



The Scottish Parliament
Pàrlamaid na h-Alba

SCOTTISH COMMISSION FOR PUBLIC AUDIT

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By email only

Dear Stephen,

Annual report and accounts 2023/24

Thank you for giving evidence to the [Scottish Commission for Public Audit on 24 June 2024](#) in relation to Audit Scotland's Annual Report and Accounts for the year to 31 March 2024 and the *Quality of Public Audit in Scotland* Annual Report 2023/24.

As you are aware from our questioning, the Commission is particularly disappointed that approval was not sought for £6.271 million of non-cash resource for additional lease costs. The Public Finance and Accountability (Scotland) Act 2000, at Section 11(9), states that—

“Audit Scotland must, for each financial year, prepare proposals for its use of resources and expenditure and send the proposals to the Scottish Commission for Public Audit (constituted under section 12), which is to examine the proposals and report to the Parliament on them.”

Therefore, it is our expectation that approval is sought for such non-cash resource cover in the same way as in previous years - including when the Commission was asked to approve non-cash resource in relation to pensions. We remain unclear how this oversight happened and seek your assurances that robust processes are put in place to ensure that this situation does not occur again.

Separately, I can advise that the Commission intends to write to Alexander Sloan to seek further explanations and information as to why its audit did not include confirmation of the Commission's approval of Audit Scotland's entire resource outturn.

Following the meeting on 24 June - and in addition to the information on the non-cash processes - the Commission agreed to write to you seeking further clarification and additional information on the following issues—

- The Commission is aware that most parts of the public sector use staff vacancies as a tool to manage their budgets and calls on the public purse and has previously asked Audit Scotland to provide details of how it takes account of vacancies when preparing its annual budget submission. Noting that people costs were underspent, and staff turnover increased during 2023/24, the Chief Operating Officer confirmed that the 2 per cent vacancy factor currently being applied will be “looked closely at for the 2025-26 budget” adding that Audit Scotland does not want “too much risk in relation to the vacancy factor, because that is not a sustainable way to fund our budget”. Can you confirm that Audit Scotland's detailed vacancy factor assumptions will be provided for the Commission's consideration of the 2025/26 budget proposal?
- For Audit Scotland's budget proposal for 2023/24, the Commission approved an uplift of £2.550million from 2022/23 for the fees and expenses to be paid to external firms and was therefore surprised to note that a further £1.077million, over the approved budget, was paid in 2023/24. In evidence, you advised that these additional costs are due to several factors including “the year-one effect of the five-year audit round”, “a lag, which is related to the fact that some audits took longer than was anticipated by auditors” and “some delays”. In addition, the Chief Operating Officer confirmed that Audit Scotland has “assurance that the additional fees that we saw in 2022-23 will not be a recurring theme”. Can you provide further details of the ‘year-one effect’ and why that was not originally budgeted for if this is a common issue for newly appointed auditors? Can you further confirm how the other reasons, such as audits taking longer than anticipated and other delays will not create a recurring theme in future budget proposals?
- Significant budget underspends were identified during the evidence session, including travel and subsistence and legal and professional fees. You explained that budget setting is “based on the best available information... and proposals are informed not only by the results in the annual report and accounts but by the trajectory of in month spend. For transparency, ... we will look to clearly set that out when we bring our budget proposal to the commission later in the year”. The Commission welcomes the commitment to provide greater detail in future budget proposals. However, can you provide further detail and analysis of the reasons for the significant variances in travel

and subsistence and legal and professional fees, noting that the National Fraud Initiative is a known commitment and therefore should be included in budget proposals in alternate years?

- The Commission was surprised to note that a contributory factor to Audit Scotland's overspend on IT costs in 2023/24 was an "unplanned investment in IT, where we needed to upgrade the finance system because it was no longer supported. That investment was not planned at the time that the budget was set". Can you advise how the financial management system no longer being supported was unknown at what seems like short notice, not identified earlier and therefore not included in the 2023/24 budget proposal?
- Audit Scotland, in responding to public inquiries, states that "Over the past three years, we have seen increasing numbers of concerns raised with us about public bodies, but fewer enquiries about our work" suggesting that there are fewer enquiries about Audit Scotland work and more about broader issues. Can you describe or elaborate on the change in so far as the nature of the issues being raised in increasing numbers and any implications arising from this?

The *Quality of Public Audit in Scotland* Annual Report 2023/24 does not refer to any progress made on the recommendations of the 2022/23 report considered by the Commission in June 2023. The 2022/23 report recommended the need for "Root cause analysis ... of ASG staff survey results relating to learning and development and corrective action put in place", recognising that the Audit Services Group within Audit Scotland had performed lower than the external firms in respect of the training and development provided to auditors to enable a high quality audit. Given the Audit Services Group remains the lowest performing audit provider for this quality measure in 2023/24, can you advise what action was taken in respect of the 2022/23 recommendation?

We would welcome receipt of this additional information by 30 August 2024 to help inform our next discussion on 30 September.

Yours sincerely,

Colin Beattie MSP
Chair