

Audit planning guidance

2016/17 audits



Prepared for appointed auditors
October 2016

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

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Introduction

1. The role of public audit has never been more important. The start of the new 5 year audit appointment comes at a time of unprecedented change for public finances and public services in Scotland. Our ability to provide independent assurance that public money is spent properly and provides value for money is an essential part of building trust in public services. Working together, auditors can make a real difference to how public money is spent and how public services are delivered. The next five years present new opportunities for auditors to work together, learning from each other and collaborating on areas of mutual interest. We encourage all auditors to grasp those opportunities.
2. The new Code of Audit Practice sets the framework within which this annual planning guidance operates. The new Code sets out clearly the expectations on auditors in relation to the wider scope work and best value. It also promotes even greater transparency in our reporting and requires auditors to make clear conclusions on important areas of our audit work. This planning guidance, and other guidance referred to in this document, is designed to help auditors fulfil the expectations of the Code in carrying out 2016/17 audits, on behalf of the Auditor General and the Accounts Commission. It should be read alongside the audit appointment letter.

Main points

- **Fee setting arrangements have been revised: the expected fee reflects an average risk profile and may be increased by up to 10% to reflect local circumstances and risks within the body (see paragraphs 125 to 145).**
- **The remuneration rate used to calculate fees has increased by 1% based on Audit Scotland's scale uplift.**
- **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).**
- **Supplementary guidance is provided through:**
 - **Audit Dimensions & Smaller Bodies supplementary guidance (see paragraph 60)**
 - **Local Government Audit Manual - Auditing Best Value (see paragraph 71)**
 - **Technical guidance (see paragraph 112)**
- **Local government auditors are required to consider Best Value audit work as part of the audit and:**
 - **prepare a 5 year BV plan (not to be submitted) (see paragraph 72)**
 - **return a BV data return in support of Controller of Annual Assurance and Risk Report (see paragraph 73)**
- **One NFI questionnaire must be submitted by 30 June 2017 (see paragraphs 83-84).**

- **Auditors are reminded of their responsibility to inform Audit Scotland promptly about any significant matters which may arise from the audit (see paragraph 103).**
- **Datasets are required for the annual reports on local government, NHS and further education (see paragraphs 105-111).**

Code of Audit Practice and core audit requirements

3. The responsibilities of auditors described in the 2016 [Code of Audit Practice](#) apply to all sectors with the exception of the requirement to provide an opinion on the regularity of financial transactions which does not apply to local government.
4. Paragraph 53 of the Code requires the full wider scope of audit to apply to all bodies unless the auditor judges that it is not appropriate due to the size, nature and risks of the body. These circumstances are most likely to apply to the audits of:
 - Local government charities, some joint boards and committees
 - small special health boards
 - small further education colleges
 - small central government bodies such as Quality Meat Scotland.
5. Where auditors judge that the full wider scope of audit is not appropriate this must be documented in the annual audit plan. The judgement on the applicability of the full wider scope is an annual one. Any areas of uncertainty should be discussed with Audit Strategy.
6. Councils and health boards have set up 30 Integration Joint Boards (IJB), and one council is adopting the lead agency approach, to meet the [Public Bodies \(Joint Working\) \(Scotland\) Act 2014](#). The Act specifies that IJBs should be treated as if they were bodies falling within section 106 of the 1973 Act. The reduced wider scope work under paragraph 53 of the Code is not likely to be appropriate for IJBs.
7. Under the Local Government in Scotland Act 2003, auditors have a duty to be satisfied that councils have made proper arrangements to secure Best Value and to comply with their Community Planning responsibilities. Audit Scotland's expectation for auditing Best Value are set out in more detail below (see paragraphs 70-77) and in supplementary guidance - Local Government Audit Manual - Auditing Best Value (see paragraph 71).
8. The Accounts Commission has set out the following five strategic Audit Priorities that it expects auditors to consider in all work across local government:
 - The clarity of council priorities and quality long-term planning to achieve these.
 - How effectively councils are evaluating and implementing options for significant changes in delivering services.
 - How effectively councils are ensuring that members and officers have the right knowledge, skills and time to lead and manage delivery of council priorities.
 - How effectively councils are involving citizens in decisions about services.
 - The quality of council public performance reporting to help citizens gauge improvement.

9. These will be integrated into local annual audit work (including auditors' responsibilities for Best Value audit), national performance audits and other work, such as current issues reports, as appropriate. Work to be undertaken through local annual audit in response to the Strategic Audit Priorities is set out in the supplementary guidance - Local Government Audit Manual - Auditing Best Value (see paragraph 71). The commission will review its Strategic Audit Priorities annually.
10. The Accounts Commission and the Auditor General carries out 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 expected fee range, auditors should ensure that locally determined work does not interfere with any work requested or directed by Audit Scotland.
11. The core audit can be defined as the work that Audit Scotland provided for when setting the expected fee, ie the audit work required to:
 - provide the Independent Auditor's Report on the annual accounts (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 Auditor General for Scotland/Controller of Audit
 - 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 Auditor General for Scotland/Controller of Audit accordingly and support Audit Scotland in producing statutory reports as required
 - undertake work requested by Audit Scotland or local performance audit work as specified in paragraph 108

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 2015 Direction
- set out an outline five year plan for auditing Best Value
- contribute to a Best Value Assurance Report where selected
- report on the results of follow-up on councils' progress in implementing existing Best Value (BV) improvement plans where requested

- 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
 - contribute to other scrutiny responses agreed through the SRA process.
12. Auditors should use the flexibility within the audit fees to resource the requirements set out in paragraph 11 and later in this guidance. 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 increasing the fee agreed with the body in accordance with paragraph 151.
13. 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.
14. Those audits where Audit Services Group contributes to other audits, for example, by arrangement with the NAO and WAO 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 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).

Audit outputs

Audit plans

15. Auditors must provide key audit contact (partner and manager) and audited body billing details (for invoicing) by **4 November 2016**. Audit Strategy will provide a pro forma for completion.
16. Auditors must observe their statutory duties, letters of appointment, the [Code of Audit Practice](#), International Auditing Standards (UK&I), this planning guidance, and any other relevant guidance from Audit Scotland 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
 - an explanation of the judgement to not apply to the full wider scope of audit where such a judgement has been made.
17. 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.
18. Auditors must submit annual audit plans (as presented to those charged with governance) to Audit Scotland by dates specified in the table at paragraph 23. 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.
19. 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 any fees above the expected fee
 - clearly identify whether the fee has been agreed with the audited body.

Materiality

20. 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 \(UK and Ireland\) 320 Materiality in planning and performing an audit](#).
21. 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.

22. 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.

Independent auditor's report and annual audit report

23. 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 2017	15 June 2017
Health	28 February 2017	30 June 2017
Local government	31 March 2017	30 September 2017*
Central Government	28 February 2017	31 October 2017
Further Education	30 June 2017	31 December 2017

* 30 September falls on a Saturday in 2017. The regulations do not provide for the applicable date to be the following working day. It is likely that councils will schedule audit committees to meet before 30 September. However the next working day will be deemed to meet the deadline for submission of annual audit reports.

24. The date for submission of audit plans is the latest that plans should be submitted. Auditors should submit plans as soon as they are approved by the appropriate committee. Audit Scotland will consult with auditors about advancing the deadlines for 2017/18 audit plans once 2016/17 plans have been submitted.
25. Local authorities must submit unaudited annual accounts to their auditor by **30 June 2017**. 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.
26. Local authorities (or a committee whose remit includes audit or governance) must meet by **30 September 2017** 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.

27. Local authorities are required to publish their accounts on their website no later than **31 October 2017**. Other bodies must wait until their accounts have been laid in Parliament before publishing them on their websites.

Audit reporting

28. [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.
29. 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 independent auditor's report. 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.
30. Annual audit reports for 2016/17 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.
31. Audit reporting aims to improve the use of public money in the bodies being audited. The foundation of the audit is providing independent assurance about governance, financial management and performance, but audit reporting can also deliver much more value by providing independent, evidence-based recommendations, generating insights into what works and supporting improvement.

Submission of completed outputs

32. 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.
33. 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.
34. 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 address below. The number of signed sets of audited annual accounts required by the audited body should be agreed locally.
35. Owen Smith
 Audit Scotland
 102 Westport
 Edinburgh
 EH3 9DN

Sector	SW	NHS	LG	CG	FE
Accounts	2	3	1	2	2

36. 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.
37. 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).
38. 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.

Publication of outputs

39. In accordance with the Code of Audit Practice, we will publish all audit outputs on Audit Scotland's website from 2016/17 onwards, unless there is good reason not to. In practice this means the following will be published for each audited body:
- Annual audit plans
 - Interim reports
 - Annual audit reports
 - Any other reports that are specified in the annual audit plan (or have been completed as a result of an issue or risk identified after the audit plan has been agreed).
40. We will publish final versions of outputs after they have been considered by relevant committees in audited bodies. We need to be aware of any sensitive or contentious reports so that our Communications team can prepare for any potential media interest. Auditors should notify Audit Scotland's Communications team at media@audit-scotland.gov.uk if any output is potentially sensitive or contentious. This could include:
- Reports on certain bodies this would include bodies that are or have been the subject of significant audit, political or media attention in the past e.g. NHS bodies, colleges, Scottish Police Authority, Argyll and Bute Council, Scottish Government, Transport Scotland and Revenue Scotland,
 - Reports on or containing judgements on specific topics, including weak governance, poor financial management, financial difficulties, major projects and contracts (including ICT).
 - Qualifications or modified opinions on the financial statements (these would normally be the subject of a statutory report)
 - Areas that have been subject to significant media interest (local or national) or correspondence.

Audits with specific requirements

Local authority pension funds

41. Local authority pension funds are now being treated as distinct audit appointments and as such the local authority and pension fund have separate expected fees. Auditors should prepare audit plans, any reports to management that they consider necessary, the independent auditor's report and an annual audit report for local government pension funds.

Local authority charities

42. 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). The expected fee does not include the cost of auditing charities. Auditors should agree the fees for charity audits at the same time as agreeing the 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.
43. 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.
44. A charity (other than those covered by paragraph 42 which is 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 2016/17 audit of trust funds that are registered charities and should treat this as non-audit work (see paragraph 154 for details).

Community Justice Authorities (CJAs)

45. 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.
46. Legislation setting out the transitional arrangements is not yet complete at time of writing, but we understand that the intention is for the Director of Finance of the lead authority to assume responsibility for preparing the accounts (including signing the relevant parts of the accounts). These arrangements should be agreed between the CJA and the lead authority by November 2016.
47. The changes mean that there will not be an audit committee to report to - the lead authority Director of Finance should be considered as 'those charged with governance.'

Shared reliance on audit

Group Audits

48. Auditors of groups and service arrangements should consider using the annual Audit Scotland [Transparency and Quality report](#) to assist in documenting their assessment of significant component auditors' professional competence where the firm is one of the six 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.

Shared systems and functions in the NHS

49. 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.

50. 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, for which further details are provided below:

- Practitioners Services Division (NHS NSS host, service auditor currently Scott Moncrieff)
- National IT (NHS NSS host, service auditor currently Scott Moncrieff)
- National Single Instance (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

51. 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.

52. 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.
53. 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

54. 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.

Access to information

55. 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.
56. 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. These rights of access are summarised in the [Code of Audit Practice](#).
57. 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.

Wider scope requirements

58. Auditors should consider the body's self evaluation arrangements as the starting point for understanding the business in the context of wider scope work. The Accounts Commission has made clear its expectation that councils have robust self evaluation in place, and that a lack of self evaluation arrangements is likely to be considered a risk that auditors would consider reporting.

Audit Dimensions

59. The [Code of Audit Practice](#) sets out four audit dimensions which, alongside Best Value in the local government sector, 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.
60. Further guidance on the application of the wider dimensions in the audit is provided in the Audit Dimensions and Smaller Bodies supplementary guidance. Local government auditors should refer to the Auditor BV Assessment Guidance which explains how the dimensions cross over with statutory Best Value characteristics and the BV assurance framework (see paragraph 72).

Strategic Audit Priorities for local government audits

61. The Accounts Commission is strengthening its strategic planning arrangements and wants to ensure that its priorities are clearly reflected in audit expectations. This year, the Commission has agreed five Strategic Audit Priorities. These are:
- The clarity of council priorities and quality of long-term planning to achieve these
 - How effectively councils are evaluating and implementing options for significant changes in delivering services
 - How effectively councils are ensuring members and officers have the right knowledge, skills and time to lead and manage delivery of the council priorities
 - How effectively councils are involving citizens in decisions about services
 - The quality of council public performance reporting to help citizens gauge improvement
62. These represent high level issues that the Commission considers are particularly important and reflect the analysis and conclusions set out in the Commission's Strategy. The Accounts Commission will review its Strategic Audit Priorities in the spring of each year which will inform annual planning guidance for local government auditors issued in the autumn of each year.

63. The Strategic Audit Priorities should be considered by all auditors involved in local government work, both locally and nationally. They may cover issues that would arise in individual audits anyway, and the extent to which they will feature will vary depending on local circumstances. However, it is expected that these new arrangements will result in information and conclusions being evident in audit reports across all the work carried out on the Commission's behalf. This includes consideration of the Strategic Audit Priorities in setting out Current Issues reports.
64. For local annual audit work across all 32 councils, the Strategic Audit Priorities should be considered as an integrated part of the risk assessment, five year Best Value and annual planning processes. It is not anticipated that Annual Audit Reports will report on all of the Strategic Audit Priorities in this first year but should consider how these should be planned for and reported across the five year appointment.

Shared Risk Assessment and Joint Scrutiny Planning

65. 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 informs an annual Local Scrutiny Plan (LSP) which sets out the shared risk assessment of the council and the proposed scrutiny response. LSPs inform the National Scrutiny Plan (NSP) for local government. LSPs and the NSP are published on Audit Scotland's website in March each year.
66. All LAN members are required to submit evidence to and attend LAN meetings, contribute to LAN outputs 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.
67. Another feature of the new approach to auditing Best Value is the development of improved audit intelligence arrangements, including sharing of information and intelligence about a council on an ongoing basis amongst all auditors involved with a council and the other scrutiny bodies as well. This development is consistent with current discussions at the Strategic Scrutiny Group regarding increased collaboration between scrutiny partners.
68. SRA guidance will be circulated to LAN leads in November who should share it with other LAN members. The SRA process will take place between December and March and Local Scrutiny Plans need to be produced by March. A more detailed timetable will be included in the SRA guidance.
69. The main contact is Mark McCabe, mmccabe@audit-scotland.gov.uk 0131 625 1806.

Best Value

70. In June 2016, the Accounts Commission formally agreed the overall framework for a new approach to auditing Best Value. The Commission and the Controller of Audit each wrote to all councils at that time to provide details. The new approach means that the annual audit

process will assess and report on the extent to which a council is meeting its statutory duties on Best Value. The objectives of the new approach include:

- the Controller of Audit providing a Best Value Assurance Report (BVAR) to the Commission for each council at least once in a five year period
- greater emphasis on driving continuous improvement in councils
- greater emphasis on the performance, outcomes and impact made by a council
- maintaining a proportionate and risk based approach
- PABV and local auditors working together, and liaising with other scrutiny body representatives on an ongoing basis
- emphasising that it is first and foremost a council's responsibility to demonstrate that it is meeting its statutory duties, and that its own self evaluation can accurately show its level of performance and that the pace, depth and continuity of its improvement is appropriate.

71. The Local Government Audit Manual - Auditing Best Value (published on a new [Local Government Extranet](#)) is supplementary guidance as specified by the Code of Audit Practice. The guidance covers planning, reporting and guidance on auditing the duty of Best Value. Under the new integrated approach all auditors will work together on scoping, planning and undertaking evidence gathering, making audit judgements and contributing to reporting on Best Value in the annual audit report and the Controller of Audit's Best Value Assurance Report (BVAR). 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 BVAR.
72. In the first year of the audit appointments, Local Government auditors are to prepare (for their own files only) a five year Best Value plan detailing how they will cover all aspects covered by the Best Value Audit Programmes set out in the auditor guidance ([section 6 of the Local Government Manual - auditing Best Value](#)). The plan should prioritise any risk areas identified through the Shared Risk Assessment and annual planning processes. If no specific risks are identified auditors should complete, in the first instance, the guide areas covering Financial and Service planning, Financial Governance and Resource Management. If Best Value work has been reported in the last year on the council, the council's response to this and progress with improvement actions is also to be followed up and reported.
73. The planning and completion of this work is to be undertaken jointly by the local audit teams and PABV staff. The findings from this work are to be reported in the 2016/17 Annual Audit Report. Clear judgements on the pace and depth of continuous improvement in the areas covered by the work are to be reported. In addition, to inform the Controller of Audit's, Annual Assurance and Risks Report (AARR) to the Accounts Commission, auditors must submit a data return covering their audit work by 2 October 2017. The Controller's AARR sets out his overview of local government to the Commission early in the New Year annually.
74. At the six councils where a BVAR is planned, work will be scoped to consider the Best Value Audit Programmes and the Strategic Audit Priorities in depth. This planning will be jointly undertaken by the local audit teams and PABV.

75. 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>).
76. Auditors may use assessment material from the auditor guidance for Best Value on the [Local Government Extranet](#) to inform audit work in non local government bodies. The application of this material should be based on an appropriate consideration of the distinctive features of local government bodies as well as local circumstances and risks.
77. The main contact is **Fiona Mitchell-Knight**, fmitchell-knight@audit-scotland.gov.uk, [mailto:0131 625 1937](mailto:0131_625_1937).

Councils' Statutory Performance Information

78. The Accounts Commission has a statutory responsibility to define the performance information that councils must publish for performance comparison and benchmarking purposes. This responsibility links closely with the Commission's Best Value audit responsibilities. In turn, councils have their own responsibilities, under their Best Value duty, to report performance to the public. The Commission's strategy has been to join up these different elements and emphasising its support of a sector-led approach to fulfilling this responsibility. It has done this by supporting the development by councils of the Local Government Benchmarking Framework (LGBF) and encouraging councils to develop their approaches to public performance reporting. The [2015 Statutory Performance Information Direction](#) published by the Commission requires councils to report a range of information in accordance with, but not confined to, the requirements of, the LGBF.
79. As discussed in paragraph 61 above, one of the Accounts Commission's Strategic Audit Priorities is 'the quality of council public performance reporting to help citizens gauge improvement'. Accordingly, auditors should be considering this issue as an integrated part of their risk assessment. It is also to be addressed in more depth in those councils subject to a Best Value Assurance Report, as discussed in paragraph 74 above.

Following the public pound

80. 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](#) (FPP) as set out in a [Ministerial direction](#). There are close parallels between the principles of the FPP Code, and local authorities' wider duty to achieve Best Value. Auditing councils' compliance with the FPP Code is embedded into the new approach for auditing Best Value. The supplementary guidance (Local Government Manual - Auditing Best Value) requires auditors to consider councils' arrangements to comply with the FPP Code as part of the risk based and proportionate approach to auditing Best Value and refers to the supplementary guidance issued to auditors in 2015.
81. Audit Scotland will be carrying out a performance audit on issues relating to Arms Length External Organisations ALEOs in 2017. This will examine FPP issues in ALEOs and auditors

will be required to provide information on the ALEOs funded by their councils (see paragraph 108).

82. The main contact is **Ronnie Nicol**, rnicol@audit-scotland.gov.uk: 0131 625 1868.

National Fraud Initiative (NFI)

83. All councils, Strathclyde Partnership for Transport, Tayside Contracts, all health boards except for the Mental Welfare Commission, and further education and central government bodies specified at **Appendix 3** are participating in the NFI 2016/17. They must submit data (as per the [instructions](#)) in October 2016 and will receive matches for investigation in January 2017. 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 2017 and the results recorded on the NFI system. Some investigations may continue beyond this date.
84. Auditors should monitor their audited bodies' participation and progress during 2016/17 and into 2017/18 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 **30 June 2017**. The information provided by auditors will be used for Audit Scotland's NFI report to be published in June 2018. Auditors should expect to spend up to five days on NFI work.
85. The main contact is **Owen Smith**, osmith@audit-scotland.gov.uk, 0131 625 1914.

Whole of government accounts

86. 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 2016/17 WGA returns over a prescribed threshold.
87. Audit Scotland will publish two technical guidance notes (TGN) to provide guidance on the local government and central government auditors on the work required for the 2016/17 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** as for last year.
88. The main contact is **Paul O'Brien**, pobrien@audit-scotland.gov.uk, 0131 625 1795.

Grant claims and returns

89. 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.

90. TGNs will provide guidance on the certification of each claim. These will confirm the certification and submission deadline for each grant claim. HBCOUNT will continue to be in place in for 2016/17 (and beyond) for certifying benefit subsidy claims.
91. Expected 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.
92. The main contact is **Paul O'Brien**, pobrien@audit-scotland.gov.uk, 0131 625 1795.

Fraud returns

93. 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.
94. 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 **26 May 2017**. Reports of frauds involving less than £5,000 are not required.
95. The main contact is **Anne Cairns**, acairns@audit-scotland.gov.uk, 0131 625 1926.

Housing benefit performance audits

96. The Accounts Commission has responsibility for the audit of housing benefit (HB) services in Scotland, and specialist benefits auditors within Audit Services Group 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.
97. The main contact is **Mark Taylor** mtaylor@audit-scotland.gov.uk 0131 625 1973.

Correspondence and statutory reports

98. Auditors may be required to carry out preliminary enquiries as part of core audit activity on issues of concern raised with Audit Scotland through correspondence. These enquiries may lead to an Audit Review. The scope, number of days, and resources required for a review must be agreed with Audit Scotland in advance of work commencing. Any fee agreed for work in addition to that expected within the core audit should be based on the maximum grade related rates set out in paragraph 152, except in exceptional circumstances where the use of experts is required. More information about how Audit Scotland handles correspondence can be found [here](#).
99. Where the Controller of Audit or Auditor General consider making a statutory report under section 102 of the Local Government (Scotland) Act 1973 or section 22 of the Public Finance and Accountability (Scotland) Act (2000), staff in PABV will agree the extent of local auditor's contribution, and how much of that is beyond the scope of the core audit. Firms should base fees on the maximum grade related rates set out in paragraph 152 for work beyond the core scope, except in exceptional circumstances where the use of experts is required.
100. The main contact is **Angela Canning**, acanning@audit-scotland.gov.uk, 0131 625 1835.

Audit Intelligence

101. 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.
102. Auditors must send current issues returns by **3 February 2017** and **4 August 2017** for all sectors, with extra returns in local government by **7 April 2017** and **3 November 2017** bearing in mind the strategic audit priorities set out at paragraph 61 and 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.
103. Current issues returns should be sent for each sector to:
- LG: **Dave McConnell**, dmcconnell@audit-scotland.gov.uk, 0131 625 1769.
 - CG: **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.

104. 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. These should be discussed with the PABV staff listed at paragraph 111 and/or your place/portfolio contact.

Commission and Auditor General reports

Overview and Annual reports

105. Each year the Accounts Commission publishes overview reports covering the local government sector, and the Auditor General publishes annual performance reports covering 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.
106. 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'.
107. 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 by:
- Health: **30th June 2017**.
 - Local government: **30 September 2017**.
 - Further education: **31 December 2017**.

Information requests

108. Auditors will be requested to provide information to support performance audits and to inform wider analysis on the following subjects during the year:

Purpose	Description	Date	Resources
Contribute to report on ALEOs	The number and details of all council ALEOs.	Jan/Feb 16	2-3 days
Contribute to informed analysis of	European funding received by audited bodies to inform analysis and consideration	Spring 17	2-3 days

Purpose	Description	Date	Resources
European Funding	of risks.		
Contribute to report on Health & social care integration: part 2	Timescales for agreeing budgets; shifts in resources from acute to community-based care; progress in agreeing budgets and publishing meaningful strategic plans; governance arrangements. Led by LG/IJB auditor with contribution from NHS auditor.	Spring 17	2-3 days
Contribute to follow up of Role of Boards, applicable to all sectors	Are governance, decision-making and scrutiny arrangements effective? To what extent do members/non-executives and staff demonstrate high standards of behaviour? To what extent do members/non-executive and staff receive sufficient training and development?	30 June 17	Up to 5 days

109. PABV will prepare data returns and guidance and discuss them with auditors before issuing final versions.
110. There are no other requirements for auditors to undertake specific performance audit work in 2016/17. 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. The rolling programme is available on Audit Scotland's [website](#).
111. The contacts for each sector are:
- LG: **Mark McCabe**, mmccabe@audit-scotland.gov.uk, 0131 625 1806.
 - CG: **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.

Technical guidance on annual accounts

Guidance on performing the audit of the annual accounts

112. Audit Scotland's TSU will publish technical guidance notes (TGN) to provide auditors with guidance on planning and performing the audit of the 2016/17 annual accounts. TGNs will be prepared for:
- Local authorities including separate modules for section 106 charities and pension funds
 - Central government bodies
 - Health boards
 - Colleges.
113. The TGNs will highlight the main risks of misstatement, and set out the actions for each risk that auditors should undertake to assess whether the body has followed the required accounting treatment. TGNs will also provide guidance (where relevant) on:
- the opinion on the regularity of income and expenditure
 - the opinion on the auditable part of the remuneration report
 - the opinions on whether the management commentary/performance report and governance statement are consistent with the financial statements
 - The opinion on whether the management commentary and governance statement have been prepared in accordance with applicable legal requirements (as a new auditor reporting responsibility from 2016/17)
 - matters on which auditors are required to report by exception, eg whether adequate accounting records have been kept.
114. The TSU will consult auditors to obtain their views on guidance before it is published. Auditors are expected to contribute effectively to the consultation process and advise of any concerns or anticipated obstacles to following the guidance in practice.

Guidance on the independent auditor's report

115. The TSU will also publish separate TGNs containing model independent auditor's reports for each type of body.
116. The model reports for 2016/17 will comply with the requirements [of ISA \(UK&I\) 700 The independent auditor's report on the financial statements](#) adapted for Audit Scotland's requirement for each type of body. The models for 2016/17 will, however, be based on the structure and wording set out in [ISA \(UK\) 700](#) which was revised in June 2016. This is in preparation for the formal adoption of the revised ISAs (UK) in 2017/18 (2016/17 for colleges).

Technical bulletins

117. 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.

Technical databases

118. 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.
119. 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 **7 July 2017**. 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 of Audit Practice](#) non-compliance for further investigation.
120. The 2015/16 databases are available from the Technical reference library and the 2016/17 database will be available by **29 July 2017**.

Other technical matters

Highways network asset

121. Although the 2016/17 local authority accounting code changes the measurement requirements for the highways network asset from historical cost to current value, CIPFA/LASAAC has recently announced that this change has been deferred to 2017/18 at the earliest. This is because the required benchmark valuation for the centrally provided cost rates has not been commissioned by the Department for Transport in time for them to be used in 2016/17. The provision of up-to-date cost rates is an essential component in the calculation of current value for the highways network asset and the change cannot be implemented until they are available.
122. Although there are no financial reporting requirements in respect of the highways network asset that apply in 2016/17, it is important that the project does not lose momentum. Auditors should assess local authorities' progress in ensuring they hold accurate inventory and condition data so they are in a position to comply with the Code's requirements. Auditors should assume that implementation will be from 2017/18 unless advised otherwise.
123. Auditors should report findings from their assessment in their 2016/17 annual audit reports. Further guidance will be provided in module 2 of the technical guidance note on auditing 2016/17 local authority annual accounts.

Contact point

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

Fee for the audit

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

Definitions

126. 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
Expected fee	The fee set by Audit Scotland
Agreed fee	The fee agreed between an audited body and their auditor
Auditor remuneration	The part of the fee payable to the auditor, before the application of any discount
Pooled costs	The costs attributable to audits that are pooled to ensure that as far as possible an audited body pays the same fee irrespective of their geographic location or whether the auditor is an Audit Scotland team or any of the appointed private firms
Contribution to performance audit and Best Value work	The part of the agreed fee that is retained by Audit Scotland to meet the costs of performance audit and Best Value work (as appropriate)
Audit support	The part of the agreed fee that is retained by Audit Scotland to meet the costs providing technical guidance and support and managing the audit appointments
Net discount	The discount offered in the tender for the sector, adjusted by the base discount applicable to the sector
Net remuneration	The auditor remuneration less the net discount offered by the firm

Expected fee

127. Audit Scotland sets an expected fee for each audit carried out under appointment that assumes the body has well functioning controls, an effective internal audit service, and an average risk profile.
128. Audit Scotland will review the expected fee each year and adjust it if necessary based on auditors' experience, new requirements, or significant changes to audited bodies.
129. Audit Scotland will notify auditors as soon as possible about the expected fees for 2016/17.

Agreed fee

- 130.** Auditors must negotiate a fee with the audited body during the planning process. The fee may be varied by up to 10% above the auditor remuneration to reflect the circumstances and local risks within the body (bodies with an expected fee below £25,000 may be increased by up to 20%).
- 131.** All fees should normally be agreed within this range. If local circumstances require a fee more than 10% above the expected auditor remuneration (or 20% for bodies with an expected fee below £25,000) then Auditors must notify **Owen Smith** (osmith@audit-scotland.gov.uk) or **John Gilchrist** (jgilchrist@audit-scotland.gov.uk) and obtain approval. Initial discussions with the audited body about a proposed fee outside the range are permitted.
- 132.** Some bodies in the central government sector (as specified in paragraph 144) 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.
- 133.** Fees agreed with bodies may be revised during the audit, within the range described in paragraph 130. This does not require approval from Audit Scotland, but auditors should notify any such fee amendments promptly to **Owen Smith** or **John Gilchrist** along with the reasons for the change. Changes in planned outputs should be notified on audit progress reports.
- 134.** The agreed fee is composed of four elements:
- Auditor Remuneration
 - Pooled costs
 - Contribution to PABV
 - Contribution to Audit Scotland
- 135.** 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.
- 136.** Audit Scotland will bill the body for the agreed audit fees. The first instalment will be based on the expected fee. Subsequent instalments are adjusted to reflect agreed fees (except FE, where there are only two instalments of half the agreed fee).

Auditor Remuneration

- 137.** The Auditor Remuneration is the part of the fee payable to the auditor, before the application of any discount. It is the baseline remuneration level for each audit. It is from this that any adjustments due to inflation and changed requirements will be applied. Auditor remuneration levels for 2016/17 have been reduced in each sector by the base discount.

Pooled costs

138. Pooled costs are the parts of the agreed fee that are retained by Audit Scotland to meet the costs that are pooled so that as far as possible an audited body should pay the same fee irrespective of their geographic location or whether the auditor is an Audit Scotland team or any of the appointed private firms. This includes travel and expenses, and is reduced by procurement savings.

Contribution to performance audit and Best Value work

139. Contribution to performance audit and Best Value work is the part of the agreed fee that is retained by Audit Scotland to meet the costs of performance audit and Best Value work (where appropriate). Local government bodies pay for the cost of all audit work carried out in the sector including national performance audits, best value assurance reports and housing benefit audits. Some Best Value work and housing benefit audits is programmed over a number of years, but the costs are pooled to avoid volatility of audit fees. Other sectors' performance audit work is met from Parliamentary funding.

Audit support

140. Audit support is the part of the agreed fee that is retained by Audit Scotland to meet the costs of providing technical guidance and support and managing the audit appointments including quality appraisal.

Net discount

141. In the 2016 tender, each firm offered a discount for each sector they bid for. The lowest successful discount offered in each sector has been applied to all the audits. The lower figure is called auditor remuneration. As the remuneration from which the discount in the bid would be applied is smaller, the discount in the tender needs a corresponding reduction. The net discount will be applied to the auditor remuneration for each audit, and each auditor will be informed of their net discount in each sector.

142. 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.

Net remuneration

143. The net remuneration is the auditor remuneration, adjusted by the net discount applicable to the firm for the relevant sector. The difference between auditor remuneration and net remuneration has been pooled and offset against the travel and subsistence in pooled costs.

Bodies on which Audit Scotland is not empowered to levy charges

144. Audit Scotland is not empowered to levy charges on some central government bodies. The costs of auditing these bodies are met from Parliamentary funding. The bodies on which Audit Scotland is not empowered to levy charges are listed in Appendix 2.
145. 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 audit work

146. The letter of audit appointment permits auditors to carry out additional audit work not provided for in the construction of expected fee or the initial audit plan.
147. If the additional work can be accommodated within the range described in paragraph 130 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** or **John Gilchrist**. 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 164).
148. 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 152), the auditor must first obtain approval from **Owen Smith** or **John Gilchrist** 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.
149. 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** or **John Gilchrist** if the invoice should be sent to a particular individual, and include an appropriate description for the work.
150. Firms carrying out additional work should invoice Audit Scotland as described in paragraph 171. In the local government sector any recoverable VAT on additional fees will be applied to reduce the contribution in respect of local government bodies.
151. Grade related rates may also be used by the PABV Group, for example, to propose auditors' fees for conducting Audit Reviews as a result of correspondence from the public. In these cases, the fee is agreed between the auditor and PABV Group. Preliminary enquiries are part of core audit work. If further work is required, additional 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.

152. The maximum grade related daily rates (including VAT at 20%) that apply both to firms and to Audit Scotland staff for 2016/17 audits are shown below:

Partners/Directors/ Asst. Directors	Senior Audit Managers/ Audit Managers	Qualified staff	Other staff
£1,982	£1,111	£672	£448

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 142).

153. 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 ensure that audited bodies understand that none of their audit fees are recoverable from HM Revenue and Customs.

Non-audit work

154. Auditors invited to undertake non-audit work for their audited bodies must contact **Owen Smith** or **John Gilchrist** 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).
155. 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.
156. Auditors are responsible for billing the audited body directly for such work.

Claiming remuneration

157. 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

158. Auditors' remuneration and related expenses should be claimed using the 2016/17 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.

159. 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.

160. 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 the net remuneration based on either the agreed fee (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 expected fee.

161. The initial pro forma claim provides for identifying whether the claim is based on an expected or an agreed fee and sets out the monthly instalments being claimed. Audit Scotland will make payments to firms' bank accounts by standing order.

162. 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 December 2016. Any December 2016 first instalments will be double instalments to represent the missed opportunity to claim from November. The last instalment dates are set at those shown in the following table:

Sector	Last instalment
Local authority	21 October 17

Sector	Last instalment
Health	21 July 17
Scottish Water	21 June 17
Central government	21 October 17
Further education	21 October 17

- 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.
163. Audit Scotland will not amend a monthly instalment scheme once a standing order has been set up so the final claim should reflect the net remuneration based on the final agreed fee less the total of all the instalments claimed initially
164. 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).
165. 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.
166. 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

167. 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 expected or agreed audit fee (whichever is used on the initial claim).
168. Any expenses being claimed on the initial claim must be approved by **Owen Smith** or **John Gilchrist** before submitting the claim.

169. 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.

Audit Scotland monitors the level of expenses claimed on audits and, in line with the terms of letters of audit appointment (Paragraph 5.15), assumes that most of the audit is done by staff working from the office location identified in the auditor's Tender Response which is closest to the audited body. Details of expenses may be requested if claims are higher than expected.

170. 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 171).

Additional audit work

171. 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 147) or on their own invoice stationery where it merits a separate fee (as described in paragraph 148). 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 body 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 156.
172. The maximum grade related daily fee rates set by Audit Scotland for 2016/17 audits include 20% input VAT. These grade related rates are shown in paragraph 152 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 142).

Audit Services Group

Claiming fees

173. The Finance team 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.
174. ASG should inform **Owen Smith** or **John Gilchrist** promptly about any amendments to agreed fees. The Finance team accesses this information and uses it to update its records, calculate the monetary value of the work in progress and to invoice audited bodies.
175. 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

176. 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, and the level of audit input should be included in the claim.
177. Audit Strategy uses such claims to instruct the Finance team 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).
178. 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** or **John Gilchrist**.

All auditors

Referred correspondence

179. 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 out in paragraph 152. 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).

Reporting audit progress

180. 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.
181. 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.
182. 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.
183. 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 Standard currently in force. For example, in accordance with paragraph 5.53 of the Ethical Standard (June 2016), 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

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

Appendix 3

Colleges

College		
City of Glasgow College	Fife College	New College Lanarkshire
Dundee & Angus College	Glasgow Clyde College	North East Scotland College
Edinburgh College	Glasgow Kelvin College	West College Scotland

Central government NFI participants

Body	Own System (OS) or SG Systems (SG)
Accountant in Bankruptcy	SG
Care Inspectorate	OS
Creative Scotland	OS
Crofting Commission	SG
Crown Office	OS
Disclosure Scotland	SG
Education Scotland	SG
Food Standards Scotland	SG
Forest Enterprise (Scotland)	OS ¹
Forestry Commission (Scotland)	OS
Highlands and Islands Enterprise	OS
Historic Environment 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
Police Investigations & Review Commissioner	SG
Registers of Scotland	OS

Body	Own System (OS) or SG Systems (SG)
Revenue Scotland	SG
Risk Management Authority	SG
Royal Botanic Garden Edinburgh	OS
Scottish Children's Reporter Administration	OS
Scottish Court Service	OS
Scottish Criminal Cases Review Commission	SG
Scottish Enterprise	OS
Scottish Environment Protection Agency	OS
Scottish Fire & Rescue Service	OS
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
Scottish Prison Service	OS
Scottish Public Pensions Agency	SG ²
Scottish Qualifications Authority	OS
Scottish Road Works Commissioner	SG
Scottish Social Services Council	OS
Scottish Water	OS
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; SPPA and NHS and Teachers' pension schemes use SG systems except for pension awards.

Appendix 4

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).

Dates marked with a * are indicative. Auditors should refer to the relevant technical guidance note for the precise date.

NHS

Date	Activity	Contact	Ref
04/11/16	Submit audit partner & manager contact details & audited body billing address changes for invoice purposes	Owen Smith	15
06/12/16	Submit initial fee claim (firms)	Owen Smith	159
06/01/17	Submit December progress report (firms)	Owen Smith	183
03/02/17	Submit Current issues return 1	Carol Calder	102
28/02/17	Submit annual audit plan	Owen Smith	18
05/04/17	Submit March progress report (firms)	Owen Smith	183
30/06/17	Certify annual accounts, submit audited accounts and annual audit report	Owen Smith	34
30/06/17	Submit excel version of audited accounts & Consistency certificate	Owen Smith	37
30/06/17	Submit minimum dataset	Carol Calder	107
30/06/17	Submit NFI questionnaire	Owen Smith	84
30/06/17	Submit all remaining outputs of the audit	Owen Smith	32
05/07/17	Submit final fee claim & June progress report (firms)	Owen Smith	183
04/08/17	Submit Current issues return 2	Carol Calder	102

Local government

Date	Activity	Contact	Ref
04/11/16	Submit audit partner & manager contact details & audited body billing address changes	Owen Smith	15
06/12/16	Submit initial fee claim (firms)	Owen Smith	159
06/01/17	Submit December progress report (firms)	Owen Smith	183
03/02/17; 07/04/17; 04/08/17; 03/11/17	Submit Accounts Commission current issues returns	Dave McConnell	102
31/03/17	Submit annual audit plan	Owen Smith	18
05/04/17	Submit March progress report (firms)	Owen Smith	183
26/05/17	Last date for submitting fraud returns	Anne Cairns	94
30/06/17	Submit NFI questionnaire	Owen Smith	84
05/07/17	Submit June progress report (firms)	Owen Smith	183
07/07/17	Submit technical database return	Paul O'Brien	119
29/07/17	Technical database available	Paul O'Brien	120
31/07/17*	Certify EMA grant claim	Paul O'Brien	89
29/09/17*	Certify CJSW grant claim	Paul O'Brien	89
30/09/17	Certify annual accounts	Owen Smith	34
02/10/17	Submit audited accounts and annual audit report	Owen Smith	32
02/10/17*	Submit WGA assurance statement and return to NAO, where required	Paul O'Brien	87
02/10/17	Submit BV data return (firms)	Fiona Mitchell-Knight	73
02/10/17	Submit minimum dataset	Mark McCabe	107
04/10/17	Submit September progress report (firms)	Owen Smith	183
09/10/17*	Certify non-domestic rates return	Paul O'Brien	89
30/11/17	Certify housing benefits subsidy claim	Paul O'Brien	89
30/11/17	Submit all remaining outputs of the audit	Owen Smith	32
30/11/17	Submit final fee claim & final progress report (firms)	Owen Smith	183

Central government

Date	Activity	Contact	Ref
04/11/16	Submit audit partner & manager contact details & audited body billing address changes for invoice purposes	Owen Smith	15
06/12/16	Submit initial fee claim (firms)	Owen Smith	159
06/01/17	Submit December progress report (firms)	Owen Smith	183
03/02/17	Submit Current issues return 1	Gordon Smail	102
28/02/17	Submit annual audit plan	Owen Smith	18
05/04/17	Submit March progress report (firms)	Owen Smith	183
26/05/17	Last date for submission of NDPB fraud returns	Anne Cairns	94
15/06/17	(SW only) Certify accounts, submit audited accounts and annual auditors report	Owen Smith	34
15/06/16	(SW only) Submit all remaining outputs of the audit	Owen Smith	32
15/06/16	(SW only) Submit final fee claim (firms) & final progress report	Owen Smith	183
30/06/17	Submit NFI questionnaire	Owen Smith	84
05/07/17	Submit June progress report (firms)	Owen Smith	183
04/08/17	Submit Current issues return 2	Gordon Smail	102
02/10/17*	Submit WGA assurance statement and return to NAO, where required	Paul O'Brien	87
04/10/17	Submit September progress report (firms)	Owen Smith	183
31/10/17	Certify annual accounts, submit audited accounts and annual audit report	Owen Smith	34
31/10/17	Submit all remaining outputs of the audit	Owen Smith	32
31/10/17	Submit final fee claim & final progress report (firms)	Owen Smith	183

Further education

Date	Activity	Contact	Ref
04/11/16	Submit audit partner & manager contact details & audited body billing address changes for invoice purposes	Owen Smith	15
06/12/16	Submit initial fee claim (firms)	Owen Smith	159
06/01/17	Submit December progress report (firms)	Owen Smith	183
03/02/17	Submit Current issues return 1	Mark MacPherson	102
05/04/17	Submit March progress report (firms)	Owen Smith	183
30/06/17	Submit annual audit plan	Owen Smith	18
05/07/17	Submit June progress report (firms)	Owen Smith	183
04/08/17	Submit Current issues return 2	Mark MacPherson	102
04/10/17	Submit September progress report (firms)	Owen Smith	183
31/12/17	Certify annual accounts	Owen Smith	34
03/01/18	submit audited accounts and annual audit report	Owen Smith	34
03/01/18	Submit minimum dataset	Mark MacPherson	107
03/01/18	Submit all remaining outputs of the audit	Owen Smith	32
05/01/18	Submit final fee claim & final progress report (firms)	Owen Smith	183