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Scottish Commission for Public Audit

Audit Scotland Budget Proposal for 2025/26

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Introduction

1. Under section 11(9) of the Public Finance and Accountability (Scotland) Act 2000, Audit Scotland is required to prepare proposals for its use of resources and expenditure for each financial year. The Scottish Commission for Public Audit ('the Commission') is responsible for examining and reporting to Parliament on these proposals to support its wider scrutiny of the overall Scottish Budget. [1]

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 2025/26 on 28 November 2024. [2]

3. The Commission took evidence on Audit Scotland's budget proposal for 2025/26 on 18 December 2024, from Stephen Boyle, Auditor General for Scotland and Accountable Officer for Audit Scotland and Colin Crosby OBE, Chair of the Audit Scotland Board, along with Vicky Bibby, Chief Operating Officer; Martin Walker, Director Corporate Support; and Stuart Dennis, Corporate Finance Manager, Audit Scotland. [3] The Commission wrote to Audit Scotland on 19 December 2024 [4] seeking additional information on a number of aspects of the proposal, to which we received a response on 10 January 2025. [5]

4. In line with recommendations in our Report on Audit Scotland's Budget Proposal 2024/25 [6] aimed at enhancing scrutiny of future budget proposals, the Commission also held informal discussions with Audit Scotland during the year on its audit modernisation programme[i] and to discuss its emerging thinking on budgetary priorities for 2025/26[ii].

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i On 24 June 2024

ii On 30 September 2024

Overview of the 2025/26 budget proposal

5. Audit Scotland's budget is drawn from two main sources: fees charged to audited bodies, and funding which is top sliced from the Scottish Consolidated Fund (SCF). Audit Scotland's 2025/26 budget proposal is based on total expenditure of £39,993,000 and is comprised of—

   - £25,010,000 (63%) arising from fee income, and
   - £14,983,000 (37%) from the SCF, an increase of £1,394,000 (10.3%) from 2024/25.

6. Audit Scotland sets out the key features of its budget proposal 2025/26, as follows—

   - an increase of £179,000 (1.34%) in parliamentary funding for its 'core operational activities' as compared to its 2024/25 budget,
   - funding for increased employer national insurance contributions arising from the UK Autumn Budget 2024 (which it estimates to be £520,000),
   - funding of £672,000 for investment in audit software to support the first year of its three-year audit modernisation project,
   - non-cash IFRS 16[iii] adjustment (£23,000),
   - identified efficiency savings of £2,741,000 (6.9% of its budget),
   - limiting the increase in audit fees to 1.9%,
   - providing for an agreed pay award of 3.8% in line with Scottish Parliamentary Corporate Body's award, and
   - uplift to contracted audit firms of 4.2%, in line with the contract agreement linked to audit year pay award.

7. Audit Scotland states that its budget proposal "recognises the current financial environment and challenges facing public services", adding "we recognise that public audit is not immune from these challenges and has a role in making a contribution to meeting them". It goes on to say that the proposal seeks to strike a careful balance between audit delivery, audit quality, staff wellbeing, managing risks, delivering efficiencies and cost savings, and providing effective scrutiny, challenge assurance and support. Audit Scotland further highlights that its budget proposal will deliver—

[iii] IFRS 16 is an accounting standard that requires entities to disclose the full cost of leases in their financial statements, irrespective of when payments are made to the lessor. For Audit Scotland in 2025/26, this requires an in-year non-cash resource requirement of £23,000.

> Significant development of our audit modernisation programme to transform our audit approaches, using integrated auditing software and tools, delivered by staff with the right skills, to continue to deliver high quality and impactful audit work and reporting in a compliant and efficient way, that keeps pace with the changes in finances, services and technological developments. [2]

8. The National Fraud Initiative (NFI) is carried out every two years, with the next activity due to take place in 2026/27. Funding for the NFI is therefore not included in the 2025/26 budget proposal[iv].

9. Audit Scotland notes that the 2025/26 budget proposal has “been prepared in the context of a higher level of operational and financial risk”, with the most significant risks highlighted as—

- an increase in the vacancy factor from 2% to 5%,
- absorbing the reduction to a 35-hour week,
- reducing our management contingency by half, and
- the challenging financial environment in the public sector. [2]

iv 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.

Efficiency and productivity

Background

10. In our Report on Audit Scotland's Budget Proposal 2024/25, the Commission concluded that, "in future years, we expect to see more evidence from Audit Scotland on how it has undertaken to achieve efficiency savings and avoid underspends". [6]

11. Stephen Boyle, the Auditor General for Scotland (AGS) explained to the Committee during evidence that £2 million in efficiencies and savings have been achieved by-

> closely managing our costs and making strategic decisions in areas such as our office estate. [3]

Productivity

12. Asked about Audit Scotland's decision to introduce a 35-hour week from 1 April 2025 and how this will impact on productivity levels, the AGS told the Committee that "productivity is reflected in our results", including increased audit delivery timescales, all NHS audits and most central Government audits now being on time and recovering the pace of delivery of local government audits. [3]

13. Chief Operating Officer, Vicky Bibby, explained that "the purpose of the 35-hour working week is to increase staff wellbeing by giving staff more time, so there was discussion with the unions about the need to increase productivity". Audit Scotland currently operates a 36¼ hour week, and it was clear during pay negotiations that this move was to be cost neutral, i.e. staff numbers could not be increased to accommodate the loss of hours. She noted that moving to a 35-hour working week equates to around 15 minutes a day, "so we are looking at simple measures such as saying, "if you are to have an hour-long team meeting, could you make it 50 minutes and focus some rigour on ways of working that could help manage that?". Close monitoring of staff flexi balances would also be carried out, "because we do not want to have a 35-hour working week but have staff balances increasing on the flexi side". [3]

14. The panel was asked to set out any other activities that would enhance productivity and efficiencies which would benefit staff and help them carry out their roles. Examples provided included—

- working to targets,
- moving into a third year of the audit appointment cycle, where efficiencies such as increasing the pace of delivery are realised as auditors become more familiar with the public bodies being audited,
- continuing to invest in learning and development, which the AGS noted naturally benefits productivity,

- introducing new software (resource system implementation) “to allocate resources to and know the real costs of audit”. This investment, the Chief Operating Officer explained, “is key to giving us a better idea of our productivity”,
- impact reporting and work planning, and
- audit modernisation, which is covered in more detail later in this report. [3]

15. Colin Crosby OBE, the Chair of Audit Scotland’s Board, further explained that the Board is seeking more clarity on the efficiency of training, the length of, and attendance at, meetings, and what support can be put in place to better streamline processes and help staff maximise their time, to support productivity. He added, in terms of the 35-hour week that

> Fifteen minutes [a day] might well be a challenge, but we are actually looking for rather more than that in terms of the amount of time that can be driven towards the job in hand. [3]

Vacancy Factor

16. In our Report on Audit Scotland’s budget proposal 2024/25, [6] the Commission noted that the 2% vacancy factor being used appeared to be low given the actual level of vacancies in previous years. We therefore asked Audit Scotland to keep its vacancy factor under review in future years, with a view to ensuring savings are maximised and embedded within its budget proposals. As noted earlier in this report, Audit Scotland’s 2025/26 budget proposal increases the organisation’s vacancy factor from 2% to 5%. The AGS explained that moving to a 5% vacancy factor generates an efficiency saving of around £1.2 million in 2025/26 and that Audit Scotland is bringing in new arrangements, including a recruitment board, to support its delivery. [3]

17. The AGS went on to say that achieving the vacancy factor will involve slowing down the pace at which vacancies are filled, although some of this may happen naturally, for example, when notice periods for those leaving and joining the organisation do not align.

Contingency

18. The 2025/26 budget proposal includes management contingency funding of £250,000, a reduction of £250,000 from the year before. The budget proposal stated that this is required “to meet any unplanned financial challenges that may arise in the year”. The AGS further explained that “with the SCPA’s support, Audit Scotland increased its contingency budget around the time of the Covid-19 pandemic, in light of the volatility of the environment in which we were all operating and the fact that we are not able to hold reserves”. According to the Chief Operating Officer, the larger contingency had also helped during recent years of “more volatile

pay settlements”. [3]

19. The contingency reduction to £250,000 is, the panel advised, “more reflective of the contingency that we need to operate, given how we are structured financially”. This includes more certainty regarding pay settlements and a wish to play a part in absorbing costs given pressures on the public sector. [3]

20. **The Commission welcomes the additional evidence provided this year on how Audit Scotland has identified efficiency savings, including the various steps it is taking to enhance the organisation’s productivity. It is also encouraging that this increased productivity has contributed to Audit Scotland being on track to achieve its ambition of recovering audit delivery by the end of the 2026/27 audit cycle.**

21. **We recognise that the measures set out above are identified by Audit Scotland as significant risks and would therefore wish to be updated on the potential impacts should any of these risks materialise.**

Staffing

22. The 2025/26 budget proposal includes £25.8 million for staff costs, compared to £24.6 million in 2024/25. The panel explained that Audit Scotland is working on the basis of a projected underspend of around £300,000 in staff costs in 2024/25, and that any underspends would be returned to the SCF.

23. The Commission explored during evidence why staff projections appear to remain flat between the years 2024/25 and 2027/28 and whether this accurately reflects volumes of work, productivity, and efficiency. The AGS highlighted that Audit Scotland is absorbing additional work arising from auditing an increasing number of public bodies, which he suggested is "as a result of some of our efficiency models". The Chief Operating Officer added that while staff numbers in the short term remain relatively flat, the target operating model may require a different mix, grades, and skills to link with business planning and audit modernisation. [3]

24. The Chief Operating Officer went on to say that work is underway on a future target operating model, including looking to recruit more graduates, and "pivoting around our school leavers programme and modern apprenticeship programme with an eye to the future". Benchmarking is also carried out against the private sector, other public sector employers in Scotland and at a UK level. More broadly, the AGS said-

> ...we think that we offer the right balance of reward package that can help us to deliver that vacancy factor and, more fundamentally, still be an attractive place for people to stay working with us and join us in the years to come. [3]

25. **The Commission notes that Audit Scotland is working on a 'future target operating model' and we look forward to receiving more information on this in due course.**

26. The increase in staff costs set out in the budget proposal for 2025/26 includes the agreed pay deal for staff, however, the funds being requested to cover the increase in employer national insurance contributions (employer NICs) of £520,000 have been ringfenced which, the AGS explained is "primarily for transparency, but also because of the engagement that we have had with the Scottish Government finance directorate, with which we liaise as part of the preparation and submission of Audit Scotland's budget". The AGS went on to say that "our view, which was supported by our board, is that NICs should be kept as a separate item for engagement with the SCPA today" [3] . He added that-

> In the event that the Parliament chooses not to support our proposal, our only other options would be to reflect that in fee increases or, on the other side of the balance sheet, reflect it in our cost base by doing something differently in how we deliver our audit work – to vary the pace and so forth [3]

27. Pressed on the reason why fees to those bodies that pay for their audits are not being increased to recoup their share of the additional employer NICs costs, the Corporate Finance Manager, Stuart Dennis, told the Commission that "we could absorb that cost by increasing fees, but I expect that the bodies that we charge the

fees to would not be getting an uplift in their grant or funding to cover that". The AGS repeated Audit Scotland's preference for these funds to come from the SCF given the ongoing uncertainty and negotiations between the UK and Scottish Governments regarding the extent to which public sector employer NICs will be refunded. [3]

28. In our follow-up letter dated 19 December 2024, the Commission sought further explanation of the reasons why Audit Scotland has chosen to 'ring-fence' in its budget proposal for 2025/26 the increased employer costs of NICs arising from the UK Autumn Budget 2024 and confirmation that these additional costs will be baselined from 2026/27 given this is recurring expenditure. [4]

29. In his response of 10 January 2025, the AGS explained that, after "careful thought" Audit Scotland has proposed that these additional costs are covered by the SCF for the following reasons—

- clarity, transparency, and accountability,
- the degree of uncertainty regarding how much of the additional costs will be funded by the UK Government and on the timing and method of resource transfer, including from the Scottish Government to public sector bodies,
- advice from the Scottish Government Finance Directorate that it expects bodies to forecast these costs within budget submissions,
- given 29 bodies are non-chargeable bodies for fees, the allocation of the NICS increase to fee paying bodies only "would introduce cross subsidisation across sector", and
- as a consequence of the financial year and audit year covering different timescales, significant additional administrative costs and overheads would be incurred to allocate part year NICs to public bodies' fees and ensure accurate accounting. [5]

30. Audit Scotland goes on to say-

> Please be assured we will review the approach in respect of future years once the funding and allocation position for Scotland is clear. [5]

31. The Commission accepts Audit Scotland's proposal that the increase in employer NICs be funded through the SCF for the financial year 2025/26, given the timing of the UK Government's announcement and the uncertainty regarding the extent to which public sector contributions will be funded.

32. We expect however that these costs are baselined in future budgets and that these are recovered through the audit fees levied on all audited bodies on a proportionate basis, irrespective of whether the audited body pays its audit fees directly or if its fees are met by way of the SCF.

Appointed auditors

33. Audit Scotland appoints private firms to undertake approximately one third of audit work on its behalf. The 2025/26 budget proposal notes that the "payments to firms' budget is based on the bids submitted as part of the tender exercise for 2022/23 audit work and this base figure is then uplifted to reflect the Audit Scotland pay award each April" in line with contractual obligations. The 2025/26 budget therefore incorporates a 4.2% uplift for 2024/25 audit work and a 3.8% uplift for 2025/26 audit work.

34. During evidence, the AGS recognised the risk in future years that private sector auditor firms may not bid to carry out public sector audits due to relatively low margins for this work as "a very live issue for us as we move into the next phase of public audit". Audit Scotland is now looking ahead to the next five-year cycle and-

> ...will engage in much more detail with the SCPA and the Public Audit Committee over the course of 2025, but there are signs that the market for public audit will become more challenging for firms in the years to come. [3]

35. The Commission explored whether more support could be provided to enable small and medium-sized audit firms to carry out more public sector audits. The AGS explained that it already works with six providers, including some medium sized firms, adding for the next phase "we want to cast our net wide; most fundamentally, we want to marry affordability and quality, and that will be the driver as we go forward with the programme". The Chair of Audit Scotland's Board also highlighted that it is not a given that Audit Scotland cannot do that work, but I think that there is a projection somewhere that shows that we would need to employ another 100 people to perhaps not do the work as well as parts of the private sector would", adding "it is not a black-and-white situation, but it is under review. [3]

36. **The Commission recognises the potential challenges arising from private sector audit firms moving away from carrying out public audits. We therefore welcome the commitment made by the AGS to engage in much more detail with the SCPA over the course of 2025 as Audit Scotland looks ahead to its next five-year cycle.**

Audit modernisation project

37. Audit Scotland's 2024/25 budget proposal set out its plans for a "significant audit modernisation project", expected to run for around three years. Investment in 2024/25 was £148,000, funded through internal efficiency savings. In our previous report, the Commission stated that, as part of strengthening our scrutiny and challenge function in relation to Audit Scotland, we plan to hold additional informal meetings on emerging priorities, such as its audit modernisation programme. The first of these sessions was held on 24 June 2024. [2]

38. The 2025/26 budget proposal states that the audit modernisation project aims to—

> Transform audit approaches that are clearly defined, risk-based and data driven, to ensure compliance, quality and efficiency; delivered through integrated auditing software and tools that automate and standardise processes; and delivered by confident teams and staff with the right skills in the right structure. [2]

39. The budget proposal includes £672,000 for the project "to meet the development and implementation costs for the replacement audit software", of which £592,000 is classified as 'people costs'. Audit Scotland expects that further SCF funding of around £1,544,000 in 2026/27 and 2027/28 (in total) will be required in relation to the ongoing development and implementation of the software. However, the budget proposal notes that "the potential additional requirements in 2026/27 and 2027/28 … are based on best estimates at this stage of the project and exclude optimism bias", adding "any additional system functionality requirements could impact on future funding requests though a full options appraisal will be undertaken before any request is made". Once fully operational, contract software costs are expected to be classified as 'business as usual' and therefore funded through fees. [2]

40. The Commission explored in more detail the reasons why Audit Scotland decided not to share the project cost requirement for 2025/26 across those public bodies it audits, given they ought to benefit from successful roll-out, and if there is any potential for cross-subsidy across the public sector. Responding, the AGS said "we are clear—and the legislation is such—that we do not cross subsidise between different sectors". The Chief Operating Officer explained that this was a significant discussion at the executive team and with the Board, adding that—

> As the investment phase peaks over the next three years, we wanted those costs to be clearly ring fenced and transparent, and we wanted to ask for central funding for them. Once we have finished implementation and are purely on the recurring licensing, we will want to build that cost into our core audit fee model. [3]

41. The Chief Operating Officer went on to say that the costs in the 2025/26 budget proposal are revenue costs as "we are not going down a capital project route of buying something in; the costs will be the licensing costs for the development of what we are doing [, and] the people costs are largely being absorbed in our budget". However, the Chair of the Audit Scotland Board noted the "significant people part to the process […] is because we are changing entire ways of working",

adding that “the single biggest risk in all of this is not the software but the process of change that will have to take place following implementation”. [3]

42. The Commission explored in evidence how Audit Scotland is learning lessons from the experience of previous public sector IT projects which have led to significantly increased costs and delays. The AGS told the Committee that—

> Given the organisation that we are and noting that we have reported many times over the years on unsuccessful IT projects in other public bodies, we are very alert to that risk, and we do not want to find ourselves in a place where we have not successfully anticipated costs or timescale drifts, or where we do not have the expertise. [3]

43. The AGS also set out the ‘safeguards’ that are in place for the project, including—

- assurance arrangements through the Board,
- a strategic improvement board which oversees progress with the project,
- undertaking an internal audit of arrangements, and
- engaging the Government gateway process.

44. The AGS added that “we have gone through all those processes, and I suggest that the figures and timescales that we are presenting are robust”. In addition, the Chief Operating Officer highlighted that Audit Scotland is utilising an existing National Audit Office (NAO) system rather than developing it ‘from scratch’. She went on to say that-

> We are relatively certain and confident about the totality of the funds over a three-year period, but the questions are around what the risk will be, monitoring whether we are on track for implementing the project within the timescale and how the costs fall across the three financial years. [3]

45. Asked about anticipated savings from the project, the AGS clarified that the project is not expected to be “a cash releasing programme of investment”, rather it is to ready Audit Scotland for the future, “so that we can continue to deliver what we believe to be high-quality, impactful audit work on behalf of the Parliament and the people of Scotland”. The AGS went on to say that the system is cloud-based and that Audit Scotland “will own that data, and we as a public body also have data retention obligations, which mean that we must retain data and audits for seven years”. [3]

46. The Commission’s follow-up letter of 19 December 2024 sought additional information on Audit Scotland’s decision not to share the costs of the audit modernisation project across those public sector bodies that it audits given the wider benefits they might expect to see.

47. Audit Scotland’s response states that it proposes to cover the software costs over the period 2025/26 to 2027/28 from the SCF as this represents an ‘overhead’ which is required to set up the new system and support the delivery of the public audit work in Scotland and that—

> Our view is that funding it in this way provides greater transparency, clarity and accountability than if it were distributed across the 200+ public bodies across Scotland (a number of which are non-chargeable bodies and where the funding would therefore still rest with the SCF). If the request was not covered by the SCF, this would result in an increase in the 2024/25 audit fees by a further 1.8 per cent to a total fee uplift of 3.7 per cent. This is not our preferred option as:
>
> - Legislation does not permit us to charge audit fees for all audited bodies, as a result, the costs for the new software would fall on 199 chargeable bodies
>
> - This would effectively result in 'cross subsidisation' to cover the AMP[v] [costs and between the classes of audit as set out in the fees strategy (where each sector is defined as 'a class'). The Public Finance and Accountability (Scotland) Act 2000 states 'In determining the amounts of those charges Audit Scotland must seek to ensure that the total sum received in respect of the charges is, taking one year with another, broadly equivalent to its expenditure in connection with the matters mentioned in subsection (1)(a) to (f). [5]

48. Audit Scotland anticipates that "from 2028/29, when the project is fully integrated into our delivery approach, we will incorporate any post system implementation costs of the replacement software within our core budget and cease seeking specific central 'ring-fenced' funding for this project". [5]

49. Our 19 December 2024 letter also requested a breakdown of the costs of the audit modernisation project, including on what areas the £672,000 allocation for 2025/26 is due to be spent, and clarification of how £592,000 of this amount is to fund 'people costs' arising from the project.

50. Audit Scotland responded that "at the time of completing the budget proposal submitted to the Commission the estimated 'people costs' element of the project for 2025/26 was £592,000, this was primarily based on additional external people costs". However, "following further discussion with the NAO, our partner organisation for the project, we are clear on the breakdown elements of the funding requirement […]". While the total budget requirement remains the same at £672,000, the 'people costs' element is now likely to be £250,000, with implementation costs of £275,000 relating to professional services, and hosting and analytics costs of £147,000 require to be allocated to IT costs. [5]

51. The response goes on to say that budget virements will take place before the start of the 2025/26 financial year "to ensure that the planned budget is accurately allocated to where the expenditure will be incurred". An Outline Business Case will be considered by the Board on 28 January 2025 and, once this is approved, a Full Business Case will identify a more accurate cost profile. Audit Scotland states that "we do not expect headline costs to change for 2025/26 and this will be managed robustly by Audit Scotland with oversight of the Board". It further commits to updating the Commission on the Board's decision regarding the Outline Business Case on 28 January 2025. [5]

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v Audit Modernisation Project.

52. **While the Commission takes some assurance from the governance arrangements in place for Audit Scotland's audit modernisation project, we are conscious that many previous public sector IT projects have been subject to significant delay and cost increases. We therefore request detailed progress updates on the project to be provided as part of our scrutiny of annual reports and budget proposals.**

53. **The Commission is satisfied with the proposal that the start-up costs for the audit modernisation project be ring fenced and funded directly from the SCF. We do however expect future running, maintenance, and licensing costs of any new systems to be included in future baseline budgets and recovered from audited bodies by way of audit fees on a proportionate basis, irrespective of whether the audited body pays its audit fees directly or if its fees are met by way of the SCF.**

Other operating costs

54. The 2025/26 budget proposal includes other operating costs of £79,000, which is 0.6% higher compared to the adjusted 2024/25 budget. It explains that the main changes include an increase of £466,000 in the fees and expenses paid to external firms, a decrease of £230,000 due to the biennial NFI not occurring in 2025/26, and a decrease in management contingency of £250,000.

55. Other operating costs set out in the proposal include £192,000 for resource system implementation, which the AGS explained involves procuring a system "to support the delivery of a way to better deploy people in the organisation", rather than the current approach of using spreadsheets to allocate teams to audits and cost information based on 'audit days'. As previously notified to the Commission, this project is being funded for three years through a pension reduction in the budget, and thereafter ongoing licensing costs would be funded through the efficiencies arising from the project.

56. Asked to explain the increase in professional fees and support of £124,000, the panel explained that Audit Scotland does not have an in-house legal department and therefore incurs legal costs for advice, for example, relating to public bodies' compliance with legislation, and guidance on leases, human resources, and contracts. The Corporate Finance Manager further noted that in addition to professional fees, we have an occupational health contract that is due for renewal, and that is related to staff and contractor wellbeing", adding "we have that provided as an external support [and] those are just natural increases as part of the contracts that we work with. [3]

57. The Commission heard during last year's budget scrutiny that Audit Scotland's estates strategy had involved an expansion in the Glasgow office and a reduction in capacity in the Edinburgh office. This year's budget proposal noted that "this ensures the provision of office accommodation that meets our operational requirements and generates future savings". Implementation has, it states, generated a reduction in property budgets of £281,000 from 2024/25. [2]

58. The AGS confirmed in evidence that "it has been a successful project for the organisation, which gives us an estate that allows us to be a flexible organisation". Desks are not provided in the estate for every worker which reflects the nature of the organisation, with people still working remotely and others working across Scotland delivering public audits as such, Audit Scotland has also retained its office in Inverness and a base within Aberdeenshire Council. The AGS went on to say-

> ...that all gives us the right modern facilities but, appropriately, it also generates some cash efficiencies. [3]

59. **The Commission is encouraged that Audit Scotland's estates strategy has generated significant savings while providing flexible office accommodation that meets its operational requirements.**

Conclusion

60. **The Commission supports Audit Scotland's 2025/26 budget proposal in principle.**

61. **We are content that costs emerging due to increased employer NICs are ringfenced and funded directly from the SCF in 2025/26. given the current lack of certainty regarding the actual additional cost which is yet to be advised by HM Treasury via the Scottish Government Finance Directorate. In future years we expect NICs costs to be baselined and recovered through audit fees.**

62. **Similarly, we are content that the set-up costs of the audit modernisation project be ringfenced and funded directly from the SCF over the course of its development and implementation period. In future years we expect all running, maintenance, and licensing costs associated with the new system to be baselined and recovered through audit fees.**

63. **We are encouraged that Audit Scotland has responded positively to our request in last year's report for additional evidence on how it has undertaken to achieve efficiency savings given the ongoing financial pressures on the public sector.**

64. **The Commission draws the Parliament's attention to the steps we are taking to strengthen our ongoing scrutiny and challenge of Audit Scotland and to enhance opportunities to examine its future budget proposals. Informal sessions held through this financial year with Audit Scotland on audit modernisation and on its emerging thinking on budgetary proposals have been incredibly valuable in informing our scrutiny. We therefore plan to continue this approach, including holding our next informal session with Audit Scotland on the future five-year auditing cycle, in light of concerns regarding the risk of private firms moving away from public audit.**

[1] Public Finance and Accountability (Scotland) Act 2000. (2000). Retrieved from https://www.legislation.gov.uk/asp/2000/1/section/11

[2] Audit Scotland Budget Proposal 2025/26. (2024, November 28). Retrieved from https://www.parliament.scot/-/media/files/scottish-commission-for-public-audit/audit-scotland-budget-proposal-2025_26.pdf

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[4] Scottish Commission for Public Audit. (2024, December 19). Letter to Audit Scotland. Retrieved from https://www.parliament.scot/-/media/files/scottish-commission-for-public-audit/2025/20241219-letter-to-ags-budget-follow-up.pdf

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[6] Scottish Commission for Public Audit. (2024, January 26). Audit Scotland Budget Proposal for 2024/25. Retrieved from https://bprcdn.parliament.scot/published/SCPA/2024/1/26/f617933f-a91c-4f1b-90bf-d3529841f6ec/SCPA062024R1.pdf