OFFICIAL REPORT
AITHISG OIFIGEIL

Scottish Commission for Public Audit

Wednesday 22 June 2022

Session 6

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SCOTTISH COMMISSION FOR PUBLIC AUDIT

1st Meeting 2022, Session 6

COMMITTEE MEMBERS

*Colin Beattie (Midlothian North and Musselburgh) (SNP) (Chair)
*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)
David Jeffcoat (Alexander Sloan)
Martin Walker (Audit Scotland)

LOCATION

The Alexander Fleming Room (CR3)

Scottish Commission for Public Audit

Meeting of the Commission

Wednesday 22 June 2022

[The Chair opened the meeting at 11:33]

Audit Scotland Annual Report and Accounts for the Year to 31 March 2022 and Auditor's Report on the Accounts

The Chair (Colin Beattie): Good morning and welcome to the first meeting in 2022 of the Scottish Commission for Public Audit. I remind members and witnesses to be concise and to the point in their questions and answers, because that will be very helpful time-wise. I ask that everyone ensures that their electronic mobile devices are switched to silent.

Agenda item 1, which is the only item on our agenda today, is consideration of Audit Scotland's annual report and accounts for the year to 31 March 2022 and the auditor's report on the accounts. Members have copies of those documents, as well as a management letter from Alexander Sloan, in their meeting papers.

I welcome to the meeting Professor Alan Alexander, chair of the board of Audit Scotland; Stephen Boyle, the Auditor General for Scotland and the accountable officer for Audit Scotland; Martin Walker, acting director of corporate services at Audit Scotland; and Stuart Dennis, corporate finance manager at Audit Scotland.

I ask, first, Alan Alexander and then the Auditor General to make short introductory statements.

Professor Alan Alexander (Audit Scotland): Thank you, chair. It is good to be here in person. Let us hope that our ability to be here in person continues.

Over the past year, Scotland's public bodies have had to address the immediate impacts of Covid-19. At the same time, they have had to start the job of rebuilding our communities and our economy. Over the past two years, we have seen dramatic changes in the way in which public services are delivered and how citizens and communities engage with them, and accompanying sharp rises in public spending.

For Audit Scotland, it has been another year of significant development, adaptation, progress and change. For much of the past year, we continued to operate as a virtual organisation. I chaired my first board meeting in person in November 2021. We have continued to develop how we communicate with one another and our stakeholders in order to deliver public audit in new ways.

Like everybody else's, our transition out of the pandemic—I cross my fingers as I say that—and into new ways of working has been met with the delays and setbacks of infection spikes, new variants and the sometimes unanticipated reimposition of restrictions. As always—I have said this to the commission before—I have been impressed by the professionalism, commitment and good humour of Audit Scotland's staff as they have focused on delivery and development despite the uncertainty and volatility of their operating environment.

It has been a year of adaptation and development as we have continued to deliver audit work remotely, working with public bodies as they have dealt with the impacts of the pandemic on their capacity and resources. As you will have seen from our annual report, we have also continued with our change agenda in areas ranging from digital audit to the new code of audit practice and the securing of the procurement of audit for the next five years.

We have seen changes in our leadership and governance. Diane McGiffen and Fiona Kordiak, chief operating officer and director of the audit services group respectively—leaders who had been with Audit Scotland since its inception—have left, and I put on the record today the board's thanks for all the incredible contributions that they made both to the organisation and, crucially, to public audit. On the board, Elma Murray has been succeeded as both a board member and chair of the Accounts Commission by Dr William Moyes.

As a board, we have focused on good governance while providing support to the executive and the staff during the past two years. A key component of good governance is to oversee the exercise of all the functions of Audit Scotland. That means, centrally, ensuring that Audit Scotland effectively supports the Auditor General and the Accounts Commission as they scrutinise public bodies and provide assurance about public spending and the public services that are so vital to all of us.

I will hand over to Stephen Boyle, as Auditor General and Audit Scotland's accountable officer. In doing so, I thank him publicly for his leadership and his vision. Like me, he came in at a less-than-auspicious moment, during the pandemic. His leadership over that period has been exemplary, and I think that anybody you spoke to on the staff would support that view. I also thank all those who work at Audit Scotland for what they have done to ensure that we continue to provide high-quality, independent and robust public audit at a time when it has never been more important.

Stephen Boyle (Auditor General for Scotland): I thank Alan Alexander for his kind words.

During 2021-22, we began to see some of the wider and longer-term impacts of the pandemic. We have seen that in the impacts on service delivery and demand, and now with the backlogs in the national health service and the courts. We have also seen it in the morale and mental health of public workers.

Scotland's public spending has increased by more than 25 per cent in a year. As I reported in my report on the audit of the Scottish Government consolidated accounts in the financial year 2020-21, Scottish Government spending was £50.1 billion, up from £39.4 billion in the previous year. Therefore, billions of pounds have moved through the public sector at record pace. Now, as we emerge from the pandemic, Scotland's public bodies must refocus on the pressing issues that we face, such as inequalities, climate change and the cost of living.

Over the past year, Audit Scotland has focused on delivering high-quality, independent audit that serves the public interest while also ensuring that we develop the capacity, skills and structures for what the future holds. Last year, 2021-22, was the first year in which the full impact of Covid-19 came through in our financial audit work. In many ways, it was a more challenging year than 2020-21, as the restraints on the capacity of public bodies became clear. I am grateful for the work of my colleagues in partner firms, who delivered nearly 300 audits and improved the quality of audit work.

During the year, we produced a flexible, responsive and relevant performance audit programme, providing the Parliament and the Accounts Commission—and the people of Scotland—with in-depth reports, briefings on emerging issues, and fast-response online publications. That has enabled us to support effective scrutiny in a volatile and dynamic environment. We have also continued to build the resilience of our organisation and our ability to deliver our audit work. In our annual report, there are examples of the impact of our audit work. It is very important to us that our work benefits the people of Scotland and the outcomes that they experience in their lives.

At the heart of that is, as our chair Professor Alexander says, the resilience, professionalism and empathy of my Audit Scotland colleagues. They continue to support each other and to ensure that wellbeing and safety are protected, while delivering high-quality audit work.

Chair, as ever, Professor Alexander, Martin Walker, Stuart Dennis and I will do our utmost to answer the commission's questions.

The Chair: Thank you for your opening remarks. I will start with a couple of straightforward questions. The last time we discussed the budget for Audit Scotland, we talked about the impacts of Covid-19 and the fact that those did not seem to be particularly well identified in the books. Of course, Audit Scotland itself highlights that with some of the organisations that it audits. We were promised that we would see a breakdown of Covid-19 figures. Unless I am mistaken and it is there in this pile of documents, I have not seen that sort of analysis. Is that available?

Stephen Boyle: I am happy to start, and I might ask Stuart Dennis to speak about how that relates to our reporting. Our annual report and accounts follow a prescribed format. We follow FReM, the "Government Financial Reporting Manual: 2021-22", in setting out our spending. In a number of places in our annual report and accounts, we set out our spending against budget—there is analysis of that—and how we have used the additional funding. We have supplemented that and we can, absolutely, provide the commission with more detail on the use of the additional funding. I can hand over to Stuart to share some of that verbally and, if the commission wishes, we can, of course, provide more detail in writing.

First, at a high level, we have used the additional funding that the commission approved for us to invest in our capacity. We have recruited additional colleagues—some 46 additional auditors; we have invested in our information technology systems; and we have invested in components of our support services. We have detailed records for that, which flow through to the annual report and accounts. Stuart might want to say more, but we can provide the commission with any further detail that it wishes to have.

The Chair: The issue is more about the money that derived from Covid-19 and how it was deployed in the business. Like any other business, Audit Scotland presumably received furlough pay and so on. How is that all dealt with? How much did you receive? Those are the sorts of things that we are looking at. That is what we discussed last year.

Stephen Boyle: I want to clarify that we did not receive any furlough money. As a public body, we are funded entirely from the fees and funding approved by the Parliament. What I was trying to describe is the fact that we are somewhat constrained by the format that we are required to use for our annual report and accounts. We cannot deviate from how those need to be set out. We have tried at a number of points through the annual report and accounts to give narrative and quantitative information about the spending that we receive. However, we recognise that we do not have a dedicated page in our annual accounts that sets out the information as I think that you are suggesting.

11:45

The Chair: Last year, the commission was interested in understanding what Covid funds you received, how you deployed them and how effective it was. That is what it came down to.

Stephen Boyle: I recognise that interest and am very grateful for the support that the commission provided us to support our budget. To go back to some of the conversations from 2020 and 2021, I hope that it was clear that the investment that the commission gave us was not likely to be a one-year change. We have sought to invest that money in additional capacity in our audit work, the support functions that all organisations require and, in particular alongside that, some of the changes that we are making through our strategic improvement programme to support some of the digital auditing and future focus.

If memory serves me correctly, some of our recent correspondence with the commission has also set out in some detail how we have invested that money. Some of the prescribed formatting arrangements that we have for our annual report and accounts do not immediately lend themselves to that detail.

I am keen to bring some colleagues in, chair. Stuart Dennis and Martin Walker might want to say a bit more.

Stuart Dennis (Audit Scotland): The additional funding in 2020-21 was required because of the way in which we operate. We could recognise only a certain amount of fee income and expected a shortfall.

We have a time recording system that had Covid disruption as a code. That gave us an indication of colleagues who had Covid or had caring responsibilities, so we knew the numbers. From 2020-21, around 2,600 days were recorded as Covid disruption, which equates to broadly £1 million. In 2021-22, that number reduced to 400 days recorded against that code, which is nearly £200,000. We monitor that and, as the Auditor General said, we do it internally for our management accounts, but we can provide that information to you in more detail.

The Chair: I will talk about what you have highlighted. In the accounts, you have work in progress of about £1.5 million. Obviously, that is money that you have not received. I presume that part of the extra funds that came through last year for you was used to help your cash flow to bridge that gap until you get the money in and that that money will come to you in the not-too-distant future as you catch up, so you will have a surplus at that point. I also presume that, leaving aside the possibility that you might make another proposal for more money at the end of the year—we will deal with that when it comes—that surplus will go back to the Scottish Government's consolidated fund.

Stephen Boyle: In broad terms, that is correct, chair. However, I ask Stuart Dennis to explain in a bit more detail how our work in progress works. Work in progress is not a new feature of Audit Scotland's arrangements. It is largely attributable to the overlap or crossover between our financial year and the completion of our audit work through the audit year.

Stuart Dennis: The £1.5 million work in progress that you mentioned, chair, is work that we have done but not yet billed for, because of how we operate the fee model. However, you are absolutely right.

Normally, in any one year, you will have broadly 100 per cent fee income, which is made up of the balance of the income from finishing the prior year's audits—and I should perhaps point out that the audit year goes from October to September. However, because of delays due to Covid and having to put back timescales, we could not recognise sufficient income in 2021 and therefore did not get the 100 per cent income that we would normally get. As I have said, though, you are absolutely right; there will come a point at which we will gradually catch up and more of that income will come in during the year. As the Auditor General has said, that money will come back to the Scottish consolidated fund.

The Chair: What I ask is that, at the end of the year, when you make the budget calculations that you will then bring to the commission, you make it absolutely clear how that money is being treated, how much is still needed for cash flow and how much is going back into the consolidated fund. If, at that point, you have to ask for additional funds, we will have to look at that as a separate issue.

Stephen Boyle: I am very happy to make that commitment, chair.

Richard Leonard (Central Scotland) (Lab): Stuart Dennis used the phrase "catching up", but the 2021-22 annual report shows that 75 per cent of audits were delivered—which I presume means that 25 per cent were not completed. I think that, this time last year, the figure was 82 per cent, and I am reliably informed that, pre-pandemic, the figure was around 100 per cent or at least in the high 90s. What is the reason for that? Why, on the face of those figures, does there appear to have been not a catching up but a falling back?

Stephen Boyle: Good morning, Mr Leonard. You are quite right in your assessment of the numbers, but I would take you back to the very early stages of the pandemic. Our financial year means that we close our annual report and accounts at the end of March. As a result, in the first financial year on which we reported during the pandemic, our work and progress were interrupted only by a few weeks. As I touched on in my opening remarks, it was the year 2021-22 that showed the full impact of some of the delays with regard to the availability of public officials and, as Stuart Dennis has mentioned, the disruption that our own colleagues felt over the course of the pandemic. That reflects the changing level of performance.

All the 2020-21 audits are now complete, but there is still a catching-up period and we still have work to do this year to recover some of the timetables. We are focused on doing so, and, looking forward into 2022-23 and the start of the next audit appointment round, with auditors going through the appointment process and moving around—I am happy to say more about that if the commission would like me to—we are keen to recover some of those timetables.

That broadly explains the difference in performance from one year to the next.

Richard Leonard: Do you expect to be back to 100 per cent in 12 months' time?

Stephen Boyle: I hesitate to give you such a commitment, given what we know about, for example, the volatility of the pandemic. Some public bodies are themselves looking to recover the timescales for preparing and producing their accounts, and then there is our own ability to audit them. We have a detailed plan in place, we are confident that we will recover some of the deadlines that existed before the pandemic, and it is our expectation that, in 2022-23, we will look to recover to where we had been. However, the past few years have shown that we need to be cautious about being definitive at this stage.

Richard Leonard: Just so that I understand this properly, are you saying that the time lags are a result not just of your ability to carry out the work but of when the public bodies that you are auditing prepare their accounts?

Stephen Boyle: Both factors are relevant, yes.

Richard Leonard: Thank you.

Professor Alexander talked about development and things being dynamic, moving and so on. One of the massive adjustments that you have had to make is the move from having an office-based operation, with audits being carried out in other people's premises, to carrying out a lot of your work in a virtual way. Indeed, the staffing of your office has been virtual. I was pleased to visit the office last week, and I understand that it was the first time that so many people had been in at any one time. How do you see future working arrangements? Do you see a return to the pre-pandemic model of operation? Where do you see the balance between people being present in the office and their working in different locations?

Stephen Boyle: I am happy to start, and I will ask Martin Walker to take the commission through our detailed thinking on that.

At a high level, even before the pandemic, we did not have a prescribed set of arrangements for colleagues, setting out that they had to be in the office or out at a public body audit site for a certain number of days a week. We had an evolving set of arrangements that were set out in a document called "Time, Place and Travel—Principles and Guidance", which afforded colleagues more control over where they did their work on the basis of what worked best. The phrase that we used was, "Work is what you do, not necessarily where you go."

At the start of the pandemic, like everyone else, we had to move overnight to being a virtual organisation, and we have had people back in the office and then out again as different restrictions have come into force over the past couple of years. Our expectation is that we will continue to operate a hybrid model. Teams and colleagues have the ability to decide for themselves where they need to be and when it matters that people come together, especially to support our newer colleagues in the organisation to go through training and in order learn from one another. However, the hybrid model is the right set-up for us. Martin can provide more detail.

Martin Walker (Audit Scotland): Yes, absolutely. We made what we think was a successful transition to fully virtual working when we needed to. Overnight, on 16 March 2020, we went from being an office-based organisation to being a virtual organisation. With regard to the impact on us, because of the preparations and the information technology systems that we have in place, we were able to do that successfully and quite smoothly, which meant that everybody was able to operate pretty much at full capacity from the following day. We supplemented those arrangements by sending bits of kit—furniture, an extra screen and so on—out to people who needed them. Therefore, from very early in the pandemic, we demonstrated that it is possible to work in that way.

During the pandemic, we have had regular communications and engagement with all Audit Scotland staff, including through a number of surveys. We have done specific surveys on people's attitudes to hybrid working and what that might mean for them as well as regular pulse-taking surveys, which are essentially a check on how people are feeling—what the mood is and certain other subjects. Our most recent survey showed that about 75 to 80 per cent of staff expect to be in the office for between two and three days a week, but not necessarily on fixed days. As Stephen Boyle said, that is very much to do with what work needs to be done and what work is best done in an office, in a team-based setting, as distinct from other work for which there are benefits to working relatively remotely and, perhaps to a degree, in isolation—people getting their heads down and getting through stuff.

We have a quite significant project under way to develop hybrid working. Colleagues across the organisation are involved in that, and we are looking at various aspects of what hybrid working will mean for us, what impact it needs to have on our policies and procedures, what the requirements will be on our technology and, importantly, what it means for the culture and engagement in the organisation. We are working on that project in partnership with colleagues from across the business, and, at this stage, we are not 100 per cent clear exactly what hybrid working will mean for us in the future. To a degree, we are all working that out as we try it.

Mr Leonard, you mentioned that you visited us last week. That was one of the busiest days in the office that we have had since the pandemic. It will be interesting to see whether—now that more people have dipped their toe in the water of being back in the office and have remembered some of the things that they have missed and the buzz that they get from engaging with colleagues—there will be an increase in office attendance. However, it is work in progress. It is a big project that involves lots of engagement with colleagues so that we can figure out what hybrid working will look like in practice.

12:00

Richard Leonard: I take no responsibility for whether people decide that they want to come back to work or, on seeing me in their office, decide that they do not.

Professor Alexander: I will add a point on governance and oversight on this particular topic. The board and its two committees—the audit committee and the remuneration and human resources committee—take a very close interest in how we perform. The audit committee, in particular, does, but so does the remuneration and human resources committee, because of its responsibility for the wellbeing of the staff.

At each of our board meetings and activity meetings, we see reports on how the organisation is performing, so I think that the commission can be assured that we have ways of intervening if we see things that are going less well than we would like. We do that at the formal level and, speaking for myself, at the informal level through regular monthly meetings—in my case, with the Auditor General, with the chief operating officer and, in the absence of a chief operating officer over the past six months or so, with Martin Walker. The commission needs to be assured that, in terms of both the management and the governance of the money, we are on the case, and I can tell you that my board is quite incisive—particularly, you will be delighted to learn, the independent members of the board—if things begin to go awry.

Richard Leonard: Thank you.

The Chair: To continue the questioning, perhaps I can bring in Daniel Johnson at this point.

Daniel Johnson (Edinburgh Southern) (Lab): [*Inaudible.*]

The Chair: That was not as successful as we had hoped it would be. While that technical problem is sorted out, we will move on to Mark Ruskell.

Mark Ruskell (Mid Scotland and Fife) (Green): Alan and Stephen, both of you have mentioned the importance of wellbeing among staff. Stephen, I think that you said that empathy and resilience are strong values. I am trying to contrast that with quite a stark figure for the level of staff turnover, which I think has gone up from 5.1 to 9.4 per cent over the past year.

Is that a bit of a red light for you? What is the story underneath that turnover? What themes are coming out of the exit interviews with staff? Are there issues underlying the decimation of people in the industry or where they want to go next? I am trying to second-guess what those issues are. Is it a natural consequence of Covid that people are now thinking about the next position in their careers? I do not know. It is tempting to look at a figure like that and hear alarm bells. What is the story behind that? On the face of it, you are losing people.

Stephen Boyle: Good morning, Mr Ruskell. I will start, but Martin will have a perspective on this, as will Alan, perhaps.

Turnover has increased, but that is just one of the metrics that we use to evaluate colleague wellbeing and so forth, the importance of which we have emphasised repeatedly. We talk about wellbeing as though it is there just because of the pandemic, but it is an organisational value that I would recognise at Audit Scotland, and I have been working there for over 15 years at various intervals.

We survey our colleagues regularly. Martin mentioned the pulse-taking surveys, and there is also the annual best companies survey. We have retained our status as a one-star organisation, which we achieved last year and have hung on to.

However, it is not entirely a positive story. We recognise, in some of the feedback that colleagues have given us, that we are under pressure as a factor of delivering in a virtual or hybrid setting. That setting does not suit everybody; in particular, it does not suit everyone who has caring responsibilities. As everybody will have felt during the pandemic, there is some sense of isolation at various points. There have been mental health challenges for public workers, and some of our colleagues have absolutely felt that, although we do have support arrangements around that.

There are various factors behind the turnover, specifically. Some relate to the points that I just touched on and others relate to what the market is like. We operate in a very competitive market for audit skills, not just at the traditional entry points for trainees but throughout the grades and among support staff. For example, our organisation is very focused on digital auditing and digital security, and those skills are really hot. They are in demand across all organisations, and that competition is one of the reasons why people have left.

So, yes, our turnover has increased, but we are keeping a close eye on it and we conduct exit interviews with people to explore the reasons why they have left Audit Scotland. We are tracking it really carefully. We have increased the size of our organisation, so we are still able to recruit and attract skills into it. However, we are certainly not complacent about the situation, and we are keeping a close eye on it as we monitor the reasons and the stats behind them. Martin, do you want to add anything?

Martin Walker: I have just one or two other points to add. Something to bear in mind is the baseline that we are comparing with. Mark Ruskell is absolutely right that the turnover has increased, but it has increased from what was for us—and compared with other organisations—a very low turnover previously. It has gone up, but from a very low starting point.

As Stephen Boyle said, we do an exit interview with everybody who leaves the organisation, to understand the reasons for that and whether there are push factors or pull factors elsewhere. We are not seeing a particular trend. All the factors that Stephen mentioned are part of the story.

Another part of the story is that some people have simply reached the age at which they have decided to retire. A few people have moved into retirement over the past year or so, and I think that Covid has been a factor in that. We have seen it in other places and there have been plenty of articles about it. People have perhaps re-evaluated what they want from life, if they were reaching the stage when they thought they could do a couple more years or maybe just leave a bit earlier. I think that Covid has been a factor as well.

From the analysis that we have done, nothing is starting to flash big warning lights to say that we are going to have an exodus on our hands or anything like that. However, as Stephen says, it is something that we keep a very close eye on, just to make sure that we are tracking all of that.

Professor Alexander: Can I just add to that? The point that Martin Walker makes is really important. You need to unpack a figure like that, because there are leavers and there are people who retire. Audit Scotland has existed as an organisation for just over 21 years. Let us think about that in terms of its senior staff. If a new organisation gets 20 years out of its senior staff, it is doing very well, but it means that quite a few of them will go over a fairly short period. Certainly, over the year to which the report refers, a whole bunch of those retirements came up. Some were half-expected, some were not expected at all and some were people taking up an opportunity that they did not see coming.

Nevertheless, I emphasise the point that Martin Walker made. I always look at that figure, too, but nothing flashes red to me about it—amber, maybe. We perhaps need to keep an eye on it, but I think that the commission can be assured that turnover in itself has not affected the performance of Audit Scotland.

Mark Ruskell: Okay. It was useful to unpack that. I am much more reassured now.

You mentioned the staff surveys—the pulse surveys and the wider annual surveys. One thing that has come out of that is a series of graphs comparing Audit Scotland with appointed firms.

Whether it is easy to make an exact equivalence in that respect is, I suppose, debatable, but on the face of it, staff in all those firms—and, indeed, your organisation—say that they all feel relatively well encouraged and supported in doing their work. However, there seems to be a bit of a gap between Audit Scotland and the appointed firms with regard to the resources that you have, and a noticeable gap between what Audit Scotland staff and staff at the appointed firms are saying about training and development, with the latter seeming to be more satisfied in both areas. What is your response to that issue, given that it seems to be flashing amber, if not red?

Stephen Boyle: I am happy to start, but I will also ask Martin Walker to say a word or two.

Our accompanying report, “Quality of public audit in Scotland: Annual report 2021/22”, sets out some of the detail behind the views of Audit Scotland colleagues with regard to their being encouraged to undertake quality audit work and the extent to which they have the resources to do so. You are right—we have set out how all that compares with the audit firms that are appointed to do likewise on behalf of me and the Accounts Commission.

There is what might be called a triangulation or consistency in the quality survey and the annual survey, with colleagues telling us that they have felt under pressure to deliver quality audit work during the year. The availability of resources is one of the components in that respect, but in the past two years, we have tried to be consistent in making quality and wellbeing higher priorities than delivering to deadlines. However, what always rubs up against those priorities is people’s desire to deliver high-quality audit work and meet their deadlines, and that has had what we have called a snowplough effect, with colleagues keen to move on to the next audit year even though they recognise that other deadlines and deliverables will be upon them.

With regard to tackling the resources issue, we are hugely grateful for the investment in our work that the commission has supported. There is no doubt that it has made a difference, but we are now looking to build on some of our one-organisation work and find out how we can flex our resourcing model to give us a bit more organisational control and flexibility and to ensure that colleagues feel that. We expect that approach to make a significant difference over the course of these 12 months, but, as you would expect, we will test it with colleagues in next year’s survey.

Martin will say some more about this and update the commission on that work.

Martin Walker: This is an interesting issue; indeed, as you would imagine, having seen the data, it is something that we pay close attention to.

Interestingly, how some colleagues feel and their sense of achievement are sometimes driven by hitting deadlines. If the audit work is delayed, they feel personally—and it is nothing to do with what senior managers might be saying—that they are not quite achieving as they might have liked. At exactly the same time, other people in the same team might be feeling the pressure of trying to hit deadlines and would perhaps be comfortable with a delay. As a result, the situation can feel stressful for people in the teams, but in very different ways.

As Stephen Boyle has said, the investment has been very welcome, and we have used it to prioritise audit capacity at the front end of our building capacity project. However, one of the factors this year is that, although we have additional capacity, it does not become 100 per cent productive at the point of entry; there is a lead-in time for recruitment, selection, notice periods and so on, and we also have quite an extensive on-boarding process. It is great that we have these additional people. However, with the best will in the world, they will not be able to contribute at full capacity over that period. We are quite optimistic that, with the lag effect that you get when you introduce new capacity, things should start to even out in the coming year.

The other thing that I would say about hitting deadlines—and this brings me back to something that Mr Leonard picked up on earlier—is that, for some of the sectors, we still delivered really well. For example, 100 per cent of national health service audits and 82 per cent of local government audits were delivered to deadline. Unfortunately, we were not able to achieve the same rates in all sectors. Things can vary from team to team a little bit in that respect.

12:15

As for Stephen Boyle’s point about one-organisation working, we have a project under way that is about using our resources more flexibly than we might have done in the past. We have organisational structures such as superteams and teams that are dedicated to particular audits, but we are now trying to work out the barriers that prevent us from moving people across to a particular audit either because they are needed there or, perhaps, because the audit requires certain skills. It is about how we can make that work more effectively to ensure that we get the best out of everybody in the organisation.

That project will also be really helpful given that, as we know from the staff survey, some colleagues feel that they have some skills that are perhaps are not being utilised to best effect. Sometimes, that can be almost an accident with regard to the work that they get allocated, and we hope that we will be able to square that off through this project. We want to ensure that people get the best experience and feel that, through that more flexible deployment, they are able to develop. Equally, we as an organisation will feel the benefit of that, too. If we can get that stuff right, it could be a real win-win.

Professor Alexander: Mr Ruskell’s question throws a very interesting light on one of the strengths of the Scottish public audit model, which is that two thirds of the audits are done by Audit Scotland and the other third by the external firms.

That allows us to make those continuous comparisons not only on price but on quality and the staff's perception of what they are doing. I have spent the past two years chairing the steering group that oversaw the procurement of the next five years of audit from external firms, and if I was not convinced at the beginning of the process that we had the right balance, I was certainly convinced at the end of it. It means that we are not in an Audit Scotland bubble—we are continuously able to measure our performance against the private sector firms.

Mark Ruskell: This might seem counterintuitive, but would a four-day week benefit your organisation? After all, in the majority of cases in which such an approach has been implemented, productivity has improved. You might well think that you are at a point at which productivity cannot increase any more, but if you are talking about staff wanting to reutilise their skills and move more flexibly around the organisation, I think that there would be some opportunities in that respect. Has that been looked at in the context of your organisation?

Stephen Boyle: We are aware of it and are looking at it in a couple of areas. Like many organisations, we are closely following and awaiting the results of the national pilot of four-day-week working in public and private sector organisations, and we are also engaging in discussions on the matter with our staff representatives. They are enthusiastic about having the debate, and we will do that over the year ahead.

As I was saying to Mr Leonard last week, many of our colleagues do not operate on a standard five-day Monday-to-Friday working pattern, and as part of our terms and conditions, we offer compressed hours and part-time working arrangements to give our colleagues that flexibility. Coming back to the earlier point about turnover, we cannot always compete on pay alone; we therefore have to offer something else to existing and prospective employees, and flexibility in terms and conditions is absolutely something that we look to provide to people. Whether that translates into a four-day week is something that we are rightly taking an interest in, but we are keen to have the conversation over the course of the year and to see the pilot results.

Mark Ruskell: Thank you.

The Chair: I think that we have Daniel Johnson back on board.

Daniel Johnson: Second time lucky. Can you hear me?

The Chair: We can.

Daniel Johnson: Terrific!

I want to follow on from some of the comments that have already been made, and primarily the point that Richard Leonard made about delays. Your annual report states that around 36 per cent of your audits are not meeting expected standards. I understand that you target 80 per cent. Will you provide an explanation as to why the figure is 36 per cent and say how and when you expect to meet the 80 per cent standard?

Stephen Boyle: In our report "Quality of public audit in Scotland", which accompanies the annual report and accounts, we set out the results of the external and internal assessment of our audit quality. The report reflects the arrangement that we have with the Institute of Chartered Accountants of Scotland, which has done some of that external assessment. You are right that 36 per cent of the audits that were assessed did not meet the expected quality standards. In itself, that matters. We want all our audits to meet the auditing standards, accounting standards and overall arrangements—our target is 80 per cent on a cumulative three-year rolling basis.

To assure the commission, I would say that we are in the middle of a process. Last year, the commission may recall that we had some disappointing results in our financial audit assessments, with only 36 per cent meeting the standard. We are now up at 64 per cent, which reflects a really focused level of activity over the past 12 months. We have invested in quality work and had very consistent quality messages—I touched, a moment ago, on quality and wellbeing over delivery. We have also created a more extensive programme of what we call cold reviews and hot reviews.

Cold reviews are after the fact; hot reviews are potential interventionist reviews that allow audit teams to amend their approach and undertake additional work. We are pleased to see the progress that we are making. Some of it will reflect what we anticipate will be a time-lag effect. By the time that we receive the results and detailed feedback from ICAS and from our internal cold reviews, some of our audits are almost at the point of completion, so our ability to share the learning and good practice from that cannot always necessarily be captured before an audit is completed. That in part explains where we will get to next year, when we are anticipating a stronger set of results as we incorporate all the learning from last year.

Another point that I would look to in order to reassure the commission is that audit quality is fundamental to Audit Scotland. Its reliability is the bedrock of our work and our reputation. We are refocusing some of our structure to best capture that brief. In previous years, we had what we have called a professional support team providing much of the technical support to auditors alongside some of the quality assessment. That has been done, in some respects, alongside other responsibilities, which we felt was not necessarily giving us the right platform or level of resource, or the right focus on quality.

In the past few months, therefore, we have been looking to move to what we are calling an innovation and quality team, giving it some dedicated resource to further embed quality, our compliance and the impact of our work. We are pleased with the progress, but we are not complacent and we expect that, over the course of this year, compliance with quality standards will increase further still.

Daniel Johnson: Could I just push you a little on that? I note those activities and that you say that you expect improvements. Therefore, do you have an anticipated number that you expect to hit and that you can tell us about when we are sitting here at this time next year? Likewise, when do you expect to hit the 80 per cent standard? Will that be at this time next year or will it be in following years?

Stephen Boyle: The standard is a rolling or cumulative three-year target that 80 per cent of our audits will meet the external quality assessment standard. Just for clarity, if it is helpful, the standard is that of the Financial Reporting Council, which has a score of one to four, so our audits' scoring would reflect that.

I expect all our audits to be of high quality and to meet that standard. After all, we would never set out with the message that we can live with 20 per cent of audits not meeting the standard or with 64 per cent compliance in the year in question. We are confident that the investment that we are making in quality, which builds on the work that has been carried out over the past few years and which captures along with it our development methodologies and the training that we provide our people with, will get us to 80 per cent—and, indeed, beyond. I want to reassure the commission that we do not want a fifth of our audits not operating at the expected standards. It is my expectation that we will see progress in the year ahead and, if that comes off as expected, we will have a level of compliance consistent with our target.

The only caveat that I would give is that the standards are changing and growing, as is only right. For example, new international auditing standards will apply in the year ahead, and we are investing in training and development to support colleagues in applying them properly. However, that is something that all auditors across the public and private sectors will be dealing with. I am allowing for the possibility of a bedding-in period, but that should not detract from my message that we are taking quality really seriously and expect further progress in the year ahead.

Daniel Johnson: Thank you.

The Chair: Are you finished, Daniel?

Daniel Johnson: I think so, unless any of the other panel members has anything to say, particularly about the activity of the audit committee that oversees these things or any discussions that have been had.

Professor Alexander: Perhaps I can help with that. As chair of the Audit Scotland board and in my relationships with senior staff, I have insisted on a no-surprises approach. If anything is going wrong, I want to know as soon as possible. I knew very early on about the dip in quality that we and the commission have previously talked about, and we now have a process whereby progress on quality is monitored not only by the board but, crucially, by the audit committee. That is chaired by Colin Crosby, who has great experience in this field and sits in as an observer at meetings of Audit Scotland's audit quality committee.

If we were not making the kind of progress to which the Auditor General has referred, the board would know that very quickly through informal means, and it would be formally considered first by the audit committee and then the board. Our arrangements for that kind of oversight are very robust indeed, and the Auditor General as accountable officer has been robust in ensuring that the committees and the board are involved. If there was any falling back from the progress to which Stephen Boyle has referred, we would—to use an old phrase—be all over it. We have the right mechanisms in place and hope to report the results to you this day next year.

Sharon Dowey (South Scotland) (Con): I will continue on the theme of staff wellbeing. Page 77 of the report says that Audit Scotland has included provision of £1.053 million to cover the cost of unused annual leave. Can you give us some of the reasons for staff not taking such leave? The Auditor General has already talked about staff's desire to meet deadlines and produce high-quality work; because everything was locked down, no one could go on holiday anyway and, as a result, people might have just decided to complete their audits. Why did staff not take their holidays? What has been put in for this year to encourage and support them to do so?

12:30

Stephen Boyle: That is a really important issue, because we want all our colleagues to use all their annual leave every year. There will always be factors in that not being the case—for example, it might be hampered by people's domestic and personal arrangements—but what we have seen over the course of the pandemic is unused annual leave balances increasing in Audit Scotland, partly for the reasons that you have suggested with regard to uncertainty around restrictions, the places where people could and could not go on holiday and the inability to make alternative arrangements at short notice.

Those have all been factors, but as we have already touched on and as Martin Walker has highlighted, some of that uncertainty has also fed through to the work environment with regard to the availability of resources, uncertainty about when audits might start and be completed and people’s desire to complete deliverables instead of their being snowploughed up and overlapping with work in successive years. All of those things have been factors.

It is also fair to say that we have delivered an ambitious programme of public reporting and performance and best value audits—indeed, I talked in my opening remarks about a dynamic programme—and we have sought to have a regular and impactful public audit commentary over the course of the pandemic, all of which has placed demands on our colleagues. Now that we are coming through that, we are evaluating our future programme of public reporting to move not necessarily to a pre-pandemic model but to something more sustainable.

We are also communicating the clear message that we expect and want people to take their holidays. This is all about the offer that we make as an employer; we do not have the culture of excessively long hours that one might recognise in some parts of the private sector, and we want people to have an appropriate work-life balance. All of that means that colleagues have to take their annual leave. Please be assured that we are sending a clear communication to them on that.

We have limits on the amount of annual leave that people can carry forward. Our holiday year has a cut-off date, and line managers have detailed conversations with colleagues if there is a regular pattern of unused leave from one year to the next. It is a clear focus for us in the year ahead.

Sharon Dowey: The issue of people taking early retirement has been highlighted in relation to Police Scotland and the fire brigade, but I note that on page 47 of the annual report you say that

“one member of staff left under a voluntary early release arrangement where they were entitled to early access to pension.”

Given that we have been talking about recruitment concerns, can you tell us more about that scheme? Is it still in place?

Stephen Boyle: I am happy to start, and Martin Walker might want to say a word or two more.

With regard to the disclosures in our accounts, I would point out that this was a voluntary early release, which is open to any member of staff at particular points in their career. Sometimes we have a more formal process, but it has been, I think, six or seven years since we have had an active and promoted early release scheme. Those are not the circumstances that we as an organisation are in at the moment.

When someone looks to engage with that scheme, because, say, of the circumstances that they are in, we will look sympathetically on that individual’s request and explanation as to why they think that such a move is the right thing for them to do at that phase of their career. That was what happened in this case. Where that happens, somebody can access their pension, and there is a contractual flow-through to us as an organisation.

I will pause there and see whether Martin Walker has anything more to say.

Martin Walker: There is probably an important distinction to be drawn between having a voluntary early release scheme and someone making a voluntary early release request. As Stephen Boyle has said—and as I recall—we were looking at downsizing the organisation a little bit six or seven years ago. As a result, we created a voluntary early release arrangements scheme—or VERA, as is the typical acronym in many organisations—that identified certain criteria, and the people who fell into those criteria could make an application for early release under a broad invite.

We have not had one of those schemes for many years now, because we have been either sustaining or looking to increase capacity. This was simply a request from an individual instead of being part of a specific scheme.

Sharon Dowey: That is fine—thank you.

The Chair: I have, as you might expect, one or two final questions.

First, you have highlighted that remote audit is 25 per cent more expensive. To what extent can you recover any of that money from those being audited, and to what extent is it being written off against the additional budget resources that the Government has allocated to you?

Stephen Boyle: Thank you for raising what has been a real factor for us. Of course, as we have touched on already this morning, the issue is not just the cost but the quality of remote audit. I will ask Stuart Dennis to take this question, because a couple of transactions in our accounts are relevant and relate to provisions in last year’s accounts on the cost of remote audit. I should also point out that another relevant factor for our fee arrangements is the travel and subsistence element that our auditors have typically claimed and on which our fee model is based, and we need to consider the fact that that has reduced considerably over the pandemic and what that means for our fees and, indeed, the relevant legislation with regard to what our fee model entails.

I invite Stuart Dennis to come in here.

The Chair: Before he does, perhaps I can give him the full question to answer. Given what you have just said, Auditor General, when you state in your report that remote audit costs 25 per cent more, it does not say that that is a netted-off figure, with travel and all the rest of it being discounted. I assume that the 25 per cent is an absolute figure that takes everything into account.

Stephen Boyle: Yes, and it reflects a period of volatility. We would have seen the impact of that 25 per cent very clearly in last year's accounts as well as the impact of public bodies preparing their accounts, which we have touched on already, and our auditors' own arrangements in receiving evidence remotely, testing it against quality standards and so on.

The Chair: But the 25 per cent is a net figure.

Stephen Boyle: I do not want to give the commission the wrong answer unwittingly, so I will check with Stuart Dennis that the number is as you have suggested.

Stuart Dennis: The 25 per cent figure from last year was an indication of the extra time that it took to do the remote audits. Normally, we plan to do audits in a certain number of audit days, but when we were completing the 2019-20 audits in the 2020-21 financial year, we worked out that the extra time required to do the audits was broadly in that region.

In effect, what happened last year was, as you will see from the accounts and as the Auditor General has said, the firms that do the audit work said that they incurred more costs from doing that work remotely. We put provision in the accounts to cover that, but when we got the information and negotiated with the firms in 2021-22, we managed to work out and settle on a lower figure. Although it might have taken 25 per cent more time to do some audits, that was not the case for all of them. As has been mentioned, it depended on the quality of the papers from the bodies that were being audited and the time needed to do the work. In effect, the 25 per cent is the net figure that you mentioned.

The Chair: Just to be clear, are you saying that that 25 per cent additional cost takes into account the savings on travel and so forth against the additional time taken to carry out the audit?

Stuart Dennis: No, it is purely the additional time. We have saved in travel and the firms have saved in expenses. Although it takes longer to do the audit, we have saved in those specific areas.

The Chair: So it is not actually a final figure.

Stuart Dennis: No.

The Chair: That is not entirely clear in the accounts.

Can any of the additional costs be recovered from the organisation that is being audited, and is it expected that that figure—the 25 per cent, less whatever—will be written off against the Scottish Government's budget support?

Stuart Dennis: I am happy to answer that. That 25 per cent was specifically in the 2020-21 financial year, which was the year that Covid hit, so we put that provision in the accounts to cover that. In the audit year 2020-21, the arrangement was that any remote costs were to be charged to the audited body. In the 2021-22 financial year but the 2020-21 audit year, we would recover the costs of any additional work that we needed to do as a result of the audits being remote.

The Chair: None of those additional costs go against the additional budget that was granted by the Scottish Government. Is that correct? I see the witnesses nodding—good.

I have a couple of other things to ask. Some of the expenditure, such as on staff recruitment costs, is a bit higher. We have talked about staff recruitment. When I look at Audit Scotland, there are several factors that might cause concern if it was another organisation. First, you have lost most of your senior staff. Secondly, your staff turnover is substantial and, thirdly, a substantial number of additional trainees have been taken on. Is there anything there that should cause us concern?

Stephen Boyle: I do not think so, although Professor Alexander might want to say a bit more about the topics that you have raised. It is clear that there has been turnover at senior staff level after a long period of stable leadership. I am trying not to read too much into that in relation to my appointment as Auditor General. Realistically, a variety of factors are behind that turnover.

The commission will be familiar with the fact that we have had turnover at chief operating officer level; the former chief operating officer is now the chief executive of a high-profile organisation in Scotland. We have also had a retirement from our executive team. Those are individual examples. Our recruitment costs reflect the fact that we have gone out to the market to secure new executive team posts and have had a very strong and successful campaign.

The Chair: Is it only those three posts that represent the budget overspend of £97,000?

Stephen Boyle: As we mentioned a few moments ago, we have recruited to increase our organisational capacity across a variety of posts. We have had campaigns to bring capacity first into our audit services, performance audit and best-value organisations, and then into parts of our corporate services. The volume of recruitment that we have undertaken is a component of our spending on recruitment.

It is a perfectly reasonable challenge to ask whether there should be alarm bells ringing about turnover. As Martin Walker mentioned, we analyse carefully the factors behind individuals leaving the organisation. Sometimes it has been due to senior staff such as those we have mentioned making the life choice to exercise their ability to retire earlier than they might otherwise have done, as a result of experiences during the pandemic.

In addition, it is safe to say that we are operating in a market that is competitive and challenging for all audit firms—not just us. The market that we are competing in is experiencing challenges in respect of attracting, recruiting and retaining talent in the profession.

We are not complacent; it is safe to say that we are keeping a careful eye on the metrics, because they are indicative of organisational health. Professor Alexander might want to say more about that.

Professor Alexander: I invite the commission to imagine for a moment that the pandemic did not happen. Had it not happened, Stephen Boyle would still have become Auditor General and accountable officer on 1 July 2020.

I hope that I do not misrepresent Stephen when I say that he wanted to change some of the management structure of Audit Scotland. He and I talked about that very early on, and members will not be surprised to learn that, with the pandemic being a consideration, neither of us thought that a major restructuring would be a good idea while we were dealing with all the things that the pandemic was bringing to us.

12:45

What we did not know at that point was that there would be an opportunity to make other changes. The departure of the chief operating officer and the retiral of the director of the audit services group gave Stephen the opportunity to come to me, first, and then to the board, with his proposal on how to reconfigure the top structure. It is fair to say that the board—in particular the chair of the non-execs—was fierce in examining what Stephen wanted to do, and that some tweaks were made to what was proposed, which, in the end, improved the proposal to which the board agreed.

Those appointments, which involve membership of what used to be called the management team and is now called the executive team, are in the gift of the board, so we had to be involved. We are involved in the process of recruitment—longlisting, shortlisting, interviewing and so on. We felt that all that had to be done carefully and to the highest possible recruitment standards. We all took the view that it was probably a once-in-a-decade opportunity to reconfigure.

That was always going to be an expensive process. We have mentioned a couple of times that there is an incredibly tight employment market. It was important, therefore, that we got assistance in identifying people who might want to talk to us about working for Audit Scotland. There was a long and detailed process over about four months, between February and May. We think that we now have the right team. We would not have got to that stage without the investment that is recorded in the accounts.

I hope that that is helpful.

The Chair: I have a final question on staffing. You have what is perhaps a record number of trainees. What is your retention rate for trainees?

Stephen Boyle: Martin Walker will be able to give you the detail on that. By way of context, let me say that, traditionally, the traineeship is the largest entry point into Audit Scotland. People typically join us as graduate trainees, although in recent years we have had entry points into the organisation for school leavers, too. Those trainees embark on studies towards a professional accountancy qualification straight from school. That has been a success for us, too. We now operate with 50 or 51 trainees, who are at various stages towards qualification. I do not want to use a cliché, but I will say that they are the lifeblood of the organisation.

That approach allows us to do a number of things. As well as securing high-quality, motivated and able people who can deliver audit work, it helps us to address some of the more sticky and long-standing issues to do with gender equality and ethnicity equality in the organisation: our trainee cohort of colleagues is more diverse than other parts of the organisation. As we build on that success, we expect to become a more diverse organisation in the years to come.

Martin Walker: Our trainee scheme is probably one of the biggest public sector schemes in the field. As Stephen said, there are currently 51 trainees on the scheme. In the year 2021-22, 78 per cent of folk who had qualified on the scheme chose to stay with Audit Scotland.

Just a couple of weeks ago, the executive team considered a report from colleagues who had undertaken a 10-year review of the scheme. They had taken a big step back and looked at how successful the scheme had been, what the people who had been on it thought of it, what the retention rates had been and all that kind of stuff. It was quite a substantial piece of work. From that, we established that, since 2011, we have had more than 140 trainees on the scheme, and 77 per cent of the trainees who qualified stayed with Audit Scotland—so the rate has been virtually identical to the annual rate that we can report for this year.

As Stephen Boyle said, the scheme is a very important part of how we get talent into the organisation. I want to reinforce his point about widening access. The report that I have just mentioned recommends that executive team approval be sought to explore options for entrants from college and modern apprenticeship routes, for example, so that we can provide opportunities to a wider and more diverse group of people. I am sure that that will be beneficial for the people who enter the scheme and for the organisation.

The Chair: Thank you.

Your information technology costs include an increase in licences. Do you not bulk buy licences? Do you have to buy them individually for additional staff?

Stephen Boyle: Part of the increase in costs is to do with our having more colleagues this year. There has also been a general increase in IT costs. In the context of last year's annual accounts, our operating in a hybrid setting has meant that we have had to buy incidentals to support people to work at home, in the office and out on site.

If Martin Walker has the information about IT licences that you asked for, chair, we can share it now. If not, we can write to you.

Martin Walker: I can say a little more about that, if it is helpful. Much depends on the licence that we are talking about, because licences are not all equal—it depends what kind of system we are talking about. The bulk of licences are for the products that we all use. For the majority of those licences, we have a very flexible arrangement that means that we can dial things up and down exactly as we need to. We think that that provides better value for money than would bulk buying and ending up with 20, 30 or 40 licences sitting on a shelf and not being used. We are able to flex our licensing and to pay on the basis of need, so that we do not have surplus licences.

We pay close attention to the issue. It is one of the areas on which we get external support from specialists, to ensure that we get the best deals that we can get.

The Chair: Thank you.

Members have no more questions to ask, so does the chair of the board or the Auditor General want to add anything?

Professor Alexander: No, thank you. The points that I wanted to make from a governance point of view have been made during the discussion.

The Chair: In that case, I thank the witnesses very much for attending the meeting.

We will have a short suspension.

12:53

Meeting suspended.

12:57

On resuming—

The Chair: I welcome David Jeffcoat, who is a partner at Alexander Sloan.

There are just a couple of formal questions to ask. For completeness and for the *Official Report*, will you confirm that Alexander Sloan has received all the necessary information and explanations that it requires in order to form its opinion on the financial statements?

David Jeffcoat (Alexander Sloan): Yes, I confirm that. I am also able to give a short summary, if you wish.

The Chair: Absolutely.

David Jeffcoat: Thank you, chair and commission.

I will give a summary of our work to accompany our audit opinion and audit summary report.

Alexander Sloan was appointed to carry out the external audit of the financial statements of Audit Scotland for the year to 31 March 2022. We commenced our audit planning in January this year and our audit fieldwork in early May. I signed the audit report on 6 June 2022.

Our audit was carried out in accordance with international standards on auditing. We carried it out remotely, using a secure portal to request and receive information electronically, and we used technologies such as screen sharing and video calls to make our work as efficient as possible. We thank Audit Scotland's finance team for its support on that.

Our audit opinion confirms that the financial statements of Audit Scotland give a true and fair view as at 31 March 2022, and that they have been properly prepared in accordance with international financial reporting standards, the Government's financial reporting manual, and the Public Finance and Accountability (Scotland) Act 2000. I confirm that adequate accounting records have been kept and that we received all the information and explanations that we required before issuing the audit opinion. Our audit opinion also confirms that expenditure has been incurred and receipts applied in accordance with the 2000 act.

As part of our audit work, we are required to prepare an audit summary report for management, and a copy of that is sent to the commission. The report summarises our response to key audit risk areas that require particular focus in an audit, and reports on any weaknesses in the accounting systems and internal controls that come to our attention during the audit.

13:00

Our audit work on management override—in particular in respect of the appropriateness and accuracy of bookkeeping and accounting journals—identified no issues to bring to the attention of the commission.

Our audit work on revenue recognition considered the accuracy of recording income in the appropriate accounting period, and was strongly linked to our auditing of work in progress on audits that had commenced prior to the year end. Our audit work concluded that the work in progress debtor balance and creditor balance at 31 March 2022 were based on robust assumptions and were accurately calculated. We are satisfied that they were accounted for appropriately in the financial statements.

Our audit work on accounting estimates included consideration of the provisions in the financial statements. We are satisfied that the provisions that are contained in the accounts, including the provision for fee rebates, is appropriate; that the underlying estimates are accurately calculated; and that sufficient disclosures have been made to aid the users of the financial statements.

We are also satisfied that the pension provision has been appropriately accounted for, in line with the actuaries' report; that the disclosures are adequately detailed in note 3 of the financial statements; and that the assumptions that were used by the actuaries in calculating the provision are reasonable.

With regard to any recommendations on the accounting systems or financial controls, I can confirm that, following our audit work, we did not identify any matters that we require to raise with management or the commission.

Finally, on behalf of myself and my team, I would like to record our thanks to the staff at Audit Scotland for their helpful and prompt assistance during the audit.

I am happy to take any questions from members of the commission.

The Chair: Thank you for that and for those reassurances.

I would like your assurance on one more thing. Accounting judgments have had detailed consideration and scrutiny by auditors. I ask you, on behalf of Alexander Sloan, to confirm that you are content with the judgments that have been made by Audit Scotland and with their disclosure in the annual report and accounts, noting that a provision for additional costs in the previous year was overstated by £497,000.

David Jeffcoat: The provision that was brought into the accounts last year was based on the information that was available at the time. That was to do with additional audit fees and was based on the information that came from the approved auditors. I think that that was the 25 per cent figure that you talked about earlier.

That was brought into the accounts last year based on the information that was available. Following negotiations during 2021-22, that figure came down. The accounting effect of that is basically a credit to the account, so you end up with that, in effect, having been overprovided for last year. That has been, if you like, fixed this year.

The Chair: To what extent did you look at the 25 per cent additional costs of Audit Scotland's remote audits and the impact of that?

David Jeffcoat: That would have been in last year's audit. That came into being last year to assess the brokenness of that provision—

The Chair: It is still mentioned in this year's accounts.

David Jeffcoat: It is mentioned in this year's accounts because we have to disclose any comparative information there. The matter was looked at last year as part of the audit, as were the reports from the approved auditors.

The Chair: Were you satisfied with those figures and how the matter was handled?

David Jeffcoat: Yes. Again, I say that that was in last year's audit—but yes, we were satisfied last year.

The Chair: How did you analyse the disposal of the substantial additional funds that the Scottish

Government gave to Audit Scotland? Did you analyse their disposal?

David Jeffcoat: The additional funds that you are talking about mostly relate to the international accounting standard 19 pension costs of about £6 million towards—

The Chair: It was not just that. We understand the pension costs, and they are not revenue related. The revenue-related costs that Audit Scotland received in addition were, if I remember correctly, fairly close to a record in terms of the size of the increase that it received.

David Jeffcoat: As part of our audit work, we consider regularity, which is how expenditure is spent in high-level terms. We look at the appropriateness of expenditure that is incurred, and we look at anything that might be significant or that looks unusual. We had no concerns like that.

The Chair: Were you satisfied with the deployment of the funds?

David Jeffcoat: Yes.

The Chair: Thank you. Do members have any questions?

Members *indicated disagreement.*

The Chair: Do you have anything to add, Mr Jeffcoat?

David Jeffcoat: No—not at all.

The Chair: In that case, I close the meeting. I thank everybody for attending the Scottish Commission for Public Audit.

Meeting closed at 13:04.

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