



OFFICIAL REPORT
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Scottish Commission for Public Audit

Wednesday 22 December 2021

Session 6



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MEETING OF THE COMMISSION

2nd Meeting 2021, Session 6

COMMITTEE MEMBERS

- *Colin Beattie (Midlothian North and Musselburgh) (SNP) (Chair)
- *Sharon Dowe (South Scotland) (Con) (Deputy Chair)
- *Daniel Johnson (Edinburgh Southern) (Lab)
- *Richard Leonard (Central Scotland) (Lab)
- *Mark Ruskell (Mid Scotland and Fife) (Green)

*attended

THE FOLLOWING ALSO PARTICIPATED:

- Professor Alan Alexander (Audit Scotland)
- Stephen Boyle (Auditor General for Scotland)
- Stuart Dennis (Audit Scotland)
- Martin Walker (Audit Scotland)

LOCATION

Virtual Meeting

Scottish Parliament

Meeting of the Commission

Wednesday 22 December 2021

[The Chair opened the meeting at 11:15]

Decision on Taking Business in Private

The Chair (Colin Beattie): Good morning, and welcome to the second meeting in 2021 of the Scottish Commission for Public Audit. Agenda item 1 is to seek the agreement of members to take agenda items 4 and 5 in private. If any member disagrees, please type N in the chat function. Are we agreed?

No member has objected, therefore we are agreed.

Audit Scotland Spring Budget Revision 2021-22 Budget Adjustment

11:15

The Chair: Agenda item 2 is consideration of Audit Scotland's spring budget revision 2021-22 budget adjustment. Members have a copy of the spring budget revision budget adjustment in their meeting papers. I welcome Alan Alexander, chair of the board of Audit Scotland; Stephen Boyle, the Auditor General for Scotland; Martin Walker, acting director of corporate services at Audit Scotland; and Stuart Dennis, corporate finance manager at Audit Scotland.

I put on record the commission's thanks to Diane McGiffen, who has recently left her role as chief operating officer of Audit Scotland. She is taking up a new position as chief executive of the Law Society of Scotland. I am sure that everyone will join me in thanking Diane for all her work over the past 20 years and wishing her well in her new role. With Diane's departure, I welcome Martin Walker to his first appearance before the commission in his role as acting director of corporate services.

I invite Alan Alexander and then the Auditor General to make any short introductory remarks.

Professor Alan Alexander (Audit Scotland): On the matter of the spring budget revision, I would appreciate it if the commission heard from Stephen Boyle first and came back to me for the rest of the agenda. In other words, Stephen will make the opening statement on the spring budget adjustment and I will do the one on the budget proposal.

The Chair: Okay. That is grand.

Stephen Boyle (Auditor General for Scotland): Good morning. I am happy to make a couple of introductory remarks on the spring budget revision. If you are content, chair, I will make fuller remarks following Mr Alexander's comments on the budget proposals.

As ever, the spring budget revision request relates to Audit Scotland's pension arrangements, and the membership, for the vast majority of Audit Scotland staff, of the local government pension scheme, which is a defined benefit scheme, supported by assets and subject to valuation by the scheme's actuaries.

Each year, employers such as Audit Scotland have to make accounting disclosures and, if necessary, accounting adjustments to reflect the result of the valuations, based on actuarial assumptions. From the information that we have

been provided by the scheme's actuaries, that has resulted in a spring budget revision request to the commission of £6 million for the financial year 2021–22.

The background to that relates to changes in assumptions and, in particular, to a reduction in the discount rate that the actuaries are using. That has an effect of increasing the liabilities of the scheme and the associated share that the respective employer members, such as Audit Scotland, recognise.

Lastly, I advise the commission that Audit Scotland is in discussions with the Scottish Government finance directorate to highlight the financial implications and requirements across all of Scotland's public bodies that will make these accounting adjustments, where their funding comes from central Government or parliamentary sources. It is covered by what is known as AME—annually managed expenditure—funding, reflecting the non-cash adjustment from that funding. Subject to confirmation of negotiations, that is due to be received from Her Majesty's Treasury.

I am happy to pause there. Stuart Dennis and I would be delighted to answer any of the commission's questions.

The Chair: Thank you, Auditor General. I remind witnesses and members that they should pause briefly before they start to speak to ensure that the broadcasting team has time to switch on their microphone. Any member who has a supplementary to a question should type R in the chat box, and I will bring them in as soon as I can. As always, I would be grateful if questions and answers could be kept as tight as possible.

Auditor General, this non-cash accounting adjustment seems to come up every year, regular as clockwork. In fact, I cannot remember when it last went the other way. With regard to the Lothian Pension Fund, you have stated that you have had some discussions with the Scottish Government, but are we satisfied that the previously agreed arrangements with HM Treasury remain in place to meet the pension adjustment?

Stephen Boyle: I am happy to answer both questions, although Stuart Dennis might want to update the commission on where we are with the discussions with the fund and the Treasury. Over the years, this situation has fluctuated between an increase or a reduction in budget requirements, but our expectation is that we will be seeking support from the commission for additional AME funding budget approval both this year and probably in years to come if the assumption that discount rates will fall holds good. Of course, none of us can talk about this with a strong degree of confidence. In fact, just in the past week, the Bank

of England changed interest rates for the first time in many years, and there is undoubted variability in the discount rates that are used to measure the scheme's assets and liabilities.

Stuart Dennis can say a wee bit more about our confidence in HM Treasury support, but what I would say is that having AME funding support to cover the totality of what is ultimately a non-cash adjustment is a well-trodden path, and it is rooted in accounting disclosures that need to be correct and proper. There is no direct flow of funds from the central UK Government to Scotland—there is merely the need to have sufficient budget cover.

I will pause there and see whether Stuart wishes to add any more detail.

Stuart Dennis (Audit Scotland): I can absolutely confirm what Stephen Boyle has just said. This is a non-cash adjustment. Each year, the Scottish Government finance directorate and HM Treasury discuss the requirements for Scotland in respect of such adjustments; we have always been included in those discussions, and we regularly communicate with them to highlight what our requirement will be for the year. I do not expect any rejection in that respect. The proposal is always supported, because it is a non-cash adjustment and because it is part of an accounting standard and treatment that we need to adopt in our annual accounts.

The Chair: I just want to clarify something in my own mind. I have this vision of a big pot of liabilities taken from all four nations sitting down at the Treasury in Westminster. How is that accounted for?

Stephen Boyle: It is a combination of things. There is accounting in the individual bodies and accounting on a UK basis. HM Treasury's accounts, which of course are audited by the National Audit Office, will disclose what the annually managed expenditure budget has been and the call on it in totality, and that will be recorded. There are also the UK whole of Government accounts, which capture the scale of assets and liabilities.

However, many of the schemes will be accounting on their own basis. In other words, the local government pension scheme will produce its own accounts, which are audited by Audit Scotland; they are disclosed as the scheme's formal assets and liabilities, and then the respective members of the scheme will make extensive disclosures in their accounts. For example, Audit Scotland's annual report and accounts contain many pages of pension disclosures and set out our respective share of the liabilities, and as the commission will know, they, too, are subject to annual audit. There is therefore in the round a number of components of

assurance with regard to the disclosure of budgets and the pots of assets and liabilities.

The Chair: Thank you. I call Mark Ruskell.

Mark Ruskell (Mid Scotland and Fife) (Green): I am content with those answers to your question, chair, but I have a wider question about pension governance in the Lothian Pension Fund. What role does Audit Scotland play in it as an employer? What role do the members of the scheme play in the fund's governance, given that many of those people are your existing or former employees? Stephen Boyle or Stuart Dennis might want to answer that.

Stephen Boyle: I will start, and Stuart might want to follow.

We are the external auditors. The Accounts Commission appoints the external auditors of the Lothian Pension Fund to carry out that function. Actually, I should say that we appoint the auditors. Strictly speaking, the Lothian Pension Fund auditors are one of the firms that we appoint as external auditors.

In relation to our engagement with the pension governance arrangements, we are always mindful that, although we are an employer member, we also appoint the external auditors. Therefore, an appropriate distance needs to exist so that we do not compromise the independence of external audit in any way. Stuart can say a bit more about how we manage that and about the engagements that we have directly with the Lothian Pension Fund.

The commission might be familiar with the fact that, in recent years, significant changes have taken place in public pension governance arrangements, with the creation of pension boards—if I recall correctly, that has been in the past five or six years. The aim is to increase representation from employers and employee members in order to inform and shape some of the workings of public pension funds.

The success of those arrangements is a matter for review by the individual pension funds. They publish annual reports and conduct governance reviews, all of which seek to further the agenda that people who are members of the fund—employers or employees—are better informed, understand that significant sums of public money are used, and recognise that those liabilities and assets will exist for many generations.

I invite Stuart to talk about Audit Scotland's—*[Inaudible.]*

Stuart Dennis: I would add that the Lothian Pension Fund prepares a pension strategy document each year that we, as an employer, see.

As the Auditor General said, we are an audit body, so we do not feel that it is appropriate for any of our members of staff to be a member of the Lothian Pension Fund, even though we appoint an external firm to carry out that audit work. However, we are involved in pension strategy, and people from the Lothian Pension Fund contact us regularly to ensure that we are content with the way in which the fund operates.

The Chair: As no other member has indicated that they wish to ask questions on the spring budget revision, I thank the witnesses for their evidence.

Audit Scotland Budget Proposal 2022-23

11:28

The Chair: Agenda item 3 is consideration of Audit Scotland's budget proposal for 2022-23. Members have a copy of the budget proposal in their papers. We have the same witnesses for this agenda item. I invite Alan Alexander, the chair of the board, to make short introductory remarks, followed by the Auditor General.

Professor Alexander: Thank you, chair. Good morning to you and to the other members of the commission.

As ever, we are happy to talk through the proposal and to answer any questions that you have. As we all know, the pressure on public services and public finances is more intense than any of us has ever experienced. Public bodies, political leaders and public managers are juggling the difficult tasks of dealing with an on-going volatile pandemic—the past 10 days have shown us just how volatile it can be—and planning Scotland's recovery from the health, social and economic damage of the past two years.

All of that has created significant additional pressures for Scotland's public bodies. Those come on top of the major stresses and systemic and strategic challenges that they already faced, such as the challenges of maintaining financial sustainability, continuing public service provision at a time of increasing demand, and addressing economic and health inequalities. The response to that has led to increases in public spending and the overhaul and redesign of public services at a previously unimaginable scale and pace.

11:30

Over the past year and a half, Audit Scotland has had to respond to those challenges. As you know, we have had to grow and to change rapidly in order to do the bigger and more complex job that is now required of us. That must be done while we maintain and safeguard the robustness and independence of public audit in Scotland.

We have made significant changes to how we work to ensure that we have the skills and resources that we need now and for the future, and to protect the safety and wellbeing of our workforce. In that context, I would like to acknowledge the support that the commission has given us to make that possible. As Scotland's public bodies navigate the recovery and the transformation of services, our role in supporting improvements, providing assurance and shining a

spotlight on the significant risks will be even more crucial than ever.

I will leave it there. With the chair's permission, I will hand over to Stephen Boyle to speak in his capacity as accountable officer for Audit Scotland.

Stephen Boyle: As Professor Alexander outlined, and as is discussed in our budget proposal, over the past two years, the scope and scale of our responsibilities have grown at a rate that has not been seen since Audit Scotland was first established in 2000. Public spending in Scotland has increased by about a fifth, but public bodies remain very stretched. The financial risks and issues that Scotland faces are now much bigger, and the role of audit has never been more important. Our job has become more complex, and we need to ensure that we have the resources, skills and capacities to fulfil our role now and into the future. Our budget proposal reflects that.

We are making good progress. Over the past year and a half, we have recruited and have strengthened many aspects of our organisation. We have invested in new ways of working and have made clearer our priorities. Throughout that, we have continued to deliver annual audits of hundreds of public sector organisations and a comprehensive and flexible programme of performance auditing on matters of significant public interest. That has not been easy, and I want to thank sincerely all my Audit Scotland colleagues and those in our partner firms for all their work.

Public bodies are facing intense pressure. Staff have been diverted to front-line services, large amounts of money have moved rapidly through the system and the financial controls that are integral to ensuring that public money is spent properly have been variable. Those issues flow through to the audit. Auditors are reporting unprecedented numbers of inspections of accounts, and commission members will be familiar with some of the details that I have reported to Parliament through my section 22 reporting in that respect.

Looking forward, we are focused on Scotland's recovery and on our needs as an organisation. We embrace the significant demands upon us and will make the most of the opportunities to shape our future, while ensuring the safety and equality of opportunity of our colleagues.

Our resource requirement for 2022-23 is £11.6 million, which is an increase of £573,000 or 5.3 per cent in real terms. Our total proposed budget for 2022-23 is £30.6 million. Our proposal contains more details on the areas that we will deliver for that public money, and it includes assurance on the significant new sums of money and how well those are being used. We will continue to focus on

other key issues, such as inequalities and the outcomes that are delivered for public spending on climate change and economic recovery, among other areas.

Audit Scotland must continue to invest in digital infrastructure and other resources to support more agile and flexible ways of working. We must also attract and retain high-quality people and ensure that we have the right skills. We will invest in new methods, tools and approaches, and will support that with the right training and development. We are clear that everything that we do now and in the future must be built on the principles of wellbeing, quality, equality and sustainability.

As ever, my colleagues and I look forward to the commission's questions and will do our best to answer them.

The Chair: Thank you, Auditor General.

I will ask the first question. Back in January 2021, the Scottish Commission for Public Audit approved your budget proposal for 2021-22, which included a request for an increase in contingency to £2.4 million, to implement

"a long-term sustainable resource programme"

to meet the needs and demands of public audit. I will not go through it line by line to talk about what has been allocated to what, but you said then:

"If we identify any potential underspend against this budget allocation, we will indicate this at the earliest opportunity for a return to the Scottish Consolidated Fund."

You gave that undertaking. The latest management contingency update letter appears to suggest that £107,000 of non-recurring surplus has been used to secure "time limited external support".

In relation to the £500,000 management contingency that is sought for 2022-23, will you expand on the types of unplanned financial risk for which it could be used? Will any underspend be returned to the Scottish consolidated fund? Basically, why have you not returned the surplus money from last year? Will you give the same undertaking this year?

Stephen Boyle: I would be delighted to start answering that, and I might ask Martin Walker to say a bit more on top of the detail that I provide, as he has been overseeing the infrastructure and programme management that we have established in relation to how we spend the additional budget allocation that the commission agreed in last year's budget.

I will answer your questions in reverse, if I may. Yes, we give the same undertaking that, if Audit Scotland does not spend the money that the commission affords us in approving our budget,

we will absolutely return it to the consolidated fund. That will always remain the case.

Our request for our budget is based on our expectation of how we will spend it. The commission generously supported our budget bid last year. Given the unprecedented challenges that public bodies, including us, faced, our submission last year was designed to support Audit Scotland to provide public assurance on how well that money was being spent. That recognised the hugely significant scale of change in public spending that has taken place over the past two years. As we touch on in the proposal, it has jumped from £40 billion to £55 billion of spending.

As I referred to in my introductory remarks, there is a need for assurance on how that money is being spent. We are providing that in quite different ways and at a different scale and pace, with the control environment not always being as we would have expected in previous years. All that has required additional audit input to ensure that the money is being spent appropriately, and so that we can report on that.

Martin Walker can say a bit more about how we have done that but, briefly, we have invested in technology to ensure that we can support our colleagues to work remotely—we have been almost an entirely virtual organisation in the intervening period—and we have invested in our capacity. We initially recruited additional auditors to deliver our responsibilities. In more recent months, we have sought to identify how, as an organisation, we are fit to deliver our work and have been investing in some of our corporate activities, governance arrangements, digital skills and the development of our audit methodologies. All those activities have been funded and supported by the commission's support.

I will pause there, because I know that Martin Walker wants to come in with some of the detail on that spending, which I hope will assure the commission.

Martin Walker (Audit Scotland): Good morning, everybody. As the Auditor General said, the main focus and objective of resourcing and building capacity in these areas has really been about two things: delivery and development.

We were conscious that, during the course of the year, we needed to respond to the pressures around delivering our audit work. That is why the first phase of our capacity-building project was focused on getting additional auditors into the mix. With the commission's support and the approved funding, we were able to bring in 24 additional auditors to get on with that work.

The bringing in of that resource also meant that we were able to free up a little bit of our existing capacity so that we were able to invest in the

future and to put resource into developing our audit methodologies and considering how we can best use digital audit techniques and so on. We used a combination of the here and the now and a focus on the future.

The second phase of the capacity building very much focused on specialist and support skills. In more recent months, we have been going through a rigorous process of considering various proposals from areas of the business and business cases to assess how appropriate those bids were, and then to determine where those resources can be best used. Again, that has involved a combination of things. We have invested more in audit quality, which is important to us, in some of the corporate governance that Stephen Boyle mentioned and in communications resource, so that we can get our messages out efficiently and effectively and get the most value out of the audit judgments that we make.

Beyond that, the next area is technology. We are keen to ensure that Audit Scotland's digital provision is what all our auditors need for them to be able to do their jobs effectively.

The final area is to do with short-term spending, which might involve getting in some external consultancy in particular areas where we think that we might benefit from that. For example, we are looking to secure support to inform our long-term office management strategy because, as we move into the new ways of working in which hybrid working becomes much more prevalent than would ever have been the case previously, we might need specialist advice on how we can move from our current model of office provision to what a future model of work might look like.

There are a couple of areas in addition to that, chair, but I hope that I have given you a sense of what we have used those resources for.

The Chair: I will bring in Daniel Johnson for a supplementary question.

Daniel Johnson (Edinburgh Southern) (Lab): Chair, the witnesses have just touched on resources. If you are going to ask a question about that, I might be better coming in after that rather than pre-empting your question.

The Chair: Some of that might come up in my next question—you can come in after that.

Auditor General, I want to continue with a question about those resources: £1.5 million of the funding that was approved as contingency in 2021-22 was used to recruit additional permanent positions. Was last year's request for management contingency effectively a request for additional staff and therefore additional recurring budget? I am concerned not to mix up recurring and non-recurring contingencies.

Stephen Boyle: I understand the nature of the question. As the commission will know, the delivery of the organisation's activity is largely staff led. As we describe it, more than 70 per cent of our cost base relates to our staffing arrangements.

We have recruited new colleagues to deliver our work, while recognising that the budget uplift with which the commission has supported us is subject to annual review as we look to deliver our work. We also point to the fact that we have a comprehensive workforce strategy and plan. Turnover in our organisation allows us to adjust and be flexible. If the commission thinks that the budget should be time limited, we would make the necessary provision and adjustments within our workforce plan to allow for that.

To be clear, chair, that would not be our preference. The overall challenges facing public audit, given the scale of additional public spending, necessitates such a level of investment from the commission. However, if we needed to, we would review our workforce plan and make such changes, but we needed to recruit colleagues to fulfil the aspiration of delivering our audit work.

11:45

The Chair: To my mind, contingency funding is a one-off; it is not used for a recurring expense, which seems to be what most of your contingency is being utilised for. When you asked for contingency, would there not have been merit in your saying that you were not asking for funding in case something happened or there was unexpected or half-expected expenditure? You knew that additional staffing was needed. Why did you not just apply for that in the budget?

Stephen Boyle: We recognise your definition of contingency, chair. When we approached the commission about last year's budget, we probably did so in a way that recognised the times that we were in. We did not know what would be expected of public spending and the associated assurance. We were grateful to receive support through contingency, which is how we managed that.

On delivering the assurance that is required in relation to the additional public spending, we could have taken two routes. One route would have been for us to recruit staff temporarily to deliver the work; the other route would have been to recruit staff permanently.

There are a couple of components to that. First, our experience of recruiting temporary staff has been mixed. Typically, we are unable to recruit to the organisation the quality of colleagues that we would want for the duration of such posts. Secondly, as I alluded to in our earlier discussions, I think that we have been able to de-risk that, and

we will be able to de-risk that as we move forward through the organisation's inevitable turnover as people move on and continue their careers elsewhere.

We have recruited this year, and we hope to have the commission's continued support in that regard, if that is what the commission is minded to do in relation to our overall budget. Should you decide that our budget would change back to more recognisable levels, we could accommodate that through our workforce arrangements. I am happy to discuss how we would best do that, if that is your view.

The Chair: That brings me to my next question. You are looking for a further 1.5 posts in 2022-23. How many of the posts that you recruited to in 2021-22 related to the global health emergency? If most of them were recruited in response to that, as opposed to the additional work and responsibilities that you are taking on anyway, can we expect the number of permanent posts to reduce over time as the effect of Covid-19 reduces and we see a recovery?

Stephen Boyle: I will ask Martin Walker to say a wee bit more about the recruitment specifics. We have talked about how we recruited on a phased basis to support our capacity. The second phase was to recruit those with specialist skills—as is the case in any organisation, we require a base level of specialist skills to ensure that our organisation functions. There is a ratio between those two numbers.

I will digress for a second, chair. We set ourselves high standards in our work. The commission and the public expect us to be a well-functioning organisation in our control environment and in how we communicate, and they expect our governance systems to operate effectively. We also need to invest in our digital skills.

On the core recruitment that we have done, the audit work that was needed to deliver assurance on the vast sums of additional public spending was reflected in the first recruitment phase. Martin mentioned our recruiting 24 staff. We have not attributed the percentage of those roles that relates to the global health emergency or the percentage that relates to previously agreed and committed to investment through the new financial powers investment programme, which relates to the devolution of responsibilities to the Scottish Parliament, the creation of new bodies and so forth. However, it is clearly the case that the majority of our recruitment of auditors during 2021-22 has been related to the Covid-19 pandemic and the public audit response to that.

The Chair: So, in simple terms, we would expect the number of permanent posts to reduce over time.

Stephen Boyle: To be honest, I am cautious about making that kind of direct correlation. One might have confidently predicted that, all things being equal, but as we have identified and as we have touched on in the budget proposal, the auditing of public bodies as a profession is changing. We must invest in digital skills, we must have a response to the climate emergency and we are also seeing new quality and compliance expectations on audit organisations. All that would have been part of our discussions with the commission, had there not been a pandemic.

In effect, what I am saying to you in simple terms is that the relationship is not entirely linear. If the pandemic were to disappear overnight—as we all hope it would—would we immediately revert to our pre-pandemic staffing cohort? I think that we would still want to continue discussions with the commission on ensuring that public audit in Scotland was suitably resourced with the skills and capacity to respond to all the challenges that we are facing.

The Chair: The additional resources that you want in the 2022-23 budget are for 1.5 posts. Are they for Covid-19 work or are they for audit priorities?

Stephen Boyle: They do not relate to Covid-19 work; instead, they cover previously agreed and discussed proposals around the public audit response to the new financial powers and our audit work in relation to the devolution of responsibilities to the Parliament. It is a continuation of that investment rather than investment in the public audit response to Covid-19.

The Chair: You have been very clear about what the 1.5 posts are for. Given that, surely you can separate out the numbers dealing with Covid-19 issues from the numbers dealing with audit issues from the previous year.

Stephen Boyle: I am happy to take a further look at that issue and to come back to the committee in writing on it. Typically, we would not look to say that the people whom we recruited last year would work on Covid-19 while the others would work on new financial powers. While it is safe to say that the majority, if not all, of the colleagues who were recruited would have been working on the public audit response to the pandemic, we would not artificially ring fence a group of colleagues in how we would manage their inputs.

However, with the 1.5 posts this year, we are talking about the continuation of the new powers that Scotland has been provided with through devolution and the audit response to that. It is really the continuation of the discussion that Audit

Scotland has been having with the commission over a number of years.

The Chair: I call Daniel Johnson.

Daniel Johnson: Thank you for bringing me in here, chair. I did not want to pre-empt your questions with my follow-ups, which follow directly on from those questions.

Stephen Boyle has quite rightly said in the public domain that it is vital for the Scottish Government to act with transparency in the planned expenditure of Covid-19 money and how that spending is delivered. Indeed, the submission talks about following the public pound. Following on from previous answers, I wonder whether Audit Scotland, too, is doing that. I accept that it might not be about designating people to do the so-called Covid-19 work, but surely you are undertaking certain activities because of Covid-19. A discrete set of individuals or resources might not have been allocated to Covid-19 activities, but you must be able to identify the percentage of work in each audit or in other pieces of work that have arisen because of the pandemic. Are you identifying and tracking that? Do you need to look at what activities you are having to undertake because of Covid-19 to ensure that you can track and manage that work?

Stephen Boyle: I am happy to say a word or two about that. Stuart Dennis might want to come in to give the commission a bit more detail on some of our tracking and monitoring arrangements.

You are right to say that I have not been slow in encouraging public bodies to be open and transparent about their spending of public money. The same absolutely applies to Audit Scotland's affairs. We are clear with the commission, Parliament and users of public services that we are held to the same standards that we use when we pass comment on other organisations.

Covid-19 activities are dispersed across all aspects of our work. That is entirely unavoidable. Over the past 20 months, we have done two things. First, we have changed our performance audit and best value programme. We have produced a number of what we identify as new reports on how Covid money has been spent and a series of tracking publications. Secondly, we have a dedicated website, with an e-hub relating to Covid activity. We will continue to take that approach to all aspects of our work—for example, the overview reports on the national health service in Scotland and local government that are due to be published early in the new year.

Regarding our tracking of how well audited money has been spent, a further significant report is due in May 2022 that will take stock of how all

the public money has been spent and is informed by the annual audit work.

We touched on this in our budget submission: annual audits are still taking longer. That is almost entirely due to the pandemic. Vast sums of money have reached local authorities and have to be audited. Money has also gone to the enterprise agencies and other public bodies. All that work is also Covid related.

That audits are still taking longer is another feature of the pandemic. More audit input and more judgment about the spending of public money are required.

I hope that that gives the commission an indication of the impact of the pandemic, which is touching all aspects of our work. It matters that we are tracking and monitoring that, and that we are recording how we do so.

I suggested that Stuart Dennis might want to come in but I am conscious that Professor Alexander might also want to say a word about how we are reporting to and assuring our own board about how that money has been spent. At your discretion, chair, we might go to Professor Alexander first and then to Stuart Dennis. *[Interruption.]*

Daniel Johnson: Is your connection okay, Professor Alexander? Should I come back in with a question, chair?

The Chair: Are you online, Alan?

Professor Alexander: I am now.

The Chair: Would you like to come in, as the Auditor General suggested?

Professor Alexander: I can if he could repeat what he said. I had a moment away from the keyboard, so I did not hear him.

Daniel Johnson: I wanted to come back to something that Stephen Boyle said. Perhaps he can repeat what he said in his answer.

I am interested in the delay to the audit work. What is the broad balance? We can understand that there is complexity because you are having to do audit work remotely or with social distancing. There is an inherent productivity issue because of the Covid restrictions. What is the split between that issue and the fact that the nature of the activities being undertaken by public bodies, and the way that they are being funded through extraordinary Covid funding, is making your audit work more complicated? In other words, it is more difficult to follow the audit trail because of the nature of the work. Do you have a sense of that split? Have I missed anything else in my assessment of why audit may be taking longer?

12:00

Stephen Boyle: All those things are relevant. Remote auditing is a factor. As the commission will have heard me say already, we became a virtual organisation almost overnight in March 2020. We have periodically made access to our offices available as the pandemic conditions allowed—we did that a little bit during the autumn, but over the past few weeks we have reverted back to being entirely virtual.

It is also relevant to point out that, when the lockdowns were at their most significant and schools were closed, there was real disruption as colleagues assumed caring responsibilities. The same applies to colleagues in public bodies, who similarly found themselves to be less productive if they had caring responsibilities. All those things are factors not just for auditors but in any workplace.

We touched on the quality of the accounts that we have received for audit. From the feedback that we have had directly from our auditors this year, it is clear that we are making the most significant number of audit recommendations and adjustments that many of us have made at any stage in our careers. Some of that is a consequence of the additional sums that have been received and the money that flowed through the system at real pace—by necessity. We recognise that that is also causing delay.

I stress to the commission that it is not a universal picture. Some public bodies have been able to prepare their accounts and the audit has been delivered to the original, pre-pandemic timescale. However, other bodies are taking considerably longer. By way of illustration, all the central Government audits are expected to be laid in Parliament by the end of December but, for the first time, two central Government bodies will not meet the deadline to lay their audits by the end of the month. There are also several local authority audits that are still continuing.

In recent months, we have often used the term “unprecedented”, but none of us can recall audits carrying on beyond the calendar year in which the audit started. Those are all factors in why the audits are taking longer.

We hope that there will be a recovery of some of the timescales next year. However, more realistically, it will probably be at the start of the next audit appointment round that we will work in conjunction with public bodies to recover the timescales of earlier financial reporting.

Daniel Johnson: I will leave it there, chair. I have one more question that I may ask later in relation to investment. However, it may be covered by one of my colleagues.

Sharon Dowey (South Scotland) (Con): Auditor General, you have perhaps just answered my first question. What is your latest estimate for when you will catch up with the audit work that has been delayed because of disruption due to the pandemic?

Stephen Boyle: If you had asked me that question two or three weeks ago, I might have been more confident in my answer. Given the further restrictions due to the new variant, I am less confident in what I say. Our plan had been that 2022 would be a year of progress, if not of recovery of timescales. In 2023, we were anticipating reverting to the more traditional deadlines for the completion of audits.

We are not alone in these circumstances. The commission will know from previous conversations that we engage regularly with the other UK audit agencies. They are also experiencing delays and complexity in audit work. The people, the quality of the accounts that we receive for audit and the need for audit quality in the assurance work that we give to the public and our respective Parliaments are all factors in that. All that work needs to be done properly.

We have a plan. We will make changes to that plan given the circumstances that we are currently facing, but I fear that it will now take us a little longer to recover the timescales entirely.

Sharon Dowey: Audit Scotland has previously explained that you can charge only for work that has been undertaken. There was an inference that there may be an element of additional fee income from work that is undertaken in 2022-23, but which relates to audits from previous years. To what extent does the budget proposal include fee income arising from audits relating to previous years as well as fee income from work undertaken in 2022-23?

Stephen Boyle: I am happy to start on that. I suspect that Stuart Dennis will want to say a word or two about the flow of funds in respect of previous years.

Fee income represents a significant component of Audit Scotland’s budget. About two thirds of our income comes from the fees that we charge for our annual audit work, where we are able to do so. A significant number of our audits are non-chargeable, with the audit fee covered by the commission’s budget approval.

You will see that our budget proposal anticipates a 2 per cent increase to the fees budget set across the various different sectors. We have analysed some of the ranges. Fees are not entirely consistent from one body to another. There is some flexibility to charge additional fees where we need to do that as part of our audit arrangements. All our documents say that, in

circumstances where we have not received a high-quality set of unaudited accounts or high-quality working papers, or where the audit is not supported by officials being able to answer audit queries within the usual deadlines, we reserve the right to charge additional fees.

Stuart Dennis may wish to supplement that with further detail or comment.

Stuart Dennis: I have a couple of points, some of which may answer the previous question. The year 2021 has been the first in which we have done our auditing completely remotely—that happened for part of 2019-20. This year will give us a clear picture of how long a remote audit takes from start to finish. In 2019-20, we began audits in the old way of working but, due to the pandemic, we had to finish them remotely. We will have a clearer picture of the time and resources that remote audits take when we have completed the 2021 audits.

As Stephen Boyle said, we should be prudent about fees. There will be some element of catch-up, but not to the levels that we previously reached. As he suggested, we do not think that we can go back in the next financial year to operating as we used to. The budget assumes a small element of catch-up, but not to where we were previously.

The past couple of weeks are evidence of that. We have seen what is happening with the latest Covid variant. We cannot accurately predict anything this year and must be very careful with financial management.

Sharon Dowe: In paragraph 65 of the budget proposal, Audit Scotland advises that it expects its headcount

“will increase further as we continue to identify key areas requiring further investment”.

How many additional posts are expected beyond the headcount of 330? Have the costs of additional posts been included in the budget projections for 2023-24 and 2024-25 that appear in table 1 on page 10 of the budget proposal?

Stephen Boyle: I will invite Martin Walker to say a wee bit more about how we have constructed the proposal and about our expectations for future years.

The certainty that we have been able to offer probably is not as much as we would hope if we were being *[Inaudible.]* We have looked to identify the components to consider in future years, setting aside the specifics of the detailed proposal for this year. We are operating in a really volatile environment, but with the pace of adoption of technology, the application of our digital auditing strategy and our investment in audit quality in particular, we can assure the SCPA that Audit

Scotland assures both myself, as the Auditor General, and the Accounts Commission of the quality of its work. We have captured that in our submission this year but, as I mentioned in relation to our workforce plan, we keep our plans under regular review so that we reflect our financial spending—*[Inaudible.]*—colleagues that we put—*[Inaudible.]*—and employ to deliver that are all in tandem.

Martin Walker: It is absolutely right to say that it is quite difficult to be accurate in predicting our workforce projections over the next couple of years. In previous years, there was much more predictability, so we could anticipate and plan for changes much more accurately.

In the current situation, with the uncertainties that exist, the budget submission contains our best estimate of what the workforce will look like over the years to come.

We are almost in a transition stage in relation to some of the things that we are investing in, such as digital auditing, and in relation to what new ways of working look like in practice. We want to get efficiencies from those processes but at the moment it is quite difficult to pin those down. We might like to see a curve that goes up and then starts to drop as those new ways of working come into effect but, as we sit here, it is really quite difficult to predict with as much accuracy as we would like.

It is absolutely the case, however, that, as the Auditor General says, we keep this stuff under regular review. We recast the workforce projections annually, at a minimum, and, as we have demonstrated this year, we have also sought to be as flexible as we can be in responding to the challenges that we face while ensuring that we keep close tabs on what is happening.

There was an earlier question about how the board keeps itself assured of how this is all playing out. If it is helpful, I could say a little bit about that.

The board and the audit committee get quarterly update reports on our performance, our financial performance and risk. That is a well-established pattern of reporting, which we have sustained during the pandemic because we were clear that certain matters of good governance needed to continue even in quite challenging circumstances, so that is what we did.

Over and above that, we produce an update report for every meeting of the board, which assesses the impact of the pandemic on the audit process and audit delivery, and the organisational impact of Covid on our people and our response. As I say, the board gets that update report at each meeting, and those reports are all published on our website.

I hope that that assures you that we are monitoring things carefully and that we are keen to ensure that the board has all the information that it needs to assure itself that we are responding appropriately.

Sharon Dowey: That is fine. The Auditor General has touched on the subject of my last question. You mentioned that staff costs are about 70 per cent of your expenditure; there are increased costs there. It is also likely that there will be significant increases in the fees that are paid to the professional services firms that perform audit work on Audit Scotland's behalf. Those fees are subject to significant uncertainty.

My last question, therefore, is this. To what extent does Audit Scotland's 2022-23 budget recognise the budgetary impact of increased inflation, given the potential for higher-than-expected staff cost increases and significantly increased fees being payable to professional services firms? I take it from your last answer that that was all taken into account as much as possible when you did your budget.

12:15

Stephen Boyle: As you said, we took all that into account as much as we were able. I think that Professor Alexander will want to say a bit more about where we are at, not just because he chairs the board but because of his work in chairing procurement arrangements through the new audit appointments steering group.

I will say, though, that there is uncertainty about what our costs might be after we have completed procurement of audit services, given our mixed-market approach to undertaking external audit of public bodies in Scotland. Audit Scotland staff conduct about two thirds of the audit work; the other third is undertaken by firms that are appointed by me and the Accounts Commission. We are in the midst of the tendering arrangements, so we do not yet know the detail of firms' bids.

The direction of travel of external audit in the public and private sectors is towards an increase in fees because of increasing compliance arrangements, increasing complexity, increasing demands and increasing expectations. In the plan that we have set out in our budget proposal, we will continue to engage with the SCPA and will ensure that the impact of all that and the costs are clearly known when we make our submission to the commission for our 2023-24 budget. We will, of course, continue to update the commission in the meantime.

Before I hand over to Professor Alexander, I want to say something about our costs with regard to Audit Scotland employees and that cost being

referenced along with fee increases for firms under the existing arrangements. In the assumptions that we have made about a pay award in our budget submission, we referenced not only what we know of pay awards in other parts of the public sector—which are, up to a point, formed by Scottish Government pay policy—but the need for us to invest in, to recruit and to retain high-quality and high-skilled people. Our market is different; we have to reflect its various parts so that we can continue to deliver the audit work that is required of us.

I invite Professor Alexander to comment.

Professor Alexander: I have two main points to make about the board's oversight of the entire budget process—and, indeed, the entire decision-making process—in Audit Scotland. Stephen Boyle referred a few moments ago to the procurement round. It is just coming to its conclusion; we hope to appoint new auditors in the first quarter of next year so that the appointments can take effect from the beginning of the next financial year.

Back in February 2019, before I became chair, the board asked me to chair a steering group to do two important things. First, we were to revise the code of audit practice that underpins the entire audit process and, secondly, we were to organise procurement of auditors from private firms to do about a third of the audit work for which we are responsible. The process has involved detailed oversight by, and participation of, board members, with a report of where we have got to being given at each board meeting.

In addition, I have instituted the practice of having board seminars, in which we look at matters in some detail and in a way that is not bound by the pressures of a complex agenda. That underpins how we oversee, for example, the budget submission. We had, towards the end of last summer, a seminar on risk and one on development of the budget process and the assumptions that underlie it. We will have more seminars in the coming year. I emphasise that to the commission to make the point that I and independent members of the board do not come to the board and forget everything else that is happening. We have continuing oversight and we come with a deep understanding and—how can I put this?—a positively critical eye on the proposals that come to us.

The Chair: I ask people to be tight with their questions and answers, because we are running over time.

Mark Ruskell: I will quickly go back to Martin Walker's point on the future operating model of your three offices in Glasgow, Edinburgh and Inverness. I think that you are undertaking a

property review at the moment. What are its emerging conclusions? Will you need those three properties in the long term? Will the changes that you have made as a result of Covid stick in relation to the need for less office accommodation? Can you give us a quick flavour of where you think that issue is going?

Stephen Boyle: I am happy to start. Martin Walker might also want to say a word or two. We will be doing a property review; we have started thinking about that. We have touched on the fact that we are tied to leases for the three sites, which will end in successive years from 2025 onwards, if I recall correctly.

We have consulted colleagues regularly over the course of the pandemic through periodic pulse surveys to test their views on ways of working and so on. All expectations are that we will move not to the exclusively virtual model that we are using as we speak, but will, more likely, use hybrid arrangements that will provide more flexibility for people to undertake their work and ensure that we are providing the right service based on expectation in auditing the public bodies that we audit. I am mindful of our net zero aspirations, too. We will have an office estate of some description, but probably not in its current guise.

Unfortunately, as we go through that process, we will incur costs and pay rent for the three sites that we have. It is worth the commission's while to hear that we have just about completed rent negotiations for our Edinburgh office and, after a long period of negotiations, and contrary to expectations about demand for commercial property in Edinburgh, our rent for that site will slightly increase for the duration of our lease.

Our working arrangements will look and feel different in the future, but we will build up to that until we reach the break points in the leases for the three offices.

Martin Walker: Timing is everything for that kind of thing. As we know, there are still significant uncertainties and, in some respects, competing pressures. As Stephen Boyle said, we have done a number of surveys of colleagues, from which it is clear that hybrid working is the future preference of the vast majority of our colleagues, which makes perfect sense in many respects.

That would, typically, take one in the direction of assuming that we will have a reduced office footprint, because we will need less space. I am sure that that will be a factor, but it is also the case that as things develop as we go through the pandemic, there is the competing pressure of potential restrictions around social distancing. We have always sought to achieve good social distancing standards. Social distancing in the longer term will have the opposite effect, if you

like, in that it suggests that the office footprint might not be reduced by as much as was originally thought. It is clear that there is uncertainty about that. We are keen to look at all options.

The green agenda is important, too. We must consider whether having three larger offices is the right model for the long term. There might be other models that we should consider, such as having smaller satellite offices that would provide readier access. We have people spread right across the country and before the pandemic people would travel to the three offices, so we should think carefully about whether that is a sensible model for the future.

There are not many things that people have liked during the pandemic, but we learned from our survey and from feedback from colleagues that people have benefited from not spending time travelling to work each day. We want to hold on to that; we do not want to revert to what we did before. Some good things have come out of the pandemic; we must use them to inform our future thinking. We should look at a broad range of options.

Timing will be important. There are breakpoints in our leases; I hope that we will know more clearly when we reach them what we expect our office estate to be and what our colleagues expect and need from office space. What is done in offices in the future will not necessarily be the same as what was done in the past.

I might have given you a bit too much information, but that will have given you a flavour of our thinking.

Mark Ruskell: That is fine. It sounds as if there are exciting opportunities for staff and as if there are potential cost reductions. That is a happy situation to be in.

I want to ask about a specific detail in the budget, which is the £660,000 for governance. Can you briefly explain what sits under that figure?

Stephen Boyle: I invite Martin Walker to talk you through that, as it is in his area of responsibility.

Martin Walker: The figure covers a broad range of areas. We are an organisation that sets high expectations for good governance; we apply them to ourselves, too. The figure covers support for the board and all its business, including its committees and the services that support that process. That includes our performance management and risk management arrangements and the work that goes into them to ensure that we operate as effectively as we can and that we meet the aspirations that have of others.

Mark Ruskell: Do you see any way of reducing that figure in the future?

Martin Walker: We are always looking for efficiencies. We keep all areas of the audit work and the running of the organisation under careful and close review. As we make greater use of technology, we might find more opportunities for efficiencies. Members will be aware of the expense of holding meetings; that has been different during the pandemic. We might need to look at how we can retain some of what has worked and has been more efficient during the pandemic as we develop new ways of working for the future. We keep all such matters under review all the time.

Mark Ruskell: I have a final question on detail. We noticed that the payment for audit support officers has gone down from £41 an hour to £38 an hour. Can you explain that?

Martin Walker: No, and I would not want to try to bluff an answer. Stuart Dennis might be able to help with that. If not, we can provide information after the meeting, if that would be helpful.

Mark Ruskell: That would be good.

12:30

Richard Leonard (Central Scotland) (Lab): I have just one very quick question. I note that paragraph 68 of the budget proposal document, under the heading "Other administrative costs", mentions an increase of £220,000

"in respect of the biennial National Fraud Initiative".

Can Stephen Boyle explain how that figure has been calculated? Is the increase for recruiting additional staff or for bringing in additional services? Moreover, can you explain for our benefit under which of the various budget lines that expense sits in the table in appendix 2 on page 19 of the document?

Stephen Boyle: I will take your questions in reverse order. The national fraud initiative comes under the "Audit Quality" budget line in appendix 2. The total proposed budget for that line is £829,000, and the £220,000 that we are requesting for the NFI will be part of that.

I am sure that Stuart Dennis will want to say a little more about how we will spend the £220,000. You are right to highlight a spend that yo-yos in and out of our budget proposal to the commission, but that reflects the biennial nature of the activity. We do not recruit new people to come and work on the national fraud initiative, only for them to leave and thereafter have to be rehired, but there are costs associated with running the activity; there are the direct costs of our engagement with the activities of and arrangements that are associated with the Cabinet Office, which oversees the overall initiative. The appearance and disappearance of the spend is a fairly

consistent pattern in our budget, but if you are happy for me to do so, I will ask Stuart Dennis to talk the commission through how that £220,000 is made up.

Richard Leonard: That would be helpful.

Stuart Dennis: The £220,000 is our contribution to the Cabinet Office for all the data sets of the public bodies in Scotland that provide information for the database and the NFI matching exercise. Under agreed arrangements, we pay for the whole public sector in Scotland.

As the Auditor General has said, the exercise happens every two years. The last one was in 2020. A report on the NFI matches is due at some point next year. It will set out the matches that have been identified as well as our findings. In our last NFI report, which came out in July 2020 and was based on the 2018-19 exercise, we identified £15 million of fraud and error in the public sector. Since the initiative's implementation in 2006-07, £143 million has been identified. That figure is likely to increase once the data match for the 2020 exercise is carried out. The sum that we are discussing is the payment that will go to the Cabinet Office in 2022 for co-ordinating the data sets that will be sent.

I hope that that answers your question.

Richard Leonard: Yes, it does. That was helpful. I presume that any money that is recovered as a result of the initiative goes back to the bodies that have been defrauded, and not to Audit Scotland.

Stuart Dennis: That is right. When errors are identified, the public bodies that are involved try to get that money back.

Richard Leonard: My point is that although you have to pay a fee to get the data sets, and although you track the fraud, you do not get to recover the fee that you have to pay in the first place.

Stuart Dennis: That is correct. That method was agreed in Scotland a number of years ago, because it was felt that it would be easier to co-ordinate everything in one location. It was decided that Audit Scotland would be the body to do that, instead of there being lots of independent payments, invoicing and so on. In short, it was deemed to be the most efficient and effective method of undertaking the NFI.

The Chair: I am conscious of the time. I have another couple of questions, but I propose to send them to Audit Scotland through the clerks, then we will circulate the responses when they are received.

I see that members have no other comments or questions, but I also see that Stephen Boyle has

put an R in the chat box. Do you want to say something?

Stephen Boyle: That is very generous of you, chair. I was just going to say a word about the NFI in response to Mr Leonard's question about the benefits. Although nothing in a financial sense accrues to Audit Scotland, we are generally content with the arrangements because it matters very much that public bodies participate and are fully engaged. As Stuart Dennis said, we report our findings biennially. I think that what accrues to public bodies from that are not just financial benefits; there is also the deterrent effect of the initiative. We would be mindful of the risk of unintended consequences of any move to disrupt that relationship or to change the NFI fee arrangements.

That is all that I wanted to say, chair.

The Chair: Thank you for that. As no other member wishes to ask a question, I conclude this evidence-taking session by thanking all our witnesses for their evidence.

That concludes the public part of the meeting. I will give members a couple of minutes' for a comfort break before we resume in private to consider the evidence that has been heard.

Thank you very much, and merry Christmas.

12:36

Meeting continued in private until 12:58.

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