OFFICIAL REPORT
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Scottish Commission for Public Audit

Wednesday 28 June 2023

Session 6

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SCOTTISH COMMISSION FOR PUBLIC AUDIT
1st Meeting 2023, Session 6

COMMISSION MEMBERS

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

*attended

THE FOLLOWING ALSO PARTICIPATED:

Professor Alan Alexander (Audit Scotland)
Vicki Bibby (Audit Scotland)
Stephen Boyle (Auditor General for Scotland)
Stuart Dennis (Audit Scotland)
David Jeffcoat (Alexander Sloan)
Martin Walker (Audit Scotland)

LOCATION

The Sir Alexander Fleming Room (CR3)

Scottish Commission for Public Audit

Meeting of the Commission

Wednesday 28 June 2023

[The Deputy Chair opened the meeting at 10:00]

Decision on Taking Business in Private

The Deputy Chair (Sharon Dowey): Good morning, and welcome to the first meeting in 2023 of the Scottish Commission for Public Audit.

We have received apologies from Colin Beattie. As deputy chair, I will chair the meeting in his absence.

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

***Members** indicated agreement.*

Audit Scotland Annual Report and Accounts for the year to 31 March 2023 and Auditor's Report on the Accounts

10:00

The Deputy Chair: Under agenda item 2, we will take evidence on Audit Scotland's annual report and accounts for the year to 31 March 2023 and the auditor's report on the accounts.

I welcome to the meeting our witnesses from Audit Scotland: Professor Alan Alexander is chair of the board; Stephen Boyle is the Auditor General for Scotland; Vicki Bibby is its chief operating officer; Martin Walker is the director of corporate support; and Stuart Dennis is the corporate finance manager.

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

Professor Alan Alexander (Audit Scotland): Thank you, and good morning to you and your colleagues on the commission.

I do not have to remind you that Scotland is dealing with a range of highly significant long-standing and recently emerging issues, which include growing inequalities, demographic change, rising demand for public services, social and economic recovery from the pandemic, and a cost of living crisis that has emerged and developed at dizzying speed over the past year or so. Those issues have combined to exacerbate the problems that Scotland's public services, decision makers and communities face.

The lesson that we take from our year's work is that Scotland's public services need to change. That was a recurring finding throughout Audit Scotland's work in 2022-23, and Stephen Boyle will have rather more to say about that.

In that context, it was the right time for the Auditor General, the Accounts Commission and Audit Scotland to consider our purpose and how we can have a positive impact on services and the people of Scotland. During the financial year, we consulted our stakeholders, including yourselves, to inform and shape our shared vision and mission, and the outcomes that we want to achieve for Scotland. We published the results last Tuesday in the form of a refreshed statement of purpose for public audit in Scotland, which is supported by Audit Scotland's new corporate plan. We were impressed by the degree to which there was a common view across a range of stakeholders about what Audit Scotland should be doing.

As an organisation, Audit Scotland has had to navigate the issues that I have mentioned. The cost of living crisis and recovery from the pandemic have had an impact on us, as they have on other public bodies, and they continue to do so. We are making good progress, and we performed well in 2022-23, but it has not been easy, and we still have work to do.

Over the past year, Audit Scotland has bedded in its new leadership team. Our new executive directors have been in post for about 12 months, and Vicki Bibby joined us as chief operating officer in August last year.

The Audit Scotland board has been impressed by the dynamism, energy and quality of the leadership team. That is already bearing fruit in innovation and the focus on ensuring that Audit Scotland can continue to deliver high-quality work, meet current and future needs, and lead public audit at a time of such stress on the public finances.

My board has continued to discharge its duties and to oversee Audit Scotland through those changes. I believe that the well-informed and positive challenge that we bring to the board has contributed to the process by which the new leadership team has led the work of Audit Scotland. I thank my fellow members—the statutory and independent members—for their hard work and collegial approach throughout the year.

I particularly thank the Auditor General and accountable officer, Stephen Boyle. He has led Audit Scotland during a period in which just getting the organisation through would have constituted a strong performance, but he has gone further. He has proactively tackled future challenges and put in motion the work that is needed to ensure that public audit remains fit for purpose, relevant and effective now and in future years.

I conclude by paying tribute, as I always do, to Audit Scotland's staff. I have remarked before on their professionalism, can-do attitude and good humour, and I remain struck by all of that. I thank them for all their work.

I will now hand over to Stephen Boyle to give his introductory statement.

Stephen Boyle (Auditor General for Scotland): Many thanks, Alan, and good morning, members of the commission.

For some time, there have been questions and warnings about the sustainability of Scotland's public services and the need for reform. Audit Scotland has been at the forefront in giving some of those messages. Our work in 2022-23 reinforced the need for sustainable change. Reforms are needed in how public services are delivered, and we believe that we are beyond the stage at which incremental changes and adjustments are enough. Decision makers and public bodies need to reconsider delivery models, how they work in partnership and, crucially, how they involve the public in that process. That needs to be matched with better transparency on public spending and the decisions that are made.

Over the past year, the Accounts Commission, Audit Scotland and I have taken a close look at what we are contributing; how we are driving, advocating for and supporting change; how we can promote and uphold more clarity around public finances; and what positive impact we can have on the lives of, and outcomes for, Scotland's people.

The themes of delivery, change and transparency are also at the heart of public audit in Scotland and our corporate plan. They provide salient reference points for discussing our performance in 2022-23.

The bedrock of our work is delivering timely, impactful and high-quality audits. Last year, we delivered 51 per cent of annual audits to deadline. Auditors continue to work towards bringing back audits to pre-pandemic timelines, but that is challenging. Based on current tracking, our recovery plan is on course to return to 2019 levels over the next two to three years.

We have made good progress with audit quality. This year, independent external review found that all the reviewed performance audits and 80 per cent of the reviewed financial audits met the expected standards. Over the past two years, we have implemented a quality improvement programme alongside existing assurance processes. During 2022-23, we embedded our innovation and quality group to support high-quality work across the organisation. That is one part of the organisational change that we have undergone.

The SCPA has supported our staffing and capacity requests in recent years. In the past year, we have added 14.5 whole-time equivalent staff but, like all other audit and accountancy organisations, we face strong competition for high-quality candidates. We continue to ensure that we provide a unique and compelling blend of rewarding work, career development, a supportive culture, flexibility and the opportunity to do work that makes a positive impact on people's lives.

Finally, I turn to the transparency of our financial position. We met our financial targets in challenging circumstances. Like all other organisations, both public and private, we face the impact of inflationary pressures on our costs. In conjunction with our trade union partners, we agreed a fair pay deal for staff, but one that was higher than was budgeted for. Through prudent management and efficiencies, we absorbed that additional expenditure in the year.

The resilience, professionalism and empathy of my Audit Scotland colleagues have been at the heart of everything that we have done over the past year. As Alan Alexander said, they continue to support one another through delivering high-quality audit work, and I cannot thank them enough.

All five of us look forward to answering the commission's questions.

The Deputy Chair: Thank you for that. I will now open up the session to questions from members.

Daniel Johnson (Edinburgh Southern) (Lab): Professor Alexander set out very well the context that everyone has operated in. The cost of living crisis is still with us, and inflation remains stubborn at 10 per cent, much to the surprise of various forecasters. However, your total resource requirement was £1 million under what was forecast. That in itself is somewhat surprising.

Could Stephen Boyle set out why that was the case? My understanding is that the majority of that was to do with staff underspend but, given the pay pressures, we might find that surprising. Do you apply underspend thresholds to the forecasts? Can you talk us through why and how you go about the forecasts, and whether they were correct?

Stephen Boyle: Good morning, Mr Johnson, and thank you for that question.

We recognise the context you have set out. That has been a feature of our financial management over the course of the year.

I will bring in Stuart Dennis to set out for the commission a breakdown of our underspend and some of the intricacies involved. Some of it is cash underspend and some of it is non-cash underspend. Parts of it relate to departmental expenditure limits and annually managed expenditure. There is a combination of factors. I will invite Vicki Bibby to speak further about management of the staffing budget.

As the commission knows, Audit Scotland's key financial target is fundamentally to break even each year. Unlike some other public bodies, we cannot carry reserves to smooth our financial position from one year to the next. That is a feature of how we operate as an organisation, and it means that we have to plan quite carefully in order to break even.

There are a number of variables. You quite rightly mentioned our staffing costs. Another variable that is worth highlighting for the commission is our revenue recognition, or our work in progress. Audit Scotland accounts for income as our audits progress. To add complexity to that, the audit year does not coincide exactly with the financial year. Audits tend to run from October to September. When we strike the accounts at the end of March, there is an in-year position. That is a real risk, and we have to manage the work in progress really carefully. Stuart Dennis and Vicki Bibby monitor that closely through weekly reporting as we move towards the end of the year.

That is fundamentally the context. I think that it would be helpful if Vicki Bibby spoke first about the staffing position and then Stuart Dennis set out the detail of the underspend.

Vicki Bibby (Audit Scotland): To give some context, our actual operating underspend was nearer £200,000. Stuart Dennis will go into the detail about the rest of it, but there were significant adjustments because of the pension scheme. We have a funded scheme—we are part of the local government pension scheme—and the underspend largely relates to pension adjustments. Half of it is annually managed expenditure, and £300,000 of it is departmental expenditure limit money. Stuart Dennis will go into more detail, but our operating underspend is nearer £200,000, which is 1.2 per cent of our budget. As Stephen Boyle said, given our target to break even and the challenges of matching income into our budget, when the board discussed the issue it was satisfied that that is a reasonable variation from our budgeted position.

The staff-vacancy factor this year is a bit high, for a number of reasons. We had some retirements at the year end, so for a number of people, including in the senior executive team, it will take time to have the full-year costs in the budget. That has resulted in an underspend in some staff costs, which we expect not to be replicated in 2023-24.

I will pass over to Stuart Dennis for the detail, but our actual operating underspend is nearer £200,000 than £1 million.

Stuart Dennis (Audit Scotland): Page 32 of the report sets out the detail of the variance analysis. On people costs, we show a £1.3 million underspend, but £0.5 million of that relates to controllable costs—staff costs—and that is due to turnover, as Vicki Bibby said. Another £0.5 million relates to AME funding in respect of the funded pension scheme—that is an actuary calculation that we have to account for on that basis—and £0.3 million is also an actuary report that relates to the unfunded pension scheme. Of the controllable spend, the underspend in people costs was £0.5 million.

10:15

With other operating expenditure, we were also below budget by £0.1 million, but included in that is our management contingency budget, which is used to offset in year and which is £0.5 million. We had £0.3 million of an underspend there. We were under pressure in respect of other budget headings—for IT, for training and recruitment and for property costs, which were higher than budgeted. Overall, however, our other operating expenditure ended up at £0.1 million below budget. On top of that, fees and expenses that are paid to firms are included in that, and that figure was £0.2 million more than was planned, although a lot of that will be offset by additional income. The firms probably charged more for audits due to audits' complexity and so on, but we then re-charge that out to the audited body and recover it.

As the Auditor General and Vicki Bibby said, the work in progress is a risk area that we look to manage. That is part of the reason why, on the income side, we were £0.2 million below our budget. We managed to come out overall with a bottom line of £0.2 million in relation to operating costs but, on the income side, we can only recognise the income for the amount of work that we have done on starting the new audits. There are two factors there. One is that this is the first year of the new audit appointments, where we rotate the auditors around, and onboarding can take a while. Some of the audits that we would have done in-house are now being done by the firms, and there have been changes the other way round, so there can be an element of delay in that. Also, as the Auditor General said, it is a difficult challenge to try to catch up at the moment. In the budget, we looked to catch up some, which is another reason why we had not recovered the amount of income that we budgeted for.

Overall, however, the budget is closely managed, given all the challenges throughout the year, and there is a particular focus in the final quarter to ensure that we come in with a break-even position.

Daniel Johnson: Vicki Bibby said that the current vacancy rate is higher than the long-term rate, or your target. What has it been over the past year?

Vicki Bibby: I have the figure somewhere here.

I apologise—I should have had it ready. I will come back to that.

Daniel Johnson: I wonder whether you have a recruitment and retention issue and whether that is the reason for the underspend. I note that your recruitment spend was over budget, but I see that the median salary is only 2 per cent higher in the year just gone than it was in the previous year. Layering all the things that we have alighted on, such as the cost of living and the tight labour market, and given that you have increased salaries by only 2 per cent, do you have an issue with recruitment and retention? Does that ultimately boil down to how much you are paying your people?

Stephen Boyle: I recognise what you say. I think that I conveyed briefly in my opening remarks that we are operating in a challenging market in which to recruit and retain the necessary skills to deliver our services. You will see from the annual report that our staff turnover is currently at about 9 per cent, which is higher than we would have known before the pandemic. There are a range of factors across society behind that. One has been referred to as "the great retiral". We have lost some colleagues who had been with us for many years. We have replaced them through external recruitment or internal promotions, but one factor is that we have not recruited quite up to establishment yet, although we have done a lot of recruitment over the past year. That is partly due to the growth that the commission has supported us with, but turnover has also increased.

Vicki Bibby can say a bit more about that, but I first make one point of clarification: our pay award was 5 per cent in the year, not 2 per cent.

Daniel Johnson: I was going by the median remuneration that is cited on page 51 of the annual report and accounts. I understand what you say about the pay award, but your median pay has increased by only 2 per cent.

Stephen Boyle: There will have been a combination of reasons behind that. We operate incremental pay scales and there is a presumption that, when people are promoted, they start on the lower end of the pay scale. There is an element—

Daniel Johnson: You take my point. I understand that these things all wash through and that sometimes the aggregate position can be different, which can feed into your overall recruitment and retention.

Stephen Boyle: Yes, it can; Vicki Bibby will want to say a bit more about it.

Looking to the year ahead, we are conscious that the context is as you described. Overall inflation rates are almost in double figures, and in certain instances in people's lives the rate will be higher than that, such as it is with food, for instance. To go back to the meeting that we had with the SCPA on our budget for 2023-24, I note that we have assumed a 3 per cent pay award for the year ahead. We are not yet in formal negotiations with our trade union representatives, but you can see that there is an element to bridge that we can assume. We need to reconcile all that and deal with the challenges in the wider auditing profession with recruiting and retaining staff to deliver our work.

Those are all factors that we are managing closely. Alan Alexander might want to say a bit more about the board’s keen interest in that. I will pause for a moment, as Vicki Bibby might want to come in. I am sure that Alan Alexander will also want to say a word or two.

Vicki Bibby: I apologise, Mr Johnson—I wanted to get the exact figure for you. The figure for people in post was at 95 per cent for the year—that is the average over the year as we were building capacity. There have been some retirals, but we have been getting people into post in the executive team and building capacity. We are down, but we are monitoring the percentage of people in post and we think that it will recover in 2023-24.

You referred to page 51. The pay award was 5 per cent. The average change for 2022-23 was 5.5 per cent, which reflects pay increments that staff would have received. We agreed a 5 per cent pay award, with bottom loading for the most junior pay band. As Stephen Boyle said, we are in negotiations with our union colleagues on the pay award for 2023-24, so that pressure is not going away. However, the average increase in pay was 5.5 per cent—that is on page 51.

Daniel Johnson: Yes but, just to be clear, median remuneration went from £45,197 to £46,226, and that delta of around £1,000 is 2 per cent. I understand that those are all different cuts of the pie, and I do not dispute what you are saying, but it does not contradict what I was putting out there.

In the interests of time, we need to move on, so I have one last question, which is about pension contributions. Without wishing to point to anyone in particular at the table, I note that, in 2022-23, there was a £198,000 pension contribution made for Vicki Bibby and similarly, in the previous year, there was a £144,000 pension contribution to Antony Clark. Those figures are very high, certainly in comparison with annual salaries. I understand that there might be technical reasons, but I would be keen to get the explanation on the record so that we understand what is going on there.

Stephen Boyle: You are right—there are technical reasons. When people join an executive team or leadership group, disclosure is required in the remuneration report of individual remuneration, benefits in-kind or pension contributions. Stuart Dennis can say a bit more about it, and please say if I do not give a clear enough explanation, Mr Johnson.

We are in a defined benefit scheme. To capture the totality of the value of the scheme, there is a multiplier of around 20 to say what the benefit is that people get from being in the scheme, and that is reflected in the first year that they join. That is compliant with the financial reporting manual that public bodies follow, but it perhaps does not necessarily convey the most accurate description of the benefit that a colleague receives. The figures are notional, because it is a defined benefit—it is what the person would receive if they were to receive that benefit in its entirety this year, which of course they do not. It accrues over the lifetime of their membership of the scheme. That is why, in the disclosures for Vicki Bibby this year and Antony Clark last year something of a skewing effect shows in the presentation.

Stuart, have I captured that correctly?

Stuart Dennis: That is correct. The methodology that we have to use as part of the accounts involves a multiplier of 20. The information that we get from the pension fund tells us the real increase in the year, and we need to use a multiplier of 20, which drives the figure up quite high. It will even out next year and will be more reflective of and consistent with some of the other numbers that you see in the report. There is an initial spike when people first join the pension fund because of a disclosure that we have to make in the accounts.

Daniel Johnson: Thank you. In the interests of time, I will leave it there.

Mark Ruskell (Mid Scotland and Fife) (Green): Mr Boyle mentioned the great retiral trend in society and the number of retirals in your organisation. To counter that, I notice that you have 48 trainees coming in. I am interested to hear briefly about the impact that that will have on the organisation. Also, how do you retain trainees? A person could come into Audit Scotland saying, “This is great. I can learn on the job here and then take those skills and go anywhere in the sector.”

Stephen Boyle: Yes, we have 48 trainees who are working their way primarily through the Institute of Chartered Accountants of Scotland training scheme and who are hoping to become CAs on completion of their training and exams. We also have other colleagues working towards other accountancy exams. Before I develop my answer, let me add that we also have three modern apprentices in the organisation, who are being supported through relevant training programmes.

Our scheme is twofold. The people who work with us as trainees make an incredibly valuable contribution. They do audit work alongside their exams and study leave. They are part of our annual financial audit teams and our performance audit teams, and they spend time in both sides of the business to deliver public audit.

I will bring in colleagues to talk about our most up to date retention numbers. Of course, on completion, not everybody stays and we do not assume that they will. However, we review the programme regularly. Alan Alexander might want to talk about the board's perspective, but we understand that people will leave. We hope that they do not leave and that they will stay at Audit Scotland, but we also hope that, if they decide to leave, they can make a contribution and broaden and develop their careers in the public sector in Scotland. We are seeing that. Many of our alumni are operating and working elsewhere in the Scottish public sector delivering financial management, public audit and internal audit.

We think that it is a largely sustainable model. The impact and the contribution are there, and to an extent so are the retention rates. I think that Martin Walker has more detail, and Alan Alexander might want to say something.

10:30

Martin Walker (Audit Scotland): On retention rates in the scheme, in 2022-23, just short of 93 per cent of people who had been on the scheme stayed with us, which we are very pleased about.

However, we recognise that, when people who are on the scheme qualify but choose not to stay with Audit Scotland and move elsewhere, ideally within the public sector, that is still a contribution to good financial management in public service, even if it is not in Audit Scotland. However, we actually have a very high retention rate among people who go through that scheme.

Professor Alexander: It is worth underlining the contribution that our trainee scheme makes to the audit profession generally in Scotland. It is a big cohort.

The cohort that is going through at the moment has had it quite tough. Most of their learning was done remotely for the better part of three years. It might be of interest to the commission to know that, when we held our staff conference in March, which for the obvious reason was for the first time in four years, one of the most impressive things was to see these trainees interacting with one another. That was not quite for the first time, because Stephen Boyle and Vicki Bibby had had a session with them a month before. They are very committed to us, but I underline Martin Walker's point that the scheme is a contribution to—dare I use the phrase?—public audit in Scotland and not simply to Audit Scotland.

Richard Leonard (Central Scotland) (Lab): Good morning. Key message number 1 in the report says:

> "We are making progress in returning the timeliness of our financial audit to pre-pandemic timescales but have more work to do."

As I read them, the figures in the report are that, two years ago, 82 per cent of audits were delivered to schedule. A year ago, it was 75 per cent, and in this report, it is 51 per cent. That does not sound to me like progress, but perhaps you could explain those figures.

Stephen Boyle: You are quite right. As I alluded to in my opening remarks, the situation is challenging.

To provide some optimism for the commission, we are forecasting for the current year that about 73 per cent of the annual financial audits will be delivered to timescale.

I will mention other contexts that will, I hope, be of interest to the commission. In relation to the 51 per cent figure, the audits did not operate to the same deadlines but to more challenging timescales. During the pandemic, the target timescales were relaxed. Audits relating to local government, central Government and the national health service all operated to extended timescales. That reflected circumstances that we have discussed with the commission in previous sessions, such as the availability of audit evidence and some emerging technical challenges, particularly in local government around the valuation of assets, which has taken longer and requires more evidence.

There are also factors with the sequencing of the availability of our audit work. With the exception of further education colleges, which operate to a 31 July financial year end, all other public bodies in Scotland have a 31 March year end. If, for whatever reason, either the auditor or the public body is not available to support a particular slot that has been allocated, it is often the case that the audit is not just deferred by a couple of weeks but will drop to the end of the queue.

There is a variety of factors. We think that the results for the 2022-23 financial year—which includes a combination of audit years—probably represents the bottom of that delta of the delivery timescales and it is a legacy of the pandemic.

I am much more confident about the 73 per cent that we are tracking for this year, and also about there being a continuation of progress to recover to 2019 timescales.

Lastly, we are pleased with the progress that we have made on audit quality this year, but we also recognise that the timeliness of delivery is a component of audit quality. Both you, as parliamentarians, and the public bodies want their audits signed off as quickly as possible, and we are working to make progress on that this year and beyond.

Richard Leonard: Okay. Thanks. In his opening remarks, Professor Alexander talked about the organisation considering "our purpose". I think that most of us would consider the primary purpose to be to carry out audits of public bodies. From those figures, it appears that you are not making the progress that we would want to see. I would like to understand from you the extent to which that is to do with timeliness issues among the bodies that you are auditing versus timeliness issues in your own organisation.

Stephen Boyle: It is a combination. Certainly, there are more complex accounting and evidence factors. I mentioned the valuation of local government property, plant and equipment, which has been a feature across United Kingdom local government bodies. That has required more consideration.

From an auditor's perspective, we have new auditing standards this year, which have required more detailed analysis and consideration. A feature, Mr Leonard, of new auditing standards is that they always take time to bed in, regardless of how much preparation and training we do with our colleagues. That has been one of the features.

Another element is the ability of public bodies to support the audit. We have had higher turnover and so, too, have public bodies, which has impacted on their staffing arrangements to support audit.

Those factors have to be taken together with the scheduling arrangements that we make for delivery of audits. I mentioned that if a public body is not available to deliver on time, or if there are factors that are causing delay, that can knock out the timescales.

All those factors are playing into what we anticipate will be the bottom of that curve of meeting annual audit completion deadlines. We are already predicting a stronger performance by the time we speak to you next year.

Richard Leonard: Do you know when you will get back to pre-pandemic levels of completion?

Stephen Boyle: We anticipate that we will return to the 2019 levels over the next couple of years.

The factors that are relevant in 2025 will not be the same as the circumstances in 2019. We will be adopting new technologies and methodologies, and accounting and auditing standards will be changing. Those are all relevant factors.

I have omitted to mention that some very complex accounting standards have come in and are featured in our own accounts about, for example, disclosure of leases—they have taken a lot of working through—not to mention our pension disclosures.

Having said all that, we anticipate that, with careful management, we will be on course to return to those delivery levels over the next couple of years.

The Deputy Chair: I will ask about best value auditing. The report says that Audit Scotland has

"developed a new model of integrating Best Value into councils' annual audits."

As best value audits were performed as separate audit projects until this year, to what extent will the new model contribute to effectiveness and efficiency not just for audit teams but for audited bodies?

Stephen Boyle: We think that very likely that will be the extent of it. Vicki Bibby might want to comment a bit more about the application of what is, in effect, a new code of audit practice that the Accounts Commission and I have agreed, which evolves the statutory duty of best value and the associated audit arrangements.

You will recall from previous conversations that best value was a statutory audit arrangement that applied cyclically. All councils would be the subject of a best value audit at one point over a five-year appointment cycle. In this new year, we have moved into the first year of the next five-year appointment round.

As best value has evolved, rather than that being a stand-alone arrangement—which had merit and depth in evidence of scrutiny—in order to strike the right balance between impact and valuation it builds on the knowledge that auditors in the public sector in Scotland have. They do not just audit the accounts; they also apply the wider code, so they will be routinely examining financial management, financial sustainability, governance, leadership arrangements and value for money.

The Accounts Commission decided that it would evolve the best value auditing model into the annual audit arrangements but still take the opportunity to have a rolling more in-depth analysis of a number of councils each year.

We are not anticipating any loss of impact through those arrangements but, rather, that we will be harnessing the expertise that the annual auditors will have and building on the wider code that we use to audit councils in Scotland to demonstrate the effectiveness of the scrutiny that comes from that process.

I will pause there in case Vicki Bibby wants to add anything.

Vicki Bibby: Stephen has covered a lot of it. In 2022-23, the final round of the three remaining best value reviews was completed for that year. The new code is part of the wider-scope audit that is new for councils. The Accounts Commission has done a lot of work with the Convention of Scottish Local Authorities and the Society of Local Authority Chief Executives and Senior Managers to help people to understand that wider scope. There is consensus that integrating best value into that wider scope will pay dividends, not dilute things. I note that there will be additional best value reports.

I do not want to speak for the Accounts Commission—it is not my role to do so—but it will be monitoring effectiveness and is quite pleased with how that is progressing. The Accounts Commission gets regular updates at each meeting on that.

Professor Alexander: One of the striking outputs from the consultation that I referred to earlier, and which led to the publication of "Public Audit in Scotland 2023-28", was the degree to which audited bodies appreciate what they get from the wider-scope audit. Clearly, they want a clean and clear audit in terms of propriety, but they also want us to use that as a platform from which we can help to improve the overall performance of the public sector.

I was struck by just how strong that view was. When I joined the board of Audit Scotland four years ago, there was a lot of talk about wider-scope audit. What has happened over those four years is exactly what Stephen Boyle and Vicki Bibby have mentioned: there has been clearer integration of the propriety audit and the wider-scope audit.

There is a lot of added value for the Scottish public sector in the fact that we do both. I am absolutely convinced that having the best value audit more or less in a separate box diminished the effect that we could have.

The Deputy Chair: I will move on to the property portfolio. On page 24 of the annual report, Audit Scotland reports that it

"began a review of our premises to consider our future needs".

Can you provide an update on that review of Audit Scotland's use of its premises and a likely timescale for its completion? Could you also explain why actual rent and rate costs were less than was budgeted for and why they fell from those that were reported in the previous year?

Stephen Boyle: I will bring in Vicki Bibby and Stuart Dennis on those questions.

Vicki Bibby: As has probably been the case for many organisations, the way in which our staff work has changed as a result of Covid, and we wanted to capitalise on the fact that our leases in Edinburgh and Glasgow were coming to a certain point. The board was clear that we needed to maximise the opportunities of such lease breaks but that we should also be cautious, because, like many organisations, we are not sure exactly what our future hybrid working model will look like.

I will bring in Stuart Dennis to give more detail but, from looking at the make-up of our staff, we know that we do not have enough capacity in our Glasgow office to accommodate the way in which staff want to work. It tends to be the financial audit staff who are in the office more often and are out with clients. We are looking closely at expanding our Glasgow office and at offsetting that by potentially making reductions in our Edinburgh office. That is not all signed off yet, but there would be quite a significant saving from that, given how property prices in the west compare with those in the east. We wanted to find savings while meeting the needs of our staff. There has been a careful balance between maximising opportunities to drive down our costs and meeting the needs of staff.

The cost of the rent has a lot to do with the change in international financial reporting standard 16. Stuart Dennis has been leading on the property review and the accounting for rent, so I will pass over to him.

10:45

Stuart Dennis: What has been said about the reduced cost is absolutely right. IFRS 16 is a new accounting standard for leases. Originally, it was supposed to be adopted in April 2020, but it was delayed because of the pandemic and was adopted for the first time in April 2022. We needed to account for it on that basis. In the analysis, you will see that there is a new disclosure called "Depreciation—right-of-use assets". That is where the bulk of the element relating to rent for accommodation goes. We now have to depreciate that as a right-of-use asset under the new accounting standard, which we have taken on board for the first time.

Car leases are also classified as a right-of-use asset, so you will see that, as well as the figures for rent and rates, those for travel and subsistence have also reduced due to the accounting treatment, with the costs now appearing under the new "Depreciation—right-of-use assets" line.

Vicki Bibby mentioned accommodation. I think that, at the commission's meeting on our budget proposal, we will be clearer about our accommodation requirements. Those proposals will go to the board as part of the budget process, so you will be able to get a good idea of our future plans in that respect. As Vicki said, our demand for office space in Glasgow is much higher than it is in Edinburgh. That is due to the increase in staff numbers and the fact that, of the new staff who have joined, more are based in Glasgow than was the case before the pandemic. We have gone from about 100 people being based in Glasgow to about 130 being based there, so that is where the demand is increasing.

Professor Alexander: I will comment on the way in which the board has approached the matter. Let me start by saying that, a very long time ago, when I studied Latin at school, I learned the wonderful tag, “Festina lente”—hasten slowly. There was a tendency, not just in Audit Scotland but generally, to grab the great benefits that hybrid working was going to produce for organisations. My view, which I expressed quite forcefully as chair, was that we needed to be sure before we made any changes, because we would look daft if we made changes and then had to pull them back 18 months later. I think that I am right in saying that the board has now had three goes at this, and we will have a final go and come to a conclusion in September.

Just by way of broader comment, I read an article in the newspaper yesterday about HSBC’s decision to abandon its signature building in Canary Wharf and move to a smaller refurbished BT office in the City. When I read that, my first thought was that I hope that HSBC does not live to regret that. It seems to be a very big change, and any organisation has to be careful about such decisions.

Anybody who has visited our Glasgow office will know that there was always going to be a need to increase capacity there. We are now in a position in which we might be able to balance the various parts of our rental estate in the medium to long term, rather than grabbing a short-term benefit.

Mark Ruskell: Organisations are now having to consider what they should move towards in the medium to long term, and they are having to make final decisions on leases. I am interested in what your staff and your trainees think about that. What kind of workplace do they want to work in?

Professor Alexander: We take the temperature of our staff on that quite often. I will leave it to Vicki Bibby and Stephen Boyle to give the details, but there is no doubt that there is support for hybrid working. The problem is that each individual has a different definition of the best hybrid working model, so we have to navigate that and make it possible for people to work in a way that is acceptable to them and productive for the organisation. That is why we have taken our time on that.

I hope—I touch wood when I say this—that the decisions that we make in September and which we will talk to you about in a year from now will turn out to be the right ones in the medium to long term.

Stephen Boyle: I will bring in Martin Walker in a moment, because he has led much of the staff engagement with our colleagues on what is such an important issue, given the upheaval that we have all been through. I am particularly thinking about things from my colleagues’ perspectives—over the past three years, we have audited in a greatly different environment from that which we were used to. We have conducted our traditional surveys. We still do our annual best companies survey, and we ask our colleagues to fill in a stress survey alongside that. In between those, we have done a range of pulse surveys as part of our wider staff engagement.

We have specifically engaged with people on hybrid working arrangements. You will perhaps not be surprised to hear that there are mixed views. Some people are very enthusiastic about hybrid working, others are just as enthusiastic about remote working, and an equally sizeable group of colleagues want to be back in the office for almost the entire time. We have to do our best to accommodate individual preferences while finding the right model to deliver high-quality, effective and timely public audit arrangements.

Those results are very relevant and are nudging us to the position that my colleagues have suggested we are getting to with regard to our estates strategy. We will engage with the commission on retaining high-profile appropriate premises in Edinburgh and Glasgow, alongside our premises in Inverness and Aberdeen, but as Vicki Bibby mentioned, there will be a slightly different ratio between the footprints in Glasgow and Edinburgh.

Martin Walker: Mark Ruskell’s question was about staff engagement and what people think about hybrid working. As Stephen Boyle said, we have used a range of surveys and various other engagement tools to keep taking the temperature, because we are conscious that opinions change. At a particular point during the pandemic, people might have had certain feelings about hybrid working and what it should look like, but those views might have changed over time as people experienced home working and reminded themselves what it is like to be in the office, with the buzz that comes from being together and working face to face with colleagues.

Our developing hybrid working project involves a couple of key workstreams. One relates to the estates strategy, which we have spoken about, and that is inextricably linked with working patterns. Another workstream relates to policies, procedures and so on, and is about ensuring that everybody is as clear as they can be about the expectations relating to hybrid working. Very helpfully, members of the project group include representatives of our business groups and our Public and Commercial Services Union branch. We are keen to get a wide range of views.

Stephen Boyle talked about working practices. Between 70 and 80 per cent of folk work in the office for perhaps a couple of days a week, and much smaller numbers of people work at the extremes—they work in the office either very rarely or all the time. Those numbers have not shifted hugely. We have been tracking them, but they have not changed fundamentally, although a slightly higher number of people have been in the office recently.

We have lots of processes in place to keep taking the temperature and see how people are feeling. That includes listening to the contributions of those on the working group, because people from many different areas of the business are represented at those meetings.

As Stephen Boyle said, the financial audit work that is done in the west places more demand on office space, and people are now out and about at audit sites more than they were previously; whereas, in Edinburgh, where people are involved more in performance audits and support functions, the office is not used as much as it was before the pandemic. We monitor all that very closely, and I think that, by the autumn, we will be much clearer on our estates strategy and will be better able to predict what hybrid working will look like in the future.

Mark Ruskell: It is useful to get that temperature check in terms of what your staff feel.

I will move on to another area that I think has come out of staff surveys. We understand that, in responding to surveys, the in-house teams have indicated that they feel that they do not have enough time and resources to complete audits, which perhaps compares unfavourably with other auditing firms. To what extent do you accept that? What are the underlying reasons for the difference between Audit Scotland and other auditing firms? What action should or could you take on the back of that response to the surveys?

Stephen Boyle: We do recognise that. Our colleagues have told us that they would like to have more resources to deliver audit work. We have to find a balance. Resources are finite and we want to make best use of them to deliver high-quality audits within timescales. It is a feature that has come out in our staff surveys and the results of our quality survey in “Quality of public audit in Scotland: Annual report 2021/22”. We do not have a detailed analysis of the differences between us and audit firms. One aspect to consider is to do with comparing the quite different cultures in audit firms and a public body such as Audit Scotland. However, we are taking the matter seriously. Vicki Bibby might want to say more about our work in the area.

First, though, let me say that we spend a lot of time thinking about where we will go next with our delivery models and deployment arrangements, and about the innovation that we want to bring to public audit. We used to have arrangements spread across different business groups, but we have moved to a model in which we use an innovation and quality group. Innovation is about how we undertake audits—our methodologies and deployment arrangements. We often talk more about resourcing than we do about deployment. How we form teams in the organisation is one part of that.

The publication of “Public audit in Scotland” and our corporate plan in the past couple of weeks are underpinned by our business groups’ own business plans. The focus this year has been on cracking Audit Scotland’s resourcing arrangements so that we can marry delivery of high-quality timely audits with colleagues feeling that they have enough time to contribute to overall objectives. Is that fair, Vicki?

Mark Ruskell: [*Inaudible.*]—instead of just saying, “We haven’t got the time to do this”, say, “Okay, how do we do this in a more efficient or productive way? How do we marshal ourselves in a way that can deliver benefits and reduce pressure?”

Stephen Boyle: That is 100 per cent our objective. I may have touched on this a couple of times: the auditing profession is changing quite rapidly and new auditing standards, accounting standards and technology are being brought to bear. I have talked about our innovation and quality team. We have plans in place for new software to capture our audit work and our judgments. We hope that those factors will contribute to easing the pressure.

There is an internal aspect to this, in that auditors desperately want to recover timescales: teams want to get back to 2019 patterns. “Back on track” is the phrase that we tend to use. That is for good reason. We want to deliver timely high-quality audits, but there is a problem with the compressed nature of the workload.

11:00

I was explaining to Mr Leonard that we think we are in a two-year window in which to recover timescales and, at the same time, to work through, with colleagues, application of methodologies and technology to ease the situation.

Vicki Bibby: I will add to that and pick up on a number of aspects. We have a number of things to balance. We need to get back to the timetable and address or meet the new requirements on the profession. We need to modernise as an organisation, not just in-year but looking ahead—what will an auditor look like in five years?—so that we are on the front foot. We need to manage all that against the backdrop of staff wellbeing, which is absolutely vital. What is the right balance? We are in close discussion with our unions and our staff, which is why we place such importance on staff surveys.

Our new corporate plan is very much linked to that and we have a new business planning approach in which we focus our time in order to ensure quality and delivery, and to ensure that we have a positive impact. In discussions with staff on productivity and efficiency we are trying to balance all those challenges, so we need to ask what mechanisms or work we should stop doing that might not be having the right impact on our work. It is absolutely vital that all staff are involved with delivering the new corporate plan and our business planning approach.

Alongside that, the people strategy and the financial strategy are absolutely key. We are bringing all those things together. However, we have to balance those aspects so, as Stephen Boyle was saying, we believe that having a two-year period for recovery and managing innovation and staff wellbeing is the right pace at which to do that.

Mark Ruskell: Thank you for that. That was useful. My last question is about the 80 per cent good compliance target. What are your thoughts on that? Is it too low?

Stephen Boyle: First, we are pleased with the progress that we have made in audit quality. To go back a couple of years, I note that we had a dip in some of our financial audit work at the start of the pandemic. We have invested in our audit quality framework and associated action plans in order to target specific findings and recommendations that we have had from quality reviewers.

This year, we have seen an upturn: all our performance audits met the required standards. On a rolling basis, the annual financial audits have met the target. We think that the 80 per cent target is about right. There will always be factors that come out of an annual audit that is subject to review that might lead an external reviewer, or an independent internal reviewer, to judge that an audit has fallen below the good standard. There is a four-point scale, effectively, that assessors use: scoring 1 or 2 is okay, but 3 or 4 is not so good.

Overall, Mr Ruskell, we are pleased with progress. I think that our focus on audit quality has borne fruit. Again, Alan Alexander has been at the forefront of work on governance around audit quality. We ensure that it is an organisational priority. I will pass to Alan in a second. We recognise that if our work is not of high quality, the organisation would have a huge credibility gap. In order to speak authoritatively to Parliament, we have to be able to demonstrate that we are reliable in our judgments and reporting.

Professor Alexander: It is worth adding that, as part of the process of addressing issues of quality, something bit us in 2021. Stephen Boyle has mentioned—on this and previous occasions—that our recommendation to the board, which the board accepted, for a new directorate for quality and innovation has been a major part of addressing the situation.

We have also rejigged how the board receives information about organisational performance and financial performance. We now get a richer suite of numbers in great detail each time we meet. Both the audit committee and the board—as the major governance body and, if you like, the long stop—have those as key things that they must examine at each meeting.

I go along entirely with Stephen Boyle’s point that 80 per cent is good performance. We can probably do better than that, but it is very difficult to see how to get to 100 per cent because there is such a varied portfolio of things that we have to do within the time that we have.

Mark Ruskell: So, you could go north of 80 per cent but not up to 100 per cent. Is that quite a blind measurement? Should we be looking at something a bit more detailed within that, given the nature of the audits?

Stephen Boyle: We have detail through a programme of external quality reviews that are undertaken by our external quality assessor, which is now the Institute of Chartered Accountants in England and Wales, which we appointed last year. It has gone through the first cycle, so there has been something of a rotation from our previous provider, which was the Institute of Chartered Accountants of Scotland.

A completely detached and separate evaluation of the quality of our work covers both performance audit and financial audit. We look to cover appointed auditors both within Audit Scotland in our in-house teams and through the firms that we use. You will have seen from “Quality of public audit in Scotland” the scores that have been provided. Alongside that, we have in-house teams from firms and ourselves assessing us.

That was a very good question, Mr Ruskell. It is my hope and expectation that we will clear 80 per cent, but I think that, as a metric, it allows for the fact that we have scores of appointed auditors for the organisation who have large portfolios including central government bodies, national health service bodies and local government. We also have within the organisation managers, who are appointed auditors, who audit smaller bodies.

We think that that is the right model. It allows us to support people's career progression to work on larger portfolios in the future. With that, there is an increased possibility that the quality of some audits might fall below what we want. We are safeguarding quality with the investment we have made in audit quality and the training that goes alongside that. As I said, we hope to be well clear of 80 per cent, but we feel, allowing for the range of variables, that it is broadly the right target.

The Deputy Chair: Do any members have any final questions?

Daniel Johnson: I just want to ask a couple of broader questions. There has been the resignation of William Moyes from the Accounts Commission. Has this point in time been used to reflect on the fact that we have parallel structures, certainly in terms of statute? I always reflect on that when I read your reports. I am not sure that someone coming fresh to an annual report would necessarily see the hard distinction. Is there, from Audit Scotland's perspective, a discussion to be had, in advance of a new permanent appointment, about how the two entities will move forward and interoperate?

Stephen Boyle: Those are points that I am sure Alan Alexander will want to say a word or two about. Dr Moyes handed in his resignation and wrote to the minister in May. The Accounts Commission is a non-departmental public body, and by statute Audit Scotland provides services to both the Accounts Commission and the Auditor General. As you know, Mr Johnson, the SCPA decides that the Auditor General is the accountable officer of Audit Scotland. In terms of interim arrangements, the Scottish Government has appointed Ronnie Hinds as acting chair of the Accounts Commission. He is working closely with his Accounts Commission colleagues on future arrangements and, in due course, the Scottish Government will be re-advertising for a permanent chair.

All the arrangements are set down in statute. There is the pre-devolution legacy: the Local Government (Scotland) Act 1973 still applies for the arrangements for the Accounts Commission. Audit Scotland was formed and the post of Auditor General introduced with the Scotland Act 1998, and the Public Finance and Accountability (Scotland) Act 2000 sets out how the model operates.

I think that there is some certainty in the combined focus and attention, and "Public audit in Scotland", our recent publication, sets out how the model of public audit in Scotland operates. Where it is relevant, the two bodies have shared ambition and a shared work programme to deliver high-quality public audit and to reflect how public services are changing. We come together when we need to and we have distinct identities. We also think that that is most appropriate. Until there is a decision elsewhere—if that ever comes—the model is what we have and we aim to make it operate effectively.

Professor Alexander: I think that it is worth telling the commission that before Bill Moyes resigned we were already beginning a process of considering how we could improve how this three-legged stool of the Auditor General, my board and the commission work. That will continue, and Ronnie Hinds has a brief to look at that while he is interim chair of the Accounts Commission.

We are in an odd situation. I could revert to my previous profession and tell you what I would do in terms of how to organise public audit in Scotland. I will not do that because I do not have the power or locus to do so. We have a commitment to modernising and refreshing the document that sets out how the partnership should work, and we are working on that at the moment. We would expect that to be completed—Vicki Bibby will correct me if I am wrong—before a permanent chair is in place in the Accounts Commission, because we need to know with clarity how the three things work together. I think that the arrangements can work. I do not know whether I would have designed the system this way, but we are on the case.

Daniel Johnson: I find it interesting that Stephen Boyle mentioned the 1973 act. During some of our previous deliberations I looked into the act and was quite surprised at how distinctly different it is. Although the work that is undertaken under the auspices of Audit Scotland and the work that is done by the Accounts Commission are functionally the same, the bodies are very different in terms of accountability, with the Auditor General being accountable to Parliament and the Accounts Commission being accountable to the Scottish ministers. I wonder whether, because of the nature of the day-to-day work, accountability is worth collective thought and reflection—not just on your part, but on ours, as well.

Stephen Boyle: That is an interesting point. The word that I would like to stress is "independence".

Daniel Johnson: You mean small "i" independence.

Stephen Boyle: Quite.

The Auditor General for Scotland is independent of the Government and, although I report to the Public Audit Committee, I am free to set my own work programme. The Accounts Commission is probably best placed to speak for itself. Although it is a non-departmental public body, it operates independently from ministers, albeit that it is appointed by ministers and engages with ministers.

From Audit Scotland's perspective, it is our role to provide high-quality audit work on behalf of me and the Accounts Commission, both through the annual audit process and delivery of a performance audit programme. We can never take independence for granted, Mr Johnson; it is something that we safeguard very carefully with a range of checks and balances in how we assess colleagues' independence, our ethical standards and so forth. It matters not just that we believe that we are independent, but that Parliament and the public also see that both Audit Scotland and the Accounts Commission are independent.

11:15

Daniel Johnson: I will ask a final question. I will do a Daniel Johnson special and ask a very left-field question. We have had some discussion about how different accounting treatments for leases have impacted on your accounts. I think that there are a number of quite challenging things coming down the line. There has been a lot of discussion about generative artificial intelligence. There are also questions about carbon accounting. What are your thoughts, collectively, on those issues—but not limited to them—and how they might impact on your work in the future? How are you tracking them? Are they on your radar and are resources being allocated to thinking about these potentially big changes?

Stephen Boyle: That is very much the case. This is being wise after the event, perhaps, but Alan Alexander mentioned earlier the intention of creating an innovation and quality department within the organisation so that we have the capacity to respond to the fundamental changes that are happening in society and their auditing implications.

We have invested in digital auditing, but that is only one part of it. You mentioned AI: we do not know yet what AI will mean for how we will audit. Vicki Bibby talked about the auditor of the future five years from now; we can safely assume that there will be fundamental changes. We are keen not merely to react to changes and developments, and we hope that they will have a positive impact on the depth of our work and the insight that we can bring to delivery of public services. We are tracking and monitoring, and we are engaged significantly with the auditing and accountancy professions so that our reach is not just reactive. From a public audit perspective, we also want to have our voice heard as part of developments in the profession.

Public audit in Scotland is in a relatively strong place, compared to what we see in other parts of the UK in terms of challenges to delivery of audit. We want to retain that position, and we see our work on innovation and quality as being one of the ways in which we will do that.

The Deputy Chair: Are there any final questions? Mark Ruskell?

Mark Ruskell: No, thanks.

The Deputy Chair: In that case, I will finish by thanking Professor Alexander, the Auditor General, Vicki Bibby, Martin Walker and Stuart Dennis for their evidence today. We will now have a short suspension while we change witnesses.

11:17

Meeting suspended.

11:20

On resuming—

The Deputy Chair: Good morning. From Alexander Sloan, I welcome to the meeting David Jeffcoat, who is a partner, and Jillian So, who is an audit and accounts manager. Would you like to make an opening statement?

David Jeffcoat (Alexander Sloan): Good morning, chair and the commission. I would like to 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 2023. Audit planning commenced in February, our audit work began in early May and I signed the audit report on 12 June 2023. Our audit was carried out in accordance with international standards on auditing.

Once again, we carried out our audit remotely, using a variety of methods to do that effectively, including a secure portal to request and receive information electronically and the use of screen sharing and video calls to make our work as efficient as possible. I thank the attentiveness and responsiveness of Audit Scotland's finance team for their support in that approach.

Our audit opinion is contained in the audit report in the accounts. It confirms that the financial statements of Audit Scotland give a true and fair view, as at 31 March 2023, 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.

For the record, I confirm that adequate accounting records have been kept by Audit

Scotland and that we received all the information and explanations that we required before issuing the audit opinion. Our audit opinion confirms that expenditure has been incurred and receipts have been supplied in accordance with the 2000 act.

As part of our audit work, we are required to prepare an audit summary report to the management of Audit Scotland, a copy of which has been sent to the commission. The audit summary report summarises our response to key audit risk areas and, where applicable, reports on any weaknesses in the accounting systems and internal controls that might come to our attention during the audit.

Our audit on management override considered the authorisation, appropriateness and accuracy of bookkeeping and accounting journals and related financial controls, and we 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 is linked to our auditing of work in progress. Our audit work in that area concluded that the work in progress debtor balance and the work in progress creditor balance, or deferred income, at 31 March 2023 were based on robust assumptions that were accurately calculated, and we are satisfied that they were accounted for appropriately in the financial statements.

Our audit work on accounting estimates included consideration of provisions in the financial statements, and we are satisfied that the provisions that are contained in the accounts, including the provision for fee rebates to be issued to auditor bodies, are appropriate and that the estimates have been accurately calculated, and sufficient disclosures have been made in the notes to the financial statements.

Our audit work this year identified two adjustments to the draft financial statements. They are noted in our audit summary report and relate to the accounting for leases and for pensions. In both cases, our dialogue with Audit Scotland was constructive, and we encountered no issues with our proposed amendments.

Taking those in turn, our audit this year required a consideration of the recent adoption of an accounting standard in respect of the accounting for leases. Our audit work noted some amendments that were required to balances in the statement of financial position, although no effect on the reported net comprehensive expenditure. The amendments were agreed and processed, and I confirm that we are now satisfied that the accounting for leases is appropriate and disclosures in the financial statements are sufficient.

Our audit this year also required an assessment of the reported pension balance. The actuarial report showed a surplus in the pension scheme's assets over the scheme's obligations. Where that arises, following the international accounting standard 19, which is International Financial Reporting Interpretations Committee guidance 14, or IFRIC 14, consideration must be given to whether the surplus represents a flow of economic benefit—namely, a refund to Audit Scotland—or allows a reduction in future contributions.

Further calculations from the scheme's actuary were requested to assess whether an asset ceiling applied to ensure that there is no overstatement of the asset in the statement of financial position. Following those further calculations by the actuary and our discussions with Audit Scotland's management, we are satisfied that the accounting for the pension balance is nil, the statement of financial position is appropriate, and adequate disclosure in the notes to the financial statements is present.

Our audit summary report is an opportunity to propose recommendations on the accounting systems or financial controls in operation. However, I confirm that, following our audit work, we did not identify any matters that we require to raise to management or to the commission.

On behalf of me and my team, I record our thanks to the staff at Audit Scotland for their helpful and prompt assistance during the audit. I am happy to take questions from members of the commission.

The Deputy Chair: The SCPA welcomes the positive audit report that has been received from Alexander Sloan CA and the unmodified audit opinion that has been placed in Audit Scotland's 2022-23 annual report and accounts. For completeness and for the *Official Report*, can you confirm that you have received all the necessary information and explanations that you require to form your opinion on the financial statements?

David Jeffcoat: Yes, I confirm that.

The Deputy Chair: Can you confirm that you are content with the judgments that have been made by Audit Scotland and the disclosure of those in the annual audit and accounts?

David Jeffcoat: Yes. They are often contained in the accounting estimates section in the financial statements, but I confirm that.

The Deputy Chair: Thank you. I have one final question. You will have heard the evidence earlier from Audit Scotland. Is Alexander Sloan also experiencing delays to the completion of financial audits?

David Jeffcoat: Yes, as an audit firm, we are. It was interesting that Stephen Boyle mentioned that there was possibly a knock-on in 2021 from the delayed deadlines in 2020; there were delayed deadlines for 2020 audits that knocked on to 2021. Now, organisations are trying to get back into the old rhythm, but it is taking a little while for us to get back on track. I echo what Stephen said about it probably being a year or two until we feel that we are back on track with our audits.

Daniel Johnson: There was a fair bit of discussion about the new accounting treatments for leases, which accounted for quite a big decrease in things such as transport costs. Do you feel that those have been treated adequately, and are those the differences that you would expect, given the application of the new standards?

David Jeffcoat: Yes. Again, what is interesting is that there was no change to the net comprehensive expenditure figure. What we looked at were things such as prepayments—when you pay rent in advance, for example. That is no longer called a prepayment under international financial reporting standard 16; it is called paying down a liability. Things such as that affected the statement of financial position.

In the statement of comprehensive expenditure, it was really just about moving around the operating expenditure note—I do not know whether you have note 4 available—and moving it down from rent and rates. The actual cost did not change. It was just re-allocated within the note.

Daniel Johnson: It is an accounting change and not a cash-flow change.

David Jeffcoat: It is an accounting change.

Daniel Johnson: Are you confident that that has all been applied as you would expect?

David Jeffcoat: Yes. Again, in the initial draft that was in the accounts, it was slightly higher up in rent and rates. In this final draft, which is in the signed accounts, it is re-allocated down to what is called depreciation right-of-use assets. That is how it comes into profit and loss. It comes in through that line.

Daniel Johnson: Perfect. Thank you.

The Deputy Chair: As no other member has any questions, I thank David Jeffcoat and Jillian So for their evidence. We move into private session.

11:28

Meeting continued in private until 11:35.

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