

Colin Beattie MSP
Chair
Scottish Commission for Public Audit
The Scottish Parliament
Edinburgh
EH99 1SP

17 June 2020

Dear Colin

Thank you for your letter of 15 May 2020.

I am now writing to you, as promised, following discussion of the impact of COVID-19 at the Audit Scotland Board meeting on 1 June 2020.

The Board has strongly endorsed the safety-first approach that Audit Scotland's Management Team has adopted, and this has guided our own approach.

Given that, it is worth noting that, despite the pandemic, at its meeting on 1 June 2020, the Board was able to approve the accounts as recommended by the Audit Scotland Audit Committee, which had considered them earlier that day, with both our external and internal auditors in attendance. The 2019/20 Annual report and accounts were signed on 9 June 2020 by the Accountable Officer and the external auditors, and a copy of these have been shared with you in advance of the meeting with the Commission on Monday 22 June 2020. COVID-19 had not significantly affected Audit Scotland by the end of the 2019/20 financial year, and we are pleased to have been able to meet our agreed timetable.

You asked for an update on the measures that Audit Scotland has adopted to mitigate the impact of COVID-19 on its operational ability. Here is a summary, and I would be happy to provide further information as required.

Audit Scotland's Incident Management Team (IMT) met first on Friday 13 March 2020 to review the impact of COVID-19 and review business continuity options. At its second meeting at 7pm on 16 March, the IMT advised all Audit Scotland colleagues to work from home with immediate effect and our offices remain closed. Subsequently the IMT met daily, then twice weekly, and now weekly. COVID-19 is now on each Management Team meeting agenda. There have been two Audit Scotland Board (on 13 May and 1 June) and Audit Committee (on 6 May and 1 June) meetings since March, as scheduled, and each meeting has received an update on the impact of COVID-19 on Audit Scotland and its work.

The Auditor General for Scotland and the Accounts Commission have both agreed to extend the existing audit appointments by one year in the first instance. This has enabled us to reschedule our planned procurement exercise and provide some certainty and continuity for audited bodies and auditors. Everyone will be able to focus on the quality of financial reporting and the quality of audit without the disruption of new audit appointments.

As I said earlier, the Board has strongly endorsed the Management Team's approach of putting the safety and wellbeing of colleagues first. We have also been impressed by the quality and tone of communication with staff. The IMT has ensured regular communication and engagement with Audit

Scotland colleagues. We have reallocated resources to support colleagues working from home and have provided additional technology and home workspace solutions to support colleagues immediate and longer term homeworking needs.

Operationally, although the summer internship programme has been cancelled, the graduate recruitment scheme has progressed and new graduates will take up post in the autumn. The Auditor General attended the Public Audit and Post Legislative Scrutiny Committee (PAPLS) on 19 March 2020 to advise how Audit Scotland will take a flexible, pragmatic and consistent approach to the audit work. She provided a further briefing on 5 May 2020 and Audit Scotland published its COVID-19: Impact on Public Audit in Scotland briefing the same day. The Auditor General attended a further evidence session on 11 June and will brief the Public Audit and Post Legislative Scrutiny Committee again on 25 June before her tenure ends, when we will also publish a further briefing on our website. We have also been working with the Auditor General designate on transition arrangements on 1 July. These are well-progressed.

As with all public bodies, this is a complex and challenging environment. We have reprioritised our audit work to reflect revised financial reporting timescales for public bodies. Individual bodies are still working through their responses and we are working closely with their finance teams to assess what and when we will audit. Audit Scotland is clear that although deadlines may change, the quality of audit must not be compromised, so that our stakeholders can have confidence in our reporting. You asked for information on the impact of COVID-19 on our budget for 2020/21. The SCPA considered that budget on 27 November 2019, and the total parliamentary funding approved is £8.865M. It is already clear that the COVID-19 pandemic will have an impact on our short, medium and longer term financial plans.

The funding and fee model successfully operated by Audit Scotland to date is based on receipt of approximately two-thirds of income from fees paid by public bodies, with the balance of expenditure being funded through the Scottish Consolidated Fund, following parliamentary approval. There is currently a higher risk that we may experience cash flow issues if payment of our fee invoices by public bodies is disrupted. We will be monitoring this closely, as you would expect.

The budget for 2020/21 was prepared based on continuing to audit financial statements to established timetables and delivering a performance audit programme agreed by the Auditor General for Scotland and the Accounts Commission. Those programmes of work are under review. Financial reporting timescales have been revised. We are considering what this means for our work in each audit year and its impact on the current and next financial years. We need to provide financial assurance and also timely updates and commentary on the public finances for the remainder of this financial year to support scrutiny and accountability.

Audit Scotland is publicly funded, but not directly from the Government, and this ensures the independence of Scotland's public audit agency. You are well aware that the legislation governing Audit Scotland's operations bars the holding of reserves and sets out the arrangements for direct funding and fee recovery. As we cannot hold reserves, the management contingency provision of £300k in our 2020/21 budget is the extent of our capacity to manage unexpected events within any given year, without requesting an in-year adjustment. We will engage closely with you if we need to discuss funding options further with you this year and if there are further revision processes at the Parliament.

Looking ahead, given the disruption to financial reporting for the next couple of years, and the additional expectations that we must meet, it may be that the fees and funding model could be further simplified, and I would be happy to discuss that with you. It is perhaps too early to say much more than that, in our collective response to the impact of COVID on public bodies, ensuring sustainable, independent public audit will be critical to our ability to understand the financial issues it brings. We are, however, alert to the fact that the substantial amounts of public money committed to the response to the pandemic will need to be properly and rigorously audited. Inevitably, this will have an effect on our work and upon the allocation of resources to facilitate it.

I hope that this provides you with the information you require and that it reassures you that the practice and governance of public audit in Scotland remain robust. I will, of course, keep you and the Commission fully informed and I am happy to meet you and your colleagues at a mutually agreed time if you would find that helpful.

Yours sincerely

Professor Alan Alexander
Chair
Audit Scotland