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## Scottish Commission for Public Audit

# Audit Scotland Budget Proposal for 2019/20



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# Introduction

1. Section 11(9) of the Public Finance and Accountability (Scotland) Act 2000 requires that Audit Scotland prepares proposals for its use of resources and expenditure and sends these proposals to the Scottish Commission for Public Audit (“the Commission”). The Commission then examines the proposals and reports to Parliament on them.
2. As Audit Scotland's budget forms part of the total Scottish budget, the Commission reports its views to Parliament to assist Parliament's wider scrutiny of the Budget for 2019/20. Previously the Commission has reported its scrutiny of Audit Scotland's budget proposal to the Finance and Constitution Committee. Following the report of the Budget Process Review Group <sup>1</sup> the Commission now reports directly to Parliament.
3. Audit Scotland submitted its [budget proposal](#) for 2019/20 on 4 December 2018. The Commission took oral evidence on the budget proposal at its meeting on [12 December 2018](#). The Commission took evidence from Ian Leitch, Chair of the Board of Audit Scotland; Caroline Gardner, Auditor General for Scotland and Accountable Officer for Audit Scotland; Diane McGiffen, Chief Operating Officer for Audit Scotland and Stuart Denis, Corporate Finance Manager, Audit Scotland.

# Budget Proposal 2019/20

## Overview

4. Audit Scotland's budget is drawn from two main sources. These are fees charged to audited bodies and monies approved by the Scottish Parliament from the Scottish Consolidated Fund. The budget proposal, which the Commission is required to consider, broadly funds the following areas of activity by Audit Scotland—
  - Non-chargeable Central Government audits
  - Performance audits
  - The Auditor General
  - The Accounts Commission
  - A proportion of Audit Scotland senior management
  - National Fraud Initiative
  - New Financial Powers
5. Audit Scotland's budget proposal for 2019/20 is based on a total expenditure requirement of £25,394K. This is an increase of £776K from the approved 2018/19 budget total expenditure of £24,618K.
6. Whilst £17,980K in 2019/20 will be funded from income from charges to audited bodies and £150K from capital, the budget proposal seeks parliamentary approval for funding of £7,564K. This is an increase of £416K (5.8% in cash terms) on last year's approved total resource requirement of £7,148K. The £416K increase is derived from an additional £900K in staff costs offset by administrative cost savings of £124K, increased income of £335K from audited bodies (that pay for the costs of audit directly) and a reduction in capital expenditure of £25K.
7. In her letter to the Commission, the Auditor General for Scotland in her role as Accountable Officer for Audit Scotland, commented that—

” The main strategic operational and financial issues affecting Audit Scotland next year are the continued devolution of new financial powers to Scotland, public sector pay policy and uncertainty over the UK's withdrawal from the EU.<sup>2</sup>
8. In her evidence to the Commission the Auditor General went on to say that—

” Our budget proposal will enable us to continue to fulfil our statutory audit responsibilities; to take on the audit of the significant new expenditure and revenue-raising responsibilities; and to support the Scottish Parliament in its important role of holding the Government to account.<sup>3</sup>
9. The budget proposal notes that once again it has been prepared in the context of a number of significant uncertainties. These include the:

- impact of the UK autumn budget statement on Scottish budgets;
- Scottish Government’s public sector pay policy;
- timing of the implementation of the financial aspects of the Scotland Act 2016;
- impact of the United Kingdom leaving the European Union; and
- financial assumptions used to estimate International Accounting Standard 19 (IAS 19) defined pension costs.

**10. The Commission notes the uncertainties highlighted by Audit Scotland and which provide context for the 2019/20 budget proposal.**

## **New Financial Powers and Constitutional Change**

11. In its 2018/19 submission Audit Scotland set out three-year funding projections for implementing new financial powers as associated audit work. Over a three-year period to 2021/22 Audit Scotland plans a phased approach to increases in resource requirement such as staffing.
12. The budget proposal highlights the additional work requirements in 2019/20 arising from financial and performance audit work on Social Security Scotland. Audit Scotland confirmed that the audit work on Social Security Scotland will also include an assessment of its set-up costs.
13. In addition, further audit work will be required, with the National Audit Office, in respect of Scotland’s VAT share and the Scottish Rate of Income Tax. This extra work will enable Audit Scotland to provide additional assurance to the Scottish Parliament on VAT assignment and on HMRC’s administration of different tax bands and rates for Scottish taxpayers.
14. For 2019/20, Audit Scotland has proposed that a further 4.5 Whole Time Equivalents (WTEs) at a cost of £285k will be required to deliver this additional workload. The Commission questioned why this had increase from the projected 1 WTE in the Budget Proposal for 2018/19. The Auditor General explained that it was a “timing difference rather than an increase”. She went on to explain that—  

” The exact timetable for the roll-out of the new financial powers is not fixed and keeps changing. For example, on social security, the Scottish Government has entered into an agreement with the Department for Work and Pensions (DWP) to take on responsibility for some of the benefits sooner, which means that the audit work needs to run more quickly. I am just about to appoint an auditor to the new social security agency to cover that. In addition, we think that the timetable for the full devolution of the assignment of VAT revenues is about to be agreed. <sup>4</sup>
15. In assessing the level of work required in new or emerging areas of audit work the Auditor General explained that—

” an element of judgement is involved... We use our own audit experience of bodies of similar size and look at the particular functions and responsibilities of the new body to see what we think is likely to be needed. <sup>4</sup>

16. In relation to the potential audit requirements for the new Scottish Social Security agency Audit Scotland staff had worked with the National Audit Office who have experience of auditing the DWP to better understand the systems that will need to be audited and the risks to take account of. Information provided by Audit Scotland following the Commission’s meeting of 12 December 2018 confirms that significant uncertainty remains around detailed resource requirements and will continue to do so until the timetable for the remaining benefit transfer is set.

17. The Auditor General explained that in order to ensure that Audit Scotland had skilled staff ready to carry out this new audit work it had been developing its expertise in this new audit area using specialised training as well as building on existing knowledge of auditing housing benefits. Staff had also benefited from working closely with staff from the National Audit Office who currently audit the DWP. <sup>5</sup>

18. The budget submission also included a proposal to increase ‘management contingency’ from £150k in 2018/19 to £300K in 2019/20 to cover significant uncertainties in expenditure and income. In 2018/19 approximately £75K had been used with the expenditure appearing in the annual accounts provided to the Commission. In evidence the Auditor General explained that the increase in contingency in 2019/20 was being sought as a result of—

” the level of uncertainty we are now facing with regard to not just to the work we need to carry out....but what the impact might be on our costs in future. <sup>6</sup>

19. The Chair of the Board of Audit Scotland, Ian Leitch, highlighted the audit arrangements for the European Agriculture Fund, in the context of Brexit, as one such area where considerable uncertainty about the terms of future audit work exists. In deciding to increase the level of contingency the Board had sought to manage its contingency within reasonable limits whilst giving it a degree of flexibility.

**20. The Commission recognises that the devolution of further financial powers will result in an increased workload for Audit Scotland. The Commission considers that the increase of £285K to fund people costs is appropriate to meet the requirements of the phased transfer of new financial powers to Scotland based on current information.**

**21. The Commission welcomes the inclusion of information on management contingency in Audit Scotland’s Budget proposal for 2019/20, and recommends its inclusion in subsequent budget proposals.**

## Staffing

22. In our report on the Audit Scotland budget proposal for 2018/19 we noted concern that the reduction in audit fees may be impacting on audit quality and at that time agreed that we would explore this issue further.
23. The budget proposal for 2019/20 also addresses audit quality, stating that £250K will continue to be invested to support the enhanced audit quality inspections and reporting by Audit Scotland. The Commission highlighted concerns that the survey of Audit Scotland's in-house team, which forms part of its Audit Quality Annual Report 2017/18, indicated that in several areas Audit Scotland's performance has fallen. For example, despite Audit Scotland having the highest number of training hours per year (72) compared to the staff of the six audit firms appointed by Audit Scotland to carry out its audit work <sup>7</sup> the in-house staff survey reported that:
  - in relation to having 'the time and resources available to enable a quality audit' only 46% agreed with this statement compared to 63% the previous year.
  - in relation to 'the training and development I receive enables a quality audit' only 54% agreed with this statement compared to 62% the previous year.
24. The Commission therefore sought clarification on how the £250K being invested in audit quality will address this decline in performance and ensure that staff are well supported to deliver quality audits. Responding the Chief Operating Officer, Diane McGiffen commented that—

**”** We were disappointed by the results and we have been working hard to improve them. People and their skills are at the heart of the organisation. We want our people to have the time to devote to learning and development and to be supported in their learning and development, and we are working to make that as effective as possible. <sup>8</sup>
25. Diane McGiffen added that Audit Scotland is investing through its learning and development strategy to improve the quality of work. She explained that Audit Scotland has a comprehensive programme of quality reviews, which it reports on annually and in addition it has independent external reviews of its work which it also publicly reports on.
26. The Commission heard of the actions that Audit Scotland has already taken, since the publication of the Audit Quality Annual report in June 2018, to help address the issues raised in the in-house staff survey. This includes changes to how professional support is organised to ensure the provision of technical and auditing support is sufficient to enable auditors to be up to date on the technical aspects required to deliver their audits. This professional support has been linked with learning and development, where Audit Scotland has worked with external and internal providers to offer more events and a wider range of topics.
27. The Chair of the Board of Audit Scotland, Ian Leitch also commented that—

” Quality is one of our key issues.... we are particularly keen that the public audit model in Scotland is the best that it can possibly be. That is why we have gone to all this trouble and why we are concerned to make sure that we have the team to monitor it and that we have the independent review, it is why the board of Audit Scotland and its audit committee consciously seek those reports throughout the year. We have to assure ourselves first and then we have to assure the client groups, the commission and the Parliament that the audit quality is good. <sup>8</sup>

**28. The Commission acknowledges the steps taken by Audit Scotland to improve audit quality and support staff. We recommend that within the Budget proposal for 2020/21 information is included on how effective the £250K has been in improving Audit Quality performance.**

**29. The Commission will consider the outcome of the next Audit Quality Annual report in due course and will return to this issue.**

## Costs of auditing sectors

30. Audit Scotland’s budget proposal for 2019/20 shows that although the costs of auditing NHS bodies and further education bodies had remained broadly the same as in 2018/19 the cost of audit of local authorities has increased by £483K (4.2%) in 2019/20. Responding Stuart Dennis, Corporate Finance Manager, explained the approach Audit Scotland takes to ensure break even by sector—

” we take the number of days for each sector as the key driver for how we then distribute the costs in our budget across the sectors, allocating all the different overheads such as finance, human resources and information technology. <sup>9</sup>

31. In terms of the 4.2% increase in local government costs, the Auditor General for Scotland explained that local government meets the costs of all its audit work. The increase had arisen from a change in the volume of the number of local government bodies audited and the increase in the size of the Integrated Joint Boards (IJBs) as the IJBs have taken on their full responsibilities. <sup>10</sup>

**32. The Commission notes the explanation for the changes in costs for auditing bodies.**

# Conclusion

33. **The Commission recommends to the Scottish Parliament that Audit Scotland's budget proposal for 2019/20, including the request for a total resource requirement of £7,564K, is approved.**

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- [3] Scottish Commission for Public Audit. (2018, December 12). Official Report, col 5. Retrieved from [http://www.parliament.scot/ScottishCommissionforPublicAudit/Meeting\\_of\\_the\\_Commission\\_12\\_December\\_2018\\_Draft\(12\\_December\\_2018\).pdf](http://www.parliament.scot/ScottishCommissionforPublicAudit/Meeting_of_the_Commission_12_December_2018_Draft(12_December_2018).pdf)
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