OFFICIAL REPORT
AITHISG OIFIGEIL

Scottish Commission for Public Audit

Monday 11 December 2023

Session 6

Monday 11 December 2023

CONTENTS

Col.
DECISION ON TAKING BUSINESS IN PRIVATE 1
AUDIT SCOTLAND BUDGET PROPOSAL 2024-25 2

MEETING OF THE COMMISSION
2nd Meeting 2023, Session 6

COMMISSION MEMBERS

*Colin Beattie (Midlothian North and Musselburgh) (SNP)
*Sharon Dowey (South Scotland) (Con)
*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

The Adam Smith Room (CR5)

Scottish Commission for Public Audit

Meeting of the Commission

Monday 11 December 2023

[The Chair opened the meeting at 10:30]

Decision on Taking Business in Private

The Chair (Colin Beattie): Good morning, and welcome to the second meeting in 2023 of the Scottish Commission for Public Audit. Two of our members—Sharon Dowey and Mark Ruskell—are attending remotely.

The first item on the agenda is to decide whether to take agenda items 3 and 4 in private. Do members agree to do so?

Members *indicated agreement.*

Audit Scotland Budget Proposal 2024-25

10:30

The Chair: The second item on our agenda is to take evidence on Audit Scotland's budget proposal for 2024-25. Members can find a copy of the budget proposal, along with a covering letter from the Auditor General, in paper 1 of the meeting papers.

I welcome to the meeting Stephen Boyle, Auditor General for Scotland; Alan Alexander, chair of the board of Audit Scotland; and, from Audit Scotland, Martin Walker, director of corporate support, and Stuart Dennis, corporate finance manager.

I invite Professor Alexander and then the Auditor General to make short introductory statements.

Professor Alan Alexander (Audit Scotland): Thank you, chair. Good morning to you and to the members of the commission. As usual, we are happy to talk you through the proposal and to answer any questions that you have.

As I do not need to remind you, this year Audit Scotland, the Auditor General and the Accounts Commission published our joint statement of purpose, "Public audit in Scotland 2023-28", which sets out our vision for public audit, our mission and the four outcome areas in which we want to have a measurable impact by 2028. We have also published Audit Scotland's corporate plan for the period, which explains how the organisation will deliver on those ambitions. "Public audit in Scotland" and the corporate plan set the context for our operational and financial planning over the next five years and, thus, the context and timeframe for the considerations today.

Alongside "Public audit in Scotland" and the corporate plan, we have also finalised a new partnership working framework between the Accounts Commission, the Auditor General and Audit Scotland. The budget supports the shared ambitions and operations of all three, and the Accounts Commission has had assurance from the Audit Scotland budget-setting process and from its interim chair who sat on the board during the period in which the proposal was approved for submission to you.

Over the year 2024-25, we will build on the huge amount of work that has already been done in recent years. The support of the Scottish Commission for Public Audit has been invaluable in that, and we are very grateful for it.

We will work to maintain and increase the impact of our work and its continuing relevance. All of us who are here today are well aware of the intense pressures on public services and finances, and the external circumstances that affect us and the bodies that we audit. That has been at the centre of the governance of the budget process at Audit Scotland over the past five months. In such an environment, robust, independent and relevant public audit is crucial.

If we are to achieve our ambitions, we must continue to modernise the way that we deliver audit and how we work, while protecting the proven and resilient Scottish public audit model. That model has thus far protected Scotland from the significant problems in public audit elsewhere in the United Kingdom. That is reassuring to us and to the public sector in general, but we cannot and will not be complacent. Over the next five years, we will build on and enhance the Scottish model and the quality assurance and scrutiny that it provides. This budget, as well as being the operational budget, is year 1 of that programme.

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

Stephen Boyle (Auditor General for Scotland): Many thanks, Alan. Good morning, chair and members.

Alan has set out the context for our budget proposal, together with Audit Scotland's work over the coming years, which is to deliver public audit in Scotland and to drive measurable change across our four intended outcomes.

Over the past year, we have continued to deliver the annual audits of almost 300 public sector entities, as well as performance audits on matters of significant public interest. That has not been easy, and I would like to take the opportunity to thank my colleagues in Audit Scotland, as well as those who work in the firms that the Accounts Commission and I appoint to deliver public audit.

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

Our resource requirement for 2024-25 is £13.2 million, which is an increase of £1.03 million. That comprises three areas. The first is the increasing costs of delivering audits for us and the firms that we contract, together with the increasing costs of operating our business. If members compare our requirement in that area for 2024-25 directly with that for 2023-24, they will see that it amounts to a 4.7 per cent increase.

The second area, which accounts for a 1.9 per cent increase, is the biennial national fraud initiative. That is an added cost every two years; it is an extremely important exercise for us. I am sure that the commission is familiar with the fact that, to date, the NFI has achieved £158.5 million in outcomes for the Scottish public sector.

The third area covers the fees for newly created public bodies that we cannot directly charge audit fees for, together with additional audit work that is needed for other bodies that we also cannot charge fees.

For context, our budget has decreased in real terms by a fifth over the past decade, while the volume of work has increased. Our total proposed budget of £37.6 million equates to 0.06 per cent of Scotland's public sector spend of £59.6 billion.

In 2023-24, we faced a number of higher than expected costs. The largest was our staff pay award, which was, of course, an area of focus across the public sector. Last year, we managed to absorb some of those costs, but our 2024-25 budget proposal reflects a new pay cost baseline. We hope to agree a pay award for 2024-25 with our colleagues earlier this year than we have done in previous years.

The completion of our annual audit work against planned timescales is not yet as good as we would like it to be. Nonetheless, we are on track to meet our target of returning to 95 per cent delivery of annual audits by 2028. For context, around half of local government audits in Scotland were delivered to the planned deadline; almost all will be done by the end of this month. Therefore, those audits will be, at most, a few months late—not, as Alan Alexander alluded to, years late, as is the case for many public sector audits in England. In 2024-25 and in future years, we will continue that progress on recovery.

Our budget proposal aims to strike a robust balance between efficiencies and ensuring that we deliver effective public audit. For example, as a result of our estate strategy, we will start to see annual savings from April 2025.

Lastly, I would like to quickly update the commission on our employer pension costs. Since submitting the budget proposal to the SCPA, we have received a draft actuarial valuation and indicative contribution rates for our membership of the local government pension scheme. It suggests that our rates will be lower than we have accounted for in our proposal and than those that the commission will be familiar with from previous years. These are draft, indicative figures, but we expect to receive a decision from the pension scheme by late March 2024, and we will engage further with the SCPA when we have clarity about the expected rates and resultant spend.

We are very grateful for the opportunity to provide opening statements, and we look forward to answering your questions.

The Chair: Thank you for that. We are in a fairly challenging financial situation in the public sector, and I know that members will be keen to look fairly closely at the 8.4 per cent overall increase that Audit Scotland is proposing. It would not be wrong to say that, in general, increases in the public sector are fairly limited at the moment, with many thinking that, if they get any increase or even a non-increase, they have come out well. All that should come out during the questioning today, and I hope that we will get to a conclusion on that.

Let me start with the first question. We welcome the fact that you did not look for additional revenue funding in 2023-24 in the spring budget revision, but can you tell me what steps you took to identify the significant efficiency savings that have been used to alleviate staff cost pressures and to fund capital investments, particularly in view of the extent of the challenges and risks to the 2023-24 budget, which you previously reported to the commission?

Stephen Boyle: I am very happy to start on that, and I will perhaps bring in Martin Walker and Stuart Dennis to support my response. You are right—our budget proposal last year was not followed up with any supplementary requests to the commission, and we are pleased to have got to that outcome.

When we gave evidence to the SCPA on our 2023-24 budget proposal, we spoke about some significant risks, most notably in terms of the pay award. Our pay assumptions were considerably lower in percentage terms than the actual pay award that we eventually settled on. Where we got to was a pay award of around 6 per cent for our colleagues. That was not a flat 6 per cent for everybody. Through negotiation with our trade union partners, there was what we refer to as bottom loading, which is about more generous pay awards for colleagues at earlier stages of their career or in lower-paid roles in Audit Scotland.

In terms of balancing the budget effectively, we are always mindful of our costs as a public body. We are rightly living up to the standards that we expect of other public bodies in terms of managing our budget. Some of the factors that we use to respond to that are longer term and some are in year. I am sure that you will want to talk about our estate strategy and our approach to managing over the course of this morning’s evidence taking.

To give you some examples, we have employed what we call a vacancy factor arrangement in the organisation, which builds in an assumption around turnover levels and how quickly we can fill posts within the organisation. That was perhaps our most significant step in managing our cost approach. We are also looking closely at our wider delivery arrangements and other efficiencies. How we deliver our audits is changing. Travel and subsistence would have been quite a significant cost in previous years, but that cost was also lower than expected, so we were able to reapply some of that cost over the course of the year.

Those are some high-level examples, chair, but Martin Walker might want to come in with some further specifics, or indeed Stuart Dennis.

Martin Walker (Audit Scotland): As Stephen Boyle said, we focus closely on our productivity and our efficiency. We are mindful that every pound that goes into public audit is not going into other public services. Given the nature of the work that we do, we are obviously very focused on that.

The other thing that is probably worth reminding members of is that any of the unused in-year budget is returned to the Scottish consolidated fund. Over the course of recent years, that has been fairly routine and we have been able to pay back into the SCF any of the budget that is not used in year. We are not in a position to keep reserves. It is an annual process for us, so we always return anything that is unused to the Scottish consolidated fund.

The Chair: You mentioned travel and, indeed, travel costs have reduced over the years. However, from memory, I think that you are talking about a £95,000 increase in travel costs this year.

10:45

Stephen Boyle: I will check that in appendix 1, chair. I can also ask Stuart Dennis to clarify.

Our budget proposal for travel and subsistence costs for the forthcoming year is £402,000, compared with last year’s budget of £496,000. We therefore have a reduction of £94,000 in our travel and subsistence budget.

The Chair: I will hunt through for that later.

Will you apply the same measures in 2024-25 that you have taken in 2023-24 in relation to cost management?

Stephen Boyle: At a high level, yes, that is absolutely right. The example that we have just spoken about—travel and subsistence—is a significant area of expenditure that we will always keep under close review.

Your question is likely to take us into looking at how we are managing particular areas of our expenditure. As the commission knows, most of our costs are staff costs, together with payments that we make to firms that we appoint. That accounts for 86 per cent of our total spend.

I will pass to Stuart Dennis to say a bit more about how we will manage our estate costs into the future.

We are also looking at ways to ensure that, as an organisation, we remain fit for purpose and manage our costs. We are embarking on an audit modernisation approach that will primarily look to secure the effectiveness of our audit and to ensure that it meets the respective quality standards, but that will likely also, in due course, ensure that we can demonstrate to the SCPA and public bodies that we are efficient. Those are the approaches.

As we referred to in our submission, as we review our approach, we anticipate that it will, further down the line, bring changes to our operating model, or our new target operating model. We intend to develop the detail of that over the course of 2024-25.

I will stop for a moment so that Stuart Dennis can come in and update the commission on where we have reached in relation to the estate.

Stuart Dennis (Audit Scotland): Good morning, everybody.

With regard to the estate, the committee will notice that the budget in respect of rent and rates is required to go up next year. That is an interim arrangement, because we are in the middle of trying to reduce the size of our office in Edinburgh and we have expanded the office size in Glasgow, which meets our demand. The plan is that, next year, we might potentially have some savings in year, depending on how quickly the work can be done in Edinburgh.

The board has approved an estate strategy that reduces the size of the Edinburgh office and increases the size of the one in Glasgow, because that is where the demand is. Over the long term, the duration of the net position is likely to bring in excess of £2 million-worth of savings over a 10-year period. In respect of Edinburgh, by reducing the office by one third, the savings on that office alone will be in the region of £4 million over the duration of the extended lease. However, that is a net position, because we have had to increase our capacity in Glasgow, because that is where the demand is. In the longer term, we will deliver significant savings in respect of our estate.

On the back of the point about travel and subsistence, I highlight that, in 2019-20, we had a budget for that of £852,000. The committee will notice that, this year, we are asking for £402,000. Obviously, that has a significant impact on how we audit and the approach that we take. That is the impact of that, which we feel is a fair reflection. Now that we are out of the previous lockdowns, we feel that we are in a more steady position in respect of travel and subsistence.

The Chair: While you are on the issue of travel and subsistence, your proposed budget for that is £402,000 and your budget for it last year was £496,000. It is interesting that there is no comparison with the actual for 2023-24. What is the actual for 2023-24?

Stuart Dennis: At the minute, we are within—

The Chair: You are still in that year, so you do not have a figure.

Stuart Dennis: I do not have a figure for the year but, in the year to date, we have underspent in that area.

The Chair: Substantially?

Stuart Dennis: Not substantially.

Stephen Boyle: The £402,000 is informed by the forecast that we got to the end of March. There is a degree of fluctuation, but we are confident that it reflects what we are likely to spend. You can probably take confidence from Stuart Dennis having said that the money has not been substantially underspent that we are able to track our progress and understand patterns.

A change that is relevant for the budget is that this will be the first full year of the new appointment round of auditors, so there is not a direct comparison with previous budget actual spends. The budget is informed by what we have been spending in the delivery of audits and what we expect that will be in years to come.

If it would be helpful, chair, I am keen to bring in Alan Alexander to talk about the governance of our efficiency and how we monitor our programme of costs and savings.

Professor Alexander: A constant refrain that I feed into Audit Scotland is the need for us to be continuously an exemplar to the bodies that we audit. The worst position that we could get ourselves into would be being accused of saying, “Do what we say, not what we do.” I have been very firm about that from the moment I became chair of the board.

In this particular budget process, we have given the process challenge and governance over the past five months—I referred to that in my introductory remarks. What I mean by that is that, on top of the continuous monthly meetings—there are more, if necessary—that I have with the accountable officer and the chief operating officer, we have had a board seminar in which we looked at where we were going financially in the year to which the bid refers and what we saw coming down the track over the next four years beyond that.

We followed that up with two full board meetings on the budget proposals as they were developed. One meeting was in September; the other was in November. The latter was preceded by an informal, smaller group meeting involving me, the people whom you see around the table and the chief operating officer to ensure that there was nothing in the budget proposals that we could see as being, frankly, indefensible. We found some of that early on, but we did not find any of that later on.

We are therefore fairly confident that the process has been a well-governed one, and we hope that it sets us on a good footing to move into the period when the audit modernisation process will come back to you in later budget years.

Daniel Johnson (Edinburgh Southern) (Lab): I want to pick up on that and to re-emphasise the point that the chair made. In the coming financial year, the public sector financial settlements are likely to be extremely challenging. In that context, 8.4 per cent will be difficult to justify in comparison with other public sector bodies. A point has just been made about essentially living by the guidance that you provide to public sector bodies. Is making that statement not inviting at least that challenge?

Stephen Boyle: Without context, I would expect significant pushback and challenge, but I think that the context explains the rationale for why our proposal that is before members today is as it is. One reason is around the national fraud initiative, which accounts for 1.9 per cent of the 8.4 per cent. We think that that is an essential mechanism to support financial control and good use of public money. The fact that it is a biennial process means that there is not a direct comparison with the previous year's budget.

On top of that, we are also not comparing like for like, because there is a change in the number of bodies that we are auditing. As the Scottish Government has created new bodies—and we expect the Parliament to create new bodies with additional commissioners next year—we have to respond to that in the public audit context. Environmental Standards Scotland and Consumer Scotland are not fee-charging bodies. As our audit work on the European agricultural funds ends, part of that work will become part of the Scottish Government audit, which is, similarly, a non-chargeable audit for us. Those two elements account for 3.7 per cent of our budget proposal change. If we strip those out, we are requesting a 4.7 per cent increase to our budget.

Daniel Johnson: How many additional public bodies will you have to audit in the coming financial year compared with the current year?

Stephen Boyle: I can give you the detail on that, but I will turn to colleagues to make sure that I get the list correct. I mentioned two of them—in fact, two plus the additional work on the European agricultural funds, which will be absorbed as part of our audit of the Scottish Government consolidated accounts. Martin Walker and Stuart Dennis are confirming that those are the complete list, but if there are any others we can come back to you.

Daniel Johnson: In that context, it is incumbent on us to understand the robustness of the figures that you have come back with, and, in particular, how you have sought to find efficiency savings to contain your budget request within the challenging fiscal envelope in which we find ourselves. You set out your efficiency savings in appendix 3. Can you confirm that all those efficiency savings have been applied to the breakdown of your budget in appendix 1?

Stephen Boyle: Yes, that is correct.

Daniel Johnson: Looking at "Total other operating expenditure" in appendix 1, I see a figure of £5.3 million compared with £3.9 million in 2021-22. That is a 37 per cent increase in non-people costs. Is that correct?

Stephen Boyle: Your arithmetic is correct. I can develop that further if you wish.

Daniel Johnson: Yes, please.

Stephen Boyle: In the intervening period, we have tendered for the provision of external audit services for the audit of public bodies. That has resulted in increasing costs—as we anticipated it would, to be absolutely clear—from audit firms that we appoint for the delivery of audit work. The cost of audit is going up across the United Kingdom, and that is captured in the change in the numbers that you see before you. I am happy to go through different lines to capture some of those costs, if that would be helpful.

Daniel Johnson: Very few lines are going down. It is obviously to be expected that there will be increases in an inflationary environment. However, if I was looking at a budget proposal where I felt that an organisation was looking rigorously at every possible cost, I would hope to see a few more flat or decreasing lines, especially for non-people costs. For example, given that you were able to operate on almost half of your proposed budget in 2021-22, I wonder whether you have fully explored whether line items such as the stationery and printing budget could be reduced.

11:00

Stephen Boyle: I can give you the assurance that we exercise proper scrutiny of the submissions that are before you. There are some fluctuations, and I agree that we are—and have been—in an inflationary environment, which feeds through to some of our costs. Of the costs that are reducing, we have touched on travel and subsistence. It is very clear, given how we are delivering our audits, that there has been a change since last year.

The table is not complete to be able to do a full trend analysis. In 2021-22, at the height of the pandemic, there were some real anomalies. As Stuart Dennis mentioned, going back further might provide the assurance that we have closely scrutinised the numbers that are involved.

We also operate in a cyclical environment. Appendix 1 shows that our staff recruitment costs were in the region of £235,000 to £240,000 as we changed in the earlier part of this decade. People's working patterns changed, and we had to bring additional people into the organisation. As we move into a more stable environment, we expect some of those costs to go down.

I assure Mr Johnson and the commission that we have gone through the costs, but I am happy to answer any specific questions that you wish to ask.

Daniel Johnson: My fellow commission members will be relieved to hear that I will not go through appendix 1 line by line.

I understand what most of the line items are, but what is contained in "Other accommodation Costs"? There has been an increase in those costs of more than £100,000, from £445,000 to £592,000, in a single year. What do those costs include, given that they do not relate to "Rent & Rates" or "Travel & Subsistence"?

Stephen Boyle: I will ask Stuart Dennis to give details on that.

Stuart Dennis: Those costs include service charges for our leases and cleaning and utility charges, which have gone up significantly as a result of the increase in utility bills. Those costs have gone up so much because they include service charges, cleaning charges and direct utility bills. Those are the primary elements that are included.

I highlight that, under "Other", you will see that, although the actual costs in 2021-22 and 2022-23 are low, there is a high of £500,000. That is where our management contingency is. We do that every year, because we cannot carry reserves, so we need some contingency. Although we might not actually spend that money, as is shown in those two years, we require it as part of our budget, and it is a significant sum.

Daniel Johnson: Thank you.

The Chair: I invite Sharon Dowey to come in.

Sharon Dowey (South Scotland) (Con): Thank you. I apologise for not being at the meeting in person this morning.

In paragraph 26, on page 9, Audit Scotland reports:

> "Recovery from the disruption to audit completion deadlines continues while the focus remains on our key priorities of health, safety and wellbeing of colleagues and quality of audit."

Will you give us more detail on that? Will you explain the status of the recovery to pre-pandemic audit reporting timelines and advise when you expect to return to pre-pandemic service levels?

Stephen Boyle: I am happy to start, but I might turn to Martin Walker to develop my response. As I mentioned in my introductory remarks, we have not yet recovered from the disruption to our delivery deadlines across our audits. We do not particularly like to readily compare ourselves with other parts of the UK, because we recognise that there are particular challenges in the delivery of local audits in England. We want to deliver timely, effective and high-quality audits of Scottish public bodies as soon as possible after the end of the financial year.

As I mentioned, almost all of our audits of local government bodies will be completed by the end of this month, which represents a delay against the completion deadline of the end of September. I should say that the deadlines changed during the pandemic. For a period, we operated to the end of October for councils and national health service bodies. We are now back at an end-of-June deadline, whereas, at some points during Covid, we operated to the end of August and then July.

Martin Walker can touch on the specifics of where we are, but I will finish by saying that we are making progress—I say that having seen some of the more recent detail. This is the first year of the current five-year audit appointment round, and in that first year the work typically takes additional time for auditors, as they get to know their new audited bodies and vice versa. Allowing for that, we are a good bit further forward from where we were last year.

Similarly, we have set a deadline of 2028, which is the duration of the current appointment round, to fully recover. We expect to meet that deadline, and I hope that we will outperform it. We will continue to report progress. We have effective governance on that—Alan Alexander might want to say more about that—through our quarterly performance reporting arrangements, which track the progress that we are making.

Martin can update on specifics, and Alan might want to come in, too.

Martin Walker: There are a few things at play. As the Auditor General mentioned, a range of factors have contributed to the impact on timeliness, which is not where we would like it to be—obviously, we would like to be ahead of where we are at the moment. However, as the Auditor General said, bearing in mind that the deadlines shifted, there are clear indications that our timeliness has improved this year compared with last year.

Our response is to take a risk-based approach. To go back to the earlier conversation that we had about the resources that are available to us, one way to get the audits back on track would be to ask the commission for more resources to get more auditors to close that gap. As the earlier conversation highlighted, we clearly did not think that that was a reasonable position to take. Therefore, it is about bringing the timeliness of the delivery back on track within our existing resource envelope.

As at close of play last Thursday, all the health audits and 68 per cent of the local government audits were complete. In the world of central Government, we expect 99 per cent to be done by the statutory deadline of 31 December, and we also expect that all the audits of the further education colleges will be complete by the statutory deadline for that, which is 30 April 2024.

The other thing that may be of interest is that we have done some analysis of what is leading to the delays in delivery. That tells us that about half of the delays are due to issues in the audited bodies to do with the production of the accounts to the appropriate standard and so on. About 25 per cent are down to delays in the audit process—those are the delays that are down to us. Another 20 per cent are to do with other factors, such as the timing of pension fund valuations and the impact from previous years. We have had a careful look at what is within our control to enable us to make the improvements that we want to make on timeliness, but we are mindful of other factors that are outwith our control.

Overall, the timeliness is going in the right direction. As the Auditor General said, we think that we have taken a practical and reasonable approach to bringing the work back on track to meet the deadlines.

Sharon Dowey: You said earlier, Auditor General, that the audits are months rather than years late. Are there any key areas that are still to be audited that are behind schedule and that you are concerned about?

Stephen Boyle: There is nothing that I am concerned about, in that we are aware of the delivery of audits across the piece. We are in regular dialogue with auditors who work for Audit Scotland and those whom we appoint from the firms, so we have a clear understanding of when the audits are forecast to be complete.

Before I bring in Alan Alexander to say a bit more about how we are exercising effective governance on this matter, I would just make the comment that, as Martin Walker has said, there are statutory deadlines in place here. I know, Ms Dowey, that you will be familiar with some of the audited bodies that have struggled to meet those deadlines; sometimes, those matters will be accompanied by statutory reports from me to the Public Audit Committee. With regard to audits that I appoint auditors to, I will, in the event that the statutory deadline is not going to be met, write to the Public Audit Committee before the end of the month to let it know that that is going to happen. I expect the number in that respect to be very small this year and to concern audited bodies that you will be familiar with from previous years.

Do you want to add anything, Alan?

Professor Alexander: I just want to say something about the way in which the board approaches this matter. In my opening statement, I mentioned the corporate plan. That plan is supported by a business plan, and both plans are supported by a suite of reports that come to every board meeting. It is fair to say that the board gives as much scrutiny to performance as it does to expenditure over the year. Behind that, the board has taken a significant view that, when push comes to shove, the timetable of audit can be negotiable, but quality of audit cannot. Those are the bounding factors with regard to the timetables that we hope to get to by 2028.

One other thing that I would say is that the information coming to the board demonstrates—and is now demonstrating in more granular detail than it was even six months ago—that, as Martin Walker has just highlighted, the reasons for delay vary, and quite a lot of the issue is outwith Audit Scotland's control. Moreover, delays themselves vary. The board has asked for the detail on the length of delays to be part of reports to it, too, because, as I am sure that the commission will accept, there is a distinction to be made between an audit that is three months late—I am just picking a figure out of the air—and an audit that is three weeks late. The reasons are likely to be different, but I want to assure the commission that budget and audit quality are jobs 1 and 2 for the board. We are now in a position where the board is getting a greater degree of granularity on both issues than it did before. Moreover, before the reports come to the board, they will have been crawled over in great detail by the audit committee at each of its meetings.

Sharon Dowey: I was going to ask about the new bodies to be audited in 2024 and 2025, but

Daniel Johnson has covered that already. I will hand back to the chair now.

The Chair: On the back of Sharon Dowey's questions, how have the delayed audits and changed deadlines impacted on cash flow? Where do they place you?

Stephen Boyle: Stuart Dennis can give you the detail on this, but I think that—I am going out on a limb here—my answer would be: not terribly. We are still billing those bodies that we are able to charge a fee to, in line with our cyclical approach.

As you might recall, the challenge that we had right at the start of the pandemic was its significant bearing on our work in progress and income recognition. Because of that, we were not able to bank the work that we would normally have banked in order to align our income and expenditure, which left us with a technical accounting gap that the SCPA supported us in addressing through a budget revision at that stage. In cash flow terms, though, I think that the situation is different. Stuart Dennis can clarify that issue.

Stuart Dennis: In respect of cash flow, the impact is not huge. We operate on an instalment basis; in other words, we invoice local government, central Government and the NHS in three instalments, usually in January, May and September. That means that, although we might not have finished the audits, we have invoiced for the work, and from a cash flow perspective, we have the cash in. As Stephen Boyle has said, the issue is more to do with when we can recognise the income in the accounts, because we can recognise only what we have done. We cannot recognise income from work that we have not finished yet.

The Chair: So you have a system for work in progress.

Stuart Dennis: Yes.

Stephen Boyle: I will say more about that, chair. Yes, we absolutely do. That is a key factor in how we prepare our accounts. Our external auditors quite rightly recognise that as an area of audit risk for them and, during the audit, it is a significant focus that they are satisfied with the numbers that we report as progress on individual audits. It should be borne in mind that the audit year is not the same as our financial year, so there is a cut-off point for our balance sheet date. However, that is subject to external audit each year, and the external auditors must be satisfied with the numbers.

11:15

The Chair: Are all the audited bodies audited on the basis of three invoices a year?

Stuart Dennis: Yes, in the main, apart from further education, which gets two invoices a year. In principle, bodies will get three invoices. There will be an initial invoice, a second fee invoice, and a final invoice. The first invoice that we issue will be on the expected fee. As part of their planning process, the auditor will then have meetings with the audited body. They might agree a fee that is higher than the expected fee that we initially invoiced for, as there might be more work and risk. In that case, the next instalment will be based on the adjusted fee that has been agreed with the audited body.

The Chair: Okay. I will now bring in Richard Leonard.

Richard Leonard (Central Scotland) (Lab): Good morning. I want to develop that point.

One of the things that stood out for me was table 2, which shows your budgeted expected income from various public bodies that you charge fees to. If I am reading that table correctly, it says that the proposal is that the audit fees that are charged to further education colleges will rise by 6 per cent, the income generated from the fees charged to local government and the national health service bodies will increase by 8.7 per cent, and the expected fee income from central Government bodies—Scottish Government departments and sponsored bodies—is projected to decline by 1.3 per cent. What is the strategy that lies behind that?

Stephen Boyle: I am glad that you raised that, Mr Leonard, as there is an important clarification that we can make, particularly with reference to our overall request.

The colleges issue is quite straightforward. The figure is 6 per cent. Our overall fee increase for the 2023-24 audit year will be 6 per cent. There is an alignment between our fee increases and our staff pay award. The reason why there is a mismatch is to do with the overlap of our audit years and our financial years.

Stuart Dennis can develop that further to ensure that you get the absolute clarity on that point that the commission needs. In particular, he can pick up the point about why central Government is out of line with the other sectors.

Stuart Dennis: Table 2 reflects the financial year income. As Stephen Boyle said, we charge for the audit year. The Scottish Government departments and sponsored bodies figure has gone down, as that is where our European agricultural funds accounts audit used to be. That was over half a million pounds. We will no longer have that audit in 2024-25, and that is why the figure has come down in total.

Members will see that we are increasing the NHS and local authorities fees by 6 per cent for the 2023-24 audits, but there is some expectation of catch-up, which was discussed earlier. We hope that, in the income budget, we will be able to recognise a bit more of that income and we will catch up in those sectors. Although we are not charging them any more, we are completing more of the work in those sectors, and we will be able to recognise more of that income come the end of March 2025. We have budgeted that into our plans.

Richard Leonard: Okay, but it is useful for us, as a commission, to be able to compare one financial year with the next financial year, or apples with apples, so perhaps there is a better way that you could present that information. Can I deduce from what you have told us that the fees that you are charging to Scottish Government departments and sponsored bodies of the Scottish Government are also rising by 6 per cent?

Stephen Boyle: For those bodies where we are able to charge a fee, of course. To be absolutely clear, 6 per cent is the fee increase for all audited bodies for that year in question.

I take the point—it is very fair that you make it—that comparing and contrasting is not straightforward because of some of the variables that Stuart Dennis mentioned. We are accelerating the work as part of the catch-up of delivery progress, and new bodies are being thrown into the mix. That is an issue, together with the fact that the income that we had been receiving from the EAFA agricultural funds audits is also changing fundamentally as it moves out of our responsibility by the middle of next year.

That might be a question that we need to take away and see whether we need to come back to the commission in writing to give you the comparability that you are looking for.

Richard Leonard: Thank you. That would certainly be a useful thing to do.

One of the other areas where I was struggling a bit to make the comparisons and to understand the narrative that is in the submission to us is around the estate strategy. I think that Stuart Dennis might have clarified matters a little for me earlier, but just so that I am clear about this, if I look at the overall figure for property, we are told that there is going to be an estimated financial saving of in the region of £2.2 million over a 10-year period. That is an average saving of £220,000 a year. We are also told in paragraph 78 that the Glasgow accommodation cost rise is in the region of £298,000. I want to make sure that I am comparing apples with apples. That is a one-year figure versus the 10-year figure for the net saving. It is helpful if the units are immediately comparable, but I am not sure that they are in that case. Could you develop that and explain to us what the increased costs are, what the decreased costs are and what the net position is over a one-year, a three-year and a 10-year period?

Stephen Boyle: We will certainly do our best to cover all those points. If we do not have all the detail to hand, we might follow up in writing, so that the commission is clearly sighted on that.

I will start, and then Stuart Dennis and Martin Walker might have something to add. Stuart Dennis has already touched on the issue, and I think that we have engaged on it with the commission in previous discussions on our budget proposal. Post-Covid, we recognised that our estate was not right for how we would be delivering our work in the years to come, and that was particularly the case with our Glasgow and Edinburgh offices. To summarise, Edinburgh is too big for our purposes and Glasgow is not big enough.

In Glasgow, we were able to remain in the same location—Nelson Mandela Place in the centre of the city—and to acquire a vacant unit on the same floor of the same building to meet the demands of our colleagues. For many years, our Glasgow office was too small. It was typically over capacity, which resulted in circumstances of business inefficiency. Colleagues found themselves unable to find a desk when they needed it, which was not good enough for how we wanted to operate.

Stuart Dennis has also touched on the fact that we are able to recruit more easily in Glasgow than in other parts of the country. The nature of our workforce is that it will go where the audits need to take place, but it also needs to have a base. Glasgow is an investment for the future. It is where we expect to deliver our work and meet the needs of our people.

On our Edinburgh office, through tracking some of the analysis that Martin Walker and his team are doing on usage of that office, we have found ourselves with a considerable amount of free space there. Allowing for changes in our lease arrangements and expiration, we have taken the opportunity, with some of the anticipated support of the commission, to plan for changes to downsize some of the Edinburgh office.

You mentioned some of the figures. In the round, those changes will produce savings over the longer term, as part of an estate strategy that comprises both investment and reduction. Some of that investment is set out in the anticipated requirements for next year, to allow for some of the changes that we are making in Edinburgh and Glasgow.

That is probably enough from me. I will bring in Stuart Dennis and Martin Walker.

Stuart Dennis: I am happy to provide more information. As you will imagine, we have detailed breakdowns on the savings and the additional costs, which are summarised in the report that you have before you. We are recycling as much furniture and everything else as we can—it is not a new ask or anything. In respect of what we are giving up in Edinburgh, we will move the spare furniture across to Glasgow where we can. We are cutting costs and reusing furniture that we require there.

As you are probably aware, there is a general uplift in utility charges, which is having an impact on service charges from the landlords. That is why there is an increase of that scale for next year. However, the plan is that that will bottom out and that we will start to produce savings, probably next year, although it is difficult to put a date on that at present, because we are still in the legal process of the minute of variation for Edinburgh, and we will then have to co-ordinate the whole project for both sites.

As you would expect, there is more detail behind the information that the commission has, and I am happy to share that with the commission if it so wishes.

Martin Walker: I have a couple of things to add. As Stuart Dennis said, we are focused on ensuring that we recycle things such as office furniture. Another key point is that rental rates in Glasgow are substantially lower than those in Edinburgh. Therefore, by virtue of being able to close off part of the Edinburgh office, which has been agreed with the landlord, as soon as the partition goes up, we will start to reap the benefits of paying for reduced floor space. That will then go into paying for the increase in capacity that we are looking to deliver in Glasgow.

Stuart Dennis and I have a meeting with the project team on Thursday afternoon this week in relation to the designers, and I believe that the invitation for expressions of interest relating to the work went out last week—I see that Stuart agrees.

Once we have the responses to that tender process and we have had the detailed planning discussions with the external folks, we will be much clearer on what the timelines will be. I know from colleagues, particularly in the west, that there is a huge appetite for accessing and using that space. We are able to use the space to a degree at the moment for meetings and so on, but the next key stage for the Glasgow office will essentially be putting in cabling and getting the excess stuff from Edinburgh—the desks and so on—through to Glasgow.

Richard Leonard: You are talking about a revenue to capital budget transfer during this financial year to help to meet the cost of that change. How will that be funded in future years? As I understand it, any savings that we get will not really start to accrue until 2025, so it will not be next year but the year after that. Is my interpretation correct?

Stephen Boyle: Yes, you are correct on both those points.

Richard Leonard: So, what happens between now and April 2025?

Stephen Boyle: As Martin Walker and Stuart Dennis touched on, investment is required to make the offices suitable to be used. Rightly, and as you would expect, we will reuse as much as we can, but cabling needs to be put into the vacant suite in Glasgow, along with partitions where necessary.

It is important that the commission hears more about some of the discussions that we have been having with the landlord in Edinburgh through our agent. When you return an office suite, you always have dilapidations—you have to return the building to the condition in which you acquired it. Any organisation should allow for that, as we have been doing through providing for what our dilapidations will be. However, work is required to change the Edinburgh office. That is not a full-scale change, but we are going from our current footprint to around 50 or 60 per cent of that, with partitions going up to make sure that we still have the necessary meeting space, kitchen facilities and so on. Once those works are completed, we will start to see the savings that you referred to.

11:30

Richard Leonard: So, there will be net savings on the estate by 2025.

Stephen Boyle: We expect that there will be savings of more than £2 million over the 10-year period into the end of this decade and beyond. Alan Alexander can reassure the commission about some of the governance issues around that.

Professor Alexander: I can provide the commission with some context that might be useful. On the estate strategy, I encouraged the board to, as it were, hasten slowly. As we came out of the pandemic, there was a lot of loose talk about the huge amount of money that could be saved because of people working from home. We took the view that we needed to see how that was developing, engage with our staff and feed that learning into the process. I remember discussing with Stephen Boyle the possibility of an immediate saving of nearly £1 million, but that involved an assumption that office usage would continue at the levels that we saw during the pandemic.

The strategy that the board signed off on—again, it took us six months to do that—was based on a realistic assessment of how our staff would behave, as well as the needs of the business.

The Chair: I turn to the national fraud initiative, which you have already touched on. You mentioned some of the savings that have been achieved over a period. To what extent do you examine the benefits and outcomes of the initiative to ensure that we get value for money and that the value of the savings generated continues to merit the time and effort that is invested in it, both in Scotland and across the UK? I recall that a number of bodies—housing associations and suchlike—do not take part in the initiative. Has any move been made to bring them in? Obviously, the more organisations that are part of the initiative, the more effective and cost-effective it will be.

Stephen Boyle: For completeness, I have mentioned a figure of £158.5 million as being the financial saving as a result of Scotland's participation in the national fraud initiative. That is significant.

The Chair: Over what period is that?

Stephen Boyle: I look to colleagues to confirm that.

Stuart Dennis: That is the saving since 2006-07.

Stephen Boyle: Thank you, Stuart. So, that saving covers a number of years, spanning three decades.

In addition to the financial saving, we must also bear in mind the importance of the deterrent effect of the exercise. All public sector workers are aware of their participation in the initiative through effective communication from their employer. Data matching goes into supplier records, as well, and the use of blue badge facilities and so on is another area in which the national fraud initiative has had success over the period. As an exercise, it is delivering financial savings and preventing potential fraud. In the round, it looks to enhance the control environment that public sector bodies are operating in.

You rightly mentioned that the scope of the national fraud initiative has been subject to review. I know that the Public Audit Committee has taken a strong interest in the initiative in recent years, and we have engaged with that committee on the scope. We look to encourage additional bodies, such as registered social landlords, housing associations and other bodies that are aligned with the public sector to review their participation in the initiative, as a first step. That work is on-going, and we have had communication and discussion with the Public Audit Committee on that issue.

What is also true is that there are boundaries. Some bodies that are not compelled to participate willingly do so, but they are small in number. It would take new UK legislation to expand the scope of the exercise. I am still committed to the initiative, and I think that it is the right thing to do. It gives assurance to the Parliament and the public that all efforts are being made to reduce opportunities for fraud in public sector spending.

The Chair: Does the Scottish Government not have the power to add organisations to the list of those that participate?

Stephen Boyle: I would need to refresh my memory about the specifics of the legislation. There are both UK and Scottish responsibilities, to an extent, but I am not sure that I have that detail to hand, and I would probably need to refer to previous correspondence.

The Chair: That would be interesting to know, because it is in everybody's interests that we get the maximum out of this. It seems to me that a large part of the public sector does not seem to be involved.

Stephen Boyle: To reassure you, chair, I would probably categorise those bodies as bodies that are aligned with the public sector, as opposed to public sector bodies. All public sector bodies that are subject to auditors appointed by me or the Accounts Commission are included in the national fraud initiative. The bodies that are not included are recipients of public funding, but they are not part of the administration of Scottish public bodies.

That is where we come to the question about the extent to which those bodies want to participate. We hope that the benefits are clear for those organisations, but there is no obligation on them to participate. That is where we get into the territory of what further legislation is required and the benefits of the Scottish or UK Government determining that.

If you are content, chair, I might need to revisit previous correspondence and share that with the commission.

The Chair: That would be appreciated. At this point, I will bring in Mark Ruskell.

Mark Ruskell (Mid Scotland and Fife) (Green): Thank you, chair, and good morning to the panel. Can I ask you about the capital budget? The whole of the capital budget is going on the digital strategy in the next year. I take it that there will no other capital requirements for the next year beyond the digital strategy. Is that right?

Stephen Boyle: Yes, that is correct, Mr Ruskell. To expand that further, as an organisation, we anticipate investing in our IT infrastructure to support our audit arrangements, not so much in the year of the budget proposal that is in front of you, but in future years, through our audit methodology programme.

We record our audit work on audit software. We use a product called Pentana at the moment, as do many other of the UK audit organisations. As technology and audit approaches are changing, we intend to take the next year—although I hope that it will be shorter—to review our requirements so that our audit approach remains fit for purpose in the short and medium term.

That is likely to get us to a point at which we will need to invest in our audit technology requirements, but we will work on that in the round during the coming financial year. Our capital requirements are therefore as they are set out in our proposal.

Mark Ruskell: Can you forecast the capital requirement for the digital strategy or can you give us an indication of the scale of that for beyond 2024-25?

Stephen Boyle: In the year ahead, we want to be clear on our requirements so that we settle on digital and working practices that will allow us to deliver robust, independent and effective public audit arrangements.

There are options for us. There are audit technology solutions available in the market, and we think that that is likely to be our course of action as opposed to developing an in-house solution. Just for efficiency, there is no huge value in our trying to source project management and digital skills to develop a solution if one already exists.

Perhaps I ought not to pre-empt where we will get to, because we will be going through that process over the next few months of 2024 and beyond. I would not want to give a figure to you, Mr Ruskell, or to the commission, and say, “This is what it’s likely to be.” Rest assured, though, that we will go through effective processes, have project management and be sizing the scope of the project, along with having the necessary governance through our board during 2024.

Professor Alexander: Following on from what Stephen Boyle has said, I think that it is fair to point out that the board is convinced that there will be a need for audit modernisation, as the shorthand has it, between now and 2028. However, it is also clear that, in the year to which this budget applies, we will want to see a robust business case for what we should do and what it is likely to cost. Clearly, the implications will be longer term than just one year. If we go for something that is in the market already instead of developing something in-house, there will be continuing fees for it. I do not think that we know at the moment exactly what the scope of that will be, but we will know that over the next six to nine months.

Mark Ruskell: Yes, and if at some point over that six to nine months there is more clarity, we will be interested in having the details shared with us, too.

I want to move on and ask about pay and pay negotiations. Obviously, you are not able to discuss in any detail where you are at this point or any likely or potential pay award for the next year, but perhaps I can frame the question by asking you about last year. As I think that you said in your initial comments, you budgeted for a 3 per cent pay increase, but you landed with 6 per cent. Obviously, that will have been extremely welcome for your staff, and you already explained the bottom loading that took place for staff on lower salaries. What have you learned from last year’s pay negotiation process? How does it feed into your assessment of a potential pay award for this year? Critically, what are you budgeting for at this point and, as a result, what are you asking the SCPA to support you with?

Stephen Boyle: Many thanks for that question. I am happy to start, Mr Ruskell, and perhaps Martin Walker and Alan Alexander will say a bit more just to look ahead and, indeed, to reflect on last year.

First, we are really grateful for the effective relationship that we have had with our trade union partners in arriving at the terms and conditions settlement that we have reached over the past few weeks. I would reflect, though, that we would want to do this sort of thing sooner. Because of the timing of the completion of the settlement, we were able to ensure that our colleagues received their pay award and the associated backdated pay at the end of November. In 2024, we want to do that much sooner, so that we are not in a long process of negotiations and to ensure that people get the pay award when they are due it. That is clearly our ambition for next year, and it is a process on which we have already started discussions with the trade union.

As I mentioned in one of my earlier answers, we knew, when we put our budget proposal of 3 per cent to the SCPA last year, that there was a risk in that respect. We eventually settled on 6 per cent, but as a result of careful budget management, vacancy factors and looking at our spending profile, we were able to source the funding or identify how we would pay for the pay award during the course of the financial year. I mentioned in my introductory remarks that the pay award has now been baselined and is part of our budget proposal to the SCPA this morning.

As for next year, I am grateful for your recognition that, as we are in a process of negotiation and have not yet settled anything, I am not able to be absolutely specific about our assumptions on pay awards, but they clearly have reference to public sector pay arrangements in Scotland. I am sure that the commission will recall that Audit Scotland is not bound by the Scottish Government's public sector pay policy. Clearly, though, we want to take cognisance of that. I should also say that, given market expectations, we are required to remain competitive as an audit organisation that delivers public audit.

Those are all the factors that we are weighing up as part of our negotiations, but I hope that we and our trade unions will have a fruitful early conclusion to them in the early part of 2024. I am optimistic, but we will certainly remain in regular dialogue and discussion with the SCPA to keep you abreast of our progress.

I will turn to Martin Walker first and then see whether Alan Alexander has anything else to add.

11:45

Martin Walker: Thank you, Auditor General. The negotiating process over the past couple of years has been interesting, because the Public and Commercial Services Union's national position has shifted a little bit. Last year, for example, or in the current year, a bit more local flexibility was available than perhaps had been the case previously.

I would describe our working relationship with the union as an extremely professional and productive one, particularly on the work done through our partnership forum and the pay and reward negotiating meetings. It is probably worth noting that when we sit at the table in those negotiations we sit across from people who are knowledgeable about Audit Scotland, the accounts and the finances, so they will approach it in that way. That all helps to provide an environment that is reasonable, professional and productive. At the beginning of the negotiations, the PCS branch will have a different view from us on factors such as what is available or affordable, as you might expect, but it could be described as an effective working relationship.

Stephen Boyle mentioned that the objective for pay and reward this year is both to have the negotiations and to arrive at a conclusion a lot earlier than we have been in a position to do in the past couple of years. We will have our first formal negotiating meeting for the year to come on either Thursday this week or Tuesday next week. Our shared objective is, as far as we reasonably can, to conclude those negotiations in the early part of next year, so that members of staff do not see the same delay in the award being arrived at and then being in their pay packets for next year. Given our working relationship with the union, I am quite optimistic that we should be in a position to do that next year.

Professor Alexander: It was an important achievement to reach the agreement in October and November and to be able to pay the increase at the end of November. That cleared the decks, as it were, and we could then talk about 2024-25 at an early stage. As Stephen Boyle has indicated, it would be imprudent to put any numbers on it at the moment, but we might give an indicative timetable for it, as Martin Walker has done.

We hope that, by starting now, we will have concluded an agreement before the end of the current financial year. It would be a singular achievement to get to the point where people get their new pay early; that has not happened in my time on the board. Having it in the April pay packets would be a major achievement. I am not promising that that will happen—it is an expression of hope rather than expectation—but that is what we are aiming for.

Mark Ruskell: Those are useful and full answers. I will hand back to you, chair.

The Chair: I would like to pick up on one or two points from our discussion. You said that the expectation is that what might be payable on pensions will be lower in the future, presumably because of bond yield changes and so on. I presume that the accounting for that will simply be a reduced contribution.

Stephen Boyle: It is our expectation that our employer contribution will be lower as a consequence of the factors that you mentioned. Contributions are bound by actuarial assumptions of what the pension scheme requires of employer members, such as us, to support its financial position. There has been a lot of volatility in pension valuations, but we have had predictability on our employer contributions. That is an approach and mechanism that we value in terms of our financial planning. We expect that we will have clarity on the detail of that in the early part of the new year and it is our intention to remain in touch with the commission once we know more.

The Chair: Several references have been made to the audit modernisation project, which is part of your strategic improvement programme. The commission would be interested to learn more about that if you are able to supply us with details that would give us better and more in-depth information.

Stephen Boyle: We will be happy to come back to the commission in writing if you wish, chair.

At a high level, we expect and recognise that public bodies, the Parliament and the public know that Audit Scotland's work remains of a high quality, is delivered timeously and adapts to changing circumstances.

Our approach is currently evaluated through external quality assessment arrangements. We have had external quality approaches in place for a number of years, first with the Institute of Chartered Accountants of Scotland and now with the Institute of Chartered Accountants in England and Wales, which provide external assessment arrangements. We have also invested in our internal quality approach, through the establishment of a new innovation and quality business group. On quality, we are on a much stronger base than we were three years ago.

Now, we want to invest in the innovation approach, so that we remain nimble and deliver high-quality, relevant work. We are looking at our approach and that is the fundamental part of that activity for our annual financial audit.

Auditing and accounting standards are changing and expectations are increasing. Those are the pillars of our approach, which is governed by a strategic improvement programme board that oversees our work on audit methodology. As we touched on in our submission, over the early part of 2024, we intend to research systems that might give us the necessary arrangements to embed a new audit methodology and how we might implement that with our colleagues through learning and development activities.

We will be happy to come back to the commission with more detail on that if you wish.

The Chair: That would be interesting.

Professor Alexander: I wonder, chair, whether we might consider devoting one of our business planning days to considering what is emerging from the development of our business case. It is big stuff. We are in a position where Audit Scotland will have to be at the same level of performance as the private sector audit companies. At some point—probably in the first six months of 2024—we might be in a position to discuss that at a round table, either at our offices or here.

The Chair: That is certainly worth considering. As you say, it seems to be an extremely important area that we need to explore.

I want to look at the related costs. My understanding is that, in the budget figures for next year, £148,000 is included for the initial stages of the project. However, on page 12 of the proposal, paragraph 48, which is on your budget projections, says that "At this stage", that figure

> "does not include the potential additional requirement to meet demand arising from the audit modernisation project."

That implies that the 2025-26 and 2026-27 figures that you show do not reflect the potential costs of the modernisation project.

Stephen Boyle: That is quite correct, chair. I hope that our submission was clear that we will review our requirements, what the market has on offer, what that means for the delivery of our audit work, and whether there are any implications for our operating model in the course of this year. Our projections for 2025-26 and 2026-27 are the best information that we have available on which to give you indicative figures. However, we do not yet know what that will mean for our technology investment, which we discussed with Mr Ruskell a moment or two ago. Alan Alexander's suggestion for a round-table meeting is a good one. We are keen to engage with the SCPA further, when we know more and as we work through 2024, and we will then compile our budget submission to the SCPA this time next year.

The Chair: Okay. That sounds like a good idea.

I note that paragraph 59 on page 14, which relates to price reductions obtained from audit companies, says:

> "the price reductions secured in the last two appointment rounds were not sustainable."

Presumably, we knew that they were not sustainable at the time. Why were they given?

Stephen Boyle: We did know that the reductions were not sustainable, but we were happy to receive them, nonetheless. At that point, the private firms offered discounts on the rates that they submitted to acquire audit appointments from the Auditor General and the Accounts Commission.

However, the cost of commercial audit, including public sector audit, has increased across the piece. Indeed, I remember in previous discussions with the SCPA drawing your attention to the fact that the cost of local audit in England had increased by 150 per cent. Certain factors in that respect are relevant, but they do not mask the fact that audit costs are increasing, because of increased regulation, changes in technology and new auditing and new accounting standards. As far as that comment is concerned, we knew that the cost was going to increase but, when we were offered the discounts—and this is going back six and 11 years ago—we thought that it was the right thing to accept them.

Professor Alexander: It is worth adding that I chaired the working group that organised the process for making the new audit appointments and that, at the beginning of the process, we were aware that the prices that we had had were unsustainable. We were also aware that there was no guarantee that anybody was going to bid for the work. I mention that, because the involvement of private firms gives us access to the kind of market intelligence that allows us to plan ahead and say, "Okay, let's be realistic about this."

It is also worth underlining to the commission the arrangement that Stephen Boyle alluded to earlier, under which the fees that we pay to external firms are pegged to the increase in our staff costs. That is a very good deal for public audit in Scotland. Given where we are, though, I would not want to forecast that we are going to be any more certain of things at the beginning of the process for the next quinquennium than we were back in 2019.

The Chair: Paragraph 75 on page 15 says:

> "Other operating costs are ... (9.3%) higher in the ... 2024/25 budget compared to the approved 2023/24 budget."

Given that we do not have the actuals for 2023-24, do you have any comment on how we are performing in comparison with the budget?

Stephen Boyle: I am happy to share that information with the commission. As Stuart Dennis has touched on, we provide quarterly reporting to our executive team and the board to ensure that they are sighted on progress. As I have said, we can provide that to the commission, too.

I should point out that our forecast informs our budget. In other words, the numbers before you as part of the proposed budget will have been put together with reference to not only known changes, but our pattern of expenditure in the current 2023-24 year. That has led to the proposal that you have before you. However, we will follow that up in writing and share our interim arrangements with you.

The Chair: That would be useful. Having the actual figures to set against the proposed budget for 2024-25 makes more sense to us than looking at the previous year's budget.

Stephen Boyle: Certainly, and the forecast will support that comparison.

The Chair: As members have no other questions, I thank Stephen Boyle, Alan Alexander, Martin Walker and Stuart Dennis for attending the meeting.

11:59

Meeting continued in private until 12:36.

This is a draft *Official Report* and is subject to correction between publication and archiving, which will take place no later than 35 working days after the date of the meeting. The most up-to-date version is available here: www.parliament.scot/officialreport

Members and other meeting participants who wish to suggest corrections to their contributions should contact the Official Report.

Official Report
Room T2.20
Scottish Parliament
Edinburgh
EH99 1SP

Email: official.report@parliament.scot
Telephone: 0131 348 5447
Fax: 0131 348 5423

The deadline for corrections to this edition is:

Wednesday 17 January 2024

Published in Edinburgh by the Scottish Parliamentary Corporate Body, the Scottish Parliament, Edinburgh, EH99 1SP

All documents are available on
the Scottish Parliament website at:

www.parliament.scot

Information on non-endorsed print suppliers
is available here:

www.parliament.scot/documents

For information on the Scottish Parliament contact
Public Information on:

Telephone: 0131 348 5000
Textphone: 0800 092 7100
Email: sp.info@parliament.scot

The Scottish Parliament
Pàrlamaid na h-Alba