

# 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.

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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 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

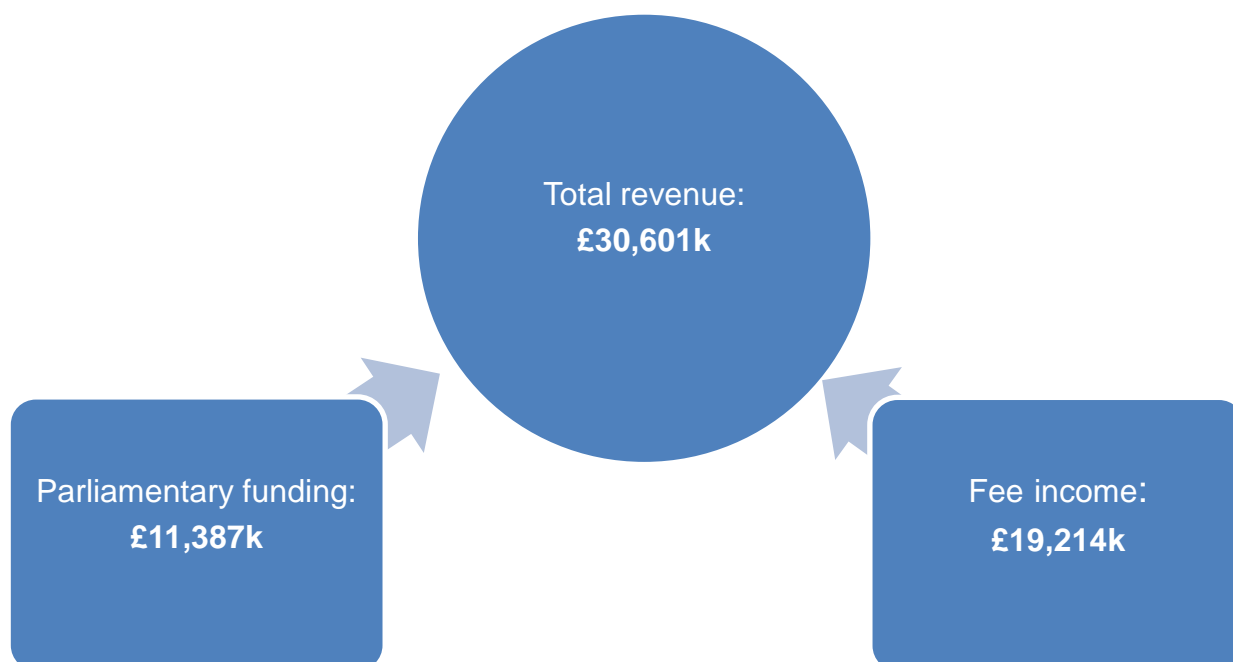
Appendix 2 - Sector cost analysis

Appendix 3 - Funding and Fees

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# 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

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- 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

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# 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.

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## 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.



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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)
<b>Net Expenditure Requirement</b>	<b>10,814</b>	<b>11,387</b>	<b>11,234</b>	<b>11,554</b>
Capital	250	250	150	150
<b>Total Resource Requirement</b>	<b>11,064</b>	<b>11,637</b>	<b>11,384</b>	<b>11,704</b>
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.

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## 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.

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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.

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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
<b>2021/22 Net Approved Expenditure</b>		<b>10,814</b>
<b>Analysis of budget change</b>		
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/>	
<b>Increase in People Costs</b>		<b>+422</b>
Management contingency	+500	
National Fraud Initiative	+220	
Travel & Subsistence	-168	
Depreciation	+61	
Training	+40	
Information Technology	+30	
Other administration	-21	
Approved Auditors	-34	
	<hr/>	
<b>Other administrative costs decrease</b>		<b>+628</b>
<b>Fee income increase</b>		<b>-477</b>

## **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
<b>Total income from charges to audited bodies</b>	<b>18,597</b>	<b>17,831</b>	<b>18,737</b>	<b>19,214</b>
% 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:

	<b>£000</b>
IT Hardware	125
Software	25
Digital strategy and office configuration	100
<b>TOTAL</b>	<b>250</b>



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## 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
<b>People Costs</b>						
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
<b>Total people costs</b>	<b>22,072</b>	<b>20,464</b>	<b>20,852</b>	<b>21,274</b>	<b>21,274</b>	<b>21,274</b>
<b>Fees and expenses paid to external firms</b>	<b>4,549</b>	<b>5,237</b>	<b>4,554</b>	<b>4,520</b>	<b>4,520</b>	<b>4,520</b>
<b>Other operating expenditure</b>						
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
<b>Total other operating expenditure</b>	<b>4,265</b>	<b>3,922</b>	<b>4,145</b>	<b>4,807</b>	<b>4,807</b>	<b>4,807</b>
<b>TOTAL OPERATING EXPENDITURE</b>	<b>30,886</b>	<b>29,623</b>	<b>29,551</b>	<b>30,601</b>	<b>30,601</b>	<b>30,601</b>
Corporation Tax payable	1	0	0	0	0	0
<b>Income</b>						
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
<b>TOTAL</b>	<b>17,708</b>	<b>17,065</b>	<b>18,737</b>	<b>19,214</b>	<b>19,214</b>	<b>19,214</b>
<b>NET EXPENDITURE AFTER TAX</b>	<b>13,179</b>	<b>12,558</b>	<b>10,814</b>	<b>11,387</b>	<b>11,387</b>	<b>11,387</b>

## 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
<b>Total budgeted expenditure</b>	<b>12,577</b>	<b>3,110</b>	<b>611</b>	<b>2,916</b>	<b>19,214</b>	<b>11,387</b>	<b>30,601</b>
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
<b>Total Income</b>	<b>12,577</b>	<b>3,110</b>	<b>611</b>	<b>2,916</b>	<b>19,214</b>	<b>11,387</b>	<b>30,601</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 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.

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## 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.