

# Our approach to setting audit fees



 AUDIT SCOTLAND

Prepared by Audit Scotland  
January 2025

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## Accessibility

You can find out more and read this report using assistive technology on our website [www.audit.scot/accessibility](http://www.audit.scot/accessibility).

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# 1. Overview

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## Purpose of guidance

1. This guidance from Audit Scotland provides details to audited bodies and auditors appointed by the Auditor General for Scotland (Auditor General) and the Accounts Commission on the approach to setting audit fees in Scotland.

## Background

2. The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is an independent public body governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.

3. The Auditor General and Accounts Commission are responsible for appointing auditors to public bodies and ensuring the delivery of audits in Scotland. Audit Scotland's independent Audit Quality and Appointments team (AQA) procures auditors from private firms on their behalf to supplement Audit Scotland's own audit teams.

4. Audit appointments are for five years, based on rotation principles set out in the [Ethical Standard](#). AQA and Audit Scotland's Corporate Finance team set and manage audit fees, reflecting market rates and costs of delivery.

5. During 2021/22 we carried out an audit procurement exercise leading to appointments of in-house teams and external firms being made to over 225 bodies for five years from 2022/23.

## About our audits

- 6.** Annual audits are undertaken by Audit Scotland staff and private firms appointed by the Auditor General and Accounts Commission.
- 7.** Performance audits are carried out by Audit Scotland staff with assistance from external specialists and appointed auditors where appropriate.
- 8.** Best Value audit work is carried out by appointed auditors of local government bodies 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.

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## 2. Our purpose

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### Vision

Public money is well spent to meet the needs of Scotland's people.



### Mission

Provide clear, independent and objective assurance on how effectively public money is being managed and spent.



### Outcomes

By 2028 we want to achieve measurable change in the following areas:



Public services in Scotland work better together to target resources more effectively.



Financial planning and management are more effective across Scotland's public services.



Public bodies deliver clearer and more transparent reporting.



Our recommendations have a positive impact for people in Scotland.

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# 3. Funding

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## How we are funded

**9.** The [Public Finance and Accountability \(Scotland\) Act 2000](#) sets out that our work is funded by a combination of fees charged to audited bodies and Scottish Parliament funding from the Scottish Consolidated Fund.

**10.** We can make reasonable charges to audited bodies in respect of the exercise of our functions. Amounts received by Audit Scotland in respect of charges are retained and used to meet expenditure. We must seek to ensure that, taking one year with another, the charges for certain types of work are broadly equivalent to expenditure.

**11.** Where we cannot charge directly for the audit work, costs are met from the Scottish Consolidated Fund.

**12.** The funding breakdown for 2023/24 was as follows:

- £23.4 million audit fees and other income
- £15.2 million Scottish Parliament funding

**13.** Each financial year, we must prepare proposals for our use of resources and expenditure and send these to the Scottish Commission for Public Audit (SCPA). [The SCPA scrutinises these proposals before reporting to the Scottish Parliament as part of its wider budget scrutiny.](#) We aim to ensure our financial requests provide auditors with sufficient resources to carry out high quality audits while keeping in mind the vision for [Public Audit in Scotland](#) (PAIS) that 'Public money is well spent to meet the needs of Scotland's people'.

## Find out more:

[Scottish Commission for Public Audit](#)

[Annual report and accounts 2023/24](#)

[Corporate Plan 2023-28](#)

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# 4. Fee strategy

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## About our fee strategy

**14.** 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

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

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

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# 5. Fee for the audit

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## Introduction

**16.** Audit Scotland levies statutory charges on audited bodies to recover the costs of audits where empowered to do so.

**17.** Audit Scotland is not empowered to levy charges on certain bodies in the central government sector so costs attributable to these bodies are met by Audit Scotland from the Scottish Consolidated Fund.

**18.** 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.

## Which organisations pay audit fees?

**19.** 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.

**20.** Local government has its own democratic structure, and the Accounts Commission appoints auditors and oversees performance and best value audit arrangements. Local government funding includes an amount for scrutiny costs such as audit and therefore local government bodies pay for all audit work across the sector.

## What does Parliamentary funding pay for?

**21.** Parliamentary funding pays for the following:

- annual audits of the central government that we cannot charge for
- performance audit work in central government, further education, NHS and Scottish Water
- 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

### Expected Fee

**22.** Audit Scotland sets an expected fee for each audit carried out under appointment which assumes that it is for a well-functioning body. Further



details of what we mean by a well-functioning body are set out in paragraph 26 below.

**23.** The expected fee is made up of four parts as set out in Exhibit 1 below.

## Exhibit 1

### Breakdown of total audit fee

	Current Year	Prior year
<b>Auditor remuneration</b>	£-	£-
<b>Pooled costs</b>	£-	£-
<b>Performance audit and Best Value costs (where relevant)</b>	£-	£-
<b>Sectoral cap adjustments</b>	£-	£-
<b>Total expected fee</b>	£-	£-

Please refer to your individual fee letter

**24.** The construction of expected fees does not provide for:

- The consideration of objections in local government. A revision to the audit fee may be required.
- The cost of auditing section 106 charities. Auditors should discuss the fee or such audits at the same time as discussing the fee for the council and report them separately in the Annual Audit Plan.
- Statutory reports. Where statutory reports are prepared these may attract an additional, separate statutory report fee.

### Auditor remuneration

**25.** Auditor remuneration is the part of the fee that represents the cost to the auditor. It is the baseline remuneration level for each audit. Any annual adjustments for inflation and changes to scope of audits are applied to this.

**26.** The auditor remuneration assumes that the body is a well-functioning body. This means that the body:

- has well-functioning controls

- has an effective internal audit service
- has an average risk profile
- has sound governance arrangements in place that operated effectively throughout the year
- prepares accurate draft accounts
- prepares clear working papers to support the accounts and
- meets the agreed timetable for the audit.

**27.** Auditor remuneration for an individual body is our assessment of the cost of delivering the audit. It has been determined by market testing through our competitive tendering process. It is calculated by taking the average of the bids received from all successful auditors, including Audit Scotland, uprated annually as described in paragraphs 39-41 below.

**28.** Each individual auditor receives payment from Audit Scotland of the amount of their bid for the audits to which they are appointed, uprated annually.

### **Pooled costs**

**29.** Pooled costs are the parts of the audit fee that are pooled by sector to ensure that an audited body pays the same fee irrespective of their geographic location or auditor. Pooled costs include:

- travel and expenses costs
- the differences between the Auditor remuneration and the payments Audit Scotland makes to auditors for each audit
- the 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 costs**

**30.** Performance Audit and Best Value costs apply only to local government. It is the part of the audit fee that is retained by Audit Scotland to meet the costs of performance audits and the central support for auditors' Best Value work.

**31.** 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. This includes national performance audits.

**32.** Other sectors' performance audit work is met from Parliamentary funding.

### **Sectoral cap adjustment**

**33.** The Sectoral cap adjustment is the adjustment to apply an equal price movement to all bodies within each sector.

### **Confirmed Fee**

**34.** Auditors are required to confirm the audit fee based on an assessment of the work required to deliver the audit. The confirmed fee may differ from the expected fee. Audit Scotland bills the body for the confirmed fee.

**35.** Auditors may discuss fee increases of up to 10 per cent of Auditor Remuneration (20 per cent for bodies with an expected fee below a set threshold, which is published every year in the [Guidance on planning the audit](#)) where additional work beyond that expected is required.

**36.** Where the 10 per cent/20 per cent range (Standard Range) is not sufficient to accommodate the additional work, higher remuneration can be discussed with the prior agreement of Audit Scotland (see paragraph 45).

**37.** The list below are some examples of circumstances that may lead to additional work:

- the absence of any features of a well-functioning body in paragraph 26
- complex or unusual technical accounting matters
- significant prior year adjustments
- matters leading to modified opinions
- any local impacts due changes to International Standards on Auditing (UK).

**38.** Audit Scotland cannot charge some central government bodies (as specified in section 5). The costs of auditing these bodies are met from Parliamentary funding and their fees are described as notional. Where additional work beyond that expected is required, auditors must still confirm an audit fee that reflects the risks in such bodies.

### **Annual changes to audit fees**

**39.** Audit Scotland reviews and adjusts audit fees each year to reflect the requirements of the audit. Auditor remuneration will be adjusted for:

- the cost-of-living changes in the salary costs for Audit Scotland staff at the previous 1 April

- any changes to the scope of audits due to changing professional standards
- any changes to the scope of audits due to changes to bodies.

**40.** 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.

**41.** The remaining components of the fee are adjusted based on changes to Audit Scotland's budget each year.

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# 6. Varying fees and billing arrangements

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## Varying Fees

**42.** Auditors may discuss an increase to the audit fee where they identify that additional work is required because of local risk and circumstances in a body. This discussion may happen either at the planning stage or at any other point during the audit. Any fee increases are passed directly on to the auditor by Audit Scotland.

### Varying fees within the Standard Range

**43.** Auditors may discuss additional fees directly with bodies if the additional work required is

- up to 10 per cent of auditor remuneration or
- up to 20 per cent for bodies with audit fees below a level set annually in the planning guidance (see Exhibit 2).

**44.** Auditors must notify any such fee amendments promptly to [outputs@audit-scotland.gov.uk](mailto:outputs@audit-scotland.gov.uk). This will ensure that billing is accurate.

### Varying fees above the Standard Range

**45.** Auditors must request approval from AQA to discuss additional fees if the additional work required is greater than that provided for in the Standard Range. Paragraph 37 provides circumstances that may lead to additional fees being required.

**46.** Auditors must inform the body that they have identified circumstances that require additional work beyond the Standard Range, and that they will request permission from Audit Scotland to discuss additional fees.

**47.** Auditors must fill out a fee variation form and send it to [outputs@audit-scotland.gov.uk](mailto:outputs@audit-scotland.gov.uk) along with email confirmation that they have notified the audited body of the proposal to vary the fee. Auditors must explain the nature of the work using options in the variation form. This includes the hours required analysed by grade for each circumstance requiring additional work. Further details of the fee variation process are included below in paragraph 51.

**48.** AQA does not agree the final additional fee but requires auditors to discuss the fee with the body. This arrangement supports the independent auditor appointment model that operates in public audit in Scotland.

**49.** The costs of additional work should be added to the audit fee and based on grade related rates quoted in the tender. Grade related rates quoted in the tender are updated by the cost-of-living changes in the salary costs for Audit Scotland staff each year.

**50.** The fee range is set out in guidance on planning the audit each year. The fee range for 2024/25 is summarised below in Exhibit 2:

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## Exhibit 2

### Fee range 2024/25

Expected fee set by AQA	Minimum fee range	Maximum fee range
Higher than £36,500	Expected fee	Expected fee plus 10 per cent of auditor remuneration
£36,500 or lower	Expected fee	Expected fee plus 20 per cent of auditor remuneration

**Source: Planning Guidance 2024/25**

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### Fee variation form process

**51.** Audit Scotland provides standard fee variation forms annually for auditors to complete when required. Auditors are required to:

- state the type(s) of fee variation
- state the date the fee variation was discussed with the audited body
- state the date the fee variation was or will be reported to those charged with governance
- provide details of the nature of additional work required along with details of additional hours and grade related rates
- indicate whether the fee variation is likely to be a structural change.

### Actions audited bodies can take when discussing fees

**52.** When an increase to the expected fee is proposed, audited bodies can challenge the nature of the work required. Audited bodies should discuss with their auditors and understand the

- nature of additional work
- cause of the additional work
- actions to mitigate additional work in the future.

## Invoices

**53.** Audited bodies in Central Government – chargeable, NHS, Local Government and Scottish Water sectors will be issued with first invoices in January, based on 1/3 of the expected fee. Second and third invoices, based on the confirmed fee with the auditor, will be invoiced in April/May and August/September.

**54.** Further Education bodies invoices will be issued in September and May.

**55.** A final invoice will be issued, if necessary, once all audits are complete, to adjust for any late changes to confirmed fees.

**56.** The expected fee information for Central government – non chargeable bodies is notional. No invoices will be issued because they are fully funded by Parliament.

**57.** If audited bodies accounts department require a purchase order number to be quoted on our fee invoices, this should be arranged by contacting Audit Scotland at [remit@audit-scotland.gov.uk](mailto:remit@audit-scotland.gov.uk) and should be based on the full expected fee to allow us to quote this on all instalment invoices.

## Value Added Tax

**58.** Audit firms bill Audit Scotland for their work, which includes VAT. Audit Scotland may recover VAT on payments made to the firms in local government audits on behalf of the Accounts Commission. This requires firms to address invoices to the Accounts Commission for local government audits. The VAT recovered is included as a reduction to audit fees in local government Pooled costs. Audit Scotland may not recover VAT in other sectors.

**59.** Audit fees charged by Audit Scotland are statutory charges to meet the full costs borne by Audit Scotland, and do not include VAT. Auditors should discuss audit fees on this basis, and not include any references to VAT in fee discussions with audited bodies.

## Fee notification

**60.** Following Audit Scotland's budget submission to SCPA in December each year, Audit Scotland will notify auditors about the expected fee for the audit. The remuneration rate used to calculate fees is increased annually based on Audit Scotland scale uplift.

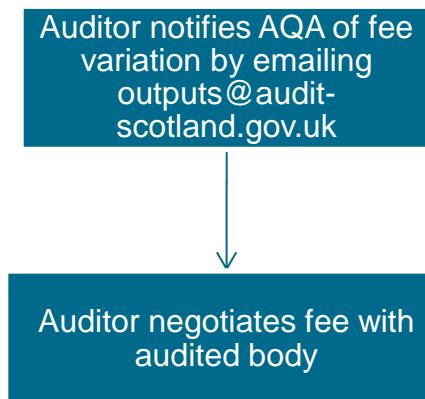
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# Appendix

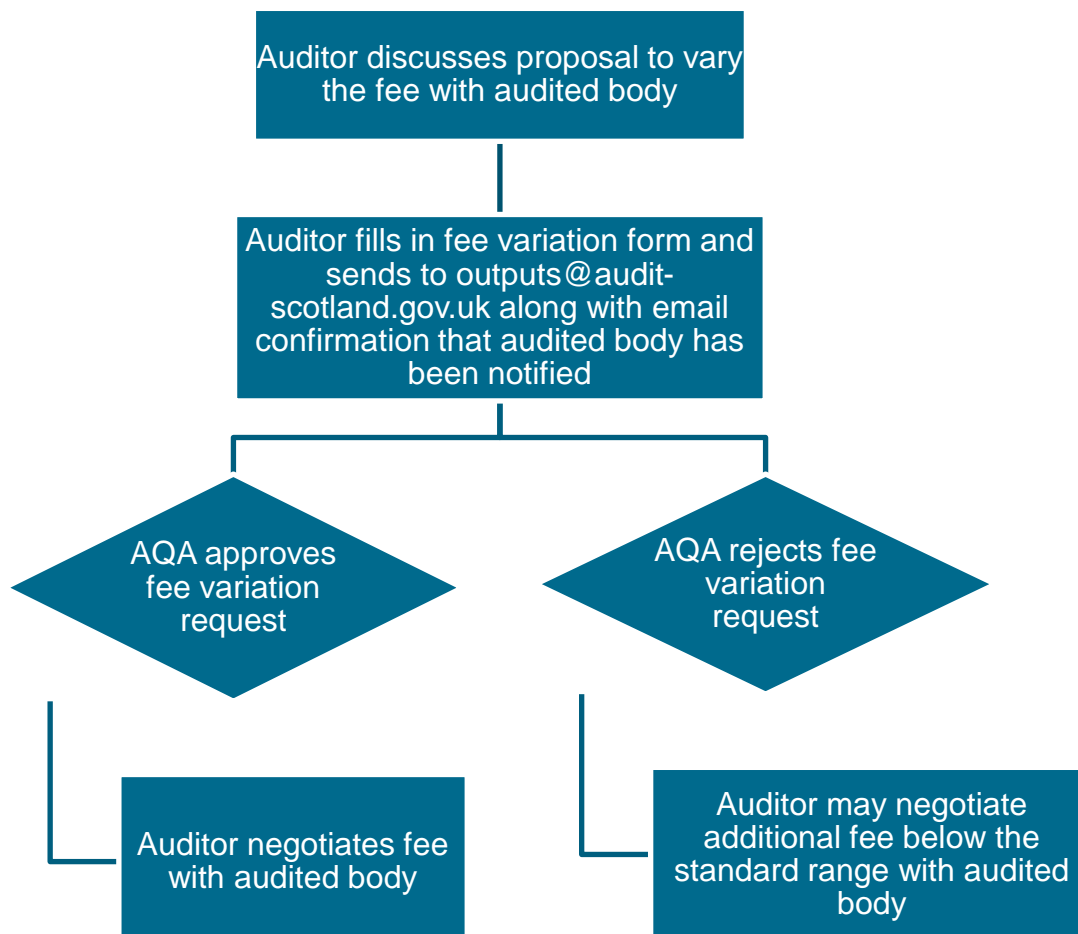
## Process of agreeing fees

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### Agreeing fees within the Standard Range



### Agreeing fees above the Standard Range





# Our approach to setting audit fees



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN  
Phone: 0131 625 1500 Email: [info@audit.scot](mailto:info@audit.scot)  
[www.audit.scot](http://www.audit.scot)