

MEETING: 9 DECEMBER 2021

REPORT BY: CORPORATE FINANCE MANAGER

2021/22 AUDITS – LOCAL GOVERNMENT FEES

Purpose

1. This report seeks the Commission's endorsement of expected audit fees for the local government sector for the 2021/22 audit year.

Background

2. In accordance with the Public Finance and Accountability (Scotland) Act 2000, Audit Scotland sets the fees for all the chargeable audits within the remits of the Accounts Commission and the Auditor General for Scotland. In doing so, Audit Scotland is under a statutory requirement to "broadly break even taking one year with another".
3. Fee levels are determined in the budget setting process for Audit Scotland. The methodology is based on the 2016 Review of Fees and Funding which was approved by the Audit Scotland Board and shared with the Scottish Commission for Public Audit (SCPA).
4. Audit Scotland has prepared its budget proposal for the 2022/23 financial year which was agreed by the Audit Scotland Board at its November meeting. The current position with the SCPA is that the budget proposal will require submission in early December 2021. The budget for the 2022/23 financial year includes income from fees for completion of the 2021/22 audits and the start of the 2022/23 audits.
5. The budget and the fee levels are designed to deliver all the annual audits where the Accounts Commission makes the appointments and the programme of performance audit and Best Value work agreed with the Commission.
6. The 2022/23 budget proposal will be considered by the SCPA on a date to be agreed. The SCPA will then prepare a report to the Scottish Parliament as part of the annual Budget Act approval process.
7. Following this meeting of the Accounts Commission Audit Scotland will communicate expected 2021/22 fee levels to all public sector bodies. This will enable detailed audit planning and fee negotiations to commence and for Audit Scotland to invoice audited bodies for the first instalment of the fees.

Fee levels

8. The complex and volatile environment we are working in – and the pressures faced by auditors and audited bodies – is expected to continue for the long term and will be a major factor in setting audit fees. The impact of this will need to be reflected in the fees to audited bodies to ensure that the fee is a fair representation of the cost of audit and enables Audit Scotland to meet its obligation to break-even each year.
9. The proposal increases expected audit fees by 2% across all sectors, representing a real term decrease of 3%.

10. Total expected fees to local government bodies for 2021/22 audits will be £12,383,000 and result in increases for the largest and smallest councils of:
 - £11,590 (1.8%) for Glasgow City Council to £669,850.
 - £4,380 (2.2%) for Orkney Islands Council to £199,730.
11. The average council fee increase is £6,676 (2.0%) with the average council fee being £339,462.
12. The expected council fee is based on the audit of the group accounts of the council. For some councils additional audit work will be required on charitable trust accounts and the appointed auditor is able to negotiate a fee increase to cover this work. This additional work is not included in the initial expected fee as it is variable in nature and depends on the number of trusts councils are involved with.
13. The expected fee for Integration Joint Boards (IJBs) increases from £27,330 for 2020/21 audits to £27,960 (2.3%) for 2021/22 audits. This is due to inflationary increases in auditor remuneration and the allocation of performance audit budget that is shared across all councils, IJBs and Strathclyde Passenger Transport.
14. All other local government bodies will see increases of between 2.3% and 2.9%.
15. The Commission, in line with its procurement strategy that it approved at its May meeting, is currently in the middle of a competitive tender process where firms have been invited to bid for 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 the tender will be an important factor in the future cost of audit and the potential impact this will have on fees to audited bodies.

Conclusion

16. The Commission is asked to endorse the fee levels for the local government sector 2021/22 audits.

Stuart Dennis
Corporate Finance Manager
29 November 2021