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Scottish Commission for Public Audit

Audit Scotland Budget Proposal for 2021/22



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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 2021/22. Audit Scotland submitted its budget proposal for 2021/22 on 7 December 2020.
3. The Commission took oral evidence on the budget proposal at its meeting on 15 January 2021.¹ The Commission took evidence from Professor Alan Alexander, Chair of the Board of Audit Scotland; Stephen Boyle, Auditor General for Scotland and Accountable Officer for Audit Scotland; Diane McGiffen, Chief Operating Officer for Audit Scotland and Stuart Dennis, Corporate Finance Manager, Audit Scotland.

Budget Proposal 2021/22

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 Commission is required to consider [Audit Scotland’s budget proposal for 2021-22](#). Audit Scotland explains that it will deliver—
 - Assurance over the significant new sums of public money being spent in Scotland.
 - Audit of more than 220 public bodies.
 - Continued recovery from the disruption to audit work in 2020.
 - A stable and consistent fee environment for public bodies.
 - 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.
 - Comprehensive tracking of Covid-19 support spending across the public sector to provide a coordinated 'follow the pandemic pound' approach and form a view on the effectiveness of the overall system of Covid-19 financial support.
 - Investment in more flexible and agile ways of working and enhancement to our digital and professional support capacity to ensure our audit reporting is keeping pace with the changes in public finances and services and in technological developments.
 - Additional recruitment to ensure we are able to attract and retain the highest quality of candidates and build the skills and expertise we need to develop public audit.
 - Greater strategic capacity to enable us to respond to the rapidly changing environment, and for public audit to be a clear voice for good governance and improvement as we move towards recovery and renewal.²

5. Audit Scotland’s budget proposal for 2021/22 is based on total expenditure of £29,551K – this represents an increase of £2,553K compared to its budget in 2020/21 (subject to Parliamentary approval of its 2020/21 Spring Budget Revision of £1,500K). This comprises of:
 - £18,737K arising from fee income (£354K increase from 2020/21), and
 - £11,064K of Parliamentary funding which represents an increase of £2,199K from 2020/21.

6. In terms of the funding for which Parliamentary approval is sought, £10,814K is

revenue funding and £250K is capital funding. Audit Scotland explain that the net budget increase of £2,199K arises from:

- management contingency 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, £2,100k;
- scheduled increases arising from additional audit responsibilities from further financial devolution to Scotland, £269k (to fund people costs estimated at 4.5 whole time equivalent staff);
- an increase in capital investment to support its digital strategy and office re-configuration requirements, £100k; and
- other adjustments delivering a budget reduction of £270k including savings in travel and subsistence, communications and depreciation.

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

” The financial risks and issues facing Scotland are bigger than they have ever been, and our audit role needs to respond accordingly. We need to move to ensure that we have the resources, skills and capacity to do the job that Scotland needs from us. Our budget proposal reflects that. ³

8. Audit Scotland note that the budget has been prepared in the context of significant uncertainties which are listed below and which aside from Covid-19 impacts, were also identified as uncertainties impacting on the budget proposals for 2019/20 and 2020/21. ²

- the organisational, audit work and financial impact of Covid-19 on Audit Scotland and the organisations we audit;
- 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 end of the transition period for the UK leaving the European Union; and
- financial assumptions used to estimate International Accounting Standard 19 (IAS 19) defined benefit pension costs and the impact of the McCloud judgement on future employer pension contributions.

The impact of Covid-19

9. Audit Scotland’s budget proposal states that “Scotland’s public sector currently faces greater challenges than at any point since devolution, and public spending is growing significantly”. ²

10. The AGS told the Commission—

” Public spending has increased by several hundreds of millions of pounds, and Covid-19 has exacerbated existing issues in Scotland, such as financial sustainability, public service provision, and economic and health inequalities. ³

11. The budget proposal explains that the pandemic will require an increase in audit resource to meet the additional complexity and financial risk exposure experienced by public bodies that are audited by Audit Scotland. The budget proposal states—

” An important element of this increase will enable us to support parliament in scrutinising the delivery of value for money of the additional £8 billion made available by the Scottish Government in 2020/21 to respond to Covid-19. ²

12. One of the impacts of Covid-19 on Audit Scotland has been on the timescales to complete audit work with the move to working remotely. This has meant that audits have taken longer to complete as new ways of working, by both Audit Scotland and the public bodies they audit, have had to be established. The impact on staff from lockdown consequences such as home schooling and caring responsibilities has also affected productivity.

13. A saving of £500K has risen in 2020/21 which included savings on wellness checks not being undertaken (as they were in-person consisting of face to face consultations). Audit Scotland confirmed it is providing a range of routes to provide additional support for staff, including counselling, professional support and other wellbeing activities run within the organisation, pending the resumption of the health check element of the wellbeing support.

14. Given the impact of the pandemic on productivity, Audit Scotland’s fee income has reduced in 2020/21 (as it can only recover fee income for work completed) and this fee income lag has also impacted on its budget proposal for 2021/22.

15. Whilst statutory audit reporting deadlines have been extended in response to the pandemic, there has been a knock-on effect on the planning and preparation for commencing the subsequent audits in 2021/22. Audit Scotland explained that “That timing difference equates to a large componentof our budget request for the 2021-22 financial year.” ⁴

16. When asked how long it would take Audit Scotland to ‘catch-up’ its audit work, the AGS explained that they were optimistic that vaccination will allow the route to recovery of the timeline of its audit work, and to address the fee income lag—

” I can probably not say anything beyond saying that I hope that 2022/23 will afford us more opportunity to do so and to achieve that recovery. Our planning expectation is that there will probably be a period of between 18 months and two years to recover and revert to the timescales. ⁵

17. During the pandemic Audit Scotland staff have been working from home rather than in the offices in Glasgow, Edinburgh and Inverness. Responding on how these new ways of working may affect Audit Scotland’s future property strategy, the AGS explained that although these offices are currently leased under longer term contracts, “In the longer term, the plan is to look at what that means for our property

estate and our property strategy." ⁶

18. **The Commission recognises the significant impact that Covid-19 has had on the productivity of Audit Scotland. This has had an inevitable knock on effect on the progress of audits for 2020/21, preparations for audits in 2021/22 and on its predicted fee income which is reflected in its budget for 2021/22.**

19. **We welcome the work that Audit Scotland has undertaken in 2020/21 to support staff, assisting them to work remotely and to ensure that it can continue to deliver its work programme effectively within the revised reporting deadlines. This should stand them in good stead should there be subsequent periods of lockdown during 2021/22.**

20. **Given the move to remote working, the Commission has written to Audit Scotland requesting that it update its successor Commission on the changes that are proposed to Audit Scotland's property strategy following its forthcoming review.**

Management contingency

21. As noted above the budget proposal requests an increase in management contingency from £330K to £2,400K, to "implement a long-term sustainable resource programme to meet the ever-increasing demands on public audit in Scotland". ²
22. Audit Scotland explain in the budget proposal, that the £2,400K management contingency should ensure that it will not seek any in year budget adjustments in 2021/22, other than the annual non-cash pension adjustment. If Audit Scotland identifies any potential underspend against this management contingency allocation, it will indicate this at the earliest opportunity for a return to the Scottish Consolidated Fund.
23. The budget proposal sets out that of this £2,400K, £1,500K will be "earmarked to assist with developing strategic improvement work and to meet the resourcing and financial pressures arising from Covid-19" such as the fee income lag as discussed above. The balance of the management contingency, £900K approx. will be set aside to enable Audit Scotland to meet pay award pressures, employer pension contribution uncertainty and other unexpected financial events. ²
24. In respect of the management contingency request, Diane McGiffen explained to the Commission that the considerable additional uncertainty arising in 2021/22 means that—

” We are looking for your help to enable us to respond flexibly to the situations that we face, to grow our capacity to withstand any further shocks—any further worst-case scenarios as the pandemic progresses—and to do that with the confidence that we have a strong track record of doing our work efficiently and effectively, reducing cost when that is possible. ⁷

25. The Commission sought information on the process Audit Scotland will use to identify priorities for funding from the management contingency and how that will be done transparently.

26. The AGS explained that, following consultation, he will complete a detailed work programme which will set out the proposed plan for audits. The audit plan will contain a degree of flexibility around the allocation of staff resources and planned growth.

27. In answer to how Audit Scotland's priorities for funding will be identified transparently, Professor Alan Alexander, Chair of the Board of Audit Scotland stated that—

” I am certainly satisfied that detailed scrutiny of the proposed new expenditure by the remuneration committee and, in particular, by the audit committee is very strong, to the point at which the board can examine other issues by exception, or at the request of the audit committee. ⁸

28. The Commission recognises that the significant impact and volatility of Covid-19, along with the ongoing challenges in areas such as Brexit and the devolution of further financial powers, mean that Audit Scotland's budget in 2021/22 is subject to much greater uncertainty than in previous years. This is reflected in a significant increase in its funding allocation for management contingency in its budget proposal for 2021/22.

29. Given this, the Commission has written to Audit Scotland requesting that it update its successor Commission, on a quarterly basis from 1 April 2021, on expenditure from this contingency.

Fees to audited bodies

30. The budget proposal shows that fee income from public bodies is only increasing by £354K (1.9%) in 2021/22. The Commission sought clarity on why the request for management contingency is a much greater percentage increase than the fee income generated from the public bodies who meet the costs of their respective audits.

31. In response the AGS commented—

- ” It is our judgment across a range of factors that the pressure on public bodies should not translate into an increase in the audit fees at that level. ⁹
32. The Commission expressed concern that the increased charges to audited bodies did not “seem to be commensurate with the additional responsibility and funding” that the bodies were receiving. When asked if, in the short term, the Scottish Government was being asked to cross-subsidise the audit work that is being done in public bodies, the AGS responded—
- ” Our request to the consolidated fund through the Scottish Parliament for funding is as is set out in the budget proposal. The fee arrangements refer to a 1.9 per cent increase in audit fees for public bodies in 2021-22 as opposed to applying what could mean much more significant increases. We have sought to strike the right balance in our considerations between the request to the consolidated fund as distinct from public bodies. ¹⁰
33. Annexe 3 of the budget proposal explains that for 2021/22 and 2022/23 audits, the aim is to keep fee increases across all sectors at the minimum level possible. It goes on to add that as Audit Scotland is currently operating in a very complex and volatile situation, any increases will reflect the resources required to deliver a high-quality audit.
34. The AGS explained that more generally there had been a range of changes to the audit landscape in Scotland. These have impacted on the balance of Audit Scotland’s funding between that which derives from fees from public bodies and that which is authorised by the Parliament. Those changes include:
- changes in the composition of public bodies as they have, by virtue of elements of public sector reform, moved from a chargeable status to a nonchargeable status;
 - the growth in the Scottish Parliament’s responsibilities and what is generally referred to as new financial powers. That is not a directly feeable activity for a public body although Audit Scotland does receive “a contribution for our overall work and outputs therein”. ¹¹
35. These changes along with the impact of Covid-19 had led Audit Scotland to start considering its longer-term funding arrangements. As the AGS explained—
- ” That is a multifaceted conversation with the Parliament and the commission as well as public bodies and the Accounts Commission, particularly given the relative ratio of our funding arrangements, which are skewed towards fees that we charge to public bodies relative to the funding that we receive directly from Parliament. We are keen to start and make progress on that work and to think about the implications for our funding, in the anticipation that the exact level of certainty might not return on an annual basis. ¹²
- 36. The Commission notes that any consideration of the longer-term funding arrangements of Audit Scotland will be for its successor Commission to consider and agreed to include this matter within its legacy report.**

Conclusion

37. **The Commission recommends that Audit Scotland's budget proposal for 2021/22, including the total resource requirement of £11,064K, be approved.**

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