

Audit management and quality guidance

For 2022/23 audit year onwards



Prepared by Audit Scotland
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1. Overview

Purpose of guidance

1. This guidance from Audit Scotland assists auditors appointed by the Auditor General for Scotland and the Accounts Commission to manage their audits in line with Audit Scotland's fee strategy.
2. Appointed auditors must observe their letters of appointment, the Code of Audit Practice, International Auditing Standards (ISAs UK), Practice note 10, this standing guidance, annual planning guidance, as well their statutory duties and any other relevant guidance from Audit Scotland when carrying out their audits.
3. This guidance applies to the 2022/23 audit year onwards.

Audit Scotland's fee strategy

4. Audit Scotland's fee strategy aims to provide high-quality independent public audit in Scotland while delivering best value in our work. To do this, our fee strategy:

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

Key principles

5. 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.

2. Fee for the audit

Introduction

6. Audit Scotland sets the expected fee annually for each audit. Auditors agree the fee within set parameters. Audit Scotland invoices audited bodies for audit fees and pays auditors for their work.

7. Auditors should use the flexibility within the fee for the audit arrangements explained in this section to resource their audit work. Audit Scotland may commission work from auditors beyond the core audit work, which will incur additional audit fees.

Definitions

Expected fee

8. Audit Scotland sets an expected fee for each audit carried out under appointment which assumes that the body has well-functioning controls, an effective internal audit service, and an average risk profile.

9. Audit Scotland reviews the expected fee each year and adjusts it if necessary, based on auditors' experience, new requirements, or significant changes to audited bodies.

10. The expected fee is made up of five parts:

- Auditor remuneration
- Pooled costs
- Audit support
- Performance audit (Local government sector only)
- Sectoral average cap adjustment.

Agreed fee

11. The fee agreed between an audited body and their auditor may differ from the expected fee. Audit Scotland bills the body for the agreed audit fee. The first instalment will be based on one third of the expected fee. Subsequent instalments are adjusted to reflect agreed fees. Colleges are billed on only two equal instalments of the agreed fee.

12. Audit Scotland cannot charge some central government bodies (as specified in appendix 1). The costs of auditing these bodies are met from

Parliamentary funding and their fees are described as notional. Auditors must still agree an audit fee that reflects the risks in such bodies.

Auditor remuneration

13. Auditor remuneration is the part of the fee payable to the auditor. It is the baseline remuneration level for each audit. Any adjustments for inflation and changed requirements are applied to this. Auditor remuneration levels for 2022/23 were based on the average (arithmetic mean) quote from each successful firm and Audit Scotland.

Pooled costs

14. Pooled costs are the parts of the agreed fee that are pooled to ensure that an audited body pays the same fee irrespective of their geographic location or auditor. Pooled costs include travel and expenses costs and smoothing for the different rates payable to different auditors.

Performance audit

15. Performance Audit is the part of the agreed fee that is retained by Audit Scotland to meet the costs of this work. Local government bodies pay for the cost of all audit work carried out in the sector including national performance audits and Housing Benefit (HB) performance audits. Some HB audits are programmed over several years, so the costs are pooled to avoid volatility of audit fees. Other sectors' performance audit work is met from Parliamentary funding.

Audit support

16. Audit support is the part of the agreed fee that is retained by Audit Scotland to meet the costs of Professional Support providing technical guidance and support, and Audit Quality and Appointments (AQA) managing the audit appointments including quality appraisal of all providers and types of audits.

Sectoral cap adjustment

17. Sectoral cap adjustment is the adjustment to apply an equal price movement to all bodies within each sector. The tender for the 2022/23 to 2026/27 audits secured robust market evidence for the market rate of each audit but implementing these would lead to volatility in the price bodies paid. Audit Scotland decided to withhold applying the price changes on an audit-by-audit basis, instead applying any changes at the sector level.

Agreeing fees

18. Auditors must negotiate a fee with the audited body during the planning process. Where auditors identify that additional work is required because of local risks and circumstances in a body, the auditor may negotiate an increase to auditor remuneration by up to 10% of auditor remuneration. For smaller bodies with audit fees below a level set annually in the planning guidance, auditors may negotiate an increase to auditor remuneration by up to 20%.

19. If local risks are high in number or very acute, the amount by which the auditor can negotiate set out in paragraph 18. may not be enough to reflect the

necessary audit work. Auditors must contact AQA for approval to vary a fee above the range. Auditors must explain the nature of the work using the significant risks and audit response from the annual audit plan. Auditors should discuss proposals to vary the fee with the audited body before contacting AQA.

20. When preparing fee proposals, auditors should use the same language and defined terms as set out in this guidance and the Expected fees document published on Audit Scotland's website to promote understanding of the fees regime.

21. Auditors should include each component of the agreed fee in annual audit plans. If the plan is complete before the fees are agreed, auditors must inform AQA and confirm the fee as soon as it is agreed. This allows Audit Scotland to accurately invoice audited bodies.

22. Fees agreed with bodies may be revised during the audit within 10% (or 20% for smaller bodies). This does not need approval from Audit Scotland. Auditors must notify any such fee amendments promptly to AQA along with the reasons for the change to ensure that billing is accurate.

Fee notification

23. Audit Scotland will notify auditors about the expected fees each year following submission of Audit Scotland's budget to the Scottish Commission for Public Audit, normally in December. The remuneration rate used to calculate fees is increased annually based on Audit Scotland's scale uplift.

Key audit contacts and billing details

24. Auditors must provide key audit contact (appointment lead and manager) and audited body billing details (for invoicing) to AQA at Outputs@audit-scotland.gov.uk by the second Friday in November.

3. Additional audit work and non-audit services

Additional audit work

25. Auditors may carry out additional audit work not provided for in the construction of expected fee or the initial audit plan using the rates in Schedule 2 of the Framework Agreement. This may include work on objections into local government accounts. Additional work may be:

25.1. within the range,

25.2. beyond the range, or

25.3. billed separately.

Additional work within the range

26. If the additional work can be accommodated within the range, Auditors do not need approval from AQA. Auditors should confirm that the audited body has agreed the fee increase and notify fee amendments due to additional work promptly to outputs@audit-scotland.gov.uk. The audited body will be charged as part of the regular charging cycle, and Audit Scotland will pay auditors as part of the final payment.

Additional work beyond the range

27. Where the additional audit work cannot be accommodated within the range, auditors must obtain approval from AQA to go above the range. Auditors should confirm that the audited body has agreed the fee increase and notify fee amendments due to additional work promptly to outputs@audit-scotland.gov.uk. The audited body will be charged as part of the regular charging cycle, and Audit Scotland will pay auditors as part of the final payment.

Additional work separately billed

28. Where a separate fee is proposed, auditors must confirm to AQA 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. Auditors should inform AQA if the invoice is to be sent to a particular individual and include an appropriate description for the work.

29. Firms carrying out additional work that is separately billed should invoice Audit Scotland as described in the section on claiming remuneration.

30. 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 all audited bodies understand that none of their audit fees are recoverable from HM Revenue and Customs. Any recoverable VAT on additional fees in the local government sector is applied to reduce the pooled costs for local government bodies.

Audit Scotland commissioned work

31. Audit Scotland may commission auditors to carry out specified work, such as preparing statutory reports or investigating correspondence from the public.

32. Audit Scotland will indicate whether the additional fee is to be accommodated by increasing the fee agreed with the body, separately agreed with the audited body or invoiced to the Performance Audit and Best Value Group (PABV)/ Correspondence team.

33. Where the fee is to be met by increasing the fee agreed with the body, auditors should follow the procedure explained in paragraphs 18. and 19.

34. Where the fee is to be separately agreed with the audited body, auditors should follow the procedure explained in paragraph 28.

35. Where the fee is to be invoiced to PABV/Correspondence, auditors should agree additional fees with PABV/Correspondence team (contacts detailed in the annual planning guidance) using their rates in Schedule 2 of the Framework Agreement.

Non-audit services

36. Auditors may only carry out non-audit services for their audited bodies that comply with the Ethical Standard that is currently in force and the Code of Audit Practice and have been approved by AQA.

37. When applying for approval for non-audit services, auditors must:

- describe the work
- describe any safeguards that are proposed to ensure there is no conflict (actual or perceived)
- confirm that their designated appointment lead or Ethics Partner has also approved that the work is in accordance with the Ethical Standard
- provide the expected fee income if available.

38. Auditors are responsible for billing the audited body directly for non-audit services. All non-audit services carried out during the year must be declared on final fee claims.

39. Audit Scotland reports to the Auditor General for Scotland and Accounts Commission on the number and value of requests and actual non-audit services as part of the audit quality reporting arrangements.

4. Claiming remuneration and expenses

Introduction

40. The procedure for claiming remuneration differs between the firms and ASG. Firms are paid by Audit Scotland for their work whereas no direct claims are needed for ASG.

Firms

Claiming remuneration

41. Auditors should claim remuneration and related expenses using the annually prepared fee claim forms. Where firms' own systems require them to raise fees on their own stationery these should not be submitted to Audit Scotland with the fee claim form. Audit Scotland will only pay auditors' remuneration based on fee claim forms.

42. Auditors should submit all fee claim forms electronically to outputs@audit-scotland.gov.uk. The appointment lead must authorise the fee claim by including their name on the fee claim form.

43. Auditors should complete an initial fee claim near the start of the audit using the first worksheet of the Excel workbook. The initial claim is based on 95% of the auditor remuneration based on the expected fee.

44. The initial fee claim form calculates the monthly instalments being claimed. Each instalment is calculated to be the same amount and rounded to the nearest pound, so the total of the instalments may not be exactly 95% of the calculated figure.

45. The initial fee claim form sets the payment date as the 21st of each month and the last instalment dates as shown in the following table. Audit Scotland will make payments to firms' bank accounts by standing order.

- Local government: 21 October
- Central government: 21 October
- Scottish Water: 21 June
- Health: 21 July
- Further education: 21 December

46. Auditors must observe the following rules when preparing initial fee claims:

- Auditors should provide at least 10 working days from date of receipt for the first instalment of the claim to be processed in Audit Scotland. Claims will be checked and authorised by AQA. Auditors should contact AQA or defer the first instalment to the next month if they are unsure if there is enough time for a claim to be processed.
- The first instalments in LG, NHS, CG, and SW must be no earlier than 21 December.
- The first instalments in FE must be no earlier than 21 February.
- Each instalment/tax point must apply the VAT rate that applies, or is expected to apply, at the stated date. The fee claim form is set up so that the VAT rate will not affect the gross amount of each instalment, only the split between the net remuneration and VAT.

47. 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.

48. Auditors should claim the balance of the remuneration on completion of the audit by submitting a final fee claim form.

49. Auditors may submit a final claim before the date of the last instalment on the initial claim if they have submitted all agreed audit outputs and reported progress as 100%. The remaining instalments will be paid by standing order in line with the instalment dates on the initial claim.

50. In exceptional circumstances auditors may submit a final fee claim where audit work is complete, but all audit outputs have not been delivered. Auditors must seek approval from AQA by giving details of the circumstances precluding audit completion before submitting a final claim.

Claiming expenses

51. Audit Scotland pays travel and subsistence expenses on an actual cost basis, so auditors should not normally include them in the initial fee claim form. Auditors may claim a proportion of the estimated expenses in the initial claim if they expect them to be particularly high. This may be the case for audits based in the islands or the most distant stay-away audits. Auditors must seek approval from AQA before making a claim that includes expenses.

52. 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 audit fee.

53. Auditors should claim the travel and subsistence that they have incurred in carrying out the audit, adjusted by any estimate claimed on an initial fee claim, in their final fee claim.

54. Audit Scotland monitors the level of expenses claimed on audits and, in line with the Framework Agreement schedule 4, 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. Audit Scotland may request details of expenses if claims are higher than expected.

55. Auditors should claim travel and subsistence expenses for 'additional audit work' (whether requested by the audited body or for correspondence referred by Audit Scotland) with the fee claim for that work.

Additional audit work

56. 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 or on their own invoice stationery where it merits a separate fee. Auditors should submit fee claims for additional audit work on satisfactory completion of the work and any related report to outputs@audit-scotland.gov.uk with confirmation from the audited body that they are satisfied with the work. Auditors should bill non-audit services that have been approved by Audit Scotland to the audited body, not to Audit Scotland.

57. Auditors should use the rates in Schedule 2 of the Framework Agreement. These include 20% input VAT.

Audit Services Group

Claiming remuneration

58. The Finance Team credits ASG's trading accounts by accessing ASG's monthly progress percentages and applying these to the agreed fees reported in annual audit plans.

59. Auditors should inform AQA 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.

Additional audit work

60. Arrangements for recouping income for additional audit work differs from those for agreed fees. Auditors should contact AQA at outputs@audit-scotland.gov.uk with the following information:

- the nature of the work
- the timing of the work
- the level of audit input
- any special billing instructions

- the invoice narrative
- the name and address of the officer in the audited body that the invoice should be sent to.

61. AQA uses such information to instruct the Finance Team to invoice the audited body.

62. Auditors must submit claims for additional fees agreed with an audited body only 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 AQA. Fee claims and billing requests relating to additional audit work should be submitted to AQA.

All auditors

Statutory reports and referred correspondence

63. Auditors should discuss the likely cost of statutory reports and investigating correspondence from the public referred to the auditor by the Correspondence Team using the rates in Schedule 2 of the Framework Agreement. Claims must be submitted only on satisfactory completion of the work and any report requested by the correspondence team. Any fee claims for work on referred correspondence should be submitted to the Correspondence Team.

5. Reporting audit progress

Progress reports

64. 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.

65. An important part of the progress report is confirming whether the independent auditor's report and the annual audit report are expected to be submitted in accordance with the timetable set out in the annual guidance on planning the audit. Auditors must advise AQA as soon as they think that either of these deadlines may not be met.

66. Firms must submit a quarterly progress report showing progress on all their audits to outputs@audit-scotland.gov.uk within 3 working days of the end of December, March, June and September until the audit is complete. Auditors must also submit a final progress report before submitting a final fee claim if the audit is not shown as complete in the most recent quarterly progress report.

67. The Finance Team monitors progress on ASG audits 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.

Appendix 1

Bodies for which Audit Scotland cannot levy charges

- Accountant in Bankruptcy
- Consumer Scotland
- Crown Office and Procurator Fiscal Service
- Disclosure Scotland
- Education Scotland
- Environmental Standards Scotland
- Food Standards Scotland
- Forestry and Land Scotland
- National Records of Scotland
- NHS Superannuation Scheme (Scotland)
- Non-Domestic Rates Account
- Office of the Scottish Charity Regulator
- KLTR
- Registers of Scotland
- Revenue Scotland Devolved Taxes Account
- Revenue Scotland Resource Accounts
- Scottish Consolidated Fund
- Scottish Courts and Tribunals Service
- Scottish Fiscal Commission
- Scottish Forestry
- Scottish Government
- Scottish Housing Regulator
- Scottish Parliamentary Corporate Body

- Scottish Prison Service
- Scottish Public Pensions Agency
- Scottish Teachers' Superannuation Scheme
- Social Security Scotland
- Student Awards Agency for Scotland
- Transport Scotland

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Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

www.audit-scotland.gov.uk/accessibility

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