

20 December 2022

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

Dear Chair

Thank you for the opportunity to give evidence to the Scottish Commission for Public Audit (SCPA) on 14 December 2022 in support of the 2023/24 [Spring Budget Revision](#) and the 2023/24 [Budget proposal](#).

We are writing to you to provide additional information in relation to matters both raised during the meeting and in the Commission's letter of 15 December. We hope this clarifies the areas where you and your fellow SCPA members have asked us to provide you with more detail.

The Commission's letter also asked specific questions relating to the Accounts Commission. We have agreed with the Chair of the Accounts Commission that he will write to you separately to address these points. Audit Scotland exists to provide services to the Auditor General and Accounts Commission to discharge their respective statutory functions. The Accounts Commission was clear with Audit Scotland during 2022 that it required the creation of a stand-alone Controller of Audit to better discharge its responsibilities. This requirement along with the Accounts Commission's change programme was subject to regular consideration and scrutiny by Audit Scotland Board.

Fee increases in Further Education

Appendix three of the 2023/24 budget proposal sets out the average percentage increases to audit fees.

Fees across all sectors have increased. This is a reflection on the current audit market and the costs to deliver high quality audit work. The increased regulatory expectations and risk has led to an increase in cost that is being seen throughout the private and public sector audit market. There are increasing expectations of the audit profession and the quality of its work, especially around valuations for pensions, property, plant and equipment.

The fees are informed by the outcome of the audit procurement process. The bids received were largely consistent in terms of costs (and so fees) and were also consistent with the in-house costing and benchmarking exercise we undertook. The outcome of this exercise is a fair representation of the audit market with evidence of increases seen in audit fees in the private sector and English public sector

The percentage change also reflects the absence of discounts from the private sector firms which we had previously benefitted from. For the last 6-year appointments the firms offered favourable discounts to deliver audit work as part of the mixed market and payments to firms were linked to Audit Scotland staff cost of living awards.

The SCPA was particularly interested in the changes in relation to the further education section where the average fee increase is 57.5%. This is undoubtedly a significant increase in percentage terms. This sector is predominantly audited by the firms where they delivered 19 of the 21 audits for the duration of the last audit appointment term. For the new appointments the firms have been contracted to deliver 14 of the 21 audits.

The main reasons for the increase are set out above and are most acute in the FE sector due to the size of the organisations and the baseline cost required to deliver a code compliant audit.

It is important to note that the percentage change is significant, but the change is less significant in absolute terms. The smallest increase is £8,810 and the largest £25,990. The average fee for an FE organisation under the previous audit appointment was £26,989. Under the new appointment this has risen to £42,506. The minimum FE audit fee is £24,140 and the maximum audit fee is £71,190.

Charge and utilisation rates

Mr Johnson asked a question about the charge and utilisation rates. The table below sets out the planned utilisation rates for each grade of employee. The utilisation rates are based on the number of available days less leave entitlement (260 days less 42 days) and the percentage is informed by the expected number of days available for audit work compared to the total adjusted available days. The utilisation percentage rate will be below 100% due to factors that include training (CPD), staff management and other non-audit related duties.

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).

At the time of the budget submission the effect of the recently agreed pay and reward deal for 2022/23 on 'day rates' was being calculated. The table below also sets out the updated hourly charge and utilisation rates for each grade.

	2021/22	2022/23	Utilisation Rate
Trainees	£48	£47	66%
Business support specialist	£20	£21	41%
Audit/support officer	£38	£41	85%
Auditor	£45	£46	89%
Senior auditor	£67	£65	85%
Manager	£78	£77	80%
Senior manager	£98	£98	80%
Audit Directors	£162	£164	62%

Covid related funding

The SCPA considered our [2020-21 Spring Budget Revision](#) (SBR) at its meeting on 15 January 2021.

The SBR included a request for £1.5m to enable us to deliver a balanced budget (as you are aware we are not able to hold reserves and must achieve a balanced budget each year).

The SBR (paragraphs 24 and 25) advised that the requested funding was to address the impact of Covid-19 on income recognition due to the loss of productive time following the extension to audit dates for the 2019/20 audits and the commencement of the 2020/21 audit work.

The SBR also advised (paragraph 28) *'The recognition of fee income is a key component of our budget proposals with the extension to deadlines of 2019/20 audits leading to a delay in the start to planning of the 2020/21 audits. Effectively these extensions mean we will not have completed as much audit work as in previous years as at 31 March 2021. International reporting standards only allow us to recognise in the*

accounts the amount of income we have earned for the work we have completed up to that point in time. While there are no issues in receiving the overall fee income due for the audit there is a timing issue that causes a significant problem to the scale of £1.440 million’.

In effect the 2020/21 SBR supported our cash flow in the financial year.

Over the course of the last two years this funding has now almost all been returned to the Scottish Consolidated Fund (£0.7M in 2021 and £0.7M in 2022).

Building capacity

Our [2021-22 budget proposal](#) included a request for additional management contingency funding. In that budget proposal we stated (paragraph 10):

‘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’.

The budget proposal for 2021/22 highlighted the need for a contingency of £2.4 million. This was £0.4 million contingency for the pay award and an increase in management contingency to £0.5 million (this was £0.3 million in the 20/21 budget).

This meant that we had £1.5 million that we identified as additional investment to deliver on our longer-term objectives. The intention was that this was always going to be baselined.

The main purpose of the additional resources was to secure delivery (in maintaining audit quality and delivering the audit work) and development (to invest in the future by building capacity to deliver innovation and improvement (including digital auditing, meeting the auditing standards and developing the audit methodology). More specifically the resources have secured:

- £1,196k on additional audit resources (24 auditors) - this additional capacity also means that we could free up existing resources to support the delivery of the improvement programme, with a particular focus on strengthening support for audit quality.
- £304k on supporting innovation and transformation, specialists, support services (10 wte posts across audit quality, business support, governance, digital and HR) This will ensure we can support the delivery of the improvement programme and maximise the reach and impact of our audit work.

We hope all of the above information is helpful and please contact us if we can be of further assistance.

Yours sincerely

Stephen Boyle
Auditor General for Scotland
and Accountable Officer

Professor Alan Alexander
Chair