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## Scottish Commission for Public Audit

# Audit Scotland Budget Proposal for 2024/25



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# Introduction

1. Section 11(9) of the Public Finance and Accountability (Scotland) Act 2000 requires Audit Scotland to prepare proposals for its use of resources and expenditure and send these proposals to the Scottish Commission for Public Audit ("the Commission"), which examines and reports to Parliament on the proposals. <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 2024/25 on 30 November 2023. <sup>2</sup>
3. The Commission took oral evidence on Audit Scotland's budget proposal at its meeting on 11 December 2023 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, Director, Corporate Support; and Stuart Dennis, Corporate Finance Manager, Audit Scotland. We thank them for providing both oral and follow-up written evidence. <sup>3</sup>

# Overview

4. The 2024/25 budget proposal explains that Audit Scotland—
  - ” ...is Scotland's national public sector audit agency which provides the Auditor General and the Accounts Commission with the services they need to carry out their duties. <sup>2</sup>
  
5. Audit Scotland's budget is drawn from two main sources: fees charged to audited bodies and funding which comes from the Scottish Consolidated Fund (SCF).
  
6. Audit Scotland's budget proposal for 2024/25 is based on a total expenditure of £37,617,000. This represents an increase of £2,624,000 (7.5%) compared to its budget in 2023/24. Its budget proposal is comprised of:
  - £24,526,000 arising from fee income from audited bodies (£1,583,000 (6.9%) increase from 2023/24)<sup>i</sup> and
  - £13,229,000 of funding from the SCF which represents an increase of £1,029,000 (8.4%) from 2023/24.
  
7. Of this funding from the SCF, £13,079,000 is revenue funding and £150,000 is capital funding. Audit Scotland explains that the budget increase of £1,029,000 arises from:
  - public audit in Scotland costs, £194,000 (+5%) - this covers the costs of Scotland's public audit model (e.g. Auditor General, Accounts Commission, Board, 50% Management Team, Audit Quality & Appointments and Innovation & Quality).
  - meeting the national fraud initiative costs, £230,000 (+100%) - this is a cost pressure every two years (which explains the +100% increase on last year).
  - audit services and firms' fees for non-chargeable audits, £227,000 (+9.8%) - this relates to an increase in the cost of audit delivery which includes additional work and new bodies requiring audit.
  - performance audit, £143,000 (+5.3%), due to inflationary increases in pay costs.
  - corporate services and overheads, £235,000 (+7.4%), due to the increase in pay inflation, additional office rent and other inflationary pressures (e.g. utilities, service charges).
  
8. Audit Scotland explains that its budget proposal for 2024/25 will deliver:
  - assurance over the significant amount of public money being spent in Scotland
  - audit of more than 220 public bodies
  - independent evidence-based public reporting on how well public money is

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<sup>i</sup> The income figure on page 6 of the budget proposal includes bank interest of £12,000

being used to:

- rebuild the economy
  - repair the damage to communities
  - address inequalities and create a fairer, more just society
  - demonstrate good governance, transparency, financial management, fraud prevention and long-term planning in public bodies
- further development of flexible and agile ways of working through its audit modernisation programme, which it argues, will ensure its audit reporting is keeping pace with the changes in public finances, services and technological developments.

9. However, Audit Scotland notes that the budget has been prepared in the context of significant uncertainties which are listed below:

- public sector pay claim/ policy challenges
- the timing of budget statements from both the UK and Scottish Governments
- impact of inflation/interest rates
- audit modernisation requirements
- the cost and availability of goods/services
- the work and resource required to complete European Agricultural Fund Account audit.

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

” Our draft budget proposal supports the delivery of our work in the challenging financial environment in which all public bodies operate. The volatility and pressures that the public finances face inform not only the work that we do, but how we operate as an organisation. We will balance the delivery of high-quality, independent audit with an audit modernisation programme, thereby ensuring that our audit approach remains fit for purpose in the years to come.<sup>3</sup>

## Direct funding

11. In its budget proposal 2024/25, Audit Scotland is seeking an increase of £1,029,000 (8.4%) from 2023/24. Given the extremely challenging financial pressures on Scotland’s public finances and the difficult decisions that lie ahead for the public sector, Commission Members questioned this significant increase in funding.
12. The AGS explained that this 8.4% increase comprises of three main areas—
  - National Fraud Initiative Costs – 1.9%
  - Non-chargeable audits – 1.8%
  - Delivering audits and operational costs – 4.7% <sup>3</sup>
13. The National Fraud Initiative (NFI) costs will require £230,000 of additional funding. This is a cost that Audit Scotland is required to pay to the Cabinet Office for processing the data for the NFI in Scotland on its behalf. The AGS confirmed that, since 2006/07, the NFI has achieved £158,500,000 in outcomes for the public sector in Scotland.
14. The AGS further explained that—
  - ” Environmental Standards Scotland and Consumer Scotland are not fee-charging bodies. As our audit work on the European agricultural funds ends, part of that work will become part of the Scottish Government audit, which is, similarly, a non-chargeable audit for us. <sup>3</sup>
15. Further information on the benefits and the outcomes of the NFI are set out by the AGS in his letter to the Commission of 9 January 2024 <sup>4</sup>. The increased costs of the biennial NFI and non-chargeable audits are outwith the control of Audit Scotland. Regarding operational costs and the costs of delivering audits, the AGS commented—
  - ” If members compare our requirement in that area for 2024-25 directly with that for 2023-24, they will see that it amounts to a 4.7 per cent increase. <sup>3</sup>

**16. The Commission recognises the importance of the National Fraud Initiative in delivering financial savings and preventing potential fraud. We also understand the impact of non-chargeable audits on Audit Scotland’s resources.**

## Efficiency savings

17. While recognising that 3.7% of the overall 8.4% increase requested is largely out with Audit Scotland’s direct control, the Commission sought confirmation that it has adopted a robust approach to identify efficiency savings in respect of the remaining 4.7%. In his follow up written submission, the AGS states that—



- ” The delivery of planned cash efficiency savings in 2024/25 enables us to allocate resources to work on essential new commitments without requesting additional funding.

The new integrated approach to business planning identified key operational and budget pressures that included audit modernisation, digital audit development and climate change audit requirements. To deliver on these key strategic objectives as well as continuing to make progress on audit delivery recovery, we have identified internal savings opportunities as part of the integrated budget process.<sup>5</sup>

## Vacancy factor

18. One of the planned efficiency savings in the 2024/25 budget proposal is the application of a 2% vacancy factor. The AGS confirmed that, in managing Audit Scotland’s budget for 2023/24, the application of a vacancy factor arrangement “which builds in an assumption around turnover levels and how quickly we can fill posts within the organisation...was perhaps our most significant step in managing our cost approach”<sup>3</sup>
19. The anticipated saving relating to staff costs arising from application of a vacancy factor, as set out in appendix 3 of the budget proposal, is £470,000. The Commission sought confirmation on the vacancy factor applied by Audit Scotland in previous years and the steps taken to ensure that the 2% vacancy factor applied in the current budget proposal takes account of the experience of previous years and that of the wider public sector.<sup>6</sup>
20. In his follow up written submission, the AGS confirmed that a 2% vacancy factor had been applied in budget proposals for the previous two years while the actual level of vacancies for 2022/23 was 5.1% and is currently running at 4.9% in this financial year up to November 2023. The AGS stated in his written response that—
- ” With the whole-time equivalent numbers planned to remain the same in 2024/25, the application of a 2% vacancy factor based on current and future staffing levels is a robust assumption that we feel is challenging but deliverable.<sup>5</sup>

21. **The Commission notes Audit Scotland’s application of a vacancy factor as part of its planned efficiency savings. We feel however that the vacancy factor of 2% that is applied to the 2024/25 budget is low given the actual level of vacancies in previous years. We therefore ask that Audit Scotland keeps its vacancy factor under review in future years, with a view to ensuring savings are maximised and embedded within Audit Scotland’s budget proposals.**

## Pay award and pensions

22. One of the significant uncertainties in the 2024/25 budget proposal is the public

sector pay policy. In negotiating its own pay award, Audit Scotland seeks to be consistent with the principles of the public sector pay policy in Scotland. The Scottish Government intends to "set out pay metrics for 2024-25 following the [UK] Spring Budget", scheduled for 6 March 2024. Audit Scotland's budget proposal states—

” The formal pay award offer for 2023/24 was agreed in November 2023. The pay settlement for 2023/24 required a 6% uplift in the paybill compared to a budget of 3%. The additional 3% has been absorbed in the year and is included in the baseline to be carried forward into 2024/25. <sup>2</sup>

23. In his follow up written submission, the AGS confirmed that talks with the recognised trade unions are already underway on the 2024/25 pay award and there is a shared ambition to have an agreement in place by April 2024.
24. During the evidence session, the AGS provided an update on employer pension costs. Since submitting the 2024/25 budget proposal, Audit Scotland has received a draft actuarial valuation and indicative contribution rates for its membership of the local government pension scheme. The draft valuation suggests that the rates will be lower than have been accounted for in the budget proposal.

**25. The Commission notes the current status of pay award negotiations and the potential for a reduction in employer pension costs following the draft actuarial valuation. The Commission requests updates on the pay award once negotiations have concluded and on the final pension scheme costs once a decision has been made by the pension scheme administrators. We further seek an explanation of how these final figures will impact on Audit Scotland's resources, including where any potential shortfall will be found, or additional resources returned to the SCF.**

## Scottish Consolidated Fund

26. Audit Scotland has a prior call on the SCF, which means that its resource requirement will reduce the amount of money available to the Scottish Government for its spending plans. The Commission is aware that Audit Scotland is not permitted to carry reserves and that any budget remaining at the end of a financial year must be returned to the SCF. The Commission sought reassurance on the robustness of its proposed expenditure and efficiency savings and notes Audit Scotland's focus on productivity and efficiency.
27. The Commission also heard from Audit Scotland that "... any of the unused in-year budget is returned to the Scottish consolidated fund. Over the course of recent years, that has been fairly routine and we have been able to pay back into the SCF any of the budget that is not used in year". <sup>3</sup>

**28. The Commission recognises that all underspends are returned to the Scottish Consolidated Fund towards the end of the financial year. However,**

**this allows very little time for the money to be reallocated and spent effectively before the financial year ends. We believe that more focus is required on ensuring that accurate financial planning is undertaken at the outset of developing Audit Scotland's budget proposal. This is particularly so given the significant pressures on Scotland's public finances.**

# Audit Scotland's estate

29. Appendix 1 of the 2024/25 budget proposal shows an increase in rent and rates expenditure of £151,000 (24%). Audit Scotland confirmed during evidence that this is an interim arrangement as a result of implementing changes through the estates strategy. The size of its office space in Edinburgh will be reduced, while its office space in Glasgow will be expanding.
30. The 2024/25 budget proposal also states that Audit Scotland's Spring Budget Revision for 2023/24 "requests a budget transfer of £150,000 from revenue to capital to support investment in making the additional office space in Glasgow suitable for our operational requirements".<sup>2</sup>
31. Audit Scotland estimates that, as a result of the changes made to its Edinburgh and Glasgow offices, financial savings will be in the region of £2,200,000 over the ten-year period to 31 March 2035. The AGS confirmed during the evidence session that savings from the realignment of office space provision will start to accrue from 2025. The budget proposal also confirms that—
  - ” Implementation of the [estates strategy] proposal is expected to be complete during the 2024/25 financial year and the budget assumption is based on incurring the full occupancy costs for the Edinburgh office with full annual savings generated from April 2025.<sup>2</sup>

**32. The Commission notes the costs attributed to implementing estates strategy and welcomes the estimated financial savings in the region of £2,200,000 over the next ten years.**

# Audit modernisation

33. The 2024/25 budget proposal sets out Audit Scotland’s plans for a ‘significant audit modernisation project’, which is expected to run for approximately three years. The requirements of this project are cited as one of the significant uncertainties under which the budget proposal has been prepared. The budget proposal states that the investment required in year one of the project (2024/25) is £148,000, which will be funded through internal efficiency savings.
34. The budget proposal further states—
- ” We anticipate that future budget proposals over the next three years will include a request for additional revenue and capital funding as the project progresses. <sup>2</sup>
35. The Commission sought clarity on the estimated total cost of the audit modernisation project over the three-year period, broken down between specialist external support and IT equipment and software. The Commission also asked for a copy of the business case supporting the project, if available.
36. The follow up written submission from the AGS stated—
- ” Our budget proposal sought to highlight to the SCPA that audit modernisation will be a significant factor in future budget proposals, but we feel at this stage of the project any cost estimations would be speculative and therefore unhelpful. <sup>5</sup>
37. The written submission from the AGS also confirmed the project is at an early stage and the development of a full business case will commence in the new year.

**38. The Commission notes that the audit modernisation project will be a significant factor in Audit Scotland’s future budget proposals. The Commission requests that it be provided, along with the full business case for the project as soon as practicably possible. As well as total estimated costs, this information should also include future savings anticipated.**

# General

## Scrutiny and challenge function

39. At its meeting on 11 December 2023, the Commission agreed that going forward it wishes to strengthen its scrutiny and challenge function in relation to Audit Scotland. In line with Recommendation 10 made in the Report on the Review of the Audit Scotland Board and the Scottish Commission for Public Audit, published on 26 June 2019, the Commission plans to do this by holding additional informal meetings on emerging priorities, such as Audit Scotland's audit modernisation programme, and other significant matters.<sup>7</sup>

40. **As part of its approach to strengthening scrutiny, the Commission plans to meet informally with Audit Scotland later in 2024 to hear of the progress of the audit modernisation project.**

## Scrutiny of Audit Scotland's budget proposals

41. The Commission is mindful of the complex and detailed work required in the drafting of Audit Scotland's budget proposal. However, the Commission at times found it challenging to accurately compare income and expenditure across multiple years due to the way in which the figures were presented and a lack of detail included in the accompanying narrative.

42. **The Commission would like to see a clearer presentation of figures in Audit Scotland's budget bids in future to enable proper comparison and ensure greater transparency where there are significant changes year on year.**

43. The Commission also considers that the current process - whereby Audit Scotland submits its final budget proposal for the following year in December – presents a challenging timescale for scrutiny of the budget proposal within the overall timetable for Parliamentary scrutiny of the Scottish Government's draft budget. Further, it does not allow the Commission to enter into any detailed discussions with Audit Scotland before the final figures are presented and provided to the Scottish Government for inclusion in the overall Scottish Budget.

44. **Ahead of next year's budget process, the Commission intends to review the timetable and written agreement for the submission of Audit Scotland's budget proposal to ensure it has sufficient time to fully examine and discuss the details of the proposal.**

# Conclusion

45. Under the provisions of the Public Finance and Accountability (Scotland) Act 2000, the Commission is required to “examine the proposals [from Audit Scotland] and report to the Parliament” on them.
46. The Commission notes Audit Scotland’s budget proposal for 2024/25, which represents an overall increase of 8.4% from 2023/24. While the Commission understands that only 4.7% of this increase is within Audit Scotland’s direct control, however, we have concerns at the level of this increase, particularly in the context of significant pressures on Scotland’s public finances and the resources of other public bodies and services.
47. In examining Audit Scotland’s budget proposal, we accept that proposed funds for the biannual National Fraud Initiative included in the budget proposal are essential in delivering financial savings and preventing potential fraud. However, in future years, we expect to see more evidence from Audit Scotland of how it has undertaken to achieve efficiency savings and avoid underspends. We also seek improvements in the presentation of figures in the budget proposal to enhance transparency and year-on-year comparisons.
48. The Commission also draws the Parliament’s attention to the steps we will be taking to strengthen our scrutiny and challenge of Audit Scotland and to enhance opportunities to examine Audit Scotland’s budget proposals in the future.

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