



**OFFICIAL REPORT**  
AITHISG OIFIGEIL

# Scottish Commission for Public Audit

**Friday 15 January 2021**

**Session 5**

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**SCOTTISH COMMISSION FOR PUBLIC AUDIT**

**1<sup>st</sup> Meeting 2021, Session 5**

**CHAIR**

\*Colin Beattie (Midlothian North and Musselburgh) (SNP) (Chair)

**DEPUTY CHAIR**

\*Bill Bowman (North East Scotland) (Con) (Deputy Chair)

**COMMISSION MEMBERS**

Alison Johnstone (Lothian) (Green)

\*Rona Mackay (Strathkelvin and Bearsden) (SNP)

\*Jenny Marra (North East Scotland) (Lab)

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

Alan Alexander (Audit Scotland)

Stephen Boyle (Auditor General for Scotland)

Stuart Dennis (Audit Scotland)

Diane McGiffen (Audit Scotland)

**LOCATION**

Virtual Meeting



## Scottish Commission for Public Audit

### Meeting of the Commission

*Friday 15 January 2021*

*[The Chair opened the meeting at 10:30]*

### Decision on Taking Business in Private

**The Chair (Colin Beattie):** Good morning, and welcome to the first meeting in 2021 of the Scottish Commission for Public Audit. We have received apologies from Alison Johnstone. I welcome Jenny Marra back to the commission and I thank Anas Sarwar for his work with the SCPA.

Agenda item 1 seeks the agreement of members to take in private agenda items 5 and 6. If members disagree, they should type N in the chat function.

No members have indicated disagreement, so that is agreed.

## Spring Budget Revision 2020-21 (Budget Adjustment)

10:31

**The Chair:** Agenda item 2 is consideration of Audit Scotland's 2020-21 budget adjustment to the spring budget revision. Members have copies of the spring budget revision and budget adjustment in their meeting papers. I welcome to the meeting Alan Alexander, the chair of the board of Audit Scotland; Stephen Boyle, the Auditor General for Scotland; and Diane McGiffen, the chief operating officer, and Stuart Dennis, the corporate finance manager, both from Audit Scotland.

Today is Stephen Boyle's first appearance before the commission in his role as the accountable officer for Audit Scotland, so I welcome him to this morning's meeting. I invite Alan Alexander and the Auditor General to make some short introductory remarks.

**Alan Alexander (Audit Scotland):** Thank you. We are happy to talk through the proposals that you have before you, to answer your questions and to engage in discussion on how best to maintain the quality, integrity and impact of public audit in Scotland.

It hardly needs to be said that the world has changed. Covid-19 has refashioned how we live and work—perhaps permanently—and how we deliver public services in Scotland. It has also changed Audit Scotland's role, and the budget proposal directly reflects that.

It is worth noting that we submitted the proposal to the commission in the early days of December. At that time, the rate of infection was slowing, a vaccine had been approved, restrictions were being relaxed across much of Scotland and many of us believed that the turn of the year would mark the beginning of a recovery and an exit from the pandemic. However, since then, we have seen the emergence of the new Covid variant and the imposition of much stricter rules for the festive period, and 2021 started with a return to lockdown conditions that are similar to those that we experienced at the start of the pandemic. Those restrictions have a knock-on effect on issues such as home learning and capacity and, earlier this week, we heard that they are unlikely to be lifted soon. That is perhaps a perfect illustration of the volatile and unpredictable environment that we now operate in.

As you are all aware, the pandemic has placed significant and, in some cases, unique pressures on Scotland's public sector at a time when it already faced major stresses and strategic challenges. Public spending has increased by

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

There is increasing public and parliamentary interest in how money is spent, how well public services are responding and the longer-term impact on Scotland. For Audit Scotland, that means that we have to change and develop so that we can deliver the high-quality and world-class public audit service that Scotland will need more than ever.

That will mean more than incremental change and development; it will mean making step changes in how we work and ensuring that we have the skills and resources that are needed now and in the future. We also need to ensure the resilience and sustainability of the public audit model in Scotland, safeguard quality and maintain the safety and wellbeing of our workforce.

I emphasise that my board, the senior management of Audit Scotland and the entire staff are committed to demonstrating how the Scottish public audit model can rise to the challenges and exemplify the highest standards in the stewardship and application of public funds.

With your permission, chair, I will hand over to Stephen Boyle, who will speak in his capacity as the accountable officer for Audit Scotland.

**Stephen Boyle (Auditor General for Scotland):** Good morning. As Alan Alexander has outlined, and as is set out in our budget proposal, Audit Scotland is quickly moving from—*[Inaudible.]*—following new responsibilities to the Scottish Parliament to now dealing with a public health crisis and associated public service response at a scale not seen—*[Inaudible.]*

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

Our resource requirement for 2021-22 is £10.8 million, which is an increase of £1.9 million, or 21.5 per cent in real terms. Our proposals contain more detail of what that will deliver, including providing assurance on the significant new sums of public money and how well that is being used to rebuild and repair the economy and address inequalities. We will follow the pandemic pound.

Our total proposed budget of £29.5 million for 2020-21 equates to about 0.05 per cent of Scotland's public sector budget. We need to make the most of the opportunities to change working patterns and practices and to ensure the safety and equality of opportunity of our current and

future colleagues. That means investing in our digital infrastructure and other resources to support more agile and flexible ways of working.

We will be developing new methods, tools and approaches to retain and attract the people we need, whom we will be supporting 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, equity and sustainability.

As ever, my colleagues and I will do everything that we can to answer the commission's questions.

**The Chair:** Thank you, both, for those introductory remarks. Before we move to questions, I remind witnesses and members to take a small pause before speaking, so that the broadcasting team has time to switch on your microphone. If any member has a supplementary question, please type R in the chat box and I will bring you in when I can. As always, I would be grateful if questions and answers could be kept as succinct as possible.

I will start off. Will Audit Scotland provide an update on whether its most recent assessment of work continues to suggest that the figure of £1.44 million remains accurate? Is the income shortfall of £1.44 million a one-off issue specific to the financial year 2020-21?

**Stephen Boyle:** I will start, and I will perhaps invite Stuart Dennis and Diane McGiffen to supplement my remarks.

As Alan Alexander mentioned in his introductory remarks, the spring budget revision, which we submitted in December, reflected what we thought was a stabilising, or potentially improving, picture in relation to the scale of the pandemic and what that meant for the pace of our work. Clearly, we have seen in—*[Inaudible.]*—that is no longer the case.

As you would expect, we have done additional modelling and forecasting of what that means for our financial position. In the past few days, we have drawn from the December month-end figures, and our remodelling suggests that, for a range of scenarios—the mid-point, low point and end point—we are looking at a deteriorating picture of our expected completion of work. However, we think that we can still absorb that in our request to the commission for an additional £1.5 million. Stuart Dennis might wish to say a wee bit more about that in a moment.

The second part of your question was about whether the income shortfall is a one-off for 2020-21. The timing of our work—the pace at which we can complete audits and therefore our ability to

recognise income—is the key factor. Therefore, it is probably too early to tell.

Like everyone, we are optimistic about what the pace of vaccination and recovery might mean in signposting a return to normal activity. The pace at which we recover timing feels more difficult to predict accurately. However, we know that the timelines that we are used to will still be elongated during 2021, and, to an extent, that will also probably run into the following financial year. As ever, the picture is highly volatile.

**The Chair:** Auditor General, you said that you did some remodelling based on the situation at the end of December, which was very early in the current lockdown and its impact. You also said that you think you are able to absorb any additional costs within your current ask. How confident are you about that? None of us has a very clear picture. What was the basis of your modelling at the end of December, which led you to that conclusion?

**Stephen Boyle:** I will start, and I will invite Stuart Dennis to give the commission a bit more flavour of some of the variables that we have considered.

The one thing I would say is that we have now done almost all the audit work that relates to the 2019-20 financial year. That has been no small task, although the timescales are more stretched than we expected. Had you asked us at the start of the pandemic, in March or April, whether we anticipated completing all of the 2019-20 audits by this point, I do not know that we would have. It is important to me to put on record my thanks to all of Audit Scotland's colleagues for their effort and work in delivering that result.

There are a number of variables. I ask Stuart to talk through the measures that we considered as the basis for our forecast for the year end.

**Stuart Dennis (Audit Scotland):** As the commission will be aware, we have been modelling the situation. The December submission was based on a mid-point scenario.

We have considered various options for how the current lockdown will affect Audit Scotland's fee income recognition, and we realise that it will have an impact. As the Auditor General said, we feel that £1.5 million should be sufficient, as things stand, and that we are able to cope with the volatility. Part of the reason for that is that we were in a better position at the end of December, as we started the 2020-21 audits, than we had anticipated in the original scenario. The income recognition is the main reason why we need the extra funding. As the Auditor General said, we have made a significant achievement in that, at the end of December, we had achieved 95 per cent completion of the 2019-20 audits.

**The Chair:** We lost a little bit of what you said there, but thank you.

**Bill Bowman (North East Scotland) (Con) (Deputy Chair):** Good morning, everyone. I have a couple of questions, the first of which sticks with the figure of £1.44 million. As I understand it, you do not have issues with receiving fee income in terms of its recoverability. However, does the issue become a timing difference—that is, will there be additional fee income in 2021-22 as that delayed work is either completed or recognised?

**Stephen Boyle:** Yes, that is right. Just to clarify—we do not have fee income concerns about the receipt of income from the bodies to which we charge a fee. The issue is a timing difference, as you suggest, that relates to the progress of our 2020-21 audits. Typically, as Stuart Dennis mentioned, we would be well progressed in our planning and preparation for commencing the final part of the financial statement audits. However, that has now slipped back from where we would have expected it to be.

10:45

That timing difference equates to a large component—which we will, no doubt, come on to—of our budget request for the 2021-22 financial year. Our planning expectation was that we would be able to re-accelerate our audit work to reduce the timing difference. However, that now looks a bit more uncertain, given the current circumstances.

**Bill Bowman:** So, the 2021-22 budget will see that money pop back into it—is that what you are saying?

**Stephen Boyle:** Yes. There is a timing difference, exactly as you suggest. However, what we will also face during 2021-22 is perhaps not an identical set of circumstances to the situation that we are in at the moment, but one that—

**Bill Bowman:** An extra—[Inaudible.]

**Stephen Boyle:** Yes, it is the time lag effect that we are dealing with.

**Bill Bowman:** So, it is not, in effect, an extra £1.44 million in 2021-22; you are taking out of the back end something similar for the next year.

**Stephen Boyle:** Exactly so.

**Bill Bowman:** Okay. Thanks for confirming that.

When you produce these forecasts, do you forecast a cash flow behind them that mirrors them, and do you produce a balance sheet at the end of the periods that are being forecast?

**Stephen Boyle:** I ask Stuart Dennis to talk through the range of monthly financial reporting.

**Stuart Dennis:** That is correct—we do a cash-flow analysis. We do not invoice as work is completed; we have an arrangement whereby we invoice in instalments—three times during the year, principally—and we predict when we will get the cash that comes in from that. It is not the same as firms invoicing as the work is completed; we invoice regularly—normally in December, May and September. We have a plan whereby we guarantee that that cash will come into our bank as well as the cash that we get from the Scottish consolidated fund.

**Bill Bowman:** That £1.44 million does not impact your cash.

**Stuart Dennis:** No—that is correct.

**Bill Bowman:** Can I ask just one other question, on office costs? From your presentation, I presume that you currently have empty premises. Have you had any negotiations with landlords about what you are paying for your premises during this period?

**Stephen Boyle:** I will ask Stuart Dennis to say a wee bit more about where we are at with that. The first thing to say is that the offices have remained closed since the middle of March 2020, with all of our colleagues working remotely and covering audit work remotely.

We refer to the issue in our budget submission for 2021-22. In the longer term, the plan is to look at what that means for our property estate and our property strategy. We need to reflect potentially different working patterns and different—*[Inaudible.]*

In our submission, we refer to the fact that our offices across Glasgow, Edinburgh and Inverness are on long-term leases. Stuart Dennis may wish to say a little bit more about the content of any conversations that we have had with our landlords.

**Stuart Dennis:** As the Auditor General said, the offices are on long-term leases. As it has been our decision to shut down the offices and not have them open, the arrangement is that we are continuing to pay for them. As the Auditor General alluded, we need to develop a property strategy, which is something that we will be doing, and that is where we will focus on our long-term planning in relation to office use.

**Bill Bowman:** So, you have not done anything, such as at least asking the landlord for some form of reduction.

**Stephen Boyle:** Not at the moment, and that—

**Stuart Dennis:** Sorry—the office in Edinburgh is due a rent review. That has started, with a representative that acts on our behalf, but it has been very slow due to the pandemic situation.

**Rona Mackay (Strathkelvin and Bearsden) (SNP):** The accountable officer's cover letter highlights that the spring budget revision is needed in part because of the inability of Audit Scotland's

"funding and fees model to withstand ... shocks in-year",

such as the shock from Covid. The Auditor General said in his opening statement that Audit Scotland will "follow the pandemic pound." Can you provide a bit more detail about how your funding model has been impacted so far? What consideration has the board given to how the model might be strengthened to enable it to respond effectively to future shocks?

**Stephen Boyle:** For us, the fundamental point about the funding model is that we cannot hold reserves that would allow us to absorb volatility. I would go further and say that our funding model was not designed to deal with the level of shock that there has been from the pandemic and the implications that it has had for our financial position. That has brought us to today and the detail of our spring budget revision request, the significance of it and what it means for our funding model—*[Inaudible.]*

As the commission will be aware, not only do we not hold reserves but we have to break even each year. The key component of what the pandemic has meant is that, with the timing of completion of work not being as anticipated, our ability to recognise income in the way that was projected has been severely reduced. We set that out in a bit of detail in table 1 in the spring budget revision document.

We have started thinking about what the longer-term environment might look like, and we are keen to do more of that thinking. I appreciate that that is a multifaceted conversation with the Parliament and the commission as well as public bodies and the Accounts Commission, particularly given the relative ratio of our funding arrangements, which are skewed towards fees that we charge to public bodies relative to the funding that we receive directly from Parliament.

We are keen to start and make progress on that work and to think about the implications for our funding, in the anticipation that the exact level of certainty might not return on an annual basis. We want to look at alternative ways in which we might better absorb some of the volatility.

**Rona Mackay:** I know that this is difficult to answer, but are you confident that, if—heaven forbid—things got worse and there were future shocks, Audit Scotland would be able to function effectively?

**Stephen Boyle:** Over the past 10 or 11 months, we have been able to respond quickly and



continue to deliver audit work. That is what the pandemic has taught us. As I mentioned, we have now delivered all the financial audit work for 2019-20, and we have done so while auditors and officials in public bodies have been working in their households. The work can still be carried out, but it is clear that it is taking longer. There has been an impact on productivity because of all the circumstances in our households. Some people have caring responsibilities and there are particular issues now, as we have returned to home schooling.

There is confidence that we can do the work. If circumstances deteriorated, we would expect that to mean that timelines would be extended, although we do not know that yet. We have confidence, given what we have been able to achieve over the past year or so. That gives us hope, but there is still volatility and there will continue to be an impact.

**Rona Mackay:** I understand that. Thank you.

**Jenny Marra (North East Scotland) (Lab):** Good morning. I will ask about the savings in annual wellness checks. It is stated in paragraph 30 that Audit Scotland's savings of £0.5 million include savings on annual wellness checks for its staff. Will you tell us about the nature of those annual wellness checks? How has the board assured itself that those savings have been realised without compromising staff wellbeing?

**Stephen Boyle:** Good morning, Ms Marra. I am happy to answer those questions, although I might hand over to Diane McGiffen and Alan Alexander to comment on the level of assurance.

Fundamentally, the wellbeing of Audit Scotland colleagues has been at the centre of our approach to dealing with the pandemic. Our incident management team, along with members of our senior management team, have continually communicated with colleagues to emphasise the importance of their wellbeing. We have signposted them to various levels of support and training that they can access to deal with all the unprecedented circumstances. The nature of the wellness activity that we undertook before the pandemic means that we have not been able to continue with it in the way that we would have done.

I will ask Diane to explain the background and the support that we have provided to colleagues that would have been provided through the wellness checks.

**Diane McGiffen (Audit Scotland):** I reassure the commission that we are not trying to make savings on wellness, because investing in supporting the wellbeing of colleagues is paramount at the moment.

Last year, we were unable to deliver the range of wellness checks that we normally deliver, because those checks involve in-person, face-to-face, one-to-one consultations that include blood tests and a range of other diagnostic tools. We are keen to reinstate those when that is viable and possible, but it has not yet been possible to do that. That has inevitably resulted in some savings.

We are providing a range of routes to additional support for colleagues, including counselling, professional support and other wellbeing activities that we have run within the organisation, pending the resumption of the health check element of the wellbeing support, which is what we are talking about here.

We know that colleagues value the health checks that take place; it is simply the case that, with our partner, we are unable to deliver them in a safe way during the restrictions. We will resume those checks as soon as we can, but we have made some savings because we do not envisage being able to deliver them at this point. We place a lot of emphasis on supporting colleagues, and that will increase during 2021.

**Jenny Marra:** You mentioned blood tests. Does that mean that the wellness check is more like a medical?

**Diane McGiffen:** Part of it is a medical test. Colleagues take a range of diagnostic tests, and that is the part that has been suspended. Those tests have been hugely helpful for us—many colleagues have been able to have early diagnosis of issues, which has resulted in their being routed to effective treatment—but it is not possible to conduct them at the moment.

**Jenny Marra:** Thank you.

**The Chair:** As members have no further questions for the witnesses, we will move on to the next agenda item.

## Spring Budget Revision 2020-21 (International Accounting Standard 19: Pension Costs)

10:58

**The Chair:** Agenda item 3 is on Audit Scotland's spring budget revision 2020-21 and how it relates to pension costs. Members have a copy of the budget revision in their papers, and we have the same witnesses that we had for the previous agenda item. Without any delay, I invite the chair of the board, Alan Alexander, and the Auditor General, Stephen Boyle, to make some introductory remarks.

**Alan Alexander:** As you will know, the issue of pension costs is one of those things that come up on an annual basis, and we have to deal with it for all kinds of legal and financial reasons. I must confess that my expertise in this area is limited. I am perfectly happy to give good governance to the way that it is done by Audit Scotland but, when it comes to the detail, I will hand over to Stephen Boyle and possibly also to Stuart Dennis, if that would be acceptable to the chair.

**The Chair:** Absolutely.

11:00

**Stephen Boyle:** I will be very brief. It is always worth emphasising that, to some extent, non-cash costs are outwith our control, by virtue of Audit Scotland's admission into the local government pension scheme, of which the vast majority of Audit Scotland's people are members.

The spring budget revision request that is before the commission is for £3 million—that is, as I say, a non-cash item. That figure has come to us from the actuaries of the Lothian Pension Fund, which is the local government pension scheme of which we are members. The increase in costs is derived from the change in discount rate, which is one of the components that is assessed in the estimation of future liabilities. The reduction in the discount rate, in essence, increases the liabilities of the scheme and our associated share of that cost.

That is the background. Between us, we are happy to answer the commission's questions.

**Bill Bowman:** I have two questions—the first is for Stephen Boyle and the second is for Alan Alexander. With regard to the Lothian Pension Fund, what preliminary discussions has Audit Scotland had with the Scottish Government to confirm that the previously agreed arrangements with Her Majesty's Treasury remain in place to meet the pensions adjustment?

**Stephen Boyle:** I will invite Stuart Dennis to provide an update on the history of those discussions and on the certainty. If I have understood correctly, I think that, in essence, the funding coming from the annually managed expenditure fund—the non-cash element of the Scottish budget—allows for such—*[Inaudible.]*—movements in circumstances. Stuart Dennis might be able to update the commission on the discussions.

**Stuart Dennis:** Yes, I can provide an update. We have early discussions with the Scottish Government's finance directorate about our non-cash AME funding requirement for the pension adjustment. As part of the process, the Government's finance directorate has negotiations, which start in November each year, with HM Treasury to highlight the requirements in Scotland. It is not just Audit Scotland that has AME funding requirements; other bodies in the public sector in Scotland have them, too. Those discussions take place every year. We have liaised with the Scottish Government, so it is fully aware that our requirement for this year is £3 million non-cash funding.

**Bill Bowman:** Thank you for that answer.

I have a more general question for Alan Alexander. Has the board considered whether a local government pension scheme is the appropriate pension arrangement for a 21st century auditing organisation?

**Alan Alexander:** The best way to answer that is to say that the audit and remuneration committee and the board provide continuous scrutiny of, and challenge to, such issues. We have not considered that issue specifically—we are under no pressure from our staff to consider it—but we certainly would not rule out doing so. One has to keep the issue under review, but I am bound to say that I do not regard changing the arrangement as one of the most urgent things for us to do. However, the board now has the expertise that would allow it to give very good consideration of such an issue. The two new independent board members have different kinds of experience that are directly relevant to that issue. We will keep the matter under review and keep the commission informed of any changes to our view.

**Bill Bowman:** Thank you for that. I presume that the new board members will be listening to this.

We talk about non-cash items, of which it is quite easy to be slightly dismissive. However, they still affect your organisation. I will leave that thought with you.

**The Chair:** Do members have any other questions on that particular point for the witnesses? I see that they do not.

## Budget Proposal 2021-22

11:05

**The Chair:** Agenda item 4 is Audit Scotland's budget proposal for 2021-22. Members have a copy of the budget proposal in their papers, and we have the same witnesses for this agenda item. I invite the Auditor General, Stephen Boyle, and then the chair of the board, Alan Alexander, to make some introductory remarks.

**Stephen Boyle:** My opening statement at the start of the meeting largely covered what we hoped would be helpful introductory remarks about the spring budget revision requests and the budget proposal that is before the commission. If the commission is content, I am happy to pause at this point. Alan Alexander may want to invite any questions.

**The Chair:** Does Alan Alexander want to add anything to that?

**Alan Alexander:** I have nothing specific to add to my original statement, but perhaps I can follow up on what Mr Bowman just asked about, which was a specific example. Generally, the involvement of the board and the scrutiny and challenge of what we come to you with are continuous and profound. We consider such issues at every board meeting and at the committee meetings, so you can be sure that the board has been all over something before the proposal comes to you.

Beyond that, I am happy for my colleagues to answer questions about specifics.

**The Chair:** Thank you very much. In that case, we will move straight on to questions.

In the past, we have had discussions with Audit Scotland about issues relating to transferred costs. Audit Scotland is seeking a bigger percentage increase in the budget approved by the Scottish Parliament compared with the 1.9 per cent increase in fees that it is seeking from public bodies. Does that mean that you are transferring to the Scottish Government some of the costs that should rightly be paid by the individual public bodies?

**Stephen Boyle:** I will start on that question; Diane McGiffen may then wish to come in on it.

There is a complexity about the ratio of funding that Audit Scotland receives from income relative to that from the Scottish Parliament. The commission will be familiar with that. You have referenced a couple of points. In recent times, that ratio has changed by virtue of some of the work that we have undertaken that was not specifically—[Inaudible.]—referred to the

national fraud initiative work, which happens on a biennial basis. That was in last year's budget, but it will have dropped out of this year's budget proposal because of the timing. There have also been changes in the composition of public bodies as they have, by virtue of elements of public sector reform, moved from a chargeable status to a non-chargeable status. Examples that I can think of include some of the changes that happened around Scottish Forestry. That was previously a feeable audit, but now it is not. That has changed the ratio.

One of the other big components is the growth in the Scottish Parliament's responsibilities and what we have generally referred to as new financial powers. Our work has grown in that area. That is not a directly feeable activity for a public body; there is a contribution for our overall work and outputs therein. There is some movement at the margins.

We have not translated the overall increase for budget requested that is before you to say that that should be a direct proportion that equates to a corresponding fee increase to public bodies. We are mindful, as I am sure that the commission would expect us to be, that our request for resource comes at a time when many of those public bodies' budgets are under pressure and that should be translated into a fee request that is kept in appropriate perspective.

We have come through a period of many years in which there has been a focus on efficiencies and, rightly, on our demonstrating that we are managing our organisation properly, and that has resulted in a significant reduction in our overall draw in recent times.

In this budget request, we are looking to secure our ability to do what is necessary for public audit in light of the pandemic and the significant growth in funds that have come to Scotland, so that we can provide the appropriate public assurance for the Parliament, the public bodies and the users of public services.

I ask Diane McGiffen whether she wants to supplement that by saying something about the history of the relative ratio.

**Diane McGiffen:** As the Auditor General says, much of the work that needs to be done is not covered by the chargeable fee regime, so we have to request approval through the commission for parliamentary funding for some of that work. The Auditor General referred to the new financial powers work, which enables us to audit the additional spending and so on by the Scottish Government. As the Auditor General said, there is also public sector restructuring, which changes the sectoral bodies. We are broadly required to break even, and public sector restructuring affects the

sectoral dynamics of that. We monitor and analyse sectoral fees and funding by sector in the course of the year, so we keep a close eye on that.

The critical thing as we go into the next financial year relates to some of the discussion about the spring budget revision and our inability to withstand shocks to the funding system and manage the budget, as we cannot hold reserves. Therefore, increasing our management contingency is a critical way for us to have some certainty that we will be able to respond dynamically to the challenges ahead. We review and monitor fees and funding by sector in the course of the year and we report on that annually.

The commission can take further assurance from the fact that we will not draw down funding that we do not need—it will be retained in the Scottish block. We are trying to respond to an incredibly complex and evolving situation to ensure that we deliver the scrutiny of public spending, the volume of which has gone up from about £40 billion last year to £57 billion this year. We need to be able to audit those funds in order to provide the Parliament and other stakeholders with the analysis of and independent assurance on the flow of the pandemic money, as you would expect us to do. However, there are many checks and balances in the system that the board, the audit committee, our auditors and the commission can scrutinise in the course of the year.

**The Chair:** I hear your arguments, and they all make sense but, from a very simplistic point of view, the auditable bodies such as councils have received additional funding to deal with things such as Covid-19, so the dimensions of the audit have changed dramatically, but the increased charges to them do not seem to be commensurate with the additional responsibility and funding that is going through those bodies, or with the additional work that Audit Scotland will be required to do to follow the public pound. How does that figure in your calculations?

**Stephen Boyle:** You are right that we have not taken a linear approach in which we increase parliamentary funding and the fee regime on the same basis. As you say, the pandemic moneys are distributed across public bodies, to central Government as well as local government bodies. As you know, we are fashioning a forward work programme to provide public assurance. We have joint responsibilities through the work programme that is shared between me and the Accounts Commission for Scotland. It is our judgment across a range of factors that the pressure on public bodies should not translate into an increase in the audit fees at that level.

11:15

It may be worth sharing with the committee that we extended the current five-year appointment model for an additional year during 2020 in light of the pandemic, as that was clearly not the right time to go to the market to procure audit services for the next five years. Those services will go out to tender in due course and at that point we will have the opportunity to look at what that means in terms of the price of audit fees, which refers back to Ms Mackay's point about what it means for our fee and funding model in the round.

Our judgment at the moment is that the additional request for us to respond appropriately as—[Inaudible.]—should not translate into significant increase in fees to public bodies.

**The Chair:** Your approach is fairly philanthropic as far as some of the public bodies are concerned; it seems that you are asking the Scottish Government to cross-subsidise work that is being done in public bodies such as councils. You can put all sorts of reasons around that, but that is what it looks like, at least in the short term.

**Stephen Boyle:** It is definitely a timing thing—you are right, convener. As we look at our overall arrangements for the upcoming tender and the longer-term appropriateness of the fee and funding model and how that is designed to cope with the timing differences that we have covered in our big budget review discussion, we need to consider whether public audit is sufficiently equipped and resourced to respond to the pandemic. All those things are in the mix.

Our recommendation—and request, I suppose—is that that does not currently translate into what could be significant fee increases for public bodies during this year, and we alternatively propose that that is wrapped up in the tender and the longer-term review of the funding arrangements for public audit.

**The Chair:** Are you saying that, at the moment, it is accepted that there is an element of cross-subsidy in so far as what you are asking from the Scottish Government is to help the additional audit that will be needed in some of those public bodies but that that will be adjusted in the foreseeable future when you review fees and so on for your third-party auditors?

**Stephen Boyle:** All those points are fair. Our request to the consolidated fund through the Scottish Parliament for funding is as is set out in the budget proposal. The fee arrangements refer to a 1.9 per cent increase in audit fees for public bodies in 2021-22 as opposed to applying what could mean much more significant increases.

We have sought to strike the right balance in our considerations between the request to the

consolidated fund as distinct from public bodies, but it is also true that this is not an into-the-future request; we are aware of the point that you make and request that time to capture it through our procurement arrangements and longer-term reviews.

**Bill Bowman:** Auditor General, I will follow on from that. We have heard Diane McGiffen's explanation about the need for contingency to help with the funding and you have explained that the £2.4 million increased contingency, and the extra £2.1 million this year, is to save you coming back later to ask for a budget revision. However, I am having some difficulty in understanding what the problem is with having a budget revision, because budget revisions have not been hugely problematic in the past, and we are not sure about that contingency—I am not sure exactly what is in that £2.1 million. If we approve this now, you have permission to go and spend that and we do not really know what it is for, as it is only contingent, so can you give us a bit of background on that?

**Stephen Boyle:** I will start and then let Diane McGiffen complement my remarks.

Historically, Audit Scotland has operated with quite a small contingency—[*Inaudible.*] It is interesting to note that, from the board's conversations, there is a sense that that was too small to deal with volatility, even before the pandemic. Some of the conversations that we have had this morning have illustrated that our funding arrangements and the budget mechanism that we have do not enable us to deal with volatility in the timing of the completion of audit work and, importantly, the scale of response to the pandemic.

In the budget proposal for 2021-22, we have recognised that by increasing the management contingency as the store for how we will respond. Part of that relates to timing differences—the lag effect that we have touched on already. Issues around our ability to recognise income as we move through 2021-22 will be absorbed by management contingency. It also allows for unknowns and variables. As we have said a couple of times in the submission, we do not yet know what are staff costs will be, as we still have to go through negotiations with our trade union partners about our pay awards.

Most fundamentally, through our management contingency, we are looking to fashion that programme of audit response and deliver public assurance in relation to the £8.6 billion of additional pandemic money, which is the sum that we are currently looking at, as we deliver the programme of financial work and supplement it with the programme of performance and best-value activity through our central Government work and our local government activity. That is the

broad structure of where we anticipate that moving from what we consider to be a relatively small management contingency to a much—

**Bill Bowman:** When you talk about the response, are you talking about extra staff costs? What sort of costs would be involved in that response? Going back to the convener's point, should you be recognising a contingent income through charging?

**Stephen Boyle:** There are two points in there. In appendix 1 to our submission, we set out the position in relation to expenditure. With regard to the detail of the additional costs for our requests, there will be additional staff costs. We think that it is necessary and right that we look at the skills that we will need in order to respond. We have gone through a programme of changes and a review of our skill mix through the work that we have undertaken in relation to the new financial powers. Recently, we have recruited for analytical skills and have progressed our programme of digital auditing activity, and we think that that will continue. There will be some additional recruitment through our programme of work. However, that does not translate into an ability to raise additional income through charging in the way that you might typically expect in such scenarios. The differential is what has led to our call, through you, for additional money from the consolidated fund.

Diane McGiffen can talk about what that means for our recruitment and staffing arrangements.

**Diane McGiffen:** For us and for the commission, these are exceptional years and the spring budget revision and the budget bid that we are making are exceptional budget requests. That is because of the level of volatility and change. Normally, when we put our budget proposal to you, we would have certainty over a greater range of things than we have at the moment. We can manage some of the complexity that is involved only with your help.

Among the unknown things that we are working through is the timing of financial reporting next year. That was delayed and deferred this year, which has had an impact on our current year's budget, because we cannot recognise income. We have to catch up, as we discussed earlier. We will recover the income for that work, but not in time for the end of the year. Compared with previous years, we are late in starting the work and late in starting the next audit work, and we do not yet know what the extension will be to the audits that we will undertake in 2021-22.

We have to be able to respond to all those things. One thing that is certain is that the audit work will be required to be done; we just do not know for sure just now what the timescales and

the specific resourcing implications will be. However, we know that we are starting the year with a significant effect from home schooling and further restrictions on the capacity that we have.

At this point, we would also normally have a very settled work programme for the next financial year. In 2020, we paused discussion on the work programme to continue to develop it for the Auditor General and with the Accounts Commission so that we could take stock and see what the Covid implications and priorities would be. That work has been going well and the programme will be launched shortly.

We have refocused existing work to deliver a Covid response. We do not know yet, for example, when there will be any resumption, even partially, of work from our audit bases or of travel to audit locations. We are working carefully to protect and deliver the audit and to maintain the safety of colleagues. At the moment, we are trying to pull that all together in a planning framework in which we are facing many, many unknowns.

Things have happened since we put the budget proposals together—for example, we now know what the European Union withdrawal arrangement is. That was uncertain and unknown when we put the proposal in. However, we are still working through what the expectations are of our scrutiny and our ability to provide commentary on some of those things.

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

However, at the moment, we are in a world of significant change and, in order to retain our ability to deliver, we really need to have a little bit more flexibility than we have been able to have in 2020-21 to respond to some of those things.

We will be discussing this every month with our board, in our reporting to our board and to our audit committee, and we would be happy to discuss these things further with the commission. I think that we all found the business planning session that we had very helpful in setting out some of those underlying pressures and uncertainties for us and I think that the budget proposal that you have today is our considered and prudent attempt to deliver to the many expectations that we have.

I hope that that is helpful.

**Bill Bowman:** Thank you. You seem to be saying that there will be some costs that are to do with growing your services and doing more and there will be some costs that are perhaps linked to times when you do not get the value from the cost—it is not exactly about inefficiencies, but you may not be able to work when you want to work. Is the £2.1 million the balancing number that you need to get the budget to work, or do you have a detailed schedule of what it involves and when it might happen?

**Diane McGiffen:** We have the key elements covered in our thinking. We know that we need to recruit and expand the skills that we have. We know ranges of figures for some of the elements that would make up the budget request that we are looking for. We have pitched the budget proposal at a midpoint range.

If you recall, in October last year, when we had the business planning session, at that point, we said that the best-case scenario for 2020-21 would be a shortfall in our income of £1.25 million and the worst-case scenario would be £2 million. The spring budget revision that we have presented to you today is just under £1.5 million. At the moment, we are aiming for the mid-point, and the objective is, as you would expect, to keep that as efficiently managed as possible.

11:30

Commission members might recall that, in the past, when a significant change was required for the development of the best-value audit, although that was ultimately paid for and is incorporated into local government funding, the initial work to develop our response was funded by the Scottish Commission for Public Audit and then the costs were transferred.

We have limited options to manage the complexity, other than—with your help—through the budgeting process. As soon as we understand the volume of work that is required in each sector, we will be looking to charge each sector, where there are chargeable audits under the current model, or to have, as the Auditor General said, a deeper discussion about whether that model is a sustainable way for us to provide the world-class public audit that we have been trying to deliver to the Parliament and to our stakeholders. We know that that is a conversation for the future.

Those issues are all linked and related. There are so many moving parts in trying to respond prudently to the demands that are on us. We have taken a careful approach to the budget, but not everything is pinned down yet.

**Rona Mackay:** I am mindful of what you have just been saying, and I do not want to belabour the point about management contingency, but I will

ask that you clarify a couple of points for me. What portion of the increase will be allocated to meet Covid-related pressures? Given the recent developments with vaccines, and the optimism that those bring, will that contingency be required beyond 2021-22? Table 1 of your budget proposal appears to indicate that that is the case. I know that it is difficult for you to answer that, but can we have an indication of your thoughts?

**Stephen Boyle:** I suppose that the short answer is that it is difficult to be as precise as we would want to be.

I will answer the second question first. On vaccines, we are as optimistic as we can be that vaccination will allow us the route to recovery of the timeline of our audit work, and to address the income lag that we have been discussing. At this stage, it seems unlikely that we will be able to revert to the typical timescales for the completion of our work in the—[*Inaudible.*] I can probably not say anything beyond saying that I hope that 2022-23 will afford us more opportunity to do so and to achieve that recovery. Our planning expectation is that there will probably be a period of between 18 months and two years to recover and revert to the timescales.

On your first question about Covid-related pressures and analysis of the £2.4 million, as Diane McGiffen has outlined, the volatility with which we are dealing and the extent of the moving parts make it difficult for us to be as precise as we would want to be.

For reference, I note that for the current financial year we requested £1.5 million of spring budget revision to support the financial position. That feels like an appropriate indication of what the component will be in 2021-22, with regard to the time lag.

Other elements of the management contingency will be to ensure that we have the appropriate Covid response, and that our programme of work reflects our plans to deliver, through a programme of tailored and flexible public reporting, public assurance on the additional £8.6 billion of consequentials and how well that money has been spent.

Additional elements of the contingency will be those that we would typically allow for during the course of a year, including those that we do not know about yet. We have mentioned the cost of bringing in specialist skills over the course of the year. I hope that that gives sufficient flavour.

In light of the volatility of the situation, and to follow up on the point that Mr Bowman made earlier, we think that it is appropriate for us to report to the commission regularly on our financial position. In the commission's June meeting on our annual report and accounts, we will welcome the

opportunity to update the commission on the progress of our work and to say more about how we have progressed. I reiterate the offer that, if we do not need the flexibility that we have requested, we will make appropriate arrangements to return what is not needed through budget revisions during coming year.

**Rona Mackay:** I have a couple of other matters on which I seek clarification. I apologise if I missed this in an earlier answer. Will the £1.5 million be used to increase staffing? Paragraph 28 of the budget proposal says that you will increase staffing by 4.5 posts.

**Stephen Boyle:** Yes, we have plans to recruit people with additional skills during the course of the year. We look carefully at our skills mix. Even without the pandemic, we would always want to ensure, through our workforce planning arrangements, that we have the right skills and talent in the organisation. That is in keeping with our aspirations to be a world-class public audit body.

In particular, we have made significant progress on our approach to digital auditing. As developments in the auditing profession have evolved, use of digital auditing techniques has increased significantly. It is key to our work that we are equipped appropriately, which we can ensure is the case by recruiting people with the appropriate skills, and by training colleagues. That is all part of our workforce planning. There will be recruitment as we move forward during 2021-22.

**Rona Mackay:** Forgive me for pressing you, but will that be paid for out of the management contingency of £1.5 million? Is that where the staffing costs will come from?

**Stephen Boyle:** Yes, we will use elements of the management contingency to pay for aspects of growth in our staffing complement.

**Rona Mackay:** You probably cannot provide more detail on what you describe in paragraph 48 as "other unexpected financial events", but do you think that that will include any on-going costs of Brexit? I understand that although such costs would not be unexpected, you are not yet in a position to forecast them. Would costs associated with Brexit come into that category?

**Stephen Boyle:** Absolutely. That is an appropriate example of the volatility that will come our way. There will be investigations and other unplanned pieces of work that items of correspondence from parliamentarians and members of the public will lead us to undertake. It is part of our roles and responsibilities that we cannot necessarily forecast entirely where our work will take us.

**Jenny Marra:** In paragraph 10 of its budget proposal, Audit Scotland states that it will

“hold the increase in our management contingency, allocating it transparently as we invest in skills and capacity throughout the year.”

Will you explain the process that you propose to use to identify priorities for funding from the management contingency? How will it be done transparently?

**Stephen Boyle:** I will start, then I will invite Professor Alexander to say a bit more about how that will work in governance terms.

As you will know, particularly through the work of the Public Audit and Post-legislative Scrutiny Committee, we paused our forward work programme and are now moving towards completion of the consultation forward work programme, which we will translate into a detailed programme of work. That will set out—on my behalf, as Auditor General, and on behalf of the Accounts Commission—the proposed plan of audits. There will be a degree of flexibility in that and what it means for allocation of staff resources in terms of existing colleagues and planned growth.

I engage with the Accounts Commission and the management team of our board, which sets out the planned allocation allowance for delivery of audit work. The process is undoubtedly iterative, but we need to be sure that we have the right level of governance and understanding of it. I invite Alan Alexander to talk from his experience of chairing the board about visibility and the important point about transparency.

**Alan Alexander:** Let me frame my answer by saying that one of the things that we have done in the past year, at least in the period since I became chair of the board, is to ask ourselves whether we are giving enough challenge, support and scrutiny to what the senior management of Audit Scotland proposes. I am certainly satisfied that detailed scrutiny of the proposed new expenditure by the remuneration committee and, in particular, by the audit committee is very strong, to the point at which the board can examine other issues by exception, or at the request of the audit committee. Whatever our budget settlement is, I have no doubt that our scrutiny and governance of it will be very strong indeed.

My position is that we should make an absolutely clear distinction between management and governance. On my screen at the moment, Stephen Boyle is labelled Auditor General for Scotland, but he is actually here as the accountable officer for Audit Scotland. His capacity to do that job in a way that will satisfy the commission and the public interest is enhanced by the amount of scrutiny and, sometimes, pressure

that we put on the senior staff at all our committees’ meetings and the board.

Let me mention one more thing that I have done on that, knowing that things were changing in ways that we could not anticipate. It was clear to me that our usual practice at Audit Scotland of having, as it were, a summer gap between board meetings would not give us the level of assurance that the board requires about what was being done. That is something that I will do, should it be necessary, although I am satisfied at the moment that the programme of meetings that we have allows us adequate and, I think, sometimes quite pointed scrutiny of what the senior management of Audit Scotland does.

I hope that that is helpful, chair and members, but I would be happy to enlarge on anything that you would like to push me on.

**Jenny Marra:** That was very helpful, Alan. Thank you. I will move on to my next question.

You have explained that Audit Scotland’s budget proposal will deliver independent evidence-based public reporting on how well public money is being used to rebuild the economy, repair damage to communities,

“reduce inequalities and create a fairer, more just society”,

and on how well public bodies demonstrate good governance. That has, as you know, been of concern to the Public Audit and Post-legislative Scrutiny Committee, in relation to transparency, financial management, fraud prevention and long-term planning.

How will the Audit Scotland board assess whether audit work has delivered evidence-based public reporting on how effectively public money is being used to reduce inequalities and to create a fairer and more just society? Such things can be quite hard to measure. I know about Alan Alexander and the Auditor General’s commitment to that, but what is your thinking on how you will measure that?

**Alan Alexander:** I will come in first, then hand over to Stephen Boyle.

It seems to me that it is key that our audit committee and board are sure that we have in place ways of gathering and assessing the evidence to which Jenny Marra refers. Primarily, the audit committee will do that by examining the various reports on the quality of our audit activities, which are validated—sometimes internally and sometimes externally.

11:45

Following that, the reports that go to the board on our expenditure profile and strategic activities give us the opportunity to address holes that we



see there. I do not for a moment underestimate how difficult that is, because there is a sense in which the issues that Jenny Marra has mentioned are not simply quantitative—in the sense of their being quantitatively auditable—but are qualitative. When we get to the point of looking at the kind of inequalities that I referred to in my opening statement, we need to be able to think about that, too. I am satisfied that we have in place the basis for doing that well.

If we need to elaborate on that and to put in place a greater level of scrutiny, particularly through the audit committee, we will do that. However, I am satisfied that the building blocks are in place and that we will be able to provide the kind of evidence that that committee has been looking for, and will continue to look for in the future.

**Jenny Marra:** Maybe this is an issue for the Auditor General to expand on. Will the measurements and metrics be understandable to the public? Your work has to be measurable and digestible by the public.

**Stephen Boyle:** I could not agree more. A key measure of us as an organisation is that our work is accessible and understood by users of public services. It is central to how we will deliver our work. I will emphasise two points about how we do that through our arrangements in Audit Scotland.

As Alan Alexander mentioned, we have fairly well-established governance arrangements for reporting. We have a well-developed set of corporate performance frameworks, through which we translate our programme of work into monthly reporting and measurement—not just of whether we are delivering what we said we would deliver, but of whether we are doing it well. We look to validate that through our quality framework, which sets out and measures the results of the quality assessment that we undertake internally and through arrangements that we have with the Institute of Chartered Accountants of Scotland, which assesses whether we have done our work properly.

We think that our quality framework is a real strength, in that it does not confine itself just to the financial audit work but looks at performance audit work and our best value audit activity. It is really important for me, not just as the accountable officer but as a recipient of the audit work, that I am assured that our audit committee, our board and the public are assured that that is clear and transparent. We set out the results of how the arrangements work through our annual quality reports, including the spread of what we had planned to do, what we delivered and aspects of validation of that.

To round off, I note that there are always ways in which we can improve and, as we take our work forward in a subsequent year, in which we can make sure that we capture all the findings from that work and the feedback that we get.

**Jenny Marra:** Thank you.

**Bill Bowman:** I have a couple of questions on the firms that Audit Scotland appoints to do audits. In paragraph 21 of your submission, you list the pressures that arise from various factors such as the loss of time due to Covid-19 restrictions, the time that it takes to complete audits and the increased risk of fraud and changes to audit demands because of the creation of new bodies. However, Audit Scotland says in paragraph 35 that it will

“continue to benefit from savings generated from audit procurement”

and in paragraph 52 that it expects that payments to appointed audit firms will

“increase in line with the remuneration increases applied to our own staff”.

Given the pressures experienced by in-house teams while working during the pandemic, on what basis has Audit Scotland determined for the purposes of the budget proposal that the future cost of audit that is undertaken by firms will continue at current levels, with the discounts applied? How have you worked with appointed auditors to ensure that they can deliver the contracted work efficiently and to the same high standard during the pandemic?

**Stephen Boyle:** I am happy to start on that, and Diane McGiffen might wish to supplement aspects of my answer.

It is true that the pandemic has affected appointed auditors, whether they work for Audit Scotland or through our partner arrangements. [*Inaudible.*]—the same way in the delivery of the audit in the public bodies. Productivity has been affected for those who work for a firm or for Audit Scotland. Our spring budget revision request reflects that fact. [*Inaudible.*]—of recognition of income is generally the same picture for firms— [*Inaudible.*]

Mr Bowman mentions our continuing to benefit from efficiencies in the previous procurement process with firms. Audit Scotland and public audit in the round benefited from the discounts that firms offered us in previous years. We do not yet know what that will mean for the future procurement round. There is undoubtedly volatility in the audit profession. The commission will be familiar with the fact that there have been at least three reviews of the profession in the round, typically as a result of failures in the audit market and failures in the audit profession in high-profile

corporate organisations. The volatility that we are experiencing probably was not the case four or five years ago. Until we go through the procurement exercise, we will not know what it will mean for the cost of audit in the subsequent five-year period. As ever, we will continue to keep the commission updated as we move through the process.

**Bill Bowman:** You come to us for additional funds. Have you passed some on to the appointed auditors, who are suffering the same issues as you are?

**Stephen Boyle:** We are in the process of discussion for the 2020-21 financial year. There are arrangements that allow for that level of volatility, and we have captured elements of that in the spring budget request. There will be more volatility—[Inaudible.]—yet predict, particularly for 2021-22. We typically allow for an annual increase in the audit fees that we pay to the firms, which equates to the average cost of the increase for Audit Scotland staff pay arrangements. That is an established arrangement that flows through to the firms.

Communication with the firms that we appoint is a central part of our work, and it has increased during the pandemic. Professor Alexander mentioned that we have increased our governance arrangements. Similarly, we have increased our communication with our firms, to track the expected level of completion and work in progress for our financial position; to have that intelligence about how public bodies are performing and the audit implications of that; and to consider the learning. We have given real thought and consideration to what that has meant for audit reporting and audit opinions during this unprecedented period. All those channels have remained and have been enhanced during the pandemic.

**Bill Bowman:** Were you going to ask someone else to comment? I cannot remember.

**Stephen Boyle:** Yes. I ask Diane McGiffen whether she wishes to add anything on the points that you have raised.

**Diane McGiffen:** For the 2021-22 budget proposal, we know that we will continue to benefit from the savings from the procurement round because of the extension of audit appointments, which we discussed earlier. There are some things that are certain, and that is one of them.

When we talk about the completion of audits to the end of December and the terrific job that auditors have done, we are including in that the work that has been done by firms. There is very much a partnership. We work with a range of firms that are very committed to public audit. We have worked with them throughout the past year, and

we will continue to do so to ensure that they deliver high-quality audit. We have quarterly meetings with the partners of the firms, we have sector meetings for auditors who audit in different sectors, and we maintain close contacts with all of them.

All our professional support and advice in the course of this year and all our professional support and advice that we anticipate in the year to come will have involved many professional and technical questions for auditors. We share our thoughts and advice and our professional and technical knowledge with all auditors in Audit Scotland and the firms, and we treat everyone fairly.

The mechanism for uprating audit fees during the appointment period is clear and set. If any level of uprating is applied to Audit Scotland colleagues, exactly the same is applied to the remuneration of the firms. As the Auditor General has said, there is a separate mechanism that enables auditors to discuss additional audit work if additional audit work is needed.

We are in the process of taking stock of the additional costs for everybody. Members will understand that that is very much a real-time issue, because the end of December was a significant milestone in the completion of many of our audits. There has been great progress in completing the audits, and we are now digesting the additional—[Inaudible.]—and we will deal with that transparently and fairly.

Key for us is ensuring that, as we move ahead to the next procurement exercise, there is a market, there are firms that are interested, and we are able to sustain a mixed model of appointments if that is what our stakeholders are looking for us to do. In the course of the year, we have conducted market engagement exercises with a range of firms even though we had extended the audit appointments, to ensure that we are doing our bit to stay at a healthy level of firms' engagement and interest in public audit work.

We commend the firms that we work with for their commitment—[Inaudible.]—including audit, in the past year. We have worked very closely to do that. It has been equally difficult for everyone, and we have kept up a really effective dialogue to ensure that we all learned from each other during that time.

The quality of all the work of Audit Scotland and the firms is assessed and reported on in our annual quality of public audit in Scotland report. That includes looking at the internal reviews of providers and of us in relation to audit quality. It is significant that that also includes an independent external ICAS review of Audit Scotland's work and firms' work, which is pretty comprehensive. We report on that annually.

There is a whole range of mechanisms and assurances. We totally acknowledge that it has been a tough year for everyone.

**The Chair:** I have one or two final questions to cover issues that have not been touched on yet. My first question is a very simple one. In appendix 1, Audit Scotland forecasts that legal and professional fees will decrease by approximately half a million pounds. That is quite a big decrease. What has brought about those cost savings? My experience of legal and professional fees is that they tend to go up.

**Stephen Boyle:** There is inevitably some volatility in legal and professional fees. In part, we have dealt with that volatility through allowing for it through management contingency. That has been one of the variables that has been covered.

**The Chair:** What about the half a million pounds?

**Stephen Boyle:** I was going to come on to that by asking Stuart Dennis to set out the detail of what that money has been spent on.

**Stuart Dennis:** On the half a million pounds, we have £300,000 under the management contingency heading in the 2020-21 budget. For 2021-22, that is moving up into people costs, as we feel that that is more appropriate.

The balance of £220,000 relates to the national fraud initiative in Scotland. As you probably know, that work takes place every two years. We had NFI costs in 2020-21, we will not pay them in 2021-22 and we will get them again in 2022-23.

12:00

**The Chair:** The next question is probably for Stephen Boyle. We have been looking at some of the savings that are being achieved and offset against Audit Scotland's requirements. It seems to me that most the savings are non-recurring, short-term savings that relate to the current situation, whereas some of the costs will be permanent, because of increased work and all the rest of it. Has that been factored in? Will that be an issue further down the line, as the current cost savings end?

**Stephen Boyle:** It is perhaps difficult for me to be as definitive as I would want to be, because of the volatility that we are experiencing and how that will flow through into 2021-22 and beyond.

We set out in our submission our indicative budget requests for subsequent years. Clearly, those will be subject to regular review and revision, as what our cost base looks like becomes clear.

You are right that there are specific examples of where our costs have decreased. Those that are

touched on in the submission include travel and subsistence and printing. In addition, we have already mentioned that we are keen to review our office estate.

Travel and subsistence costs have decreased for the obvious reason that we have all been working from home, so we have not encountered the level of costs that we would typically have had in the pre-lockdown environment. Previously, we would go to the premises of public bodies for prolonged periods to conduct an audit. We do not know whether that will be a feature of how we deliver audits in the future. Our expectation is that it will be something of a hybrid—we will use our offices, and we will use our ability to work from home, which we have demonstrated that we can do to the right standards.

We think that there will be a reduction in costs—[*Inaudible*]. However, we are not yet able to predict with the certainty that we would want what that means for some elements. I think that that captures the volatility and the need for us to report regularly and transparently on what that means for the future.

On your final question—

**The Chair:** Sorry—can I just pick you up on what you said about how working from home seems to be going fine? In paragraph 29 of the spring budget revision proposal, you comment on

“assessments on the impact of productivity and time lost due to the pandemic”.

I presume that “impact on productivity” means that there is an issue with people working from home not getting through the same volume of work because it is physically quite difficult to do so.

In the same paragraph, you mention that you should have completed 8,000 days of audit work by 31 March 2021—presumably, that is preparatory work for the audits to come—but that you have achieved only half that figure. That is a big marker for the future.

**Stephen Boyle:** In many ways, all those things are true. It is true that productivity went down during 2020, but that might not necessarily be indicative of what productivity will be like in the future. None of us had prepared to deliver our audit work from our homes, and our audited bodies had not prepared to support such working. As we move into 2021, we might see increases in productivity as we capture the learning from working from home and deploy some of the digital audit techniques.

All these things feel as though they are moving parts at the moment. We experienced a dip in productivity last year as we moved rapidly to working from home, but we are now using that learning and applying it to what that means for

working successfully and increasing productivity, without necessarily assuming that we will return to a fully office-based environment, with everyone in the office at all times, as had been the case. We will undoubtedly review that work and reflect on what it means for our financial position in future.

You made a specific point about how we are not as far forward as we should have been with the work that we should have undertaken by this stage because of that reduction in productivity. Perhaps the most illustrative example of what that has meant for our financial position is the time lag that trips into 2021-22 in terms of the completion of work and recognition of—[*Inaudible*].

**The Chair:** I want to pick up on one or two of the things that you have just said. I refer to the budget proposal document. Table 1 shows that people costs have gone up to reflect additional staff, but administrative costs do not seem to follow that. Capital costs are up in next year's proposed budget, but they then drop back to the previous level. In paragraph 58, you talk about

"new recruits being equipped to work safely and effectively from home".

That all implies expenditure that I do not see in parts of the budget.

**Stephen Boyle:** On the point about equipping colleagues so that they can work from home, we have incurred expenditure that we did not plan to incur. As we have said once or twice, we have emphasised the importance of people's wellbeing and health and safety in the home environment. There was undoubtedly expenditure during the current financial year on equipping colleagues to work as successfully as possible from home. We recognise that not everybody's home environment is set up so that they can deliver work successfully. We have to accommodate the space within people's homes, and their caring responsibilities. We have therefore spent money that we had not planned to spend on buying additional information technology hardware and office equipment to allow people to work from home in the best way possible.

After the initial spike in requests, that expenditure has tailed off over time, as we might expect, as people's environments have stabilised. That is all the more reason for us to think carefully about what all this means for future ways of working in the office environment and in the home environment, and the expectation is that the model will likely be a hybrid.

We have kept up a regular dialogue about whether people prefer entirely working from home or entirely working from the office. We are also beginning to have that conversation with our audited bodies. We know that we can successfully deliver remote audit work, and we are beginning to

evaluate audited bodies' experience of having a remote audit so that we can decide how to accommodate their preferences for having a physical team on site with a safe set-up. What that means for the cost of audit will come somewhere down the line, but that is all part of our thinking about what that means for our spend, including forecast spend.

**The Chair:** I have one final point, which is really a request. When we talked about staff earlier, we discussed attitude surveys and gathering information about the academic qualifications of trainees and recruits. Will you be able to supply us with that information in future? The commission has always found that of interest.

**Stephen Boyle:** Of course—I would be delighted to do that. As the commission will know, we conduct an annual survey of our colleagues' wellbeing and their perceptions of what it is like to work for Audit Scotland. We delayed the survey because of work pressures and the pandemic. It would typically have been done during late autumn, but we will do it this month at the latest and share the results with the commission.

I have one final point. We have kept in regular contact with people through fortnightly pulse surveys to make sure that we understand people's views and experiences. That gives us really rich intelligence and allows us to make some changes in relation to individuals—[*Inaudible*].—and so forth, and it is a model that we look to continue to make sure that we are communicating well and effectively with our people. We would be delighted to share the details of the survey results and the qualifications of our people.

**The Chair:** As no members have any final questions that they would like to ask, that concludes our evidence session and the public part of today's meeting. I thank all our witnesses for their evidence.

I will allow five minutes for a comfort break before we resume in private session to consider the evidence that we have heard.

12:10

*Meeting continued in private until 12:35.*

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EH99 1SP

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