

# **SCOTTISH COMMISSION FOR PUBLIC AUDIT**

**2nd Meeting, 2022 (Session 6), Wednesday  
14 December 2022**

## **Audit Scotland Budget Proposal 2023/24**

1. Audit Scotland has submitted its Budget Proposal for 2023/24 for the consideration of the Scottish Commission for Public Audit. A copy of the Budget Proposal for 2023/24 and a covering letter from the Auditor General for Scotland, as Accountable Officer, can be found in the **Annexe**.
2. **The Commission is invited to consider Audit Scotland's Budget Proposal 2023/24 and report its views to Parliament.**

**Secretary to the Scottish Commission for Public Audit  
9 December 2022**

2 December 2022

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 2022/23 Spring Budget Revision proposal and our 2023/24 budget proposal which are due for consideration by the SCPA at its meeting on 14 December 2022.

### 2022/23

Following constructive negotiations with staff representatives and taking on board the escalating cost of living pressures we managed to agree a 2022/23 pay award settlement with colleagues, however, the final settlement was significantly higher than originally budgeted. I can advise the Commission that we will not be seeking additional in-year funding to meet this unbudgeted expenditure as we have managed to identify sufficient in-year savings and efficiencies to meet this financial pressure. The recurring impact of the award has been incorporated within future budgets.

### 2023/24

Our 2023/24 budget proposal has been prepared in an extremely uncertain and volatile operating environment, which we expect to continue for several years. Like all public sector bodies, the current economic situation will give us significant financial challenges next year and we will need to proactively manage them to enable us to deliver on our statutory obligation to broadly break-even each year.

As a result of the uncertain environment there is a level of risk in the 2023/24 budget proposal. The budget document aims to be transparent around these risks and pressures but also demonstrates where Audit Scotland is looking to deliver efficiencies.

In addition to the uncertain financial environment, the audit profession as a whole is experiencing significant pressure. We are operating in a very competitive environment around staff retention and recruitment as well as increased demands on quality. The outcome of the recent external procurement exercise for firms to support our audit work reflects the current cost of delivering high-quality audit and is a fair representation of current external audit market conditions.

In this context some key points to emphasise when considering the budget are:

- The 2023/24 pay award is still to be settled, we have included an assumption in our budget but every 1% movement on the paybill equates to £220k;
- Increasing requirements around performance, digital and climate change audit;
- Additional costs of delivering audit to those bodies that we cannot charge a fee.
- The economic situation and cost/availability of goods/services.

The other increases enable us to meet our statutory obligation to provide the Accounts Commission with the resources they require to perform their duties and there is also the requirement for additional financial devolution funding.

The budget will 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

**Stephen Boyle**  
**Auditor General for Scotland**

# Spring Budget Revision 2022/23

## IAS 19 - Pension Costs

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## Introduction

1. In accordance with Scottish Government advice to meet additional unbudgeted pension charges this paper details Audit Scotland's 202/23 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 £5.2 million to meet increased non-cash pension accounting charges that will arise in 2022/23.
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 four 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 their 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

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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 – 0.1% of a movement in the real discount rate is estimated to add 2% 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 2022/23 was available in May 2022 well after the submission of our budget proposals for 2022/23. 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 2021/22 the scheme actuary's initial estimate was £6 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 £6 million was provided in the SBR 2021/22 through the AME arrangement to ensure sufficient budget was available to cover the in-year pension cost.
13. For 2022/23 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 2022 the estimated pension service cost for 2022/23 is £5.2 million higher than the available budget.
14. The 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 increased to -0.50% at March 2022 compared to a rate of -0.85% at March 2021.
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 2023/24 and beyond. In such circumstances further requests for budget revisions to meet additional pension charge adjustments will be required in the future.

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## Conclusion

17. The Spring Budget Revision - IAS 19 Pension Costs proposals presented in this paper will:
- provide non-cash AME funding of £5.2 million to allow Audit Scotland to meet increased non-cash pension charges that will occur in 2022/23.

# Budget Proposal

## 2023/24



Prepared for the Scottish Commission for Public Audit

December 2022



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.

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# 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 currently audit 226 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. The budget proposal includes information on the budgeted costs for each audit sector for 2023/24. We have provided updated projections of resource requirements for two further years to 2025/26.
4. This paper is presented in two parts.
  - Context
  - Budget projections 2023/24 to 2025/26

Appendix 1 - Net Expenditure Statement expenditure trends

Appendix 2 - Sector cost analysis

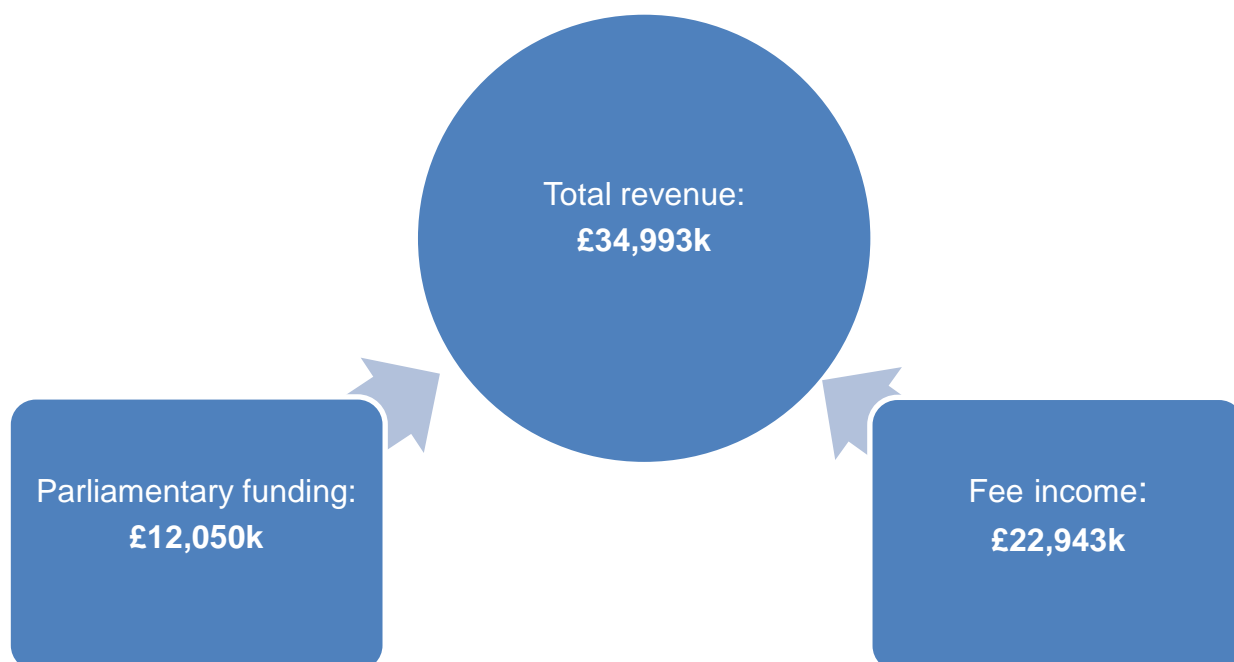
Appendix 3 - Funding and Fees

Appendix 4 - 2023/24 Planned efficiency savings

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# Key messages

## 2023/24 Budget Proposal



5. With the public sector in Scotland continuing to face significant 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.
6. Our 2023/24 budget proposal continues to reflect the ongoing uncertain and volatile world that we and the bodies we audit are operating in. The expectation is that this will continue for several years. This budget proposal is designed to enable us to deliver a sustainable, high quality public audit regime in Scotland which will enable us to respond in a flexible and innovative way to new demands and challenges facing the public sector in Scotland.
7. Our proposal will deliver:
  - Assurance over the significant amount of public money being spent in Scotland
  - Audit of 226 public bodies
  - 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

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- demonstrate good governance, transparency, financial management, fraud prevention and long-term planning in public bodies
  - Further development of flexible and agile ways of working through enhancement of 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
8. Our 2023/24 expenditure budget proposal totals £34,993k; this is 0.06% of the proposed £56.5 billion expenditure budget we will audit.
  9. Total Parliamentary funding requested is £12,200k, an increase of £563k (4.8%) from 2022/23. This includes revenue funding of £12,050k and capital funding of £150k.
  10. The £563k is a net increase arising from:
    - increase in non-chargeable audit fees (new bodies and fee uplift), £449k
    - increase in Accounts Commission support, £278k
    - increase in performance audit, £101k
    - additional audit responsibilities arising from financial devolution to Scotland, £55k
    - reduction in national fraud initiative, £220k
    - reduction in capital, £100k

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# Context

## 2023/24 uncertainties

11. The budget for 2023/24 has been prepared in the context of significant uncertainties, which include:
  - the resources required to deliver public audit in Scotland to ensure a full recovery and development of a future hybrid operating model
  - timing of budget statements from the UK and Scottish Governments
  - economic downturn and impact on inflation/interest rates
  - public sector pay policy challenges
  - future digital and climate change audit requirements
  - the cost and availability of goods/services
  - financial assumptions used to estimate International Accounting Standard 19 (IAS 19) defined benefit pension costs.

## Organisation update

12. To support our ambition to deliver world class audit and be a world class organisation Audit Scotland has initiated a Strategic Improvement Programme with the key objectives of the project being to:
  - Drive our organisational transformation and improvement
  - Provide a bridge between the 'recovery phase' and our new longer-term operating model
  - Assure and inspire colleagues
  - Ensure we deliver on our core commitments on audit (quality, focus, methodology and value added)
  - Ensure we deliver on our commitments on how we run the organisation - being people focussed by prioritising health, safety, wellbeing and development of our people, and by being innovative and efficient.
13. Progress continues to be made against a backdrop of significant change both within and outside the organisation. The effects of the Covid-19 pandemic impacts on how we work and has shaped some aspects of the improvement programme and its delivery. We have had significant change in terms of the strategic leadership of the organisation and the content of the programme reflects this as well as ensuring that the strategic priorities of the Auditor General for Scotland and Accounts Commission are incorporated.
14. Some key milestones to date include completion of new audit appointments, building capacity, business management system (HR and payroll) and digital services strategy.
15. The Audit Scotland Board receives regular updates on the progress of the project.

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## Our work 2023/24

16. This budget proposal focuses on the delivery of audits for 226 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 £56.5 billion of public money in 2022/23.
17. 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 continues to be a revised start to the audit planning process due to the ongoing extensions applied to 2021/22 audits.
18. Audit year 2022/23 will be year one of the new audit appointments and Best Value in the local government sector now forms part of the annual audit process. Additional resources from our Performance Audit and Best Value (PABV) business group will be allocated to support appointed auditors to ensure the successful delivery of this work.
19. Action has already been implemented to secure efficiency improvements in the delivery of audit work, particularly in relation to financial statements audits. Further actions are planned in 2022/23 to embed and build upon the work to date and looking into the medium term a planned reassessment of the audit approach coupled with improved systems and processes will deliver step change in efficiency.
20. 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.
21. The new dynamic and flexible approach to our future work programme continues with approval from the Auditor General for Scotland and the Accounts Commission. The programme continues to be based on the interconnected themes of:
  - 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.

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22. The annual NHS and local government overview reporting continues with all overview reports focussing on the pressures facing the bodies in these sectors.
  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 by 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) and our new Innovation and Quality team 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 external bodies and surveys of audited bodies. Further information on Innovation and Quality is available on page 14.

### **Financial devolution and constitutional change**

25. Our budgets from 2017/18 to 2022/23 have included planned increases to meet the phased transfer of financial powers to the Scottish Parliament. The 2023/24 budget increase of £55k represents the final year of the phased increase to fund people costs (estimated at 0.5 w.t.e. staff), which is within the range previously presented to the Commission.
26. The additional resources 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 and efficiency savings**

27. Our 2023/24 expenditure budget proposal totals £34,993k; this is 0.06% of the proposed £56.5 billion total expenditure budget that will require audit.
28. Most of our expenditure is on staff costs (66%), with the balance split between payments to external firms for undertaking audit work (20%) and administration costs (14%).
29. This proposal results in 66% funding from audit fees for audited bodies, with the 34% balance funded through the Scottish Consolidated Fund.
30. Legislation requires us to broadly break-even each year and does not allow us to hold reserves. Our budget process looks to identify and deliver recurring and non-recurring savings to ensure the fees charged to audited bodies and the funding required from the Scottish Consolidated Fund is sufficient to meet our break-even commitment.
31. The 2023/24 budget proposal includes identified efficiency savings in staff turnover, travel and subsistence, firms' expenses and administration costs. Specific areas of our administrative budget have no inflation applied and we have also been actively looking to absorb new demands from within existing resources, where possible. Taking all these factors into account



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the total efficiency savings amount to just over £1 million, 3% of our total expenditure budget. Further detail is provided in Appendix 4 on page 23.

32. The budget also 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 2023/24 to 2025/26

33. Table 1 summarises Audit Scotland's budget projections for the period 2023/24 to 2025/26 based on the budget assumptions detailed on pages 12 to 14.

Table 1 – Budget Projections for 2023/24 to 2025/26

	Approved Budget	Proposed Budget	Projection	
	2022/23	2023/24	2024/25	2025/26
	£000	£000	£000	£000
Expenditure				
People costs	21,274	23,068	23,518	23,981
Other administrative costs	9,327	11,925	12,292	12,020
Gross administrative costs	30,601	34,993	35,810	36,001
Total Income	(19,214)	(22,943)	(23,460)	(23,801)
<b>Net Expenditure Requirement</b>	<b>11,387</b>	<b>12,050</b>	<b>12,350</b>	<b>12,200</b>
Capital	250	150	150	150
<b>Total Resource Requirement</b>	<b>11,637</b>	<b>12,200</b>	<b>12,500</b>	<b>12,350</b>
Staff Projections (w.t.e.)	330.3	346.9	346.9	346.9

34. The Total Resource Requirement proposal for 2023/24 seeking approval by the SCPA is £12,200k. This represents an overall cash increase of £563k, 4.8% on the approved budget for 2022/23.
35. Full details of the budget movements are provided on pages 15 to 17 of this proposal.

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## Principal budget assumptions - 2023/24 to 2025/26

36. The principal assumptions underlying the budget proposal for 2023/24 and our cost projections for the two following years are set out below.

### 2022/23 Budget

37. Our Spring Budget Revision requests additional Annually Managed Expenditure (AME) funding of £5,200k to cover non-cash pension cost adjustments.
38. If approved these adjustments would increase the revised Total Expenditure Limit from £11,637k to £16,837k.
39. The 2023/24 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.

### Pay and pensions

40. The formal pay award offer for 2022/23 was agreed by staff representatives on 10 November 2022. The 2023/24 budget proposal was based on the acceptance of the offer and future staff pay budgets are based on this assumption.
41. 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 2023/24 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 2023 following agreement of a negotiating remit by Audit Scotland. This is an area of significant financial risk where every 1% movement in the paybill equates to £220k.
42. For planning purposes only, we have assumed the same arrangements for 2023/24 and 2024/25.
43. The majority of Audit Scotland's staff are members of the Local Government Pension Scheme with the 2023/24 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.
44. As communicated in the UK Government's mini-budget announcement, employer national insurance contributions have been calculated based on 13.8% on earnings over the lower threshold limit.

### Appointed auditors (firms)

45. The new audit appointments for audit year 2022/23 have been awarded and payments to firms are based on the bids they submitted as part of the tender exercise. The completion of 2022/23 audits will be delivered in the 2023/24 financial year and in accordance with the

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conditions of the contract the payments for the 2023/24 audit year work will be uplifted based on the final cost of living award paid to Audit Scotland staff effective from April 2023.

46. As previously reported the price reductions secured in the last two appointment rounds were not sustainable and as expected the cost of delivering a fully compliant high-quality audit has increased. Factors that have influenced the increase since the last appointment process include the additional scrutiny and risk evidenced in reviews of the external audit market and also increased regulation.
47. Evidence obtained from the audit market for the private sector and the recent tender undertaken by Public Sector Audit Appointments, who procure auditors for the local government sector in England, provides further assurance on the validity of the cost of audit increases we received as part of our tender exercise. The results of our procurement to appoint firms to deliver public audit in Scotland for the next 5 years is a fair representation of current external audit market conditions.

### **Building capacity investment**

48. Our 2022/23 budget included funding of £2,000k with £1,500k required to meet our long-term recurring commitment to address new challenges. The remaining £500k was a management contingency that provides some reassurance that any unplanned financial challenges arising in the year can be met without the need for an in-year budget revision.
49. The budget proposal for 2023/24 consolidates the ongoing investment of £1,500k in capacity and improvement to address new challenges, which enables us to focus delivery of the following key objectives:
  - Assurance over the significant sums of public money being spent in Scotland.
  - Continued recovery from the disruption to audit work.
  - 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.
  - Investment in more flexible and agile ways of working and enhancement to our digital and professional support capacity within our new Innovation and Quality business group. This will ensure our audit reporting is keeping pace with changes in public finances and services and in technological developments.
  - Ensure we attract and retain the highest quality of candidates to 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.
50. The 2023/24 budget proposal also includes management contingency funding of £500k, 1.4% of our total expenditure budget. This is required to meet any unplanned financial challenges that may arise in the year due to the continuing volatile environment we are operating in.

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## 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 new Code of audit practice 2021. Our 2023/24 budget proposal and projections for 2024/25 and 2025/26 maintain investment of £250k to support audit quality inspection and reporting. The 2021/22 audit quality report can be found at [Quality of public audit in Scotland annual report 2021/22](#).

## Property

52. Our budget proposals for 2023/24 and our projections for 2024/25 and 2025/26 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 developing a long-term estate strategy that will align with our future operating model. The strategy will also seek to contribute to our commitment to meet net zero carbon emissions.

## Innovation and quality

53. To increase Audit Scotland's strategic capacity and deliver essential quality, support, learning, and transformation ambitions, an Innovation & Quality business group has been created in 2022/23, which is the responsibility of a new Executive Director post.
54. The transfer of existing Learning & Development, Data Analytics, and Professional Support functions into this new business group will be complete for the start of the 2023/24 financial year.
55. The new business group is also responsible for the quality review and control activities, continued development of digital auditing, and organisational improvement across Audit Scotland. The entire audit profession is required to reflect on the way in which audit work is conducted to meet the challenges of an increasingly data-driven environment, the enhanced scrutiny on quality, and the requirement for specialist expertise. The new business group will ensure that our work addresses these challenges to mitigate the increasing cost of audit and help fulfil the vision and strategic objectives of the Accounts Commission and the Auditor General for Scotland.
56. The budget allocation for training continues to be 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. 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 2023/24 Net Revenue Expenditure

57. An analysis of 2023/24 net expenditure by category is attached in Appendix 1, it also provides information on actual net expenditure in 2020/21 and 2021/22, and the approved budget for 2022/23.
58. Net revenue expenditure increases in cash terms by £663k from 2022/23.
59. Table 2 provides an analysis of the movement from the approved net expenditure budget in 2022/23 to the proposed 2023/24 net expenditure resource requirement.

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

	£k	£k
<b>2022/23 Net Approved Expenditure</b>		<b>11,387</b>
<b>Analysis of budget change</b>		
Provision for uplift to April 2022 pay award	+658	
Provision for April 2023 pay award	+615	
Incremental pay progression	+241	
Increase vacancy factor	-210	
Building capacity	+270	
New Financial Powers	+55	
Controller of Audit	+165	
<b>Increase in People Costs</b>		<b>+1,794</b>
National Fraud Initiative	-220	
Travel & Subsistence	-43	
Depreciation	+108	
Rent, rates and accommodation costs	+101	
Legal & Professional fees	+132	
Other administration	-30	
Approved Auditors	+2,550	
<b>Other administrative costs decrease</b>		<b>+2,598</b>
<b>Fee income increase</b>		<b>-3,729</b>
<b>2023/24 Net Expenditure Resource Requirement</b>		<b>12,050</b>

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## People Costs

60. People costs represent 66% of our expenditure budget proposals and our 2023/24 budget requirement is £1,794k higher in cash terms than the approved 2022/23 budget.
61. The main drivers of the increase are the impact of the updated pay award offer for April 2022, provision for the potential pay award settlement in April 2023, final stage of building capacity and the Controller of Audit.
62. Our 2022/23 budget proposal included the long-term recurring commitment to deliver on the following:
  - Recovery from the disruption to audit work
  - Investment in flexible ways of working and enhancement to our digital and professional support capacity
  - Additional recruitment to ensure we attract and retain high quality candidates
  - Increase strategic capacity to respond to a rapidly changing environment.
63. The investment in capacity has led to a 2023/24 budget proposal establishment of 346.9 w.t.e compared to the 2022/23 budgeted establishment figure of 330.3 w.t.e. The 2022/23 budget submission highlighted that establishment figures would increase during the year as we identify key areas requiring further investment (e.g. Audit Quality, Digital, Professional Support).
64. The budget proposal also includes the final staged increase in resourcing requirement to meet further demands of financial devolution (0.5 w.t.e.).

## Other administrative costs

65. Other administrative costs are £2,598k higher in the proposed 2023/24 budget compared to the approved 2022/23 budget.
66. The main changes relate to the increase of £2,550k in the fees and expenses paid to external firms and the decrease of £220k in respect of the biennial National Fraud Initiative (NFI).
67. The balancing movement is a budget increase of £268k, which relates to a number of increases and decreases across several budget headings.
68. The main areas of movement include:
  - further travel and subsistence savings through remote audit (£43k)
  - accommodation cost increase following West port rent review and inflation uplifts for rates, cleaning and utilities (£101k).
  - professional fee increase (£132k) to support Accounts Commission change programme and other identified pressures
  - savings in other costs (£30k)
  - non-cash increase for depreciation (£108k).

## Income

69. 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.
70. An increase of 19.4% is required to the proposed fees budget for financial year 2023/24 in order to breakeven. The fee rise was expected as we looked to secure the appointment of auditors for the next five years. The audit profession continues to experience considerable scrutiny, demand and risk in delivering a high-quality compliant audit.
71. The increase in SCF funding is due to the proposed further financial devolution resource, inflationary increases to non-chargeable fees and other direct allocations.
72. Income from fees to audited bodies by financial year is provided in Table 3:

Table 3 – Income from fees to audited bodies

	Actual 2020/21 £000	Actual 2021/22 £000	Budget 2022/23 £000	Proposed Budget 2023/24 £000
Local authorities	11,559	12,509	12,577	14,265
NHS bodies	2,773	3,053	3,110	3,838
Further education colleges	597	703	611	967
Scottish Government depts. and sponsored bodies	2,902	2,966	2,916	3,873
Rebate	-	(1,320)	-	-
Total income from charges to audited bodies	17,831	17,911	19,214	22,943
% cash increase in fees from approved 2022/23 budget				19.4%

73. Appendix 2 provides an analysis of the 2023/24 budget by sector and funding source.

## Capital

74. The proposed capital budget for 2023/24 of £150k will support our digital strategy Details of the 2023/24 capital requirements are provided below:

	£000
IT Hardware	125
Software	25
<b>TOTAL</b>	<b>150</b>

## SCPA approved funding

75. Revenue support from the Scottish Consolidated Fund provides funding for:
- non-chargeable Central Government audits
  - performance audits
  - the Auditor General
  - the Accounts Commission



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- the Audit Scotland Board
  - a proportion of Audit Scotland senior management
  - 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
	2020-21	2021-22	2022-23 Budget	2023-24 Budget
	£k	£k	£k	£k
<b>People Costs</b>				
Salaries and temporary staff	13,854	14,523	16,016	17,388
Employers on costs	4,162	4,499	4,993	5,413
Pension adjustments	2,297	4,739	100	100
	20,313	23,761	21,109	22,901
Accounts Commission members	151	141	165	167
<b>Total people costs</b>	<b>20,464</b>	<b>23,902</b>	<b>21,274</b>	<b>23,068</b>
<b>Fees and expenses paid to external firms</b>	<b>5,237</b>	<b>4,481</b>	<b>4,520</b>	<b>7,070</b>
<b>Other operating expenditure</b>				
Rent & Rates	730	487	527	617
Other accommodation Costs	377	431	434	445
Travel & Subsistence	364	323	539	496
Legal & Professional Fees	683	636	840	752
Stationery & printing	60	78	109	139
Training & organisational development	356	452	502	513
Staff recruitment	164	235	138	138
Communications (telephone, postage)	41	54	40	44
Insurance	78	94	85	96
Information technology	566	666	526	529
Internal Audit	28	26	30	30
External Audit - financial statements	31	30	30	30
Other	111	38	667	578
Depreciation	333	321	340	448
<b>Total other operating expenditure</b>	<b>3,922</b>	<b>3,871</b>	<b>4,807</b>	<b>4,855</b>
<b>TOTAL OPERATING EXPENDITURE</b>	<b>29,623</b>	<b>32,254</b>	<b>30,601</b>	<b>34,993</b>
Corporation Tax payable	0	0	0	0
<b>Income</b>				
Fees and charges payable	17,831	17,911	19,214	22,943
Bank Interest	1	1	0	0
Miscellaneous income	1	11	0	0
Other finance income - pensions related	-768	-940	0	0
<b>TOTAL</b>	<b>17,065</b>	<b>16,983</b>	<b>19,214</b>	<b>22,943</b>
<b>NET EXPENDITURE AFTER TAX</b>	<b>12,558</b>	<b>15,271</b>	<b>11,387</b>	<b>12,050</b>

## Appendix 2 - 2023/24 Budget sector cost analysis

Expenditure budget	Fees				Total Fees £k	SCPA Parliament £k	TOTAL £k
	Local Authorities £k	NHS Bodies £k	Further Education £k	Central Government £k			
Auditor General for Scotland	0	0	0	0	0	223	223
Accounts Commission	0	0	0	0	0	214	214
Governance	147	30	7	38	222	851	1,073
Audit Quality incl. NFI	446	125	39	134	744	101	845
External Audit firms	3,640	1,539	457	972	6,608	462	7,070
Audit Services	5,660	1,646	354	2,085	9,745	3,356	13,101
Performance and Best Value audit	1,506	0	0	0	1,506	2,253	3,759
Corporate Services and overheads	2,866	498	110	644	4,118	4,590	8,708
<b>Total budgeted expenditure</b>	<b>14,265</b>	<b>3,838</b>	<b>967</b>	<b>3,873</b>	<b>22,943</b>	<b>12,050</b>	<b>34,993</b>
Fee income	14,265	3,838	967	3,873	22,943	0	22,943
Support from Parliament	0	0	0	0	0	12,050	12,050
<b>Total Income</b>	<b>14,265</b>	<b>3,838</b>	<b>967</b>	<b>3,873</b>	<b>22,943</b>	<b>12,050</b>	<b>34,993</b>

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## 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 2022/23 audits

#### Fee levels

Following completion of the competitive exercise to procure audit for the new five-year appointment cycle the overall fee increase for 2022/23 audits is 18.7%, which is based on achieving a break-even position for the 2023/24 financial year in all sectors.

#### Fee movements

For year one of the new audit appointments fee increases will be applied on a consistent basis with each body in the sector receiving the same percentage increase compared to their 2021/22 fee. The exception to this is the audit of Scottish Water which is delivered by one of the firms.

The sector fee increases are summarised below:

- Local government bodies fees increase by 12.7%.
- NHS bodies fees increase by 21.8%.
- Central government chargeable bodies fees increase by 30.6%.
- Further education college fees increase by 57.5%.

#### 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 cost of audit information we collected as part of the tender exercise will be used to undertake a further review of the existing fee strategy to ensure that for 2023/24 audits each bodies fee is a fair representation of the cost of delivering an International Auditing Standards and Code of Audit Practice compliant audit.

#### 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).

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The pay award for the 2022/23 financial year has not been agreed at the time of preparing this budget proposal and the hourly rates used to cost audit work at present remain the same as 2021/22.

	2021/22	2022/23
Trainees	£48	£48
Business support specialist	£20	£20
Audit/support officer	£38	£38
Auditor	£45	£45
Senior auditor	£67	£67
Manager	£78	£78
Senior manager	£98	£98
Audit Directors	£162	£162

The rates for the 2022/23 and 2023/24 financial years will be calculated upon agreement of the cost of living pay awards.

## Appendix 4 - 2023/24 Planned efficiency savings

Description	Annual Savings Plan £k	Comments
Staff costs	430	2% vacancy/turnover applied to budget
Staff costs	270	Efficiencies identified to deliver on new commitments (e.g. digital, climate change, learning & development)
Capital	100	Reduction in capital expenditure requirement
Travel & subsistence	43	Further reduction in travel & subsistence requirement
Administrative costs inflation absorption	175	Impact of not applying inflation to some discretionary budget headings
<b>Total</b>	<b>1,018</b>	

**Total Proposed Expenditure Budget (£k)**    **34,993**  
**% saving to budget**                            **3%**