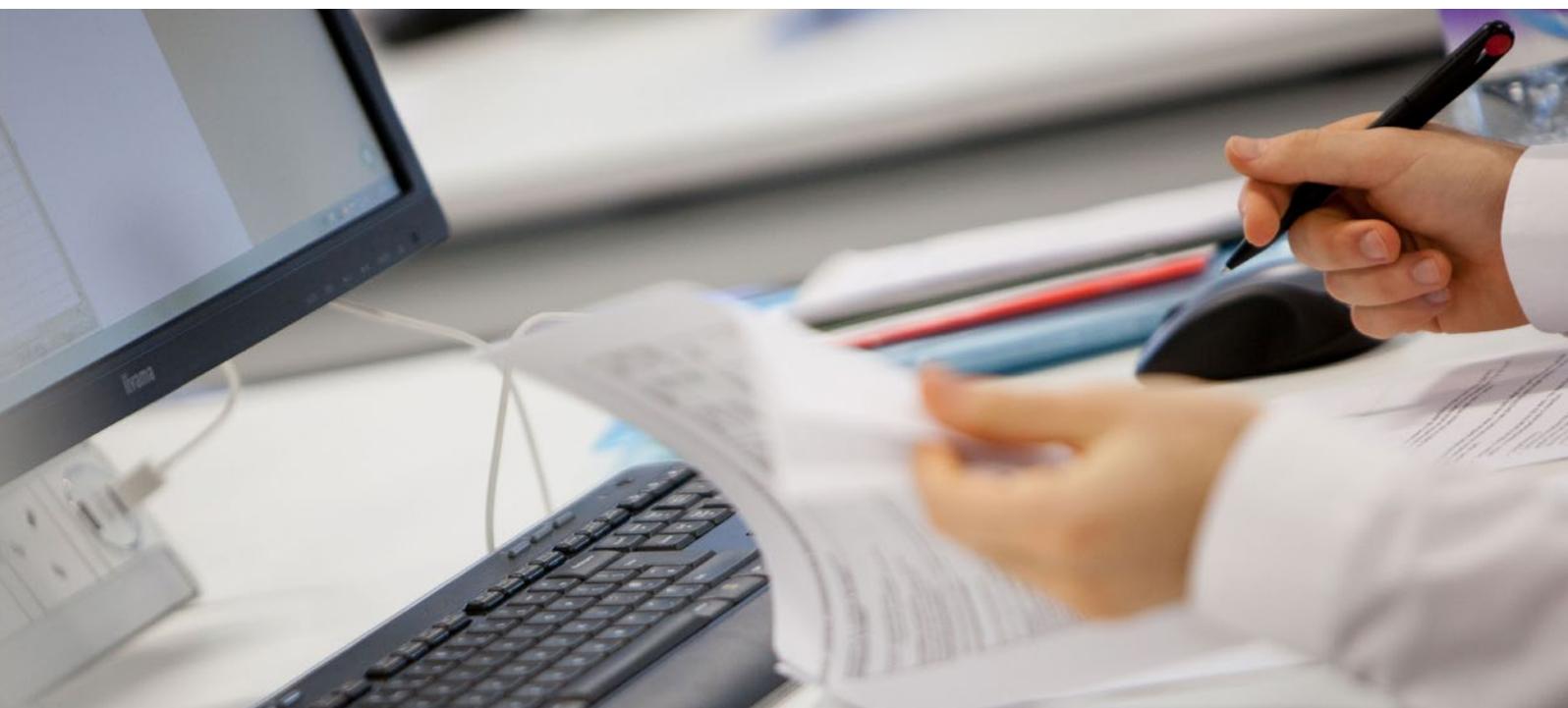


# Our approach to setting audit fees



Audit appointments are made by the Auditor General or the Accounts Commission. This helps ensure the independence of external audit.

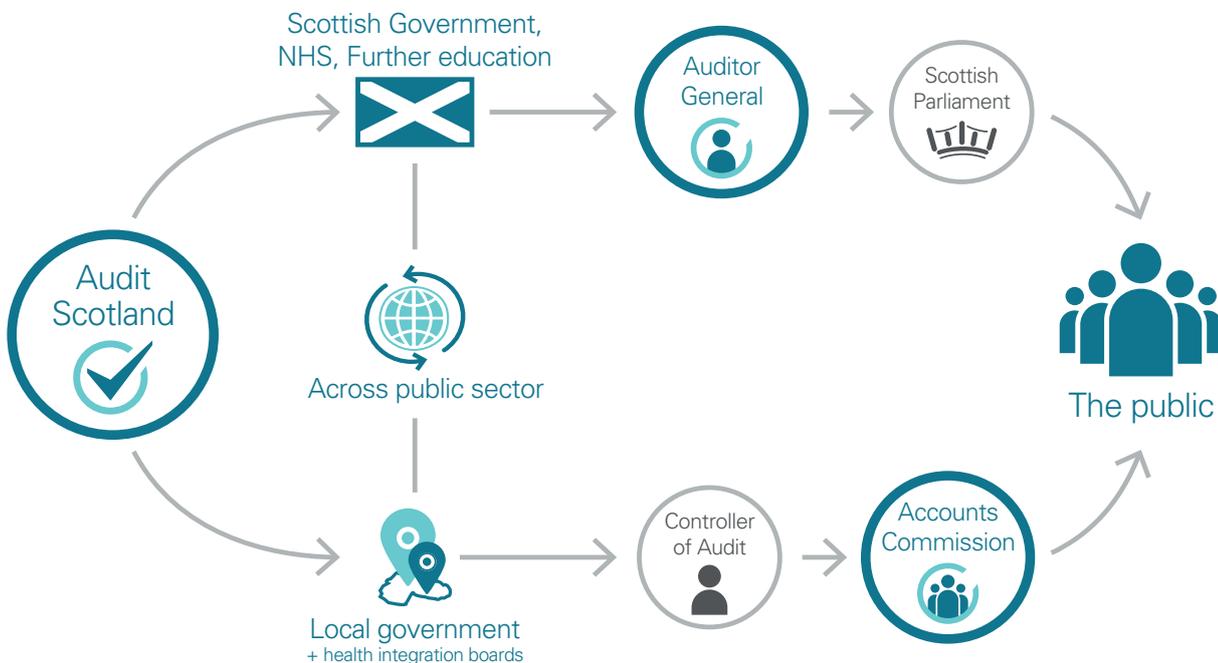
[Find out more](#) 

## Key messages

- 1** We have completed a review and consultation on funding and fee setting arrangements.
- 2** We carried out a successful audit procurement exercise leading to new audit appointments being made for the 2016/17 to 2020/21 audits.
- 3** Our aim is to deliver independent, consistent, high quality, wider scope public audits while achieving best value in our use of resources.
- 4** Fee changes will vary across individual bodies and overall we will reduce average fee levels for the 2016/17 audits by 6.7% (8.6% in real terms).
- 5** We expect to make further real terms reductions in fee levels for 2017/18 and 2018/19 audits.
- 6** These are on top of a 24% reduction on average in real terms between 2010/11 and 2015/16 audits.
- 7** Our 2017/18 budget proposal includes the transfer of funding for NHS performance audit from audit fees, to the SCF (Scottish Consolidated Fund). The proposed transfer is cost neutral as we will reduce audit fees by the same amount.

## Introduction

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland. The Auditor General and the Accounts Commission appoint external auditors to most public bodies in Scotland. Audit Scotland provides services to the Auditor General and the Accounts Commission, including carrying out annual audits, performance audits and Best Value audits.



## Our purpose

- We carry out relevant and timely audits of the way the public sector manages and spends money.
- We report our findings and conclusions in public.
- We identify risks, making clear and relevant recommendations.



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**we provide independent assurance to the people of Scotland that public money is spent properly and provides value**

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## About our audits

**Annual audits** are undertaken by Audit Scotland staff and private firms appointed by the Auditor General and the Accounts Commission.

**Performance audits** are carried out by Audit Scotland staff with assistance from external specialists and appointed auditors where appropriate.

**Best Value audit** work is carried out by appointed auditors of councils as part of the annual audit. Reports by the Controller of Audit to the Accounts Commission are prepared for each council at least once in each five-year audit appointment period.

To support our vision of world-class high-quality audit and to maintain independence, audit appointments are rotated every five years. During 2015/16 we carried out an audit procurement exercise leading to appointments of in-house teams and external firms being made to over 220 bodies for five years from 2016/17.

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**high-quality audit, independence, five-year rotation**

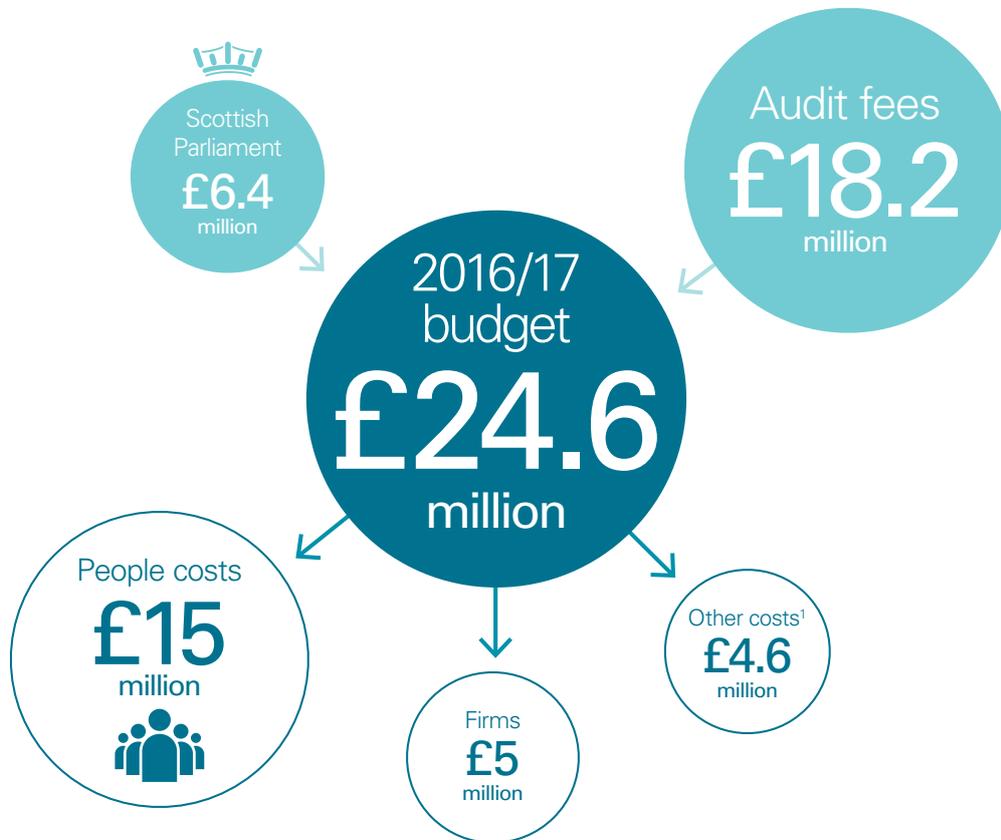
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## How we are funded

Audit Scotland's work is funded by a combination of fees charged to audited bodies and resources provided by the Scottish Parliament. About three quarters of our income comes from fees.

Audit Scotland is responsible for setting the level of fees charged to audited bodies.

The projected fees form part of Audit Scotland's budget proposal to the Scottish Commission for Public Audit which considers the proposal, takes evidence on it in public and reports to the Finance Committee of the Scottish Parliament as part of the overall scrutiny of the annual Budget Bill.



Note: 1. Other costs include property, IT, travel and subsistence, and depreciation.

## Find out more:



[Annual report and accounts, 2015/16](#) 



[Corporate Plan, 2016/17](#) 

## Fee strategy

### About our fee strategy

Our vision is to be a world class audit organisation that improves the use of public money.

#### In order to deliver our world class vision we have:



Consulted stakeholders about their expectations of audit



Published [Public Audit in Scotland](#) , a high-level statement on the scope of public audit by the Auditor General, the Accounts Commission and Audit Scotland



Revised the [Code of Audit Practice](#)  to raise expectations of auditors in conducting wider scope public sector audits and increase the transparency of audit work



Carried out an audit procurement exercise to underpin new audit appointments by the Auditor General and the Accounts Commission for the period 2016/17 to 2020/21

In 2016, we completed a review and consultation of our approach to funding our work and the fee setting arrangements. This was to improve transparency, making them easier to understand and operate. These new arrangements apply from the 2016/17 audits.

In setting a fee strategy our aim is to provide high-quality independent public audit in Scotland while delivering best value in our work.

This means our fee strategy needs to:

- comply with statute
- maintain the independence of Audit Scotland and its auditors
- reflect the way in which public services are organised and audited
- be transparent, easy to understand and simple to operate
- be sustainable and not volatile from year to year without reason.

### Key principles

To achieve this the Audit Scotland Board established two key principles:

- That audit fees should be set with the objective of recovering the full cost of audit work in each sector.
- That the cost of the audit should not depend on the identity or location of the auditor.

establish a  
transparent  
framework for the  
setting of fees and  
charges in a stable  
and predictable way

consistent,  
transparent and  
sustainable

[Consultation on Audit Scotland fee setting arrangements](#) 

## Consultation feedback

In the summer we consulted with audited bodies and other stakeholders on the principles underlying the strategy and the approach to calculating fees:

We asked stakeholders whether they:

- agreed that audit fees should be set with the objective of recovering the full cost of audit in each sector
- supported the principle that an audited body should pay the same fee irrespective of who is appointed to deliver the audit
- agreed that some costs should be pooled across each sector
- agreed with the proposed approaches to sharing pooled costs between bodies
- thought that we could be more transparent in showing how fees were constructed.

The respondents agreed with the principles of full cost recovery and that the audit fee should be the same whoever carried out the audit. They also agreed with the concept of cost pooling and the approaches to sharing these costs between bodies.

Bodies also welcomed the commitment to greater transparency and the proposal to provide a breakdown of the total fee. Some respondents suggested that we should provide a detailed breakdown of the time to be spent on each audit. Our approach to appointing auditors means that it is for each auditor to use their professional judgement to determine the grades of staff and length of time to be spent on the audit rather than the time being set centrally.

## About the fees we charge

We reviewed and revised the costs of individual audits using information on the actual cost of delivering the audits. In some sectors this has resulted in increases for some smaller bodies and reductions for larger bodies.

We have revised the way in which audit fees are presented and explained to audited bodies and the mechanism for agreeing adjustments to fees to reflect local circumstances.

## Which organisations pay audit fees?

- Fees are set for all local government audit work and the costs of annual audit work in the NHS, central government, Scottish Water and further education colleges.
- Local government has separate democratic accountability and its funding includes an amount for scrutiny costs such as audit. Therefore local government bodies pay for all audit work across the sector. This includes Performance & Best Value audit work.
- The same principles are used to calculate notional fees for the central government audits that we cannot charge for.

## What does Parliamentary funding pay for?

- Annual audits of the central government audits that we cannot charge for.
- All performance audit work in central government, further education and Scottish Water.
- In our 2017/18 budget proposal to the Scottish Commission for Public Audit, we include a proposal to transfer to parliamentary funding the remaining proportion of the cost of NHS performance audit work currently funded through fees.
- The cost of supporting Parliament and its committees, the National Fraud Initiative and the costs of the Auditor General, Accounts Commission and Audit Scotland Board.

## Calculating and communicating audit fees

For 2016/17 audits onwards we will provide the following breakdown of the total audit fee for each audited body:

	Current year	Prior year (from 2017/18)
Auditor remuneration	£-	£-
Pooled costs	£-	£-
Performance audit and Best Value (where relevant)	£-	£-
Audit support costs	£-	£-
Total expected fee	£-	£-

Please refer to your individual fee letter

## Auditor remuneration

Auditor remuneration for an individual body is based on our assessment of the audit work likely to be required to deliver an audit. The audit must comply with the Code of Audit Practice for a body of that size facing the normal risks for its part of the public sector.

The auditor remuneration assumes that the body has sound governance arrangements in place and operating effectively throughout the year, prepares comprehensive and accurate draft accounts and meets the agreed timetable for the audit.

Fees can be agreed between the auditor and audited body by varying the auditor remuneration by up to 10% above the level set, for example, where significant local issues require additional work to be undertaken. In exceptional circumstances higher remuneration can be agreed with the prior agreement of Audit Scotland.

If the auditor and audited body agree that a permanent reduction in audit cost is appropriate then we will consider the proposal taking account of any potential impact on audit quality.

## Pooled costs

We aim, as far as possible, to ensure an audited body should pay the same fee irrespective of whether the auditor is an Audit Scotland team or any of the appointed private firms. This supports auditor independence and the rotation of auditors.

This means we pool some costs which would otherwise lead to different fees being charged depending on the identity or location of the appointed auditor. These pooled costs are currently distributed across the audited bodies in each sector in proportion to the expected level of auditor pay. Pooled costs are:

- travel and subsistence costs
- procurement savings above those reflected in the auditor remuneration level
- any difference between the full costs of Audit Scotland teams and the auditor remuneration amount for their audits
- recoverable input VAT (local government only).

## Performance audit and Best Value audit costs (local government only)

**Local government bodies** pay for the cost of **all** audit work carried out in the sector. All councils carry out a similar range of services and therefore they benefit from the recommendations for improvement and good practice identified in Best Value reports at other councils.

For **performance audit work**, including the costs of responding to correspondence from elected representatives and members of the public about issues in local government bodies, the budgeted costs are distributed between significant local government bodies (councils, Integration Joint Boards and Strathclyde Passenger Transport) in proportion to the level of auditor remuneration.

For **Best Value audit and housing benefit audit** the amount of money received by councils towards the cost of this work is divided between the 32 councils only on the basis of relative populations in June 2015.

## Audit support costs

Audit Scotland incurs ongoing costs, eg making audit appointments, providing assurance on audit quality and providing technical guidance and support to appointed auditors. These costs are shared across all audits relative to the level of auditor remuneration.

## Audit fees for 2016/17 audits

### Fee levels

We're proposing, subject to consideration of our 2017/18 budget by the Scottish Commission for Public Audit, to reduce average audit fees for 2016/17 audits by 6.7%, building on real terms reductions of 24% since 2010/11, through a combination of the review of fees and funding the recent audit procurement exercise and further Audit Scotland budget savings.

**Table 1** shows there is variation between sectors. These differences arise from the varying prices bid for audit work in different sectors and applying a revised cost distribution methodology consistently across all sectors. The NHS reduction includes the effect of the proposed transfer of performance audit costs to the Scottish Consolidated Fund.

	2016/17 total fees £m	Average change on 2015/16 fees (percentage)
Local government	11.1	-4.5
NHS	3.0	-20.5
Central government-chargeable audits	1.8	3.3
Further education	0.5	2.2
<b>Overall average cash reduction</b>		<b>-6.7</b>

The fee movements shown in Table 1 are based on us achieving a break even position for the 2017/18 financial year in all sectors.

## Summary information on fee movements by sector

### Local government

The average reduction in audit fees from the 2015/16 audit fees for local government bodies is 4.5% arising from Audit Scotland savings and the recent audit procurement exercise. For councils the reductions range from 0% for smaller councils to 12% for the largest. For Integration Joint Boards 2016/17 will be the first full year of operation and fees will be agreed locally between auditor and audited body depending on the scope of IJB activity and the arrangements in place to obtain robust financial information. For other local government bodies fees will be held at 2015/16 levels.

The fees are on a like-for-like basis and do not take account of any changes in the volume of audit work required as a result of, for example, changes in accounting requirements. For 2016/17, council fees do not take account of any additional audit work that may be agreed with auditors to prepare for the full audit of Highways Network Assets now expected to be required for 2017/18.

## NHS

The average reduction for NHS bodies is 20.5%. Mainland territorial boards will see fee reductions of 26%–30% including the reduction attributable to the proposed transfer of funding for performance audit work. Special health boards, apart from NHS 24, will see fees remain at 2015/16 levels. NHS 24 will see an increase in its expected fee of £5,500 to reflect the actual fee levels being charged in recent years. Island health boards will see increases of £2,500–£7,500 reflecting the actual cost of carrying out these audits over recent years.

### Further education

Overall the sector will see an increase in fees of £10,000 (2.2%) to bring income fully into line with the actual cost of auditing in the sector. Several recently merged colleges will see reductions of 3%–4% and others an increase of 3%. Colleges that have not undergone mergers will see increases of £1,650–£2,200 to better reflect the actual cost over a number of years of delivering these audits in compliance with the Code of Audit Practice.

### Central government – chargeable

Overall chargeable central government fees will increase by 3.3%. For larger bodies the increases will be around 2% and for smaller bodies generally 5%–6% (£130–£1,000) to better reflect the actual cost of carrying out these audits in recent years.

### Central government – non-chargeable

For those central government audits where Audit Scotland cannot charge a fee, the notional audit cost notified to the bodies will increase by an average of 1.9%.

# Our approach to setting audit fees

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk) 

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