensure that its roles are attractive to a diverse range of applicants although it had not been able to make a correlation between its activity and the jobs offers and appointments it makes. Updated gender pay information will be available in March 2020. ⁸

29. The Commission welcomes the continued efforts by Audit Scotland to reduce its pay ratio and gender pay gap. We will explore this further when we scrutinise Audit Scotland's Annual report and accounts for 2019/20.

Conclusions

30. The Commission recommends that Audit Scotland's budget proposal for 2020/21, including the total resource requirement of £8,865k, be approved.

- [1] Audit Scotland. (2020, January 15). Budget Proposal 2020/21. Retrieved from https://www.parliament.scot/ScottishCommissionforPublicAudit/SCPA_15_January_2020_-_public_papers.pdf [accessed 27 January 2020]
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- [7] Scottish Commission for Public Audit. (2020, January 15). Official Report, Col 22. Retrieved from <https://www.parliament.scot/ScottishCommissionforPublicAudit/report.pdf> [accessed 27 January 2020]
- [8] Scottish Commission on Public Audit. (2020, January 15). Official Report, Col 16. Retrieved from <https://www.parliament.scot/ScottishCommissionforPublicAudit/report.pdf> [accessed 27 January 2020]

