

# General audit planning guidance

Submitting plans, agreeing  
fees and claiming  
remuneration - all sectors,  
2014/15 audits

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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# Introduction

1. This guidance is for auditors of all audited bodies, regardless of sector, and its aim is to help auditors to plan their 2014/15 audits and to agree audit fees with audited bodies. It includes the arrangements for paying firms, amending agreed fees and agreeing additional fees.
2. There is separate sector specific guidance that provides additional important information regarding individual sector outputs and this must be read when planning audits.
3. Where other documents and guidance are referred to in this document and in the sector specific guidance they can be accessed from the Audit Scotland intranet (ishare) and extranets or our public facing website.

## Main points and changes from last year

- The remuneration rate used to calculate fees and the maximum grade related rates for additional audit work have been increased by 2% based on Audit Scotland's scale uplift
- Audit outputs are those detailed in the individual sector planning guidance and any other outputs listed in local audit plans
- Audit Services Group should put all audit outputs in the appropriate audit body's '**Financial Audit - Outputs**' section of ishare
- For firms, **all** outputs should be emailed as a **pdf** or **word document** (scans are not acceptable as they do not meet Audit Scotland's accessibility requirements) to [outputs@ishare.audit-scotland.gov.uk](mailto:outputs@ishare.audit-scotland.gov.uk)
- The only exception is signed accounts which should be **both** emailed to the 'outputs' email address (firms) or put on ishare (ASG) **and** have the relevant sector number of hard copies sent to:

*Owen Smith*

*Audit Scotland*

*110 George Street*

*Edinburgh EH2 4LH*

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# Audit outputs

## General considerations and the Code of Audit Practice

5. Auditors prepare detailed plans supported by local assessments of business and audit risks and other information, setting out their approach to the audit for operational purposes and to comply with the Code and Auditing Standards.
6. Auditors should observe their statutory duties, letters of appointment, the Code, Auditing Standards, this document and other sector specific guidance when preparing their plans.
7. Technical Bulletins and other guidance issued by Audit Scotland should also be reviewed for matters that might impact on 2014/15 plans.
8. Paragraph 5 of the 2011 Code provides that its application in any particular case depends on the specific circumstances at audited bodies and the auditors' assessments of what is reasonable and appropriate in those circumstances. This paragraph may be most relevant when planning the audits of:
  - smaller joint boards and committees
  - smaller special health boards
  - further education colleges
  - smaller bodies and accounts in the central government sector

where the nature of the body and the resources available may make it impracticable to fully apply the Code.

## Audit plans

9. Audit Strategy requires key audit contact (partner and manager) and billing details (for invoicing), and auditors must provide this information by 5 November 2014. Audit Strategy will provide a pro forma for completion.
10. The annual audit plans that are presented to those charged with governance must be submitted to Audit Strategy by dates specified in the sector-specific guidance. The submission must include the agreed fee so that Audit Scotland can accurately invoice audited bodies. If fees have not been agreed by these dates then auditors must write to Audit Strategy explaining why and the current position of fee negotiations.
11. Audit Scotland does not invoice audited bodies initially on the basis of agreed fees. The first instalment of audit fees is based on the mid-point of the indicative fee range. Subsequent instalments are adjusted to reflect agreed fees (except FE, where there are only two instalments of half the agreed fee).

## Planned outputs and providing supporting information

12. Audit Scotland gets important management information from annual audit plans, including agreed fees and target dates for submitting audit outputs. The planned submission dates for audit outputs should be when auditors expect to submit the final version, including an agreed action plan where applicable.
13. Audit Strategy does not approve annual plans, but will contact auditors if more information or explanations are needed. Queries are usually kept to a minimum where auditors:
  - provide explanations for the position of the fee within the indicative range relative to midpoint
  - clearly identify whether the fee has been agreed with the audited body.
14. All local auditor outputs are stored on Audit Scotland's knowledge management system **ishare**:
  - for ASG staff this means that outputs listed in sector guidance and any additional audit outputs identified in annual audit plans should be stored as soon as they are complete in the appropriate audited body's 'Financial Audit - Outputs' section
  - for firms all audit outputs listed in sector guidance and any additional audit outputs identified in annual audit plans should be sent to the following email address - [outputs@ishare.audit-scotland.gov.uk](mailto:outputs@ishare.audit-scotland.gov.uk)
  - to comply with Audit Scotland's accessibility requirements all final outputs must be in a **pdf** or **word** format. Scanned documents do not comply with these requirements and are therefore not acceptable except for the signed accounts - see below.
15. Audit Scotland staff will then populate appropriate sections of ishare for firms' outputs. This will simplify communication of outputs, retrieval of information about specific audits and allow Audit Strategy to monitor performance.
16. The only exception is **signed accounts** which should be scanned and **both** emailed to the 'outputs' email address (firms) or put on ishare (ASG) **and** have the relevant sector number of hard copies, as detailed in an appendix to each sector planning guidance, sent to:

Owen Smith  
Audit Scotland  
110 George Street  
Edinburgh EH2 4LH
17. Auditors will not be held responsible for late reports if delays are caused by audited bodies, and all practicable steps are taken to encourage bodies to respond to draft reports and provide comments for action plans. Auditors should include a reference in their annual audit reports to members and the Auditor General or Controller of Audit if bodies are consistently late in responding to draft reports.

## Independent Auditors' Reports (certificates) on the financial statements

18. Audit Scotland will issue model forms of the Independent Auditor's Reports and application guidance in good time for the preparation of 2014/15 reports.

### Certification and reporting deadlines

19. Financial statements certification and annual reporting deadlines for all sectors are set out in the table below. For 2014/15, auditors should aim to issue audit opinions and submit annual audit reports by the earlier certification deadline. Some auditors already do this, but, where it does not happen, it reduces the time for Audit Scotland to consider annual audit reports for overview and other reporting purposes. Please refer to the sector specific guidance for further information.

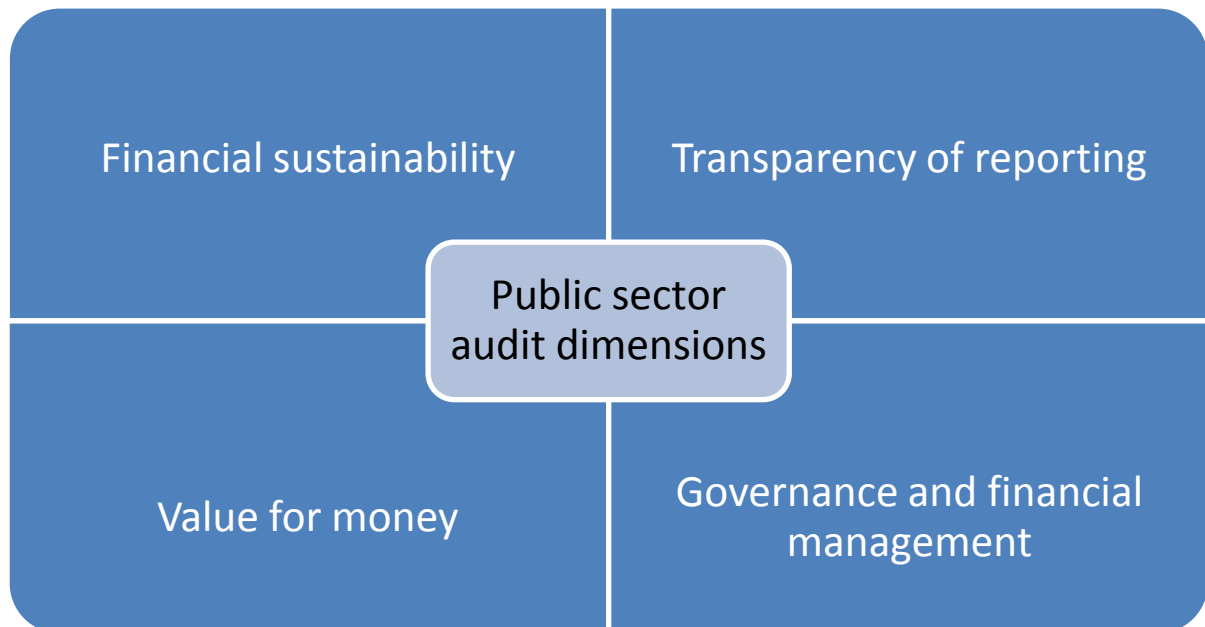
Sector	Certification deadline	Annual reporting deadline
Health	30 June 2015	31 July 2015
Local government * (including pension schemes and charities)	30 September 2015	31 October 2015
Central Government	31 October 2015	30 November 2015
Further Education**	31 December 2015	31 December 2015

\*Auditors of joint boards etc. may need to certify accounts on a shorter timescale than specified above to facilitate the completion of councils' group accounts. While the 30 September deadline is used to measure audit completion performance, where a joint board and a host council do not share the same auditor, the auditors should liaise about the respective audit timetables and agree an appropriate date for the certification of the accounts of the joint board. The certification deadline for charitable trusts is the same as for the respective councils i.e. 30 September 2015; the audited financial statements must be submitted to The Office of the Scottish Charity Regulator (OSCR) by 31 December 2015 but there is no requirement for an annual audit report.

\*\* The Scottish Funding Council wrote to FE principals in September 2014 advising that the accounting year-end for 2014/15 will revert to 31 July for all colleges and regional boards with draft accounts being prepared by 30 September.

## Impact - local audit work

20. Audit Scotland has committed itself to improving the quality and impact of its work. In terms of impact, our Corporate Plan 2014 priorities make it clear that we should focus our planning and reporting on these four public sector audit dimensions:



21. These dimensions set a common framework for all the audit work that we do for the Auditor General for Scotland and for the Accounts Commission.
22. This subject, in terms of the local audit work undertaken by the appointed auditors, has been raised at the last two all sector planning meetings where there was widespread support for taking this forward. Audit Scotland will be discussing audit impact as part of the wider review of the Code of Audit Practice in preparation for the next 5 year procurement cycle.
23. Audit Scotland recommends that all auditors consider the public sector audit dimensions when planning and reporting their annual audit work.



# Fee for the audit

24. Guidance on the construction of indicative fee ranges and determining agreed fees in conjunction with audited bodies is included in auditors' letters of appointment.
25. The terminology used in agreeing fees and paying auditors is set out in the table below and expanded upon in the following paragraphs:

Term	Meaning
Indicative fee range	The range within which auditors agree the fee
Agreed fee	The total amount payable by an audited body for the audit
Contribution	The part of the agreed fee that is retained by Audit Scotland to meet central costs and travel and expenses
Gross remuneration	The agreed fee, less the contribution
Auditors' remuneration	The gross remuneration less the net discount offered by the firm
Net discount	The discount offered in the tender for the sector, adjusted by the base discount related to the sector

## Indicative fee range

26. Audit Scotland sets an indicative fee range to control what audited bodies pay for their audits each year. Auditors agree a fee with the audited body within the range that reflects their assessment of the risks and the control environment within the body. The indicative fee range is 10% either way of a midpoint for all bodies with a range midpoint above £25,000. For bodies with a midpoint below that, the range is 20% either way.
27. The indicative fee range is calculated using a number of inputs:
- a central estimate of the number of days of audit work
  - the average remuneration rate for the audit team
  - the contribution to travel and expenses within the sector
  - the contribution towards performance audits, where relevant
  - the contribution towards other central costs not met by the Scottish Consolidate Fund.
28. The indicative fee range reflects expectations of a reasonably well controlled environment with no particular risks. New requirements, or significant changes to audited bodies, are reflected by adjusting fee ranges.
29. The contribution to travel and expenses, and towards performance audit work, is described below in the section on Contribution.

## Agreed fee

30. Audit Scotland will notify auditors as soon as possible about the indicative fee ranges for 2014/15. All fees should normally be agreed within this range (see paragraph 27). Auditors must notify **Owen Smith** and obtain approval if they need to agree a fee outside the indicative fee range ([osmith@audit-scotland.gov.uk](mailto:osmith@audit-scotland.gov.uk)). Initial discussions with the audited body about a proposed fee outside the range are permitted.
31. Some bodies in the central government sector (as specified in paragraph 18 of the central government planning guidance) do not pay audit fees. Their accounts show the audit fee as a notional expense, which forms part of the resource budget and impacts on audited bodies' reported outturns. However, that does not alter the fee for the audit arrangements (see section 6 of the Appendix to the audit appointment letter). In these cases, if the local circumstances that affect the fee proposal are acknowledged by the audited body, the auditor must indicate on the annual plan that the fee has been agreed. Auditors must not indicate on plans that a fee proposal has not been agreed just because the body does not pay directly for its audit.
32. The fee for the audit focuses on audit **outputs**, rather than inputs. The format of the fee proposal to be discussed with the audited body is for the auditor to decide, in conjunction with the audited body. However, the proposal must clearly identify the audit outputs to be delivered for the agreed fee including, in relevant cases, all identified grant claims.
33. Auditors should not disclose the auditor's remuneration and the contribution during discussions with audited bodies because this would facilitate the calculation of the discount that has been offered by the firm. When preparing fee proposals, auditors are encouraged to cross-refer to the charges letters that Audit Scotland issued to audited bodies. Auditors should use the same language and defined terms as set out in this guidance and these letters to promote understanding of the fees regime.
34. Fees agreed with bodies may be revised during the audit, within the indicative range. This does not require approval from Audit Scotland, but auditors should notify any such fee amendments promptly to Owen Smith along with the reasons for the change. Changes in planned outputs should be notified on audit progress reports.

## Contribution

35. Audit Scotland meets the costs of travel and subsistence expenses incurred by auditors in the course of their audit work. See the letter of appointment (paragraph 5.9) for what costs are eligible. In order to prevent geographically remote audited bodies bearing disproportionate costs, the overall costs of such expenses are pooled within sectors.
36. Audit Scotland's Performance Audit & Best Value Group (PABV) carries out performance and Best Value audits. The costs of these, where not met by the Scottish Consolidated Fund, are met by audited bodies. These are pooled across the sector(s) to which they apply to ensure that no audited body is exposed to year on year volatility in their fees or disproportionate costs.

## Gross remuneration

37. Gross remuneration is the baseline remuneration level for each audit, calculated by using days and rates as described in the paragraphs above. It is from this that any adjustments due to inflation and changed requirements will be applied. Gross remuneration levels for 2014/15 have been reduced in each sector by the base discount.

## Auditors' remuneration

38. The Auditor's remuneration is the gross remuneration, adjusted by the net discount applicable to their firm. The difference between gross remuneration and net remuneration has been used to reduce the contribution payable in each sector. These are pooled within sectors so that audited bodies pay the same rate irrespective of who their auditor is.

## Net discount

39. In the 2011/12 - 2015/16 tender, each firm was invited to offer a discount from the gross remuneration. In order to embed the discounts for the future, the base discount offered in a sector has been applied to all the audits, creating the gross remuneration. This means that the amount from which the discount in the bid should be applied is smaller. As a consequence, the discount applied to the gross remuneration has been reduced from the discount in the tender. Because the net discount will be applied to the gross remuneration for each audit, each auditor will be informed of their net discount in each sector.
40. Where auditors engage in additional audit work and refer to the maximum grade related rates, these should be adjusted by the actual bid discount, and not the net discount. This is because the maximum grade related rate is not tied to any sector, and the minimum discounts differed between sectors.

# Claiming remuneration

41. The procedure for claiming fees differs between the firms and ASG. Firms are paid by Audit Scotland for their work whereas for ASG it is an internal recharging process, so no direct claims are needed.

## Firms

### Claiming remuneration

42. For 2014/15 audits, auditors' remuneration and related expenses should be claimed from Audit Scotland on the 2014/15 pro-forma claim forms/tax invoices. Where firms' own systems require them to raise fees on their own stationery these should not be submitted to Audit Scotland with the pro-forma claim. Payments of auditors' remuneration are made against pro-forma claim forms only.
43. Remuneration should be claimed near the start of the audit by completing the initial claim pro-forma in the first worksheet of the Excel workbook. Please note that claims for local authority audits must be addressed to the Accounts Commission, and other sectors should be addressed to Audit Scotland.
44. The initial claim may be based on 95% of either:
- the agreed fee (A) - in which case an agreed annual plan must have been submitted to Audit Strategy showing an agreed fee, or it should accompany the initial claim, or
  - the midpoint of the indicative fee range for the audit (B) - if the initial claim is made prior to submission of an agreed annual plan,
  - less the contribution (C), adjusted by the net discount for the appropriate sector (D).
  - i.e.  $0.95*(A-C)*(1-D)$  or  $0.95*(B-C)*(1-D)$
45. The initial pro-forma claim provides for identifying whether the claim is based on an indicative or an agreed fee and sets out the monthly instalments being claimed. Audit Scotland will make payments to firms' bank accounts by standing order.
46. The following rules must be followed when completing the schedule of instalments on the initial fee claim pro-forma:
- all instalment dates/tax points should refer to the 21st of each month
  - the first instalment should allow at least 12 working days for the claim to be processed in Audit Scotland. This is due to the time needed to check and authorise claims and for a standing order request to be activated by our bank. If auditors are unsure if there is enough time for a claim to be processed they should defer the first instalment to the next month
  - the first instalments must be no earlier than the dates in the table, and the last instalment dates must be exactly those shown in the following table:

Sector	First instalment	Last instalment
Local authority	21 November 14	21 October 15
Health	21 November 14	21 July 15
Scottish Water	21 November 14	21 June 15
Central government	21 November 14	21 October 15
Further education	21 November 14	21 October 15

- each instalment must be for exactly the same amount. However, the total of the instalments does not need to be exactly 95% of the calculated figure, and instalments will be rounded to the nearest pound
  - each instalment/tax point must apply the VAT rate that applies, or is expected to apply, at the stated date. The pro-forma claim is set up so that the VAT rate will not affect the gross amount of each instalment, only the split between the net remuneration and VAT.
47. The balance of the remuneration should be claimed on completion of the audit by submitting a final claim/tax invoice pro-forma (see the second worksheet in the Excel file).
  48. Audit Scotland will not amend a monthly instalment scheme once a standing order has been set up so the final claim should reflect the final fee (A), less contribution (B), adjusted by the net discount (C), less the total of all the instalments claimed initially (D), even though the latest instalments may yet be unpaid, i.e.  $((A-B)*(1-C))-D$ .
  49. Provided all agreed audit outputs have been submitted and progress reported as 100%, then the final claim may be submitted and paid before the date of the last instalment on the initial claim. The remaining instalments will be paid by standing order in line with the instalment dates on the initial claim.
  50. Where audit work is complete (but not audit outputs) and auditors are unable to submit the final claim for reasons outside their control, they may provide details in writing (an email is sufficient) of the circumstances precluding audit completion and seek approval to claim some or all of the balance of the auditors' remuneration. Auditors should seek this approval before submitting the final claim.
  51. Bearing in mind that the payment of a final claim is likely only to be delayed, rather than jeopardised, auditors should consider whether the time to complete the outputs will have a significant detrimental impact on their cash flow before submitting a request for early payment. Audit Scotland expects these requests to occur exceptionally, but will treat each one fairly within the principles of fee for the audit.

### Firms' expenses

52. The initial pro-forma claim should not normally include travel and subsistence expenses as these are reimbursed on an actual cost basis. Where expenses are anticipated to be particularly high, such as audits based in the islands or the most distant stay-away audits, a

proportion of the estimated expenses may be included in the initial claim. The amount of expenses that may be included in the initial claim should not exceed:

- the total expenses expected to be incurred on the audit (including VAT) less
- 5% of the indicative or agreed audit fee (whichever is used on the initial claim).

53. Please agree the amount of any expenses being claimed on the initial claim with Owen Smith before submitting the claim.
54. The actual amount of reasonable travel and subsistence expenses necessarily incurred in carrying out the audit should be claimed on the final pro-forma claim. Expenses should not be adjusted by the net discount.
55. Audit Scotland monitors the level of expenses claimed on audits and, in line with the terms of letters of audit appointment (Paragraph 5.9), assumes that most of the audit is done by staff working from the office location identified in the auditor's Sector Tender Response which is closest to the audited body. Details of expenses may be requested if claims are higher than expected.
56. Travel and subsistence expenses for 'additional audit work' (whether requested by the audited body or for correspondence referred by Audit Scotland) should be included with the fee claim for that work (see paragraph 60).
57. Auditors should submit all pro-forma claims electronically to [outputs@ishare.audit-scotland.gov.uk](mailto:outputs@ishare.audit-scotland.gov.uk) . These should be shown as having been authorised by a partner/director by including their name on the pro-forma.

### Additional audit work

58. Auditors must claim fees and expenses from Audit Scotland for additional audit work undertaken separately from the agreed fee on their own invoice stationery (non-audit work that has been approved by Audit Scotland should be billed to the audited body, not to Audit Scotland per paragraph 81). Claims for additional audit fees agreed with an audited body should be submitted on satisfactory completion of the work and any related report. To avoid disputes, auditors should confirm with audited bodies that they are satisfied with the work before submitting fee claims to Audit Scotland. Fee claims for additional audit work should be submitted to [outputs@ishare.audit-scotland.gov.uk](mailto:outputs@ishare.audit-scotland.gov.uk) .
59. The maximum grade related daily fee rates set by Audit Scotland for 2014/15 audits include 20% input VAT. The grade related rates are shown in paragraph 79.

## Audit Services Group

### Claiming fees

60. The Finance section credits ASG's trading accounts by accessing ASG's monthly progress percentages and applying these to the agreed fees that have been notified through agreed annual plans to Audit Strategy.

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61. ASG should inform Owen Smith promptly (an email is sufficient) about any amendments to agreed fees. The Finance section accesses this information and use it to update its records, calculate the monetary value of the work in progress and to invoice audited bodies.
  62. ASG's progress reporting should not show audits as more than 99% complete until all the planned audit outputs for an audit have been delivered. If the time based reports (i.e. input based) show audits as more than 100% complete, the 'Adjusted WIP' column within the online report should be altered to reflect the true (i.e. output based) extent of completion.

### Additional work

63. ASG should claim credits for additional audit work undertaken separately from the agreed fee via Audit Strategy. There is no prescribed format for such claims. However, the nature of the work undertaken, the audit input and the daily rates used to construct the fee should be included in the claim.
64. Audit Strategy uses such claims to instruct the Finance Section to invoice the audited body. The claim/notification should therefore include any special billing instructions (e.g. the preferred invoice narrative and the name and address of the officer in the audited body to whom the invoice should be sent).
65. Claims for additional fees agreed with an audited body should be submitted on satisfactory completion of the work and any related report. To avoid disputes, auditors should confirm that the audited body is satisfied with the work before submitting the fee claim and billing request to Audit Strategy. Fee claims and billing requests relating to additional audit work should be submitted to **Owen Smith**.

## All auditors

### Referred correspondence

66. Claims for work on correspondence from the public referred to the auditor by the PABV Group should be submitted on satisfactory completion of the work and any report requested by PABV Group. Any fee claims for work on referred correspondence should be submitted for the attention of **Angela Canning**, Assistant Director, PABV Group ([acanning@audit-scotland.gov.uk](mailto:acanning@audit-scotland.gov.uk)).

### Best value in local authorities

67. Claims for additional Best Value audit work beyond local response work per the relevant sector guidance appendix, should be agreed with and submitted to **Ronnie Nicol**, Assistant Director in PABV Group ([rnicol@audit-scotland.gov.uk](mailto:rnicol@audit-scotland.gov.uk)).

# Reporting audit progress

## Submitting progress reports

69. Progress reports are an important source of management information for Audit Scotland and must reflect fairly the percentage of the audit work completed and the progress made with submitting audit outputs.
70. An important part of the progress report is confirming whether or not the audit opinion and the annual audit report are expected to be submitted by the deadlines set out in the annual planning guidance. Auditors must advise Audit Strategy as soon as they think that either of these deadlines may not be met.
71. ASG progress on audits is monitored through internal reporting. There is therefore no need for ASG staff to submit progress reports; instead they should ensure that the internal reporting information is kept up to date, particularly at the end of each quarter.
72. For firms' audits, a pro-forma progress report for each audit should be submitted to [outputs@ishare.audit-scotland.gov.uk](mailto:outputs@ishare.audit-scotland.gov.uk) as per the dates in sector planning guidance until the audit is complete in all respects. A final progress report must also be submitted as soon as possible after the audit is complete either with, or prior to, the submission of each final claim.

# Additional work

## Additional audit work

73. The letter of audit appointment permits auditors to carry out additional audit work not provided for in the construction of indicative fee ranges or the initial audit plan.

### Additional work within the indicative fee range

74. If the work can be accommodated within the indicative fee range and agreed with the audited body, the amendment does not need the approval of Audit Scotland. Auditors should notify fee amendments due to additional work promptly to **Owen Smith**. The audited body will be charged as part of the regular charging cycle, and payments to auditors will be made as part of the final remuneration claim (see paragraph 49).

### Additional work beyond the indicative fee range

75. Where the nature of the additional audit work merits a separate fee, or the adoption of grade related rates (within the maximum rates specified below), the auditor must first advise **Owen Smith** in writing about the nature and scale of the work. If the circumstances justify the



auditor's proposal, approval will be given to agree a separate fee with the audited body. Requests to agree a separate fee must identify the audit staff to be used, their grades and the charge-out rates proposed.

76. Once approved by Audit Strategy, auditors must confirm that the audited body has agreed to meet the additional fees. Audit Scotland will invoice the audited body for the work plus any related travel and subsistence expenses claimed by auditors, who should ensure that this is understood by the audited body. Please inform **Owen Smith** if the invoice should be sent to a particular individual, and include an appropriate description for the work.
77. Firms carrying out additional work should invoice Audit Scotland as described in paragraph 63. In the local government sector any recoverable VAT on additional fees will be applied to reduce the contribution in respect of local government bodies.
78. Grade related rates may also be used by the PABV Group, for example, to propose auditors' fees for investigating correspondence from the public. In these cases, the fee is agreed between the auditor and PABV Group. In most cases this will involve one or two days for a preliminary assessment of the issue. If more work is required following this, further fees may be agreed. In all cases, fees must be agreed with PABV Group before work commences. The cost of this work is not normally invoiced directly to audited bodies but pooled and recovered through Audit Scotland's contributions.
79. The maximum grade related daily rates (including VAT at 20%) that apply both to firms and to Audit Scotland staff for 2014/15 audits are shown below:

Partners/Directors/ Asst. Directors	Senior Audit Managers/ Audit Managers	Qualified staff	Other staff
£1,963	£1,100	£665	£444

Firms should note that while these are the maximum rates that apply to additional fee discussions with audited bodies, the amount actually claimed from Audit Scotland should be reduced by the discount included in the firm's tender bid for the relevant sector (see paragraph 40).

80. Except in the local government sector, the VAT element of the daily rates is not recoverable by Audit Scotland and becomes a cost. Audit Scotland does not charge output VAT and it is important that auditors avoid audited bodies believing that any of their audit fees are recoverable from HM Revenue and Customs.

## Non audit work

81. Auditors invited to undertake non-audit work for their audited bodies must contact **Owen Smith** to obtain approval before commencing the work. This is referred to in more detail in letters of appointment and in Audit Scotland's policy on non-audit work (see **appendix 1**).

82. When applying for approval for non-audit work, auditors must describe the work, and confirm that their Ethics Partner has also approved that the work is in accordance with Ethical Standards. If possible, the expected fee income should also be provided. Auditors are responsible for billing the audited body directly for such work.

# Appendix 1

## Policy statement on non-audit work by appointed auditors

This policy statement applies to all audits where the auditor is appointed by the Auditor General or the Accounts Commission.

The objective of the policy is to avoid situations where non-audit work carried out by an Appointed Auditor creates an actual, potential or perceived conflict with the role of external auditor.

### Basic Policy

During the currency of an appointment an auditor, or any firm with which an auditor has a direct association, shall not carry out additional work, consultancy or otherwise, for public sector bodies which they audit without the prior approval of Audit Scotland.

Requests should be made in writing to Audit Strategy. Requests should be accompanied by express assurance from the auditor that the designated Ethics Partner has reviewed the proposed work and that they do not consider that it represents a conflict with the firm's role as external auditor, in particular a self review threat.

Audit Scotland will make its decision on any request having regard to the APB Ethical Standards currently in force. For example, in accordance with paragraph 63 of Ethical Standard 5, *Non-audit Services Provided to Audited Entities* (revised December 2011), approval would not be given for external auditors to seek appointment as internal auditors.

### PFI/PPP Projects

#### Conditions

Applications will be considered for audit firms to advise companies or consortia bidding for, or being awarded, PFI/PPP contracts with audited bodies on the following conditions:

- the auditor or firm must not act as principal but only as an advisor
- the audited body must be aware of and be content with the audit firm's role
- the audited body should generally be independently advised
- the auditor undertakes, through the appointment letter or otherwise, not to use the same staff on both the audit and advisory assignments and not to pass any information gained from the audit to the advisory team without the express written permission of the audited body.

#### Independent Review

The Auditor General and the Accounts Commission reserve the right to appoint an independent auditor to review any project where an auditor has acted as an advisor in any capacity, should problems be encountered with the project.