

SCOTTISH COMMISSION FOR PUBLIC AUDIT

**2nd Meeting, 2021 (Session 5), Wednesday
22 December 2021**

Audit Scotland Budget Proposal 2022/23

1. Audit Scotland has submitted its Budget Proposal for 2022/23 for the consideration of the Scottish Commission for Public Audit. A copy of the Budget Proposal for 2022/23 and a covering letter from the Auditor General for Scotland, as Accountable Officer, can be found in **Annexe A**.
2. **The Commission is invited to consider Audit Scotland's Budget Proposal 2022/23 and report its views to Parliament.**
3. The Session 5 Commission approved Audit Scotland's budget proposal for 2021/22 but in doing so requested that Audit Scotland provides quarterly reports on any expenditure from its management contingency of £2.4 million (increased from £300,000 in its 2020/21 budget proposal). [The first quarterly update was received on 25 August 2021](#). The second update has now been received and can be found in **Annexe B**.

**Secretary to the Scottish Commission for Public Audit
17 December 2021**

Date: 15 December 2021

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

Dear Chair

On behalf of the Audit Scotland Board, I am pleased to provide you with our 2021-22 Spring Budget Revision proposal and our 2022-23 budget proposal which are due for consideration by the SCPA at its meeting on 22 December 2021.

As you know the Covid-19 pandemic continues to place significant pressure on society, on public services and on public finances. These pressures have added to the pre-existing challenges of financial sustainability, public service provision in a time of increasing demand, economic and health inequalities and the climate emergency.

The response to the pandemic has led to significant increases in public spending and the rapid redesign of public services and how they operate. Over the same period Audit Scotland has also had to respond to these challenges. We have had to grow and change in order to do the bigger and more complex job required of us, while at the same time maintaining and safeguarding the robustness and independence of public audit in Scotland

Our 2022-23 budget proposal continues with the investment required to meet the increase in our audit work because of Scotland's new financial powers, supports the multi-year recovery in audit timescales from 2020 and invests further in digital and strategic capacity to respond flexibly and with pace to the challenges facing the public sector.

The budget will help ensure our independent audit role meets the needs of the Scottish Parliament, its committees, and our wider stakeholders as we provide independent assurance and comment on public finances, to help inform the way ahead.

We look forward to discussing these proposals further with you.

Yours sincerely

A handwritten signature in black ink, appearing to read "Stephen Boyle".

Stephen Boyle
Auditor General for Scotland

Spring Budget Revision 2021/22

IAS 19 - Pension Costs

Introduction

1. In accordance with Scottish Government advice to meet additional unbudgeted pension charges this paper details Audit Scotland's 2021/22 Spring Budget Revision (SBR) proposal to meet these non-cash accounting costs.

Background

2. Bodies funded by Parliamentary Vote, such as Audit Scotland, only have authority to spend the resources voted to them in one financial year. Any request for additional resources in-year must be requested as part of either the Autumn Budget Revision (ABR) or Spring Budget Revision (SBR) and approved by Parliament.
3. Certain types of expenditure requiring budget revisions, including pension charge adjustments, are treated for budget purposes as Annually Managed Expenditure (AME) rather than falling within the Departmental Expenditure Limit (DEL). The overall AME cover for Scotland is re-determined once a year in late autumn, with the changes agreed with HM Treasury then being available for inclusion in the SBR.

Spring Budget Revision - IAS19 Pension Costs proposal

4. Our SBR proposal requests £6 million to meet increased non-cash pension accounting charges that will arise in 2021/22.
5. Audit Scotland operates two pension schemes. Our main pension scheme is the Local Government Pension Scheme in Scotland administered by the Lothian Pension Fund. All new employees are enrolled in this scheme as part of the auto enrolment pension legislation.
6. The second scheme is the Principal Civil Service Pension Scheme (PCSPS). Audit Scotland operate this scheme as a closed scheme – the members of the scheme are employees who have legacy terms and conditions following their transfer to Audit Scotland from the National Audit Office on the establishment of Audit Scotland in 2000. The numbers of staff in this scheme have been reducing as staff retire or leave Audit Scotland – currently there are five members of staff who are part of this scheme. In addition to those staff who have legacy rights, the Auditor General for Scotland is separately enrolled in the PCSPS as part of the terms and conditions of appointment.
7. The PCSPS is an unfunded multi-employer defined benefit pension scheme. The liability for payments under this scheme rests with the Government and Audit Scotland is not required to disclose or record information in respect of this scheme. These arrangements are consistent with those applying to the Scottish Government and many Government Agencies and NDPB's.
8. The Local Government Pension scheme is a funded, defined benefit pension scheme and the assets and liabilities of our section of the scheme are separately recorded. As a result Audit Scotland has to meet the accounting and disclosure requirements of International Accounting Standard 19 (IAS 19). This requires the preparation of actuarial reports at each year-end that

value assets and liabilities of the scheme as well as identifying the in-year costs of providing the pension service earned during the year.

9. A key factor in determining the values and costs is the discount rate used in the calculations. The rate used is driven by interest rates and bond returns and low interest rates push up the costs of providing pension service. The calculated values are very sensitive to small movements in the rates – 0.5% of a movement in the real discount rate is estimated to add 11% to the liabilities of the scheme.
10. Information provided from our actuaries to meet year-end accounting and disclosure requirements includes a projection of pension cost items for the following year. The report on the projection for 2021/22 was available in May 2021 well after the submission of our budget proposals for 2021/22. This means it is very difficult to predict the impact of pension accounting adjustments as part of the annual budgeting process.
11. Pension accounting adjustments required in respect of IAS 19 can generate favourable and unfavourable variances. The accounting adjustments are notional and do not generate cash movements.
12. In previous submissions we have advised the possibility of adverse adjustments in future and the consequent need to request additional budget cover through the AME process to balance our accounts. In 2020/21 the scheme actuary's initial estimate was £3 million more than the pension charge assumed in the budget for the year. With the agreement of the SCPA and the Scottish Government's Finance Directorate additional cover of £3 million was provided in the SBR 2020/21 through the AME arrangement to ensure sufficient budget was available to cover the in-year pension cost.
13. For 2021/22 we anticipate that the IAS 19 pension adjustment will again be adverse and will require an additional charge over and above the budget provision held for the contributions we will make for the year. Based on the Actuary's report presented in May 2021 the estimated pension service cost for 2021/22 is £6 million higher than the available budget.
14. The increased charge is driven by the continuing impact of low net discount rates used to value pension liabilities which increase future pension liability forecasts and in turn the estimates for in year pension service costs – this rate decreased to -0.85% at March 2021 compared to a rate of 0.4% at March 2020.
15. It is essential that Audit Scotland has sufficient budget cover to meet the unpredictable non-cash expenditure arising from the IAS 19 pension adjustments required under the FReM. Audit Scotland is unable to carry forward reserves and any significant shortfall has the potential to leave us in the unacceptable position of a final outturn deficit.
16. The expectation of continuing low interest rates in the next few years will lead to large accounting adjustments in 2022/23 and beyond. In such circumstances further requests for budget revisions to meet additional pension charge adjustments will be required in the future.

Conclusion

17. The Spring Budget Revision - IAS 19 Pension Costs proposals presented in this paper will:
- provide non-cash AME funding of £6 million to allow Audit Scotland to meet increased non-cash pension charges that will occur in 2021/22.

Budget Proposal

2022/23



Prepared for the Scottish Commission for Public Audit

December 2021

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

Contents

Introduction	4
Key messages	5
Context	7
2022/23 uncertainties	7
Covid-19 update.....	7
Our work 2022/23.....	8
Budget Projections 2022/23 to 2024/25	10
Appendix 1 - Net Expenditure Statement and expenditure trends.....	18
Appendix 2 - 2022/23 Budget sector cost analysis	19
Appendix 3 - Funding and Fees.....	20

Introduction

1. Audit Scotland is a statutory body established under the Public Finance and Accountability (Scotland) Act 2000. It is Scotland's national public sector audit agency which provides the Auditor General and the Accounts Commission with the services they need to carry out their duties. Audit Scotland carry out annual external audits of public bodies and programmes of performance and Best Value audits across the Scottish public sector. We audit around 220 public bodies.
2. Audit Scotland's vision is to be a world class public sector audit organisation that improves the use of public money. To achieve this vision, meet relevant professional standards and retain the independence of audit it is important that appropriate resources are available for our work and that we deliver value for money.
3. In 2022/23 this budget proposal will enable us to continue to recover from the impact of the global pandemic and deliver our ongoing commitment to audit further financial devolution.
4. The budget proposal includes information on the budgeted costs for each audit sector for 2022/23. We have provided updated projections of resource requirements for two further years to 2024/25.
5. This paper is presented in two parts.
 - Context
 - Budget projections 2022/23 to 2024/25

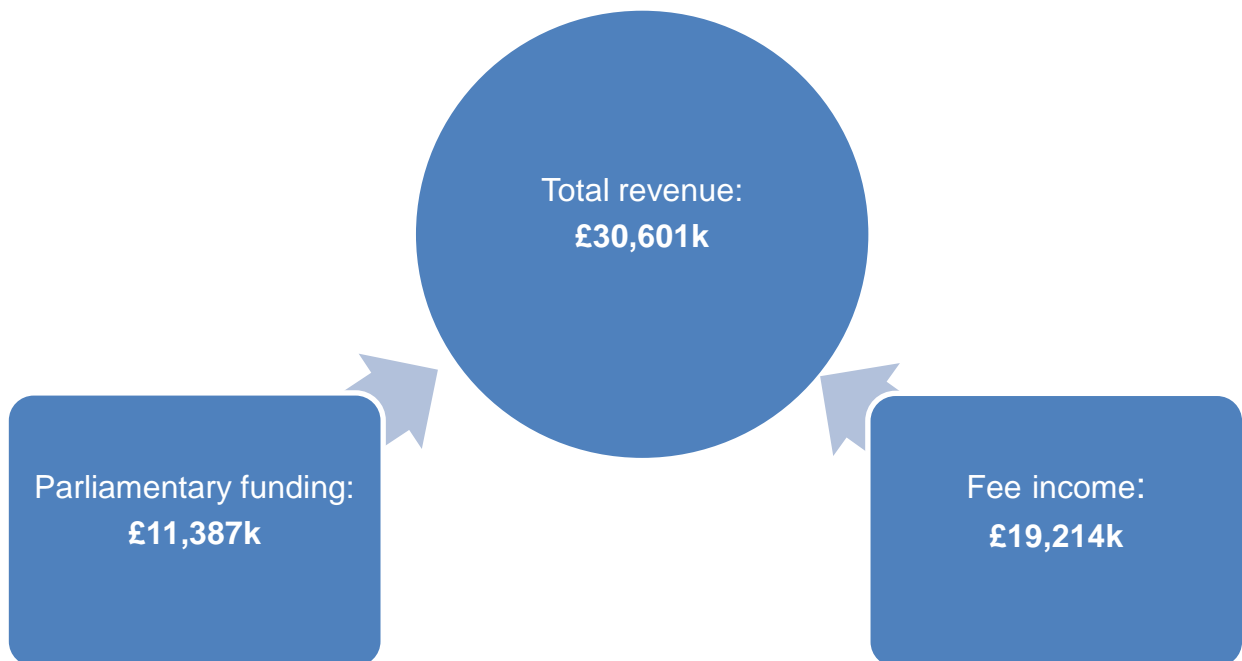
Appendix 1 - Net Expenditure Statement expenditure trends

Appendix 2 - Sector cost analysis

Appendix 3 - Funding and Fees

Key messages

2022/23 Budget Proposal



6. The public sector in Scotland continues to face significant challenges and we have seen substantial increases in public spending to meet some of these challenges. It is essential that Audit Scotland continues to support the Auditor General for Scotland and the Accounts Commission to provide independent assurance to the people of Scotland, through high-quality public audit, that public money is spent properly.
7. Our 2022/23 budget proposal continues to reflect the ongoing uncertain and volatile world that we and the bodies we audit are operating in and we expect this to continue for several years to come. It will provide high-quality audit and ensure the delivery of a programme of work that will support effective parliamentary scrutiny.
8. Our proposal will deliver:
 - Assurance over the significant increase in public money being spent in Scotland
 - Audit of more than 220 public bodies
 - Recovery from the disruption to audit work
 - Continuation of independent evidence-based public reporting on how well public money is being used to rebuild the economy, repair the damage to communities, address inequalities and create a fairer, more just society, and how well public bodies demonstrate good governance, transparency, financial management, fraud prevention and long-term planning

-
- Develop a more flexible and agile way of working through enhancement to our digital and professional support capacity to ensure our audit reporting is keeping pace with the changes in public finances and services and in technological developments
9. Our 2022/23 expenditure budget proposal totals £30,601k; this is 0.05% of the proposed £56 billion expenditure budget we will audit.
 10. Total Parliamentary funding requested is £11,637k, an increase of £573k from 2021/22. This includes revenue funding of £11,387k and capital funding of £250k.
 11. The £573k is a net increase arising from:
 - national fraud initiative, £220k
 - additional audit responsibilities arising from financial devolution to Scotland, £133k
 - increase in non-chargeable audit fees (new bodies and fee uplift), £220k

Context

2022/23 uncertainties

12. The budget for 2022/23 has been prepared in the context of significant uncertainties, which include:
 - the resources required to deliver public audit in Scotland to enable a full recovery from the pandemic and development of a future operating model
 - timing of budget statements from the UK and Scottish Governments
 - impact of public sector pay policy
 - outcome of firms' procurement exercise
 - timing of the implementation of the remaining financial aspects of the Scotland Act 2016
 - the cost of goods/services now that the UK has left the European Union
 - financial assumptions used to estimate International Accounting Standard 19 (IAS 19) defined benefit pension costs.

Covid-19 update

13. From the start of the pandemic the priority has been the health, safety, and wellbeing of our colleagues. This continues to be a primary objective as we support colleagues who are currently dispersed, working from home and managing the difficult challenges between work and home responsibilities. The support provided has been varied, including regular communications and engagement, advice and guidance, access to systems and the provision of digital and office equipment.
14. The Audit Scotland Board has been updated constantly on the position and recently an internal audit report was considered by the Audit Committee on our response to 'Covid 19 - health, safety and wellbeing'. This audit reported substantial assurance for both the design and operational effectiveness of our arrangements.
15. In the current financial year, we have been able to resume all audit activities in consultation with the Auditor General for Scotland and the Accounts Commission. The pandemic has caused disruption in audited bodies as well as Audit Scotland and as we look to continue to recover from the situation, we have emphasised the fact that timescales may change, but audit quality will not be compromised and is one of our key priorities
16. Substantial planning has taken place in respect of office access and accommodation and this remains under constant review as we update risk assessments, engage with external health and safety advisers, PCS union representatives and update guidance for colleagues.

Our work 2022/23

17. This budget proposal focuses on the delivery of audits for over 220 public sector organisations including the Scottish Government and its public bodies, NHS boards, police and fire services, councils, integration joint boards and colleges. These organisations will spend more than £55 billion of public money in 2021/22.
18. Recovery from the disruption to audit work continues while the focus remains on our key priorities of health, safety and wellbeing of colleagues and quality of audit. There will be a revised start to 2021/22 audit planning due to the ongoing extensions applied to 2019/20 and 2020/21 audits which will impact on resource availability in 2022/23 to meet audit sign-off deadlines.
19. The budget proposal enables us to provide continued support to the Scottish Parliament to scrutinise the use of public money. This includes the financial response to Covid-19, the ongoing additional audit requirements arising from further devolution of powers such as social security and income tax, the increased complexity of the Scottish budget, and the creation of new public bodies.
20. In consultation with the Auditor General for Scotland and the Accounts Commission our future work programme has taken a more dynamic and flexible approach. The programme is based on the following interconnected themes:
 - Economic recovery and growth - how public money is being used to support economic recovery and the renewal of public services
 - Inequalities and human rights - how Covid-19 is impacting on different groups in society, focusing on the risk of deepening existing inequalities. Helping ensure public bodies address inequalities and protect human rights, recognising the multiple ways people experience disadvantage and poorer outcomes
 - Governance and accountability - how public bodies are ensuring proper and effective use of the public money across the public sector and within individual bodies
 - Innovation and transformation - how public bodies are learning through continuous improvement, innovation and by transforming public services
 - Policy priorities and commitments - progress on key policy commitments. Public services' ability to deliver on long-term strategic priorities and outcomes.
21. NHS and local government overview reporting continues with all overview reports including a Covid-19 focus.
22. The extension to audit appointments to September 2022 enables us to complete the agreed Best Value assurance programme for all councils within this audit appointment cycle.
23. The programme also provides for statutory reports on significant issues arising from the annual audits to be brought to the Parliament by the Auditor General for Scotland or to the Accounts Commission for Scotland from the Controller of Audit.

-
24. High quality audit work is a priority for us and continues to be the focus of our Audit Quality Framework. Our ongoing investment in Audit Quality and Appointments (AQA) allows us to assure the Auditor General, the Accounts Commission and the Scottish Parliament of the quality of work provided by auditors and to promote continuous improvement. AQA carries out a broad programme of work under our Audit Quality Framework, including commissioning independent reviews by the Institute of Chartered Accountants Scotland (ICAS) and surveys of audited bodies.

Financial devolution and constitutional change

25. Our budgets from 2017/18 to 2021/22 have included planned increases to meet the phased transfer of financial powers to the Scottish Parliament. The 2022/23 budget includes the phased increase of £133k to fund people costs (estimated at 1.5 w.t.e. staff), which is within the range previously presented to the Commission.
26. The additional resources will allow us to continue to respond effectively to the growing demands of financial devolution and to respond to the emerging impacts of EU withdrawal on the Scottish public sector and the resulting growth in our work.

Value for money

27. Our 2022/23 expenditure budget proposal totals £30,601k; this is 0.05% of the proposed £56 billion total expenditure budget that will require audit.
28. Most of our expenditure is on staff costs (70%), with the balance split between payments to external firms for undertaking audit work (15%) and administration costs (15%).
29. This proposal results in 63% funding from audit fees for audited bodies, with the 37% balance funded through the Scottish Consolidated Fund.
30. Since 2014/15 we have delivered significant cumulative savings and efficiencies of £8.1 million. These include savings in audit firm contract costs, property rationalisation, travel and subsistence, energy efficiency and benefits arising from new ways of working.
31. Legislation requires us to broadly break even each year and does not allow us to hold reserves. The recurring and non-recurring savings have reduced our funding requirement from the Scottish Consolidated Fund and enabled us to deliver real terms reductions in the fees for audited bodies over this period.
32. The 2022/23 budget proposal includes identified savings in staff turnover, travel and subsistence, firms' expenses and administration costs totalling £500k. The budget aims to absorb as much of the cost increases arising from pay settlements, general inflation, and other unplanned financial pressures as possible. We achieve this through medium term financial planning, reviewing audit approaches, continuous review of staffing levels/skills mix and the use of technology.

Budget Projections 2022/23 to 2024/25

33. Table 1 summarises Audit Scotland's budget projections for the period 2022/23 to 2024/25 based on the budget assumptions detailed on pages 11 to 13.

Table 1 – Budget Projections for 2022/23 to 2024/25

	Approved Budget	Proposed Budget	Projection	
	2021/22	2022/23	2023/24	2024/25
	£000	£000	£000	£000
Expenditure				
People costs	20,852	21,274	21,593	21,917
Other administrative costs	8,699	9,327	9,088	9,354
Gross administrative costs	29,551	30,601	30,681	31,271
Total Income	(18,737)	(19,214)	(19,447)	(19,717)
Net Expenditure Requirement	10,814	11,387	11,234	11,554
Capital	250	250	150	150
Total Resource Requirement	11,064	11,637	11,384	11,704
Staff Projections (w.t.e.)	297.2	330.3	330.8	330.8

Note – assumes continuation of same level of discount received in respect of the external firm's contracts.

New contracts will commence from 2022/23 audit year.

34. The Total Resource Requirement proposal for 2022/23 seeking approval by the SCPA is £11,637k. This represents an overall cash increase of £573k, 5.2% on the approved budget for 2021/22.
35. Full details of the budget movements are provided on pages 13 to 16 of this proposal.

Principal budget assumptions - 2022/23 to 2024/25

36. The principal assumptions underlying the budget proposal for 2022/23 and our cost projections for the two following years are set out below.

2021/22 Budget

37. Our Spring Budget Revision requests additional Annually Managed Expenditure (AME) funding of £6,000k to cover non-cash pension cost adjustments.
38. If approved these adjustments would increase the revised Total Expenditure Limit from £11,064k to £17,064k.
39. The 2022/23 budget proposals have been prepared on the assumption that non-cash pension costs adjustments will continue to be funded through the Spring Budget revision process.

Management contingency

40. The 2021/22 budget included a management contingency of £2,400k with £400k earmarked for the cost of living pay award on 1 April 2021 and £1,500k required to address new challenges. The remaining balance of £500k provided some reassurance that any unplanned financial challenges arising in the year could be met without the need for an in-year budget revision.
41. The budget proposal for 2022/23 incorporates the investment in capacity and improvement to address new challenges, which enables us to focus delivery of the following key objectives:
- Assurance over the significant new sums of public money being spent in Scotland.
 - Continued recovery from the disruption to audit work in 2020 and 2021.
 - Independent evidence-based public reporting on how well public money is being used to rebuild the economy, repair the damage to communities, address inequalities and create a fairer more just society, and how well public bodies demonstrate good governance, transparency, financial management, fraud prevention and long-term planning.
 - Comprehensive tracking of Covid-19 support spending across the public sector to provide a coordinated 'follow the pandemic pound' approach and form a view on the effectiveness of the overall system of Covid-19 financial support.
 - Investment in more flexible and agile ways of working and enhancement to our digital and professional support capacity to ensure our audit reporting is keeping pace with changes in public finances and services and in technological developments.
 - Ensure we can attract and retain the highest quality of candidates and build skills and expertise we need to develop public audit.
 - Greater strategic capacity to enable us to respond to the rapidly changing environment, and for public audit to be a clear voice for good governance and improvement as we move towards recovery and renewal.

-
42. In addition to the £1,500k to meet the long-term commitments listed above we also require a management contingency fund of £500k to enable us to meet any unplanned financial risks that may arise during the financial year.

Pay and pensions

43. Our current pay agreement ends on 31 March 2022. Audit Scotland negotiates pay awards annually and actual awards will be determined as part of this process. Factors to consider include consistency with the principles of the public sector pay policy in Scotland and the ability to have some flexibility to meet market conditions to ensure operational effectiveness. The 2022/23 budget proposal includes an inflationary provision to pay scales for all staff and incremental pay progression for staff not at the top of their pay scale. Discussions will commence with staff representatives in early 2022 following agreement of a negotiating remit by Audit Scotland.
44. For planning purposes only, we have assumed the same arrangements for 2023/24 and 2024/25.
45. The majority of Audit Scotland's staff are members of the Local Government Pension Scheme with the 2022/23 budget based on a rate of 19.4% for employer contributions. This contribution rate is fixed until 31 March 2024 and will be reviewed by the scheme actuary as part of the next triennial valuation exercise.
46. As communicated in the UK Government's budget announcement, employer national insurance contributions have been increased from 13.8% to 15.05% on earnings over the lower threshold limit.

Appointed auditors (firms)

47. Payments to appointed auditors (firms) for 2021/22 audits increase in line with the remuneration increases applied to our own staff in April 2021. For 2022/23 and 2023/24 audits we have assumed that auditor remuneration increases will be similar to prior year levels.
48. Due to the Covid-19 pandemic the option to extend the audit appointments contract by one year was exercised. This means that the last audit year for the current contract is now 2021/22 with these audits being completed in the 2022/23 financial year. This decision has provided some certainty and continuity for public bodies and auditors.
49. All the evidence obtained from private sector and English public sector audit indicates that the price reductions secured in the last two appointment rounds are unlikely to be sustained and audit fees may have to increase. Since the last appointment process there have been a number of reviews of the external audit market and also increased regulation that could influence the risk appetite of firms. For the purpose of this budget proposal the assumption is that the future cost of audit undertaken by firms will continue at current levels as it is not possible to accurately estimate the market conditions that will affect the outcome of the competitive tender exercise. The full impact of the competition will be known in our 2023/24 budget proposal.

-
50. We have developed different planning scenarios in anticipation of various outcomes and expect the result of the procurement exercise to be known in early 2022.

Quality

51. The Audit Quality Framework 2019, [Audit Quality Framework](#), provides assurance that work is of high standard, meeting international audit standards and the requirements of the Auditor General and the Accounts Commission as set out in the Code of audit practice. Our 2022/23 budget proposal and projections for 2023/24 and 2024/25 maintain investment of £250k to support audit quality inspection and reporting. The 2020/21 audit quality report can be found at [Quality of public audit in Scotland annual report 2020/21](#).

Property

52. Our budget proposals for 2022/23 and our projections for 2023/24 and 2024/25 assume continued occupation of our three offices in Edinburgh, Glasgow, and Inverness on existing long-term leases. There is no break clause available in the leases for our offices in Edinburgh and Glasgow. Inflationary increases have been applied to service charges, business rates and utilities. As part of our strategic improvement programme, we are undertaking a long-term property review that aligns with our future operating model and contributes to our future commitment for net zero carbon emissions.

Training and organisational development

53. We remain committed to our professional trainee scheme for both graduates and school-leavers. Our intake for 2021 has been uninterrupted with new start inductions entirely on-line as new recruits are equipped to work safely and effectively from home.
54. For 2022/23 the need to support colleagues in new ways of working continues through a wide array of learning and development. This includes the development of IT skills and applications within dispersed teams and remote auditing from audit locations together with a broader suite of knowledge development as we continue to understand the full impact of Covid-19 upon public sector organisations, service delivery and public finances.
55. In 2022/23 we propose to increase the budget by £40k to support our commitment to diversity & inclusion - race, gender, sexual orientation, disability, and social mobility for young people. Our work in this area will influence every aspect of the employee experience with Audit Scotland from our recruitment attraction strategy, the employee experiences (including those from minority backgrounds), culture and wellbeing.
56. The budget allocation is based on our rolling Learning & Development plan, which is updated each year in collaboration with colleagues and PCS trade union partners to align with our corporate plan and changing external audit landscape.
57. While training delivery methods are changing, our future programme will continue to ensure that our people have the support and development needed to meet the challenges in the short, medium, and long-term so that we continue to deliver relevant, timely and high-quality

public audit for Scotland. Our investment in learning & development is an important element of our total reward offer to new and existing professionals working with Audit Scotland.

Proposed 2022/23 Net Revenue Expenditure

58. An analysis of 2022/23 net expenditure by category is attached in Appendix 1, it also provides information on actual net expenditure in 2019/20 and 2020/21, and the approved budget for 2021/22.
59. Net revenue expenditure increases in cash terms by £573k from 2021/22.
60. Excluding the specific budget adjustments for financial devolution and the national fraud initiative, the cash increase is £220k, an increase of 2%.
61. Table 2 provides an analysis of the movement from the approved net expenditure budget in 2021/22 to the proposed 2022/23 net expenditure resource requirement.

Table 2 - Movement of net approved expenditure to proposed resource requirement

	£k	£k
2021/22 Net Approved Expenditure		10,814
Analysis of budget change		
Provision for April 2022 pay award	+684	
Management contingency transfer to admin	-500	
New Financial Powers	+133	
Employer National Insurance increase	+165	
Agency staff	-60	
	<hr/>	
Increase in People Costs		+422
Management contingency	+500	
National Fraud Initiative	+220	
Travel & Subsistence	-168	
Depreciation	+61	
Training	+40	
Information Technology	+30	
Other administration	-21	
Approved Auditors	-34	
	<hr/>	
Other administrative costs decrease		+628
Fee income increase		-477

People Costs

62. People costs represent 70% of our expenditure budget proposals and our 2022/23 budget requirement is £422k higher in cash terms than the approved 2021/22 budget. Removal of the management contingency transfer (£500k) highlights an increase in people costs of £922k.
63. The main drivers of the increase are staffing for further financial devolution, a potential pay award settlement in April 2022 and an increase to employer national insurance contributions.
64. Our 2021/22 budget proposal included increased funding with the commitment to deliver:
- Continued recovery from the disruption to audit work
 - Investment in flexible and agile ways of working and enhancement to our digital and professional support capacity
 - Additional recruitment to ensure we attract and retain high quality candidates
 - Increase in strategic capacity to respond to a rapidly changing environment.

We have been investing in our capacity and improvement to ensure we can deliver on these long-term recurring commitments. During financial year 2021/22 we have been building capacity to ensure we have the people in place to deliver the audit work and implement strategic improvement objectives.

65. The investment in capacity has led to a 2022/23 budget proposal establishment of 330.3 w.t.e compared to the 2021/22 budgeted establishment figure of 297.2 w.t.e. The 2021/22 budget submission did highlight that increases would be likely in year as we looked to invest in capacity during the year. It is expected that this establishment figure will increase further as we continue to identify key areas requiring further investment (e.g. Audit Quality, Professional Support).
66. The budget proposal also includes the next staged increase in resourcing requirement to meet further demands of financial devolution (1.5 w.t.e.).

Other administrative costs

67. Other administrative costs are £628k higher in the proposed 2022/23 budget compared to the approved 2021/22 budget.
68. The main changes relate to the transfer of £500k management contingency from people costs and the increase of £220k in respect of the biennial National Fraud Initiative (NFI). The £34k reduction in fees and expenses payments to external firms is due to a reduction in expenses.
69. The balancing movement is a budget reduction of £58k, which relates to a number of increases and decreases across several budget headings.
70. The main areas of movement include:

- further travel and subsistence savings through remote audit (£168k)
- information technology increase to ensure secure remote working (£30k)
- training increase to support diversity and inclusion (£40k)
- non-cash increase for depreciation (£61k).

Income

71. Audit Scotland is funded by fees and the Scottish Consolidated Fund (SCF), approved by Parliament. Money voted by Parliament funds the annual audits that under legislation we cannot charge for, together with performance audit work within the Auditor General's remit.
72. The increase to the proposed fees budget for 2021/22 is 2%. The reduction in the EAFA audit has been partially compensated by commencement of new bodies requiring audit.
73. The increase in SCF funding is due to the proposed further financial devolution resource, national fraud initiative exercise, inflationary increases to non-chargeable fees and other direct allocations.
74. Income from fees to audited bodies by financial year is provided in Table 3:

Table 3 – Income from fees to audited bodies

	Actual 2019/20 £000	Actual 2020/21 £000	Budget 2021/22 £000	Proposed Budget 2022/23 £000
Local authorities	12,078	11,559	12,217	12,577
NHS bodies	2,850	2,773	3,005	3,110
Further education colleges	633	597	577	611
Scottish Government depts. and sponsored bodies	3,036	2,902	2,938	2,916
Total income from charges to audited bodies	18,597	17,831	18,737	19,214
% cash increase in fees from approved 2022/23 budget				2.5%

75. Appendix 2 provides an analysis of the 2022/23 budget by sector and funding source.

Capital

76. The proposed capital budget for 2022/23 of £250k will support our long-term digital strategy and enable us to complete property enhancements to meet current health and safety guidelines. Details of the 2022/23 capital requirements are provided below:

	£000
IT Hardware	125
Software	25
Digital strategy and office configuration	100
TOTAL	250

SCPA approved funding

77. Revenue support from the Scottish Consolidated Fund provides funding for:

- non-chargeable Central Government audits
- performance audits
- the Auditor General
- the Accounts Commission
- a proportion of Audit Scotland senior management
- National fraud initiative and management contingency
- Auditing related to increased financial devolution, fiscal framework, and social security
- Assuring the quality of public audit in Scotland.

Appendix 1 - Net Expenditure Statement expenditure trends

	Actual		Approved		Proposed	
	2019-20	2020-21	2021-22 Budget	2022-23 Budget	2022-23 Budget	2022-23 Budget
	£k	£k	£k	£k	£k	£k
People Costs						
Salaries and temporary staff	13,178	13,854	16,146	16,016	16,016	16,016
Employers on costs	3,852	4,162	4,415	4,993	4,993	4,993
Pension adjustments	4,871	2,297	126	100	100	100
	21,901	20,313	20,687	21,109	21,109	21,109
Accounts Commission members	171	151	165	165	165	165
Total people costs	22,072	20,464	20,852	21,274	21,274	21,274
Fees and expenses paid to external firms	4,549	5,237	4,554	4,520	4,520	4,520
Other operating expenditure						
Rent & Rates	507	730	535	527	527	527
Other accommodation Costs	436	377	449	434	434	434
Travel & Subsistence	823	364	707	539	539	539
Legal & Professional Fees	623	683	590	840	840	840
Stationery & printing	127	60	129	109	109	109
Training & organisational development	457	356	483	502	502	502
Staff recruitment	114	164	138	138	138	138
Communications (telephone, postage)	49	41	41	40	40	40
Insurance	75	78	84	85	85	85
Information technology	501	566	496	526	526	526
Internal Audit	31	28	30	30	30	30
External Audit - financial statements	29	31	30	30	30	30
Other	137	111	154	667	667	667
Depreciation	356	333	279	340	340	340
Total other operating expenditure	4,265	3,922	4,145	4,807	4,807	4,807
TOTAL OPERATING EXPENDITURE	30,886	29,623	29,551	30,601	30,601	30,601
Corporation Tax payable	1	0	0	0	0	0
Income						
Fees and charges payable	18,597	17,831	18,737	19,214	19,214	19,214
Bank Interest	5	1	0	0	0	0
Miscellaneous income	30	1	0	0	0	0
Other finance income - pensions related	-924	-768	0	0	0	0
TOTAL	17,708	17,065	18,737	19,214	19,214	19,214
NET EXPENDITURE AFTER TAX	13,179	12,558	10,814	11,387	11,387	11,387

Appendix 2 - 2022/23 Budget sector cost analysis

Expenditure budget	Fees					SCPA Parliament £k	TOTAL £k
	Local Authorities £k	NHS Bodies £k	Further Education £k	Central Government £k	Total Fees £k		
Auditor General for Scotland	0	0	0	0	0	242	242
Accounts Commission	0	0	0	0	0	177	177
Governance	109	22	1	28	160	500	660
Audit Quality incl. NFI	313	100	20	88	521	308	829
External Audit firms	2,236	930	489	579	4,234	286	4,520
Audit Services	5,144	1,585	77	1,636	8,442	3,215	11,657
Performance and Best Value audit	2,188	0	0	0	2,188	2,188	4,376
Corporate Services and overheads	2,587	473	24	585	3,669	4,471	8,140
Total budgeted expenditure	12,577	3,110	611	2,916	19,214	11,387	30,601
Fee income	12,577	3,110	611	2,916	19,214	0	19,214
Support from Parliament	0	0	0	0	0	11,387	11,387
Total Income	12,577	3,110	611	2,916	19,214	11,387	30,601

Appendix 3 – Funding and Fees

The principles of the funding and fee setting arrangements to support Audit Scotland to provide high quality independent public audit in Scotland are available in the report [Our approach to setting audit fees](#).

Audit fees for 2021/22 audits

Fee levels

All sectors will see an overall fee increase of 2% for 2021/22 audits which is based on achieving a break-even position for the 2022/23 financial year in all sectors.

Fee movements

Within sectors there is a range of decreases and increases which reflect the actual costs of undertaking each audit and the consequences of implementing simpler and more transparent apportionment of pooled costs across and within sectors. The sector fee increases are summarised below:

- Local government - council increases will range from 1.8% to 2.2% and other local government bodies will see fees increase by an average of 2.6%.
- NHS - except for one body that requires an increase to reflect increased audit resource, costs for all other NHS bodies will increase by 2%.
- Central government chargeable bodies will increase in the range 1.7% to 2.5%.
- Further education - college fees will increase in the range 2% to 2.1%.

Future years

For 2022/23 and 2023/24 audits our objective will be to continue to deliver high-quality audit while keeping fee increases across all sectors to the minimum levels required to deliver a break-even position for each sector.

We anticipate that the complex and volatile environment that we are working in will continue for the long term and this will be a major factor in future years audit fees. The impact of this will need to be reflected in the audited body fee to ensure that it is a fair representation of the cost of audit and that it enables us to meet our obligation to break-even each year.

In addition to this uncertainty, we are also in the middle of a competitive tender process where firms bid to undertake a share of public sector audit work in Scotland. The tender exercise aims to appoint successful bidders to commence audit work with effect from the 2022/23 audit year. The outcome of this tender exercise will need to be factored into the overall future cost of audit and the potential impact this could have on the setting of future audited body fees.

Hourly rates

Hourly rates are calculated for each grade of staff. The rates are based on the average direct costs of the role (such as salaries, national insurance, and pension contributions) and indirect costs (such as property costs, and corporate support costs including IT, finance, and human resources).

For the 2021/22 financial year the hourly rates used to cost audit work are:

	2020/21	2021/22
Trainees	£45	£48
Business support specialist	£20	£20
Audit/support officer	£41	£38
Auditor	£45	£45
Senior auditor	£66	£67
Manager	£76	£78
Senior manager	£96	£98
Audit Directors	£159	£162

The rates for the 2022/23 financial year will be calculated once the budget has been finalised.

Date: 08 December 2021

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

Dear Chair

We write to update you on Audit Scotland's use of the additional resources that the Scottish Commission for Public Audit approved earlier this year in order to support us in strengthening public audit to address the significant challenges that Scotland's public sector faces.

In approving those resources, you requested that we update you quarterly on our expenditure of the additional funding. We wrote to you on 25 August 2021 and this letter provides our second update for the commission.

Audit Scotland Budget 2021/22

As you are aware the 2021/22 budget proposal included a request for an additional £2,199k in funding compared with 2020/21. This was to ensure that Audit Scotland was in a position to continue to deliver core audit services, expand and enhance the range of audit products, support transparency and scrutiny and to provide assurance on the significant additional new sums of money being spent in Scotland.

The budget proposal stated:

'Our 2021/22 budget proposal reflects the increasingly uncertain and volatile world that we and the bodies we audit are now operating in and that we anticipate will continue for several years to come. It will enable us to expand audit coverage and invest in flexibility, skills and capacity so that we can maintain and improve our high-quality audit and deliver a programme of work that will support effective parliamentary scrutiny'.

The proposal also stated:

'We will initially hold the increase in our management contingency, allocating it transparently as we invest in skills and capacity throughout the year. This increase from £300k to £2,400k will enable us effectively to develop and implement a sustainable future operating model for public sector audit in Scotland to address new challenges, meet stakeholder expectations within existing financial rules while considering the longer term implications for the funding and fees model'.

Supporting scrutiny of the public sector's response to Covid-19

The budget proposal included commitments to deliver:

- Assurance over the significant new sums of public money being spent in Scotland.

- Independent evidence-based public reporting on how well public money is being used to rebuild the economy, repair the damage to communities, address inequalities and create a fairer more just society, and how well public bodies demonstrate good governance, transparency, financial management, fraud prevention and long-term planning.
- Comprehensive tracking of Covid-19 support spending across the public sector to provide a coordinated 'follow the pandemic pound' approach and form a view on the effectiveness of the overall system of Covid-19 financial support.

It is clear that the Covid-19 pandemic remains the most significant risk facing the public sector in Scotland and this is reflected across a broad range of our audit work. Since we wrote to you in August the Auditor General for Scotland/Accounts Commission/Audit Scotland have published a number of reports and briefings which seek to provide information, insight and assurance on how Scotland's public bodies have responded to the pandemic. This is indicative of how we are looking to ensure the audit work adds value. Since the last update we have issued reports and briefings on:

- A blog on [Child and Adolescent Mental Health Services](#) (31 August).
- An update on the [strategic risks and issues facing the public sector](#) (2 September).
- A briefing on '[Tracking the impact of Covid-19 on Scotland's public finances](#)' (15 September).
- A [briefing on the vaccination programme](#) (30 September).
- A thematic study report on the [Impact of Covid-19 on Scottish councils' benefits services](#) (7 October).
- [The 2020/21 audit of NHS National Services Scotland: Response to the Covid-19 pandemic](#) (12 October).
- An update report on [Covid-19 and community empowerment](#) (28 October).

With Audit Scotland colleagues the Auditor General has attended parliamentary committees to provide evidence on several reports, a number of which consider/ reference Covid-19. This has included sessions on colleges, educational outcomes, children's and adolescent's mental health and sustainable alternatives to custody, the vaccination programme, NHS National Services Scotland and on PPE.

In conjunction with the Accounts Commission we review the [dynamic audit work programme](#) on a quarterly basis to ensure that it remains focussed, relevant and flexible.

In addition to work focussed on the pandemic, other recent publications include; [Auditing Climate Change](#) and the publication of our own [Environment, sustainability and diversity plan 2021-2025](#), our route to net zero.

Among the publications we will publish in coming weeks and months are: reports on skills investment and the sustainability of social care, the annual overview report on the NHS in Scotland, a financial overview report on IJBs and a briefing on social care.

We will also publish statutory reports on any matters of public interest which arise from our annual audit of public bodies where appropriate.

Investing in capacity and improvement

Our budget proposal also set our commitment to deliver:

- Continued recovery from the disruption to audit work in 2020.
- Investment in more flexible and agile ways of working and enhancement to our digital and professional support capacity to ensure our audit reporting is keeping pace with the changes in public finances and services and in technological developments.
- Additional recruitment to ensure we are able to attract and retain the highest quality of candidates and build the skills and expertise we need to develop public audit.
- Greater strategic capacity to enable us to respond to the rapidly changing environment, and for public audit to be a clear voice for good governance and improvement as we move towards recovery and renewal.

We have been investing in our capacity and improvement to ensure that we are in a position to deliver on these commitments. In the year to date this has been in two main areas:

- Building our capacity - to ensure we have the people in place to deliver the audit work and our strategic improvement programme.
- Investing in technology - to support business efficiency and flexibility.

In our letter in August we advised that over the period of May to July we appointed additional auditors and support service staff, committing £1,299k of the £1,500k additional funding. Having initially prioritised additional audit capacity we have more recently turned attention to ensuring that we have the appropriate specialist and support service capacity in place.

We are currently recruiting to a number of roles with a focus on audit quality, communications, digital audit, digital services and business support. We can confirm that the additional funding is now fully committed on an annualised basis.

The phasing of the in-year building capacity recruitment programme has led to a surplus available for non-recurring expenditure. We plan to use this surplus to secure time limited external support to support the delivery of our strategic improvement programme. This is in a range of areas including, change management, project management, systems procurement and office design. The 2021/22 financial commitment from the additional funding from the SCPA to date in these areas is currently £107k.

In addition to the increased revenue funding our capital budget was increased from £150k to £250k. As mentioned in our previous correspondence this additional capital funding has enabled us to procure an integrated business management system to replace old independent legacy systems.

We hope the information above is helpful and we will continue to provide further updates each quarter as agreed.

Yours sincerely

Stephen Boyle, Auditor General for Scotland and Accountable Officer
Professor Alan Alexander, Chair of Audit Scotland