

Audit planning guidance

2015/16 audits



Prepared by Audit Strategy
October 2015

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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Key outputs and dates

All audit outputs, including any additional audit outputs identified in local annual audit plans, should be emailed to outputs@ishare.audit-scotland.gov.uk (firms) or added to ishare (ASG).

NHS

Date	Activity	Contact	Ref
06/11/15	Submit audit partner & manager contact details & audited body billing address changes for invoice purposes	Owen Smith	9
07/11/15	Submit initial fee claim (firms)	Owen Smith	151
07/01/16	Submit December progress report (firms)	Owen Smith	177
01/02/16	Submit Current issues return 1	Carol Calder	93
29/02/16	Submit annual audit plan	Owen Smith	14
29/02/16	Submit NFI questionnaire	Owen Smith	78
05/04/16	Submit March progress report (firms)	Owen Smith	177
30/06/16	Certify annual accounts, submit audited accounts and annual audit report	Owen Smith	22
30/06/16	Submit excel version of audited accounts & Consistency certificate	Owen Smith	24
30/06/16	Submit minimum dataset	Carol Calder	97
30/06/16	Submit all remaining outputs of the audit	Owen Smith	20
05/07/16	Submit final fee claim & June progress report (firms)	Owen Smith	177
01/08/16	Submit Current issues return 2	Carol Calder	93

Local government

Date	Activity	Contact	Ref
06/11/15	Submit audit partner & manager contact details & audited body billing address changes for invoice purposes	Owen Smith	9
07/11/15	Submit initial fee claim (firms)	Owen Smith	151
07/01/16	Submit December progress report (firms)	Owen Smith	177
01/02/16; 01/04/16; 01/08/16; 01/11/16	Submit Accounts Commission current issues returns	Allister Perston	93
29/02/16	Submit NFI questionnaire	Owen Smith	78
31/03/16	Submit annual audit plan	Owen Smith	14
05/04/16	Submit March progress report (firms)	Owen Smith	177
27/05/16	Last date for submitting fraud returns	Anne Cairns	88
30/06/16	Receive unaudited accounts from local authority	Owen Smith	17
05/07/16	Submit June progress report (firms)	Owen Smith	177
08/07/16	Submit technical database return	Tim Bridle	111
29/07/16	Technical database available	Tim Bridle	112
31/07/16	Certify safety camera programme grant claim	Tim Bridle	83
31/07/16	Certify education maintenance allowance grant claim	Tim Bridle	83
30/09/16	Certify annual accounts, submit audited accounts and annual audit report	Owen Smith	22
30/09/16	Submit Statutory performance indicators pro-forma	Antony Clark	75
30/09/16	Certify criminal justice social work services grant claim	Tim Bridle	83
30/09/16 (tbc)	Submit WGA assurance statement and return to NAO, where required	Paul O'Brien and Tim Bridle	81
30/09/16	Submit minimum dataset	Mark McCabe	97
05/10/16	Submit September progress report (firms)	Owen Smith	177
09/10/16	Certify non-domestic rates return	Tim Bridle	83
30/11/16	Certify housing benefits subsidy claim	Anne Cairns	83
30/11/16	Submit all remaining outputs of the audit	Owen Smith	20
30/11/16	Submit final fee claim & final progress report (firms)	Owen Smith	177

Central government

Date	Activity	Contact	Ref
06/11/15	Submit audit partner & manager contact details & audited body billing address changes for invoice purposes	Owen Smith	9
07/11/15	Submit initial fee claim (firms)	Owen Smith	151
07/01/16	Submit December progress report (firms)	Owen Smith	177
29/02/16	Submit annual audit plan	Owen Smith	14
29/02/16	Submit NFI questionnaire	Owen Smith	78
05/04/16	Submit March progress report (firms)	Owen Smith	177
01/02/16	Submit Current issues return 1	Gordon Smail	93
27/05/16	Last date for submission of NDPB fraud returns	Anne Cairns	88
15/06/16	(SW only) Certify accounts, submit audited accounts and annual auditors report	Owen Smith	22
15/06/16	(SW only) Submit all remaining outputs of the audit	Owen Smith	20
15/06/16	(SW only) Submit final fee claim (firms) & final progress report	Owen Smith	177
05/07/16	Submit June progress report (firms)	Owen Smith	177
01/08/16	Submit Current issues return 2	Gordon Smail	93
30/09/16 (tbc)	Submit WGA assurance statement and return to NAO, where required	Paul O'Brien and Neil Cameron	81
05/10/16	Submit September progress report (firms)	Owen Smith	177
31/10/16	Certify annual accounts, submit audited accounts and annual audit report	Owen Smith	22
31/10/16	Submit all remaining outputs of the audit	Owen Smith	20
31/10/16	Submit final fee claim & final progress report (firms)	Owen Smith	177

Further education

Date	Activity	Contact	Ref
06/11/15	Submit audit partner & manager contact details & audited body billing address changes for invoice purposes	Owen Smith	9
07/11/15	Submit initial fee claim (firms)	Owen Smith	151
07/01/16	Submit December progress report (firms)	Owen Smith	177
05/04/16	Submit March progress report (firms)	Owen Smith	177
01/02/16	Submit Current issues return 1	Mark MacPherson	93
30/06/16	Submit annual audit plan	Owen Smith	14
05/07/16	Submit June progress report (firms)	Owen Smith	177
01/08/16	Submit Current issues return 2	Mark MacPherson	93
05/10/16	Submit September progress report (firms)	Owen Smith	177
31/12/16	Certify annual accounts, submit audited accounts and annual audit report	Owen Smith	22
31/12/16	Submit minimum dataset	Mark MacPherson	97
31/12/16	Submit all remaining outputs of the audit	Owen Smith	20
09/01/17	Submit final fee claim & final progress report (firms)	Owen Smith	177

Introduction

1. This document provides guidance to appointed external auditors on planning and conducting the 2015/16 audits of all audited bodies. It should be considered along with:
 - the Code of Audit Practice
 - the audit appointment letter
 - any other guidance referred to in this planning guidance.

Main points/changes from last year

- Audit planning guidance now covers all sectors in a single document.
- The remuneration rate used to calculate fees remain unchanged based on Audit Scotland's scale uplift.
- The process for agreeing fees introduced for 2011/12 remains unchanged for 2015/16.
- Certification and annual audit report deadlines are now concurrent in all sectors.
- All audit outputs, including any additional audit outputs identified in local annual audit plans, should be emailed to outputs@ishare.audit-scotland.gov.uk (firms) or added to the audit's outputs library in ishare (ASG).
- Additional disclosures in the annual audit report, reflecting revisions to ISA 700, are now required for all audits (see paragraphs 50-53).
- The Performance Audit & Best Value Group (PABV) will continue to liaise directly with individual auditors about their involvement in Best Value (BV) audits (see paragraphs 63-67).
- One NFI questionnaire must be submitted by 29 February 2016 (see paragraphs 77-78).
- Auditors are reminded of their responsibility to inform Audit Scotland promptly about any significant matters which may arise from the audit (see paragraph 94).
- Datasets are required for the annual reports on local government, NHS and further education (see paragraphs 95-99).

Code of Audit Practice and core audit requirements

2. The responsibilities of auditors described in the 2011 Code of Audit Practice apply to all sectors with the exception of the requirement to provide an opinion on the regularity of financial transactions for local government. Paragraph 5 of the 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:

- 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.

3. Under the Local Government in Scotland Act 2003, auditors have a duty to be satisfied that councils have made proper arrangements to secure BV and to comply with their Community Planning responsibilities. Audit Scotland's expectation of auditors is covered by the approach to BV audits which is set out in more detail below (see paragraphs 59-67).
4. The Accounts Commission and the Auditor General may procure through Audit Scotland audits of the use of resources by public sector bodies and publish reports or guidance. Auditors may be requested from time to time to contribute to such work. Where the auditor's contribution is to be met from the provision included in the indicative fee range, auditors should ensure that locally determined work does not interfere with any work requested or directed by Audit Scotland.
5. The core audit can be defined as the work that Audit Scotland provided for when setting the indicative fee ranges, ie the audit work required to:
 - provide the Independent Auditor's Report on the financial statements (and any assurance statements on consolidation packs/whole of government accounts returns)
 - provide the annual report on the audit addressed to the body and the Controller of Audit/Auditor General for Scotland
 - communicate audit plans to those charged with governance
 - provide reports to management, as appropriate, in respect of the auditor's corporate governance responsibilities in the Code (including auditors' involvement in the NFI exercise for the audits involved)
 - prepare and submit fraud returns, including nil returns, to Audit Scotland where appropriate
 - identify significant matters arising from the audit, alert the Controller of Audit/Audit Scotland accordingly and support Audit Scotland in producing statutory reports as required
 - undertake work requested by Audit Scotland or local performance audit work, up to a specified value in each body as specified in paragraphs 100-0

and for local government audits only:

- certify all grant claims submitted by the body that have been approved for certification by Audit Scotland
- discharge the auditor's responsibilities in connection with bodies' publication of SPIs in accordance with the Accounts Commission's annual Direction

- provide existing evidence and intelligence for, and participate in, Shared Risk Assessment (SRA) processes leading to the preparation of a Local Scrutiny Plan for the council and a national scrutiny plan
 - report on the results of follow-up on councils' progress in implementing existing Best Value (BV) improvement plans
 - contribute to BV audits and other scrutiny responses agreed through the SRA process.
6. Auditors should use the audit fees to resource the requirements set out in paragraph 5 and later in this guidance. To avoid volatility in audit charges, Audit Scotland's central costs of the SRA process and BV audits are shared across all councils and recovered on a population basis through the Audit Scotland contribution. Where the overall demands (specifically the extent of audit involvement in the scrutiny responses agreed through the SRA, including BV - see paragraph 56) cannot be met from the indicative fee range, the issue should be discussed with PABV Group at the earliest possible stage so that a decision can be made about whether an additional fee should be agreed with the council or met by PABV Group.
 7. Any work commissioned from auditors above and beyond the core audit work will incur additional audit fees. When commissioning such work Audit Scotland will indicate whether the additional fee is to be separately agreed with the audited body or to be invoiced to PABV Group, assuming that the work cannot be accommodated by varying the fee agreed with the body within the indicative fee range.
 8. Auditors are expected to attend and contribute to meetings hosted by Audit Scotland during the year. These take the form of one all-sector audit planning conference and a number of sector-specific meetings for all auditors involved in auditing particular sectors.

Audit outputs

Audit plans

9. Auditors must provide key audit contact (partner and manager) and audited body billing details (for invoicing) by **6 November 2015**. Audit Strategy will provide a pro forma for completion.
10. Auditors must observe their statutory duties, letters of appointment, the Code, Auditing Standards, this planning guidance, and any other relevant guidance when preparing their plans. Annual audit plans must include:
 - the agreed fee (where agreed) so that Audit Scotland can accurately invoice audited bodies
 - a complete list of outputs planned for the year
 - if the exemption provision for small bodies from paragraph 5 of the Code of Audit Practice has been taken, a statement of how the scope of the audit has been reduced.
11. [Public Audit in Scotland](#) sets out four areas of focus, to set a common framework for all the audit work conducted for the Auditor General for Scotland and for the Accounts Commission:
 - Financial sustainability
 - Financial management
 - Governance and transparency
 - Value for money.
12. These areas of focus feature prominently in the new Code of Audit Practice which will come into force for the 2016/17 audits. Auditors may wish to consider how audited bodies are demonstrating these areas, including any risks to their achievement, in the course of planning and reporting their annual audit work in 2015/16.
13. Auditors must write to Audit Strategy if fees have not been agreed before the annual audit plan is presented to those charged with governance explaining why and the current position of fee negotiations.
14. Auditors must submit annual audit plans (as presented to those charged with governance) to Audit Scotland by dates specified in the table at paragraph 16. Audit Scotland uses management information from annual audit plans, including agreed fees and target dates for submitting audit outputs, as part of the assessment of audit quality. The planned submission dates for audit outputs should be when auditors expect to submit the final version, including an agreed action plan where applicable.
15. Audit Strategy does not approve annual plans, but will contact auditors if more information is needed. Queries may arise if auditors do not:
 - 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.

Auditor's opinion and annual audit report

16. Audit Scotland and the Accounts Commission set certification deadlines to meet the requirements of the [Local Authority Accounts \(Scotland\) Regulations 2014](#) (2014 Regulations) in local government, and for other sectors, the [Public Finance and Accountability \(Scotland\) Act 2000](#) (PFA Act). The respective deadlines for each sector are set out in the table below:

Sector	Submission of Audit plan	Certification & Annual audit report
Scottish Water*	28 February 2016	15 June 2016
Health*	28 February 2016	30 June 2016
Local government**	31 March 2016	30 September 2016
Central Government*	28 February 2016	31 October 2016
Further Education*	30 June 2016	31 December 2016

17. Local authorities must submit unaudited annual accounts to their auditor by **30 June**. Bodies preparing their accounts under the PFA Act have a six month statutory deadline for submitting accounts for audit so the deadline for submission of accounts for audit may be after Audit Scotland's certification deadlines. Auditors should agree with the body when the accounts will be received. If the body wishes to complete the audit in a shorter timescale due to a sponsor department requirement or to support the group audit opinion then auditors should aim to accommodate such requirements.
18. Local authorities (or a committee whose remit includes audit or governance) must meet by **30 September** to consider the accounts and approve them for signature (this does not apply to charities). Immediately after approval, specified members and officers must sign and date the accounts and then provide them to the auditor. Auditors should plan their audit completion timetable to meet this deadline and, where possible, attend the relevant local authority or committee meeting and sign the accounts without delay.
19. Local authorities are required to publish their accounts on their website no later than **31 October**. Other bodies must wait until their accounts have been laid in Parliament before publishing them on their websites.

Submission of completed outputs

20. Auditors must submit all outputs from the audit to Audit Scotland before the audit is deemed to be complete. All local auditor outputs are stored on Audit Scotland's knowledge management system ishare:
- For ASG staff this means that outputs listed in this 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' library.

- For firms all audit outputs listed in sector guidance and any additional audit outputs identified in annual audit plans should be sent to the email address 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.

21. 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.
22. When submitting signed accounts, auditors must email one electronic copy (scanned only if unavailable in an electronically searchable pdf format) of the accounts to the [outputs](mailto:outputs@ishare.audit-scotland.gov.uk) email address (firms) or add it to the audit's Key Client Documents library of ishare (ASG) and send the number of signed hard copies of accounts set out in the table below to **Owen Smith** at the NEW address below. The number of signed sets of audited annual accounts required by the audited body should be agreed locally.

Owen Smith
 Audit Scotland
 102 Westport
 Edinburgh
 EH3 9DN

Sector	SW	NHS	LG	CG	FE
Accounts	2	6 (3 unbound)*	1	2	2

* NHS auditors may continue to send 4 copies directly to SGHSCD if this would help to meet the SGHSCD deadlines. Where auditors do this, please let **Owen Smith** know with the two bound copies sent to Audit Scotland.

23. Auditors should contact **Owen Smith** if bodies wish to have their accounts laid by a particular date to ensure that such dates can be met. Audit Scotland will send auditors a copy of the letter that is sent to the relevant minister/ department for laying.
24. NHS auditors must also email the excel version of the accounts accompanied by an assurance statement covering consistency with the financial statements to the [outputs](mailto:outputs@ishare.audit-scotland.gov.uk) email address (firms) or add it to the audit's Key Client Documents library of ishare (ASG).
25. 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.

Bodies with specific requirements

Local authority pension funds

26. The audit appointment of local authority auditors includes the audit of any local government pension funds administered by an authority. Audit Strategy combines the local authority and pension fund in the fee ranges set for relevant local authorities and it is for local auditors to separately identify what part of the fee is applicable to which recipient in the respective audit plans. Pension funds should be considered as separate audits despite the fee setting arrangements, so auditors should prepare audit plans, any reports to management that they consider necessary, the independent auditor's report and an annual audit report.

Local authority charities

27. The audit appointment of local authority auditors includes the audit of any trust funds falling within section 106 of the Local Government (Scotland) Act 1973 that are registered as charities with the Office of the Scottish Charity Regulator (OSCR). Auditors should agree the fees for the charity audits at the same time as agreeing the audit fee for the local authority and report them separately in the annual audit plan. Auditors do not need to prepare separate annual audit reports for local authority charities.
28. Auditors may also be approached by local authorities with a request to carry out audits for trust funds where the local authority is not the sole trustee (ie the [Local Government \(Scotland\) Act 1973](#) does not apply). Auditors appointed by the Accounts Commission are eligible under the [Charities Regulations](#) to audit a charity's financial statements.
29. A charity (other than those covered by paragraph 27 which are audited under appointment) with gross income of £500,000 or above or gross assets of £3,260,000 or above is required to submit an auditor's report with its financial statements. Auditors are encouraged to take up any request from their local authority to carry out the 2015/16 audit of trust funds that are registered charities and should treat this as non-audit work.

Community Justice Authorities (CJAs)

30. Although CJAs are hosted by councils and comply with the [Code of Practice on local authority accounting in the UK](#) (accounting code), they are central government bodies audited under the [Public Finance and Accountability \(Scotland\) Act 2000](#). Central government certification deadlines therefore apply to CJAs (ie **31 October**). The functions of CJAs will transfer to Community Justice Scotland from 1 April 2017, but audit responsibilities will remain unchanged until the legislative process is complete.

Integrated Joint Boards

31. Councils and health boards are in the process of setting up 30 Integrated Joint Boards (IJB), and one council is adopting the lead agency approach, to meet the [Public Bodies \(Joint Working\) \(Scotland\) Act 2014](#). Council and health board auditors should continue to monitor progress being made towards integration and include references in their annual audit reports. Specifically, auditors will want to know the date that any integrated joint boards will become operational, review financial plans and comment on progress towards establishing effective governance arrangements for the new partnerships.
32. The Act specifies that Integration Joint Boards (IJBs) should be treated as if they were bodies falling within section 106 of the 1973 Act. Audit appointments have been made for each of the 30 IJBs that have been set up. **Appendix 4** sets out when each IJB was established as a legal entity, but auditors will need to confirm when they took on their responsibilities. Auditors should make early contact with their IJB appointments to identify what audit work (if any) will be required in 2015/16.

Working together

Work for other agencies

33. Audit Scotland's Audit Services Group contributes to other audits, for example, by arrangement with the NAO and WAO. These audits are not appointments decided by the Auditor General for Scotland so the Audit Scotland Code of Audit Practice does not apply to this work. This work is therefore included in the appointment letters issued to Audit Scotland employees in different terms from where the employee is the appointed auditor. These alternative arrangements apply to:
- European SGRPID - Scottish Government Rural Payments and Inspections Directorate
 - Forestry Commission (England and Wales and Great Britain suite of accounts).

Shared systems and functions in the NHS

34. The Appendix to auditors' letters of appointment explains how the audit of shared systems or functions should be dealt with under fee for the audit. Audit Scotland strongly encourages auditors to seek efficiencies and avoid duplication of effort by liaising closely with other auditors, agreeing an appropriate division of work and sharing audit findings. The arrangements referred to below, however, merit special mention.
35. Auditors should consider the service auditor reports referred to below, and any associated external audit report, in addition to their findings from previous years when reviewing health board systems. Service audit reports are prepared covering the following national systems/arrangements:
- PSD (NHS NSS host, service auditor currently Scott Moncrieff)
 - National IT (NHS NSS host, service auditor currently Scott Moncrieff)
 - NSI (NHS Ayrshire and Arran host, service auditor currently PwC).

Other service audit reports may be provided by boards to cover arrangements they have in place with individual boards. For example NHS NSS issues a service report to NHS HIS, NHS 24 etc. for payroll services they provide. Auditors will want to confirm that they obtain adequate assurance where such arrangements exist.

NHS National Services Scotland – primary care payments and National IT contract

36. NHS National Services Scotland procures service audits each year, covering primary care payments and the National IT contract. Practitioner and Counter-Fraud Services is a strategic business unit of NSS, responsible for calculating and making payments to primary care practitioners on behalf of health boards. This covers payments for general medical services, general dental services, general ophthalmic services and general pharmaceutical services and accounts for more than 20% of total NHS expenditure in Scotland. The National IT contract

covers the services provided by ATOS Origin Alliance eg controls over the server supporting eFinancials.

37. NSS's management provides assurances in the form of service auditor reports, issued in May each year to the health boards concerned, setting out details of the services covered and the control objectives and controls intended to be in place over the processing of payments. This document reports on whether controls were designed to achieve the control objectives and whether the control procedures were in operation during the year. This document is made available to health boards and their auditors by NSS.
38. The external auditor responsible for NSS reviews the work of the primary care payments service auditor and reports on this review to other health external auditors in May each year.

NHS Ayrshire & Arran - National Single Instance

39. NHS Ayrshire & Arran host a National Single Instance (NSI) eFinancials service on behalf of all Scottish health boards. The Board issues a service audit report on the controls operating over the financial ledgers in the year, including the Real Asset Management system.

Internal Audit

40. Audit Scotland is aware of two significant internal audit consortia within NHSScotland:
 - Fife, Tayside and Forth Valley Audit and Management Services (audit appointments held by Audit Scotland staff (NHS Fife and NHS Forth Valley), PWC (NHS Tayside) and Scott Moncrieff (NHS Lanarkshire)); and
 - Lothian and Borders NHS internal audit services (audit appointments held by Audit Scotland staff (NHS Lothian) and Scott-Moncrieff (Borders HB)).
41. Audit Scotland auditors have the lead role in reviewing the internal audit arrangements in both consortia.

Group Audits

42. Auditors of groups and service arrangements should consider using the annual Audit Scotland [Transparency & Quality report](#) to assist in documenting their assessment of significant component auditors' professional competence where the firm is one of the seven firms that carry out audit work for Audit Scotland. Paragraph 19 of [ISA 600 Special Considerations - Audits of Group Financial Statements including the work of component auditors](#) requires the group auditor to assess the component auditor's independence, competence and the regulatory environment in which they work.

Access to information

43. Many audited entities have services provided by external providers, such as accounting firms delivering internal audit services. The [Public Finance and Accountability \(Scotland\) Act 2000 \(Access to Documents and Information\) \(Relevant Persons\) Order 2003](#) defines any person that has or had a contractual obligation to supply goods or services to a body the accounts of

which are audited as a relevant person, to whom S24(2) of the [Public Finance and Accountability \(Scotland\) Act 2000](#) applies.

44. This means that auditors acting under the PFA Act have the same rights of access to information held by such people as they do to the audited body. There is no equivalent provision for local government auditors under the Local Government (Scotland) Act 1973.
45. Auditors may wish to ensure that their colleagues providing internal audit or other services to audited bodies in all sectors other than local government are aware of this, and suggest that audited bodies highlight this in any contracts that they may enter into.

Audit rotation

46. The current audit appointments will come to an end following the conclusion of the 2015/16 audits. Auditors should refer to paragraph 3.3 of their letter of appointment and plan to be able to provide incoming auditors with sufficient information to help minimise the impact of auditor rotation:

At the end of the auditor's appointment, the auditor will take all reasonable steps to assist any successor external auditor appointed to the bodies mentioned in this letter. Such assistance shall include making available to the successor auditor any permanent information about the bodies and about the audit that the successor and outgoing auditor believe would enhance Audit Scotland's partnership working ethos. This information might typically include, but may not be limited to:

- *information about the bodies' governance and management arrangements, financial systems and internal controls*
- *audit reports, management letters and correspondence exchanged with the audited bodies during the period of appointment.*

Audit Scotland will issue a guidance note about the audit handover protocols in early 2016.

Audit considerations

Materiality

47. Auditors should consider the public interest factor inherent to the work carried out for the Auditor General and the Accounts Commission and apply judgement when determining overall materiality, performance materiality and clearly trivial thresholds, in compliance with [ISA 320 Materiality in planning and performing an audit](#).
48. Risk considerations specific to an audited body should be reflected in the performance materiality figure used to scope areas of the financial statements that will be subject to focused audit, determine sample sizes and evaluate variances arising from substantive procedures. The threshold for clearly trivial above which auditors should accumulate misstatements for reporting and correction to audit committees is a matter for auditor judgement but must not exceed £250,000.
49. In the interests of transparency, auditors must report the materiality figures being used (overall and performance), and the clearly trivial thresholds for accumulating and reporting misstatements, in their audit plans. This information is important for audit committees in fulfilling their oversight responsibilities.

Audit reporting

50. [ISA \(UK and Ireland\) 700 The independent auditor's report on the financial statements](#) was revised in 2013 to require listed companies and bodies that are required to or have voluntarily adopted the UK Corporate Governance Code to produce a more detailed independent auditor's report in compliance with paragraphs 19A and 19B of the ISA.
51. Audit Scotland has extended the reporting requirement in the interests of transparency to all audits carried out under appointment, but requires the disclosures to be in the Annual audit report rather than the audit opinion. Enhanced reporting will improve stakeholder understanding of the audit and the issues considered by the auditors. Annual audit reports are published on our website and their public availability and content make them an ideal vehicle for the enhanced reporting.
52. Annual audit reports for 2015/16 must include:
 - a description of those assessed risks of material misstatement that were identified by the auditor which had the greatest effect on the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the audit team
 - an explanation of how the auditor applied the concept of materiality in planning and performing the audit, including specifying the materiality threshold for the financial statements as a whole

- an overview of the scope of the audit, including an explanation of how it addressed the assessed risks of material misstatement and was influenced by the auditor's application of materiality
- the audit findings from work on each risk of material misstatement or a statement that there is nothing to report.

53. Audit reporting aims to improve the use of public money in the bodies being audited. The foundation the audit is providing independent assurance about governance, financial management and performance. Audit reporting can also deliver much more value by providing independent, evidence-based recommendations, generating insights into what works and supporting improvement.



Wider scope requirements

Shared Risk Assessment and Joint Scrutiny Planning

54. Local government auditors are members of the Local Area Network (LAN) at each council as part of their audit responsibilities. LANs bring together representatives from across local government scrutiny bodies to agree a Shared Risk Assessment (SRA). The output of the SRA process is an annual Local Scrutiny Plan (LSP) which sets out the shared risk assessment of the council and the proposed scrutiny response. LSPs and the National Scrutiny Plan are published on Audit Scotland's website in March each year.
55. All LAN members are required to submit evidence to and attend LAN meetings, contribute to the drafting of the LSP for the council and engage with the council to discuss SRA related developments. They should also participate in any on-going training of LAN members so that they are familiar with any developments that take place in the SRA process.
56. Where a requirement for scrutiny activity in 2016/17 is identified and the fee previously agreed locally is considered insufficient, the resourcing of this should be discussed with Performance Audit & Best Value Group. Much of the audit activity of this type will fall within existing responsibilities so an increase in fees should not ordinarily be needed. In most cases the work of this nature will be reflected in future annual audit plans, which should be consistent with the LSP.
57. SRA guidance is issued annually which sets out the process for scrutiny bodies to follow in carrying out an SRA and developing a proportionate scrutiny response for each council. The specific responsibilities of LAN representatives are also set out in more detail in the guidance. Auditors should follow this guidance when participating in the SRA process. A copy of this guidance is available on the planning guidance page.
58. The main contact is **Antony Clark**, aclark@audit-scotland.gov.uk, 0131 625 1857.

Best Value

59. Council BV audits are currently carried out by central teams within PABV working in partnership with local auditors. The timing, nature and extent of BV audit work is determined following a shared risk assessment for each council, undertaken in partnership with other scrutiny bodies. The Accounts Commission may also request a specific report from the Controller of Audit.
60. In 2015, the Accounts Commission agreed that a new approach to the Best Value audit is required. The objectives of the new approach, the details of which are currently being developed, include:
 - providing a Best Value report to the Commission for each council at least once in a five year period
 - to have a greater emphasis on driving continuous improvement in councils

- to ensure we stay proportionate and risk based
 - to develop the arrangements so that it is a joint responsibility between PABV and local auditors.
61. The changes, outlined in a briefing note available on the extranet, are being developed during 2015/16 and as the arrangements and requirements are agreed detailed guidance will be provided to support planning, implementation and reporting of the new auditing Best Value approach.
 62. Under the new joint approach the role of local auditors in the work will be to work with others on scoping, planning and undertaking evidence gathering, making audit judgements and contributing to the BV audit report. Additional work may be required where the Commission decides to use its powers to instruct further audit work or to hold a hearing in response to a BV audit.
 63. The focus in the final year of appointments will be on ensuring a smooth transition between auditors and preparing for the new approach. A key element of this will be a baseline summary on Best Value, produced for each council by the current local auditor working with PABV and other scrutiny partners. This will link with this years SRA process. Guidance on the content of the summary will be provided in due course.
 64. Where there has been a recent BV audit, auditors should assess the council's progress in implementing its improvement plan and comment in their annual audit reports, or raise issues earlier with PABV if they have concerns about the council's progress.
 65. Ministerial guidance to Accountable Officers for public bodies beyond Local Government sets out their duty to ensure that arrangements are in place to secure Best Value in public services (<http://www.scotland.gov.uk/Publications/2011/03/22154607/0>).
 66. Auditors may use Audit Scotland's Best Value toolkits (<http://www.audit-scotland.gov.uk/work/toolkits/>) to inform audit work in non local government bodies. The selection of the toolkit(s) should be based on an appropriate consideration of local circumstances and risks. Auditors should also check with PABV whether there are any additional considerations as most of the toolkit(s) have had not been refreshed since they were produced in 2010. New guidance and tools are in development and will be issued as part of the current work on the new approach to auditing Best Value. These will be developed for use across the audits for all sectors.
 67. The main contact is **Ronnie Nicol**, rnicol@audit-scotland.gov.uk, 0131 625 1868.

Following the public pound

68. Local authorities have a statutory responsibility to comply with the Accounts Commission/ COSLA [Code of Guidance on Funding External Bodies and Following the Public Pound](#) (FtPP) as set out in a [Ministerial direction](#). There are close parallels between the principles of the FtPP Code, and local authorities' wider duty to achieve Best Value. Compliance with the

FtPP Code will be embedded into the Commission's performance expectations for councils under revised Best Value guidance.

69. Local auditors should continue to give attention to councils' arrangements to comply with the FtPP Code as local authorities continue to adopt novel and new models of service delivery (often in partnership with others) with reference to the [supplementary guidance issued to auditors in 2015](#). This set out the expectation that local auditors will consider broadly the arrangements that councils have in place to fulfil their statutory obligations to comply with the FtPP Code, to ensure that they are able to report in their annual audit report any significant matters of non-compliance which may be identified.
70. In future years, proportionate and risk-based auditing of compliance with the FtPP Code will be part of the new integrated Best Value audit approach. Additional guidance on this will be provided as and when this becomes applicable.
71. The main contact is **Antony Clark**, aclark@audit-scotland.gov.uk, 0131 625 1857.

Community Planning Partnership Audits - local follow up work

72. Community planning partnerships (CPPs) are vehicles for delivering more integrated local public services, an increased focus on prevention and better outcomes for communities. The joint Scottish Government/COSLA [Statement of Ambition for Community Planning](#) sets out the key role that community planning and CPPs should play in providing the foundation for effective partnership working, within which wider public service reform initiatives will happen.
73. We are planning to publish a national report on community planning for the Auditor General and Accounts Commission in March 2016. Appointed auditors of [Aberdeen City](#), [Falkirk](#), [Glasgow](#), [Moray](#), [North Ayrshire](#), [Orkney](#), [Scottish Borders](#) and [West Lothian](#) should carry out further local follow-up work to assess the extent to which the councils continue to make progress against their improvement agenda.
74. The main contact is **Antony Clark**, aclark@audit-scotland.gov.uk, 0131 625 1857.

Statutory Performance Indicators - Councils

75. The Accounts Commission is considering its strategy for the Local Authority SPIs during autumn 2015. The Commission will issue its new Direction by the end of December 2015. Guidance will be issued to auditors early in 2016 setting out the audit and reporting requirements for the Commission's SPI strategy and Direction.
76. The main contact is **Antony Clark**, aclark@audit-scotland.gov.uk, 0131 625 1857.

National Fraud Initiative (NFI)

77. All councils, Strathclyde Partnership for Transport, Tayside Contracts, all health boards except for the Mental Welfare Commission, and central government bodies specified at **Appendix 3** are participating in the NFI 2014/15. They submitted data in late 2014 and received matches for investigation in early 2015. Audit Strategy expects bodies to investigate all recommended

matches plus further matches based on findings and the risk of error or fraud. Match investigation work should be largely completed by 30 September 2015 and the results recorded on the NFI system. Some investigations may continue beyond this date.

78. Auditors should monitor their audited bodies' participation and progress during 2014/15 and into 2015/16 and, where appropriate, include references to NFI in their annual audit reports for both years. Auditors must complete an NFI audit questionnaire for each body participating in the NFI and send it to the [outputs](#) email address (firms) or add it to the audit's outputs library in ishare (ASG) by **29 February 2016**. The information provided by auditors will form the basis of Audit Scotland's NFI report to be published in May 2016. Auditors should expect to spend up to five days on NFI work.
79. The main contact is **Owen Smith**, osmith@audit-scotland.gov.uk, 0131 625 1914.

Whole of government accounts

80. The Code of Audit Practice requires appointed external auditors to review and report on whole of government accounts (WGA) returns prepared by audited bodies. External auditors of local authorities, NDPBs and the Scottish Government are required to certify 2015/16 WGA returns over a prescribed threshold.
81. Audit Scotland will publish two technical guidance notes to provide guidance on the local government and central government auditors on the work required for the 2015/16 WGA. Although dates have not yet been set by the NAO and HM Treasury, submission of WGA assurance statements is likely to remain **30 September 2016** as for last year.
82. The main contact is **Tim Bridle**, tbridle@audit-scotland.gov.uk, 0131 625 1793.

Grant claims and returns

83. The audit appointments in local government include certifying any grant claims listed in the appendix of Technical guidance note on certifying approved local authority grant claims and returns. Auditors should consult the Technical Services Unit (TSU) if an authority requests the certification of a claim not included on this list. New claims are added only after agreement with the relevant paying department/agency.
84. Technical guidance notes (GNs) which give guidance on the certification of each claim are issued each year on the Technical Reference Library on ishare and the extranet. These will confirm the certification and submission deadline for each grant claim. HBCOUNT will continue to be in place in for 2015/16 (and beyond) for certifying benefit subsidy claims.
85. Indicative fee ranges for FE colleges do not provide for auditors reviewing accounts for SFC year end purposes, certifying any grant claims, statistical returns or other similar arrangements. However, auditors may be approached by colleges with requests for such work. In such cases, auditors should have regard to the following guidelines:
- Certification by internal audit should be encouraged where the paying agency finds this acceptable.

- Where certification by an independent accountant is required, but not specifically the college's appointed external auditor, colleges may prefer to arrange to have the work carried out by a local firm of accountants.
- Where certification/work by the appointed external auditor is required, auditors may enter into a local arrangement with their colleges. The fee arrangements for this non-audit work are a matter for the college and the auditor. No prior approval is required from Audit Scotland to undertake the work and it should not be included in annual audit plans. Fees for grant claims should be billed directly to colleges by firms, but the fee income earned should be reported in the final fee claim progress report.

86. The contact points are:

- HB subsidy claim: **Anne Cairns**, acairns@audit-scotland.gov.uk, 0131 625 1926.
- All other claims: **Tim Bridle**, tbridle@audit-scotland.gov.uk, 0131 625 1793.

Fraud returns

87. Auditors of local authorities and NDPBs are required to submit fraud returns to the TSU in accordance with guidelines provided on the Technical Reference Library and on the returns themselves. Frauds should be reported where they involve the misappropriation or theft of assets or cash and are facilitated by weakness in internal control.
88. Auditors should put arrangements in place to be notified of all relevant frauds over £5,000, and should report them as soon as practicable after the fraud has been discovered by submitting a pro-forma return for each case. All completed reports (or confirmations of nil returns) must be submitted to the [outputs](#) email address by **27 May 2016**. Reports of frauds involving less than £5,000 are not required.
89. The main contact is **Anne Cairns**, acairns@audit-scotland.gov.uk, 0131 625 1926.

Correspondence and statutory reports

90. Audit Scotland may from time to time request auditors to support preliminary enquiries and investigations into matters raised with Audit Scotland through correspondence or where significant matters arise which may lead the Controller of Audit or Auditor General to consider making a statutory report. The arrangements for agreeing additional work and the process for related fee claims are set out in paragraph 172.
91. The main contact is **Angela Canning**, acanning@audit-scotland.gov.uk, 0131 625 1835.

Audit Intelligence

92. Timely reporting of issues allows Audit Scotland to have a good level of awareness across the public sector and to inform the Auditor General and the Controller of Audit of relevant issues. This assists with the planning of statutory reports and production of overview reports.

93. Auditors must send current issues returns on **1 February 2016** and **1 August 2016** for all sectors, with extra returns in local government on **1 April 2016** and **1 November 2016** using the risk categories below:
- AGS/Accounts Commission interest
 - Parliamentary/Elected Members interest
 - Ministerial interest
 - Financial sustainability
 - Financial management
 - Governance and transparency
 - Value for money.
94. Auditors should supplement the current issues returns with intelligence to Audit Scotland during the year on emerging issues and risks in audited bodies, particularly where there are issues in the audited body which may result in a statutory report. These issues may arise directly from the annual audit process or may be identified during on-going engagement with the audited body. The key contacts for each sector are:
- Local government: **Allister Perston**, aperston@audit-scotland.gov.uk, 0131 625 1970.
 - Central government: **Gordon Smail**, gsmail@audit-scotland.gov.uk, 0131 625 1874.
 - NHS: **Carol Calder**, ccalder@audit-scotland.gov.uk, 0131 625 1804.
 - FE: **Mark MacPherson**, mmacpherson@audit-scotland.gov.uk, 0131 625 1828.

Performance audits

Annual reports

95. Annual performance reports are written for local government, health and further education. These reports use information from the audited accounts and annual audit reports but also require some additional information from auditors. Additional information, which may also be used to maintain the intelligence needed for monitoring the sector, is collected as minimum datasets.
96. The datasets will consist primarily of information that is generally already in the audit domain as a result of the core audit work undertaken for the audit of financial statements and governance purposes, but will include for local government some details about sources of capital finance, the general fund reserve, equal pay, financial planning, service redesign, measures to make savings or increase income and information about identified gaps between councils' anticipated spending and income in future years. Audit Scotland is exploring with local authority Directors of Finance options for capturing more consistent and comparable information about these 'funding gaps'.
97. The specification of minimum datasets will be agreed through sector meetings. The dataset should be factually agreed with the audited body. Auditors should send the dataset to the [outputs](#) email address (firms) or add it to the audit's outputs library in ishare (ASG) alongside the annual audit report:
 - Health: **30th June 2016**.
 - Local government: **30 September 2016**.
 - Further education: **31 December 2016**.
98. There are no other requirements for auditors to undertake specific performance audit work in 2015/16. However, auditors are reminded of the desirability of working in partnership with Audit Scotland as far as possible and maintaining audited bodies' awareness of performance audits that are relevant to the sector.
99. The contacts for each sector are:
 - Health: **Carol Calder**, ccalder@audit-scotland.gov.uk, 0131 625 1804.
 - Local government: **Mark McCabe**, mmccabe@audit-scotland.gov.uk, 0131 625 1806.
 - Further education: **Mark MacPherson**, mmacpherson@audit-scotland.gov.uk, 0131 625 1828. Mark is on extended leave until January 2016 so auditors should contact **Angela Canning**, acanning@audit-scotland.gov.uk, 0131 625 1835 in the meantime.

Targeted follow up of national performance audits

100. Audit Scotland's Corporate Plan 2015-18 includes making a difference as one of the three main objectives of our strategic improvement plan. The impact of national performance audits

may be followed up in a number of ways, including through local impact returns completed by auditors or auditors undertaking more targeted follow-up work in councils.

Audit Scotland published a report on *Scotland's Public Sector Workforce* in November 2013. Auditors must carry out local follow up work, based on the recommendations in the 2013 report. A template will be produced by PABV and circulated in October 2015. Auditors should complete the template by **June 2016**. Auditors should expect to spend up to 10 days on following up this report.

101. The main contact is **Claire Sweeney**, csweeney@audit-scotland.gov.uk, 0131 625 1848.

Housing benefit performance audits

102. The Accounts Commission has responsibility for the audit of housing benefit (HB) services in Scotland, and specialist benefits auditors within Audit Strategy carry out a programme of performance audit work. As part of this work, the benefits auditors will liaise with the appointed external auditor so that any local intelligence can be taken into account.

103. The main contact is **Anne Cairns**, acairns@audit-scotland.gov.uk, 0131 625 1926.

Technical guidance

Technical guidance notes on the annual accounts

- 104.** Audit Scotland's TSU will publish technical guidance notes to provide auditors with guidance on planning and performing the audit of the 2015/16 annual accounts. Notes will be prepared for:
- Local authorities including separate modules for section 106 charities and pension funds
 - Central government bodies
 - Health boards
 - Colleges.
- 105.** The notes will highlight the main risks of misstatement in the financial statements, and will provide guidance (where relevant) on:
- the opinion on the regularity of income and expenditure
 - the opinion on the part of the remuneration report that is audited
 - the opinion on the consistency of the management commentary with the financial statements
 - matters on which auditors are required to report by exception, eg the annual governance statement.
- 106.** The TSU will also publish separate technical guidance notes containing model independent auditor's reports based on the requirements of ISA 700 but adapted for each type of body.
- 107.** The TSU will consult auditors when preparing technical guidance notes and auditors should contribute effectively to the consultation process.

Technical bulletins

- 108.** The TSU will also prepare technical bulletins each quarter to provide external auditors with
- information on the main public sector technical developments in the quarter that are relevant to their audit appointment
 - guidance from the TSU on any emerging risks identified in the quarter.

Contact point

- 109.** The main contact is **Paul O'Brien**, pobrien@audit-scotland.gov.uk, 0131 625 1795.

Technical databases

- 110.** The TSU co-ordinates the compilation of a technical database of financial information from the unaudited annual accounts of the 32 Scottish Councils. The databases are for auditors to use

for analytical review purposes, enabling inter authority comparisons of items of account, key ratios and year on year analytical review if the comparative data is populated.

111. Local government auditors must complete and send the data capture workbook the [outputs](#) email address (firms) or add it to the audit's outputs library in ishare (ASG) by **8 July 2016**. The workbooks can be completed from information in the unaudited accounts occasionally supplemented by working papers where it is not in the notes to the accounts. The completion process itself may help identify areas of Code non-compliance for further investigation.
112. The 2014/15 databases are available from the Technical reference library and the 2015/16 database will be available by **29 July 2016**.
113. The main contact is **Tim Bridle**, tbridle@audit-scotland.gov.uk, 0131 625 1793.

Other technical issues for 2015/16

Highways network asset

114. The 2016/17 local government accounting Code will adopt the measurement requirements of the Code of practice on transport infrastructure assets (the transport code) for the highways network asset, ie measurement on a depreciated replacement cost basis. This will have a significant impact on the value of local authority balance sheets.
115. This will represent a change in accounting policy from 1 April 2016 and will require full retrospective restatement including a restated balance sheet at 1 April 2015. Finance staff, asset management practitioners and engineering professionals should already be working together on completing a project plan to achieve successful implementation. A robust project plan should be in place based on authority-specific information provided through an impact assessment which identified gaps in current data, systems and processes. Failure by authorities to progress preparations through 2015/16 represents a risk to them having the necessary information in the required timescale.
116. Auditors should ensure their plans for 2015/16 include a consideration of their authority's state of preparedness, including the completeness of information for an opening balance sheet.

Fee for the audit

117. Guidance on the construction of indicative fee ranges and determining agreed fees in conjunction with audited bodies is included in auditors' letters of appointment.

Definitions

118. 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

119. 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.

120. 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.

121. 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.

122. The contribution to travel and expenses, and towards performance audit work, is described below in the section on Contribution.

123. Audit Scotland will notify auditors as soon as possible about the indicative fee ranges for 2015/16. All fees should normally be agreed within this range (see paragraph 119). 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). Initial discussions with the audited body about a proposed fee outside the range are permitted.
124. Some bodies in the central government sector (as specified in paragraph 135) 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. 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.
125. 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.
126. 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.
127. Audit Scotland issues the first instalment 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).
128. 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

129. 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.
130. 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

131. 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 2015/16 have been reduced in each sector by the base discount.

Auditors' remuneration

132. 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

133. 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.
134. 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.

Bodies on which Audit Scotland is not empowered to levy charges

135. Audit Scotland is not empowered to levy charges on some audited bodies in the central government sector. In these cases the audit fee is funded by a contribution from central government. Where relevant to an auditor's portfolio of appointments, any such bodies are identified in the offer of appointment. The bodies on which Audit Scotland is not empowered to levy charges are listed in Appendix 2.
136. In these cases, it is still appropriate for the auditor to agree a fee for the audit. The auditor should construct a fee proposal in the same way as for any other body and seek the audited body's agreement or acknowledgement of the factors affecting the proposed fee. Whether a body pays for its audit or not has no impact on auditor remuneration arrangements.
137. While such bodies are not required to meet the resulting cash cost of the audit fee, they are required to disclose notional audit fees in their financial statements which count against budget cover and reflect, among other things, the standard of governance etc perceived to be in place in the body.

Additional work

Additional work

138. 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

139. If the additional 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 156).

Additional work beyond the indicative fee range

140. Where the nature of the additional audit work merits a separate fee, or the adoption of grade related rates (within the maximum rates specified in paragraph 144), the auditor must first obtain approval from **Owen Smith** 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.
141. 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.
142. Firms carrying out additional work should invoice Audit Scotland as described in paragraph 164. In the local government sector any recoverable VAT on additional fees will be applied to reduce the contribution in respect of local government bodies.
143. 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.
144. The maximum grade related daily rates (including VAT at 20%) that apply both to firms and to Audit Scotland staff for 2015/16 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 134).

145. 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

146. 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).
147. When applying for approval for non-audit work, auditors must:
- describe the work
 - describe any safeguards that are proposed to ensure there is no conflict (actual or perceived)
 - confirm that their Ethics Partner has also approved that the work is in accordance with Ethical Standards
 - provide the expected fee income if available.
148. Auditors are responsible for billing the audited body directly for such work.

Claiming remuneration

149. 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

150. Auditors' remuneration and related expenses should be claimed using the 2015/16 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.

151. Auditors should submit all pro-forma claims electronically to 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.

152. 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. 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 $0.95*(B-C)*(1-D)$

153. 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.

154. 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 10 working days from date of receipt 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 to be set up. 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 in all sectors must be no earlier than 21 November 2015, and the last instalment dates are set at those shown in the following table:

Sector	Last instalment
Local authority	21 October 16
Health	21 July 16
Scottish Water	21 June 16
Central government	21 October 16
Further education	21 October 16

- Each instalment is calculated to be exactly the same amount and rounded to the nearest pound so the total of the instalments may not be exactly 95% of the calculated figure.
 - 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.
155. 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. $((A-B)*(1-C))-D$.
156. 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).
157. The final claim may be submitted and paid before the date of the last instalment on the initial claim if all agreed audit outputs have been submitted and progress reported as 100%. The remaining instalments will be paid by standing order in line with the instalment dates on the initial claim.
158. In exceptional circumstances 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 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.

Firms' expenses

159. Travel and subsistence expenses are normally reimbursed on an actual cost basis so they should not ordinarily be included in the initial pro-forma claim. A proportion of the estimated expenses may be included in the initial claim if expenses are anticipated to be particularly high, such as audits based in the islands or the most distant stay-away audits. 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).
160. Any expenses being claimed on the initial claim must be approved by **Owen Smith** before submitting the claim.

161. 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.
162. 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.
163. 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 164).

Additional audit work

164. Auditors must claim fees and expenses from Audit Scotland for additional audit work either by advising Audit Scotland of a variation in the agreed fee (as described in paragraph 139) or on their own invoice stationery where it merits a separate fee (as described in paragraph 140). Fee claims for additional audit work should be submitted on satisfactory completion of the work and any related report to outputs@ishare.audit-scotland.gov.uk with confirmation from the audited bodies that they are satisfied with the work. Non-audit work that has been approved by Audit Scotland should be billed to the audited body, not to Audit Scotland per paragraph 146.
165. The maximum grade related daily fee rates set by Audit Scotland for 2015/16 audits include 20% input VAT. These grade related rates are shown in paragraph 144 but 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 134).

Audit Services Group

Claiming fees

166. 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.
167. ASG should inform **Owen Smith** promptly about any amendments to agreed fees. The Finance section accesses this information and uses it to update its records, calculate the monetary value of the work in progress and to invoice audited bodies.
168. 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 (ie input based) show audits as more than 100% complete, the 'Adjusted WIP' column within the online report should be altered to reflect the true (ie output based) extent of completion.

Additional work

169. 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.
170. 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 (eg the preferred invoice narrative and the name and address of the officer in the audited body to whom the invoice should be sent).
171. 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

172. Auditors should discuss the likely cost of investigating correspondence from the public referred to the auditor by the PABV Group with reference to the maximum grade related rates set put in paragraph 144. Claims 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).

Best value in local authorities

173. 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).

Reporting audit progress

174. 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.
175. An important part of the progress report is confirming whether or not the independent auditor's report and the annual audit report are expected to be submitted by the deadlines set out in this annual planning guidance. Auditors must advise Audit Strategy as soon as they think that either of these deadlines may not be met.
176. 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.
177. For firms' audits, a pro-forma progress report for each audit should be submitted quarterly to outputs@ishare.audit-scotland.gov.uk within 3 working days of the end of December, March, June and September 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.

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.

NPD projects

Conditions

Applications will be considered for audit firms to advise companies or consortia bidding for, or being awarded, NPD 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.

Appendix 2

Bodies on which Audit Scotland is not empowered to levy charges

- Scottish Government
- Scottish Consolidated Fund
- Scottish Government Non Domestic Rates Account
- Scottish Parliamentary Corporate Body
- Revenue Scotland
- Scottish Public Pensions Agency
- Scottish Teachers' Superannuation Scheme
- NHS Superannuation Scheme Scotland
- Scottish Courts Service
- Transport Scotland
- Scottish Prison Service
- Crown Office
- Queen's and Lord Treasurer's Remembrancer
- National Records of Scotland
- Historic Scotland
- Forestry Commission (Scotland)
- Student Awards Agency for Scotland
- Education Scotland
- Food Standards Scotland
- The Office of the Accountant in Bankruptcy
- Office of the Scottish Charity Regulator
- Scottish Housing Regulator
- Disclosure Scotland.

Appendix 3

Central government NFI participants

Body	Own System (OS) or SG Systems (SG)
Accountant in Bankruptcy	SG
Bòrd na Gàidhlig	N/A
Care Inspectorate	OS
Creative Scotland	OS
Crofting Commission	SG
Crown Office	OS
Disclosure Scotland	SG
Education Scotland	SG
Forest Enterprise (Scotland)	OS ¹
Forestry Commission (Scotland)	OS
Highlands and Islands Enterprise	OS
Historic Scotland	OS
National Galleries of Scotland	OS
National Library of Scotland	OS
National Museums of Scotland	OS
National Records of Scotland	SG
NHS Superannuation Scheme	SG ²
Office of the Scottish Charity Regulator	SG
Office of the Scottish Road Works Commissioner	SG
Police Investigations & Review Commissioner	SG
Registers of Scotland	OS
Risk Management Authority	SG
Royal Botanic Garden Edinburgh	OS
Scottish Children's Reporter Administration	OS
Scottish Court Service	SG
Scottish Criminal Cases Review Commission	SG

Body	Own System (OS) or SG Systems (SG)
Scottish Enterprise	OS
Scottish Environment Protection Agency	OS
Scottish Fire & Rescue Service	OS ³
Scottish Funding Council	OS
Scottish Government	OS
Scottish Housing Regulator	SG
Scottish Legal Aid Board	OS
Scottish Natural Heritage	OS
Scottish Parliamentary Corporate Body	OS
Scottish Police Authority	OS ³
Scottish Prison Service	OS
Scottish Public Pensions Agency	SG
Scottish Qualifications Authority	OS
Scottish Social Services Council	N/A
Scottish Water	N/A
Skills Development Scotland	OS
Sportscotland	OS
Student Awards Agency for Scotland	SG ²
Teachers' Superannuation Scheme	SG ²
Transport Scotland	SG
VisitScotland	OS

¹ Forestry Commission (Scotland) is coordinating NFI on behalf of Forest Enterprise (Scotland). Has own payroll, EASEBuy and FAR systems.

² SAAS uses SG systems but has its own awards data; NHS and Teachers' pension schemes use SG systems except for pension awards.

³ SFRS and SPA payroll data was updated by councils (as per arrangements with the former fire and police boards) because the payroll systems had not yet been consolidated; the 2 bodies will however be responsible for match investigation for payroll and creditor datasets.

Appendix 4

Integrated Joint Boards

Integrated Joint Board	Area	Establishment date	SSI
Aberdeen City Integration Joint Board	The area of Aberdeen City Council		
Aberdeenshire Integration Joint Board	The area of Aberdeenshire Council		
Angus Integration Joint Board	The area of Angus Council	03/10/2015	2015 No 321
Argyll and Bute Integration Joint Board	The area of Argyll and Bute Council	27/06/2015	2015 No 222
Clackmannanshire and Stirling Integration Joint Board	The combined area of Clackmannanshire Council and Stirling Council	03/10/2015	2015 No 321
Dumfries and Galloway Integration Joint Board	The area of Dumfries and Galloway Council	03/10/2015	2015 No 321
Dundee City Integration Joint Board	The area of Dundee City Council	03/10/2015	2015 No 321
East Ayrshire Integration Joint Board	The area of East Ayrshire Council	01/04/2015	2015 No 88
East Dunbartonshire Integration Joint Board	The area of East Dunbartonshire Council	27/06/2015	2015 No 222
East Lothian Integration Joint Board	The area of East Lothian Council	27/06/2015	2015 No 222
East Renfrewshire Integration Joint Board	The area of East Renfrewshire Council	27/06/2015	2015 No 222
Edinburgh City Integration Joint Board	The area of Edinburgh City Council	27/06/2015	2015 No 222
Falkirk Integration Joint Board	The area of Falkirk Council	03/10/2015	2015 No 321
Fife Integration Joint Board	The area of Fife Council	03/10/2015	2015 No 321
Glasgow Integrated Joint Board	The area of Glasgow		

Integrated Joint Board	Area	Establishment date	SSI
	City Council		
Inverclyde Integration Joint Board	The area of Inverclyde Council	27/06/2015	2015 No 222
Midlothian Integration Joint Board	The area of Midlothian Council	27/06/2015	2015 No 222
Moray Integration Joint Board	The area of Moray Council		
North Ayrshire Integration Joint Board	The area of North Ayrshire Council	01/04/2015	2015 No 88
North Lanarkshire Integration Joint Board	The area of North Lanarkshire Council	27/06/2015	2015 No 222
Orkney Integration Joint Board	The area of Orkney Islands Council		
Perth and Kinross Integration Joint Board	The area of Perth and Kinross Council	03/10/2015	2015 No 321
Renfrewshire Integration Joint Board	The area of Renfrewshire Council	27/06/2015	2015 No 222
Scottish Borders Integration Joint Board	The area of Scottish Borders Council		
Shetland Islands Integration Joint Board	The area of Shetland Islands Council	27/06/2015	2015 No 222
South Ayrshire Integration Joint Board	The area of South Ayrshire Council	01/04/2015	2015 No 88
South Lanarkshire Integration Joint Board	The area of South Lanarkshire Council	21/09/2015	2015 No 266
West Dunbartonshire Integration Joint Board	The area of West Dunbartonshire Council	27/06/2015	2015 No 222
West Lothian Integration Joint Board	The area of West Lothian Council	21/09/2015	2015 No 266
Western Isles Integration Joint Board	The area of Comhairle nan Eilean Siar	21/09/2015	2015 No 266