



# Audit planning guidance

## 2017/18 audits



Prepared for appointed auditors  
September 2017

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. Changes to public finances and public services in Scotland show no signs of slowing down as new financial powers continue to develop. 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 2016 Code of Audit Practice presents 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 Code of Audit Practice sets the framework within which this annual planning guidance operates. The 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 2017/18 audits on behalf of the Auditor General and the Accounts Commission. It should be read alongside the audit appointment letter.

## Main points

- **The International Standards on Auditing in the UK (ISAs (UK)) revised in June and July 2016 by the Financial Reporting Council apply to all audits from 2017/18.**
- **The fee setting arrangements introduced for 2016/17 audits remain unchanged: the expected fee reflects an average risk profile and may be varied by up to 10% (20% for bodies with expected fee below £25,000) above the auditor remuneration to reflect local circumstances and risks within the body (see paragraphs 142 - 162).**
- **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](mailto: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 79)**
  - **WGA, grant claims and Technical support (see paragraphs 93, 95 and 128)**
- **Local government auditors are required to consider Best Value audit work as part of the audit and update their 5 year BV plan (see paragraph 79) which should be shared with Audit Scotland for information.**

- **Auditors should consider the impact of EU withdrawal, New Financial Powers, Ending of public sector pay cap, Response to cyber security risks, and Openness and transparency on the bodies they audit as part of their wider dimensions work. Further context on each area is included at appendix 5.**
- **Auditors are reminded of their responsibility to inform Audit Scotland promptly about any significant matters which may arise from the audit (see paragraph 110).**
- **Auditors are required to contribute to the National Fraud Initiative and Commission and Auditor General reports (see paragraphs 112 to 127).**

## 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 expenditure and income which does not apply to local government. Auditors must observe their statutory duties, letters of appointment, the Code of Audit Practice, [International Auditing Standards \(UK\)](#), [Practice note 10](#), this planning guidance, and any other relevant guidance from Audit Scotland when carrying out their audit.
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.
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. Experience from the prior year's audit should be used to inform the judgement. Any areas of uncertainty should be discussed with Audit Scotland.
6. Integration Joint Boards (IJB) fall within [section 106](#) of the Local Government (Scotland) Act 1973. 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 local authority bodies have made proper arrangements to secure Best Value and to comply with their Community Planning responsibilities. Best Value duties also apply to accountable officers across the public sector. Audit Scotland's expectation for auditing Best Value are set out in more detail below (see paragraphs 76 - 87) and in supplementary guidance - Local Government Audit Manual - Auditing Best Value (see paragraph 79).
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 of long-term planning to achieve these.

- How effectively councils are evaluating and implementing options for significant changes in delivering services.
  - How councils are ensuring members and officers have the right knowledge, skills and support to design, develop and deliver effective services in the future.
  - How well councils are involving citizens in decisions about services and empowering local communities to identify and help deliver services they need.
  - The quality of councils' reporting of their performance to enhance accountability to citizens and communities.
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 79). The Commission will review its Strategic Audit Priorities annually.
10. The Accounts Commission and the Auditor General carry 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. Provision for such work is built into the expected fee.
11. The core audit work and, where required, any additional activity not provided for when setting the expected fee is set out in the following table. The products are shown alongside each activity, with those written by the appointed auditor in bold and those for which auditors' work contributes in italics. Products with an asterisk are published on Audit Scotland's website:

Activity	Product	Activity not provided for in expected fee	Para
Conduct an ISA compliant financial audit	<b>Annual audit plan*</b> <b>Interim report(s)*</b> <b>Independent auditor's report</b>		3
Audit and report on the audit dimensions	<b>Annual audit plan*</b> <b>Annual audit report*</b>		59
Report to Auditor General/Controller of Audit and Those Charged With Governance on outcome of the audit	<b>Annual audit report*</b>		28
Share audit intelligence with Audit Scotland	<b>Current issues returns</b> <i>Current issues report</i> <i>Statutory reports*</i>	Further work to contribute to statutory reports	107
Carry out preliminary enquiries into referred correspondence	<i>Response to correspondents</i>	Conduct an Audit Review as agreed with	104

Activity	Product	Activity not provided for in expected fee	Para
		the Correspondence Team	
Provide information on cases of fraud	<b>Fraud returns</b> <i>Technical Bulletins*</i> <i>Annual fraud report</i>		99
Contribute to NFI report	<b>NFI audit questionnaire</b> <b>Reference, if necessary, in annual audit report*</b> <i>Biennial NFI report*</i>		112
Contribute to performance audit reports (including overview reports)	<b>Minimum datasets</b> <b>Data returns</b> <i>Performance audit reports*</i>		116
Provide assurance on Whole of Government Accounts	<b>Assurance statement on WGA return</b> <i>Treasury WGA</i>		92

Local government only			Para
Audit and report on the Strategic Audit Priorities	<b>Annual audit plan*</b> <b>Best Value audit plan</b> <b>Annual audit report*</b>		64
Contribute to Shared risk assessment	<b>Local Scrutiny Plan*</b> <i>National Scrutiny Plan*</i>		68
Audit and report on Best Value	<b>Best Value audit plan</b> <b>Annual audit report*</b> <b>Best Value Assurance Report (where applicable)*</b> <i>Controller of Audit's Annual Assurance and Risks Report*</i>	Additional work to support Best Value Assurance Report	77
SPI work	<b>Annual audit plan*</b> <b>Annual audit report*</b>		90



Local government only			Para
Certify grant claims	<b>Certificate in support of grant claims</b>		95
Liaise with HB auditor	<i>HB audit report</i>		102

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 168.
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

15. Auditors must provide key audit contact (partner and manager) and audited body billing details (for invoicing) by **3 November 2017**. Audit Scotland will provide a pro forma for completion.

## Audit plans

16. Annual audit plans must include:
- the agreed fee (where agreed) so that Audit Scotland can accurately invoice audited bodies
  - a complete list of outputs to report to those charged with governance planned for the year
  - an explanation of the judgement to not apply the full wider scope of audit where such a judgement has been made.
17. Auditors must write to Audit Scotland 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 Scotland 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 \(UK\) 320 Materiality in planning and performing an audit](#) and [Practice Note 10](#).
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 sets certification deadlines for bodies audited under the [Public Finance and Accountability \(Scotland\) Act 2000](#) (PFA Act), and the Accounts Commission sets deadlines to meet the requirements of the [Local Authority Accounts \(Scotland\) Regulations 2014](#) in local government. 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 2018	15 June 2018
Health	28 February 2018	30 June 2018*
Local government	31 March 2018	30 September 2018*
Central government	28 February 2018	31 October 2018
Further education	2 July 2018	31 December 2018

\* 30 June falls on a Saturday in 2018. SGHSCD sets the deadline for certification and do not provide for the date to be the following working day. 30 September falls on a Sunday in 2018. 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 have been presented to the appropriate committee. Local government plan deadlines are later than other sectors to allow for plans to reflect the SRA/LAN process. We are reviewing the process but this will not affect the deadlines for 2017/18 plans.
25. Local authorities must submit unaudited annual accounts to their auditor by **30 June 2018**. 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 2018** 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 2018**. Other bodies must wait until their accounts have been laid in Parliament before publishing them on their websites. Auditors may use typed signatures in place of actual signatures for the set of accounts that are published on websites.

## Audit reporting

28. Annual audit reports are addressed to the body and the Controller of Audit for local government, or the body and the Auditor General for all other sectors. Annual audit reports are published on our website and their public availability and content make them a natural place to disclose the enhanced reporting requirements of ISA (UK) 701 and increase transparency.
29. [ISA \(UK\) 701 Communicating Key Audit Matters in the Independent Auditor's Report](#) requires listed companies and bodies that are required to or have voluntarily adopted the UK Corporate Governance Code to communicate key audit matters in the auditor's report. It is intended to address both the auditor's judgment as to what to communicate in the auditor's report and the form and content of such communication. 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<sup>1</sup>. Enhanced reporting improves stakeholder understanding of the audit and the issues considered by the auditors.
30. 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

31. 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.

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<sup>1</sup> Where ISA 701 applies due to the body being, for example, a public interest entity or one that applies the UK Corporate Governance Code, the requirements of ISA 701 should be reported in the independent auditor's report.

- 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](mailto: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.

32. Audit Scotland staff will then populate appropriate sections of Audit Scotland's intranet, iShare, for firms' outputs. This will simplify communication of outputs, retrieval of information about specific audits, and allow Audit Scotland to monitor performance.

33. When submitting signed accounts, auditors must email one electronic copy (in an electronically searchable pdf format which can have typed signatures) of the accounts to the [outputs](mailto:outputs) email address (firms) or add it to the audit's **Key Client Documents** library of iShare (ASG) and send the number of wet 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.

34. Owen Smith  
 Audit Scotland  
 102 West Port  
 Edinburgh  
 EH3 9DN

Sector	SW	NHS	LG	CG	FE
Accounts	2	2	1	2 (3 for SPA)	2

35. The Auditor General or Controller of Audit determine whether a statutory report is required. Auditors must keep Audit Scotland informed throughout the year in line with the arrangements on Audit Intelligence (paragraphs 107 to 111) if they believe a statutory report may be required. Auditors should make clear when submitting the accounts and annual audit report if they believe a statutory report should be considered.

36. Audit Scotland will arrange for the accounts of non LG bodies to be sent to Ministers to be laid before the Scottish Parliament. One of the two hard copies is for sending on for laying while the other is kept by Audit Scotland. The minister of the appropriate department is responsible for laying the accounts in Parliament. In most cases we send the accounts and a covering letter to the department. In some cases, for historical reasons, the body themselves write to the departments. Where this happens we send the accounts and covering letter to the body so they can do this. 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 SGHSCD and copy

it to the [outputs](#) email address (firms) or add it to the audit's Key Client Documents library of iShare (ASG).

38. Auditors should write to Audit Scotland using the outputs email address if they are unable to meet any deadlines and provide the reason for the delay and the expected date by which the output will be submitted. 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, unless there is good reason not to. In practice this means the following will be published for each audited body:
- Annual audit plan
  - Interim reports
  - Annual audit report
  - 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).

Reports on grant claims and WGA etc will not be published.

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](mailto:media@audit-scotland.gov.uk) if any output is potentially sensitive or contentious. This could include:
- Reports on bodies that are or have been the subject of significant audit, political or media attention in the past e.g. NHS bodies, colleges, North Lanarkshire Council, Scottish Police Authority, Scottish Government, 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)
  - Modified opinions on the annual accounts (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 distinct audit appointments and as such the local authority and pension fund have separate expected fees. Auditors should prepare audit plans, any interim 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 (i.e. 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 audit of trust funds that are registered charities and should treat this as non-audit services (see paragraph 171 for details).

# Shared reliance on audit

## Group Audits

45. Most NHS Boards and councils prepare group accounts requiring a group audit. Group auditors carry out their audit in compliance with [ISA \(UK\) 600 Special Considerations - Audits of Group Financial Statements \(including the work of component auditors\)](#). ISA 600.19 requires the group auditor to assess the component auditor's independence, competence and the regulatory environment in which they work. In the first instance group auditors (and auditors of service arrangements) should consider using the annual Audit Scotland [Audit 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.

46. Group auditors should liaise with NHS boards and councils preparing group accounts to ensure that they provide appropriate direction to their components on completing their audits in sufficient time to assist the group auditor in reaching the group audit opinion. Similarly group auditors should correspond with component auditors in sufficient time. Auditors should cooperate with other appointed auditors to obtain appropriate assurances, and component auditors should expect to complete component auditor questionnaires.
47. The Scottish Government audit includes all agencies within its group. The SG auditor issues audit guidance for component auditors including a group audit questionnaire. The SG auditor also provides assurance to auditors on the high-level controls within the SG's main systems (SEAS, Payroll). This is done through the interim report on the Scottish Government audit.

## Shared systems and functions

48. 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.
49. Integration Joint Boards tend to use the finance functions of either a local authority or a health board. Auditors should refer to the IJB Integration schemes to determine the relationship between the IJB and councils and health boards. Where the auditor of an IJB is not the same as the body hosting systems relevant to the IJB's financial reporting, auditors may need to refer to [ISA \(UK\) 402 Audit Considerations Relating to an Entity Using a Service Organisation](#). Auditors should discuss requirements with corresponding auditors in sufficient time.
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 and National IT contract (NHS NSS host, service auditor currently Scott Moncrieff)
  - National Single Instance (NHS Ayrshire and Arran host, service auditor currently BDO).

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 Healthcare Improvement Scotland, 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 – Practitioners Services Division 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 NHS 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 e.g. 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.

# Public audit in Scotland

58. [Public audit in Scotland](#) is wider in scope than financial audit. 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 79).
61. The governance arrangements for Health and Social Care integration are an area of particular interest to the Auditor General and Accounts Commission. As part of the work on governance and transparency, local government and health auditors should apply and report on the prompt from the Code supplementary guidance "Can the body demonstrate that the governance arrangements are appropriate and operating effectively (including services delivered by, or in partnership with, others such as ALEOs, subsidiaries and associates)" in the context of health and social care integration.
62. The following areas are significant risks faced by audited bodies. Auditors should should consider risks in each of these areas when scoping, planning, performing and reporting their work, as part of their consideration of the audit dimensions. Where auditors identify specific risks, they should reflect these in their audit plans, reports and (where appropriate) recommendations in the normal manner. Auditors should also include commentary on significant risks or interesting practice within current issues returns (see paragraph 107).
- EU withdrawal
  - New Financial Powers
  - Ending of public sector pay cap
  - Response to cyber security risks

- Openness and transparency
63. Further information on EU withdrawal, New Financial Powers, Ending of public sector pay cap, and Openness and Transparency is included at **Appendix 5**. Further guidance will also be issued in relation to the cyber security risks. This guidance will set out the risk context for public bodies, the new cyber resilience requirements being introduced by the Scottish Government, and questions that auditors can pose to bodies to understand the risk and mitigating actions in a local context.

## Strategic Audit Priorities for local government audits

64. In its Strategy, which it updates annually, the Commission sets out an overall aim of holding councils to account for their pace, depth and continuity of improvement facilitated by effective governance. Within this, the Commission also sets out five Strategic Audit Priorities described in paragraph 8.
65. These are issues that the Commission considers are particularly important to report through annual and Best Value audit work. The Accounts Commission reviews 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.
66. 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 preparing Current Issues returns for the four meetings of the Commission's Financial Audit and Assurance Committee over the year (see paragraph 107).
67. 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. Annual Audit Reports should provide an effective assessment of the Commission's Strategic Audit Priorities across the five year appointment.

## Shared Risk Assessment and Joint Scrutiny Planning

68. The Accounts Commission, supported by Audit Scotland, chairs the Strategic Scrutiny Group (SSG). This involves scrutiny bodies from across the public sector coming together to make their work more co-ordinated, better targeted and more proportionate to identified risks. While the main focus of its work has been on local government, as this sector has the highest number of external scrutiny bodies and is where greatest efficiencies in scrutiny might be made, it is increasingly developing a more collaborative approach, reflecting the changing nature of public service structures and delivery.
69. The scrutiny bodies involved in this work are:
- Audit Scotland

- Care Inspectorate
- Education Scotland
- Healthcare Improvement Scotland
- HM Fire Services Inspectorate
- HM Inspectorate of Constabulary for Scotland
- HM Inspectorate of Prisons
- Inspectorate of Prosecution in Scotland
- Scottish Housing Regulator.

- 70.** The SSG has set up a Local Area Network (LAN) for each council, and local government auditors are members of this as part of their audit responsibilities. In many cases appointed auditors are the LAN lead. LANs bring together scrutiny body representatives to agree and write a Shared Risk Assessment (SRA). The output of the SRA process informs an annual Local Scrutiny Plan (LSP) which summarises the results of the shared risk assessment of the council and the proposed scrutiny response. It should also include nationally determined scrutiny where the council concerned will be subject to it. Scrutiny bodies are expected to locally share details of nationally determined activity at the earliest possible stage in the SRA process. Where scrutiny activity is expected to take place in a year, but the locations or subjects have not been identified, scrutiny bodies should provide a clear indication in LSPs as to when this information will be communicated and how. LSPs are designed to inform the National Scrutiny Plan (NSP) for local government with both being published on Audit Scotland's website in March each year.
- 71.** 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 where appropriate. They should also participate in any ongoing training of LAN members so that they are familiar with any developments that take place in the SRA process.
- 72.** The SSG has recently agreed there should be increased collaboration between scrutiny partners. This includes the development of improved arrangements for 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. It is therefore important that LAN members collaborate effectively in this regard.
- 73.** The SSG has also agreed that there should be a review of the SRA process in light of the major changes that have taken place to the scrutiny and public sector delivery landscape since the SRA was established in 2009. This review is likely to be managed as a staged process, as it will not be possible to implement all potential developments in time for the forthcoming SRA cycle. However, any improvements that can be made to the process for this year will be communicated to LANs as soon as possible and included in guidance.
- 74.** Guidance on the SRA process will be circulated to LAN leads in early November who should share it with other LAN members. The formalities of the SRA process will take place between

December and March and Local Scrutiny Plans need to be produced in time for publication at the end of March. A more detailed timetable will be included in the SRA guidance.

75. The main contact is Ronnie Nicol, [rnicol@audit-scotland.gov.uk](mailto:rnicol@audit-scotland.gov.uk) 0131 625 1868.

## Auditing Best Value in councils

76. In June 2016, the Accounts Commission formally agreed the overall framework for a new approach to auditing Best Value (BV) in councils. This framework introduced a five year approach to auditing BV, which was used by auditors as part of the 2016/17 audits. 2017/18 represents year two of the BV audit plan in each council.
77. Under this approach, the Controller of Audit will provide a Best Value Assurance Report (BVAR) to the Commission for each council at least once in a five year period. The national five year BVAR programme is updated each year and shared with auditors. The update reflects changes to risk assessments identified from the SRA process or annual audits. As part of the 2017/18 audits, BVARs are to be reported for East Ayrshire, Fife, West Dunbartonshire, Glasgow City, East Lothian and Dumfries and Galloway Councils. The BVARs will be reported by the Controller of Audit to the Accounts Commission during 2018, to a timetable discussed with auditors.
78. A key feature of the current approach is the integration of the BV work with the annual audit. Local auditors and PABV auditors work together on scoping, planning, evidence recording, making audit judgements and reporting on all BV audit work. To facilitate this, auditors should make early contact and liaise with their PABV link manager to organise the contribution of PABV staff to each council audit.
79. The Local Government Audit Manual, Auditing Best Value (published on the [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 BV. It contains guidance for auditors carrying out work as part of the annual audits and for BVARs. The manual requires clear judgements on the pace and depth of continuous improvement in the areas covered by audit work to be reported. At the councils where a BVAR is planned, work will be scoped to reflect local priorities and risks. The scoping will determine coverage of BV characteristics and the Accounts Commission's Strategic Audit Priorities. This planning is jointly undertaken by the local audit teams and PABV.
80. In 2016/17 auditors prepared a five year BV audit plan (BVAP) showing their scheduling of coverage of the BV characteristics, linked to BV audit programmes in the guidance ([Section 6 of the Local Government Manual - auditing Best Value](#)). In 2017/18 the BVAP should be updated to cover the remaining four years of the audit appointment. It should reflect the actual work completed in 2016/17 and the latest intelligence on the council. Scheduling of work should reflect on the local risk assessment, from the Shared Risk Assessment and annual planning processes. The BVAP should include audit work to be carried out as part of the annual audit, the timing of the BVAR and follow up of BV findings reported in prior years. There is no central guidance on what aspects of BV audit work should be covered as part of

the 2017/18 audits. The BVAP which reflects local audit risk priorities should determine the coverage.

81. The BVAP is an internal document that does not need to be listed as an output in the annual audit plan. Auditors are not required to publish the BVAPs, as the future BVAR programme could change as risk assessments change across the councils. If auditors choose to share the plan with a council, the flexible nature of the BVAR programme should be explained. Auditors should share their BVAP with Audit Scotland to help planing for BV support by sending them to the [outputs](#) email address (firms) or add it to the audit's Key Client Documents library of iShare (ASG).
82. Auditors should report findings and judgements on BV audit work in the 2017/18 annual audit report, including following up previous BV audit findings reported in 2016/17 (in the annual audit report and BVAR). The follow up should reflect on the council's response to the findings and progress with improvement actions.
83. Additional follow up work may be required by auditors where the Commission decides to use its powers to instruct further audit work or to hold a hearing in response to a BVAR.
84. The BVAPs and Annual Audit Reports will be used to inform the Controller of Audit's Annual Assurance and Risks Report (AARR) to the Accounts Commission at the start of 2019. To facilitate this, ASG auditors must include their BVAP in their MKI planning files and other auditors must submit a data return covering their audit work by 1 October 2018.
85. 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>). The guidance is currently being refreshed by a Scottish Government working group. The audit approach and guidance described in this section is designed to be consistent with both the current and the revised guidance (based on our knowledge of its likely emphasis).
86. 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.
87. The main contact is **Fiona Mitchell-Knight**, [fmitchell-knight@audit-scotland.gov.uk](mailto:fmitchell-knight@audit-scotland.gov.uk), 0131 625 1937.

## The audit of BV in other bodies

88. The Code of Audit Practice sets out how BV duties apply to accountable officers across the public sector, not just councils. Auditors should consider accountable officers' duty to secure BV as part of the governance arrangements that they consider when planning and reporting on audit dimensions. This applies to auditors of IJBs, health and central government bodies (excluding small audited bodies).

89. More detailed audit work covering BV characteristics may also be carried out by auditors in these bodies, as part of their work on the audit dimensions. The nature and extent of this work will be determined by the annual risk assessment carried out by auditors.

## Councils' Statutory Performance Information

90. The Accounts Commission has a statutory responsibility to define the performance information that councils must publish to allow citizens to gauge their performance comparatively. This responsibility links 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 local government-led approach to fulfilling this responsibility, rather than prescribing performance information to be reported by councils, as it did in the past. It has done this primarily 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 Commission keeps a close interest in the development of the Framework and sits on the project's board in an observing capacity. 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. The Commission has committed to reviewing its 2015 Direction after three years, thus will be updating its Direction at the end of 2018.
91. As discussed in paragraph 64 above, one of the Accounts Commission's Strategic Audit Priorities is 'the quality of councils' reporting of their performance to enhance accountability to citizens and communities'. 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 77 above.

## Whole of government accounts

92. 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 provide an assurance statement on 2017/18 WGA returns for bodies (based on group results where group accounts are prepared) over a prescribed threshold in accordance with instructions from the NAO.
93. Audit Scotland will publish technical guidance notes (TGN) which will set out the prescribed threshold, specified testing procedures, and required submission deadlines which auditors are required to follow. Although dates have not yet been set by the NAO and HM Treasury, submission of WGA assurance statements is likely to be **28 September 2018**.
94. The main contact is **Paul O'Brien**, [pobrien@audit-scotland.gov.uk](mailto:pobrien@audit-scotland.gov.uk), 0131 625 1795.

## Grant claims and returns

95. Local government auditors are required to review and report on approved grant claims prepared by local authorities. Technical guidance note TGN/GEN/18 will specify the approved 2017/18 grant claims that require to be certified. Auditors should consult Audit Scotland 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.
96. Technical guidance notes on each of the approved grants will provide guidance on the certification of each claim. These will confirm the certification and submission deadline for each claim. HBCOUNT will continue to be in place in for 2017/18 (and beyond) for certifying benefit subsidy claims.
97. Expected fee ranges for FE colleges do not provide for auditors reviewing accounts for Scottish Funding Council 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 such non-audit services 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.
98. The main contact is **Paul O'Brien**, [pobrien@audit-scotland.gov.uk](mailto:pobrien@audit-scotland.gov.uk), 0131 625 1795.

## Fraud returns

99. Auditors of local authorities and NDPBs are required to submit fraud returns to Audit Scotland 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 weaknesses in internal control.
100. Auditors should put arrangements in place to be notified of all relevant frauds over £5,000, and should report them to Audit Scotland **as soon as practicable after the fraud has been discovered** by submitting a pro forma return for each case. All completed fraud returns must be submitted to the [outputs](#) email address. Reports of frauds involving less than £5,000 are not required but confirmation of a 'nil return' for the 2017/18 financial year should be sent to the [outputs](#) address by **27 April 2018**.
101. The main contact is **Anne Cairns**, [acairns@audit-scotland.gov.uk](mailto:acairns@audit-scotland.gov.uk), 0131 625 1926.



## Housing benefit performance audits

102. The Accounts Commission has responsibility for the audit of housing benefit (HB) services in Scotland, and auditors within Audit Services Group carry out a programme of performance audit work. HB performance audits will be aligned with the annual audit process with risk assessments of the housing benefits function being completed along side annual audit planning from 2017/18. The outcome of the risk assessments will inform the programme of performance audits to be carried out during 2017/18. The HB performance audit team will discuss emerging issues and the report with the local audit teams.
103. The main contact is **Mark Taylor** [mtaylor@audit-scotland.gov.uk](mailto:mtaylor@audit-scotland.gov.uk) 0131 625 1973.

## Correspondence and statutory reports

104. 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. The Correspondence Team will agree with the auditor if an Audit Review is required. The scope, number of days, and resources required for a review must be agreed with the Correspondence Team 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 169, except in exceptional circumstances where the use of experts is required. More information about how Audit Scotland handles correspondence can be found [here](#).
105. 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 no more than the maximum grade related rates set out in paragraph 169 for work beyond the core scope, except in exceptional circumstances where the use of experts is required.
106. The main contact is **Angela Canning**, [acanning@audit-scotland.gov.uk](mailto:acanning@audit-scotland.gov.uk), 0131 625 1835.

## Audit Intelligence

107. 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.
108. Auditors must send current issues returns by the following dates:

Date	Sector
19 January 2018	All sectors except FE
23 March 2018	LG and FE
20 July 2018	All sectors except FE

Date	Sector
19 October 2018	LG
9 November 2018	FE

109. Auditors should bear in mind the strategic audit priorities set out at paragraph 64 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.

110. Current issues returns should be sent for each sector to:

- LG: **Dave McConnell**, [dmccconnell@audit-scotland.gov.uk](mailto:dmccconnell@audit-scotland.gov.uk), 0131 625 1769
- CG: **Michael Oliphant**, [moliphant@audit-scotland.gov.uk](mailto:moliphant@audit-scotland.gov.uk), 0131 625 1731
- NHS: **Leigh Johnston**, [ljohnston@audit-scotland.gov.uk](mailto:ljohnston@audit-scotland.gov.uk), 0131 625 1977
- FE: **Mark MacPherson**, [mmacpherson@audit-scotland.gov.uk](mailto:mmacpherson@audit-scotland.gov.uk), 0131 625 1828

111. 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 117 and/or your place/portfolio contact.

## National Fraud Initiative (NFI)

112. 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 submitted data (as per the [instructions](#)) in October 2016 and received matches for investigation in January 2017. Bodies that use Scottish Government systems as shown in **Appendix 3** do not submit data or investigate matches themselves. Instead SG carries out this function for them.

113. Audit Scotland 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.

114. 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 (except for those using SG systems) and send it to the [outputs](#) email address (firms) or add it to the audit's outputs library in iShare (ASG) by **28 February 2018**. 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.
115. The main contact is **Anne Cairns**, [acairns@audit-scotland.gov.uk](mailto:acairns@audit-scotland.gov.uk), 0131 625 1926.

## Commission and Auditor General reports

116. PABV will prepare data returns and guidance and discuss them with auditors before issuing final versions.
117. The contacts for each sector are:
- LG: **Carol Calder** [ccalder@audit-scotland.gov.uk](mailto:ccalder@audit-scotland.gov.uk), 0131 625 1804
  - CG: **Michael Oliphant** [moliphant@audit-scotland.gov.uk](mailto:moliphant@audit-scotland.gov.uk), 0131 625 1731
  - NHS: **Leigh Johnston** [ljohnston@audit-scotland.gov.uk](mailto:ljohnston@audit-scotland.gov.uk) 0131 625 1977
  - FE: **Mark MacPherson** [mmacpherson@audit-scotland.gov.uk](mailto:mmacpherson@audit-scotland.gov.uk) 0131 625 1828

## Overview reports

118. Each year the Accounts Commission publishes overview reports covering the local government sector (including Integration Joint Boards), and the Auditor General publishes annual performance reports covering health and further education. The Auditor General and Accounts Commission will publish a second report on health and social care integration in the autumn of 2018. 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.
119. 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. The local government dataset will also include information in relation to Integration Joint Boards.
120. 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 (for *NHS in Scotland 2017*): **2 July 2018**.

- Health and Social Care (IJBs) (for *Health and social care integration: part 2*): **31 July 2018**.
- Local government (including Integration Joint Boards) (for *Local government in Scotland: Financial overview & Performance and challenges*): **1 October 2018**.
- Further education (for *Scotland's colleges 2017*): **31 December 2018**.

## Performance audit reports (2017/18 and 2018/19)

- 121.** The Auditor General and the Accounts Commission's five-year rolling work programme reflects a more strategic approach to planning and managing our work. It involved a shift from an annual work programme to a longer-term view that reflected the Commission's and Auditor General's strategic priorities and the key risks and opportunities facing Scotland's public sector.
- 122.** The work programme is refreshed and updated each year in response to:
- any significant changes that have taken place in the public sector policy environment
  - new audit risks and issues that have been identified through on-going programme development and audit intelligence work
  - any changes in the Accounts Commission's Strategic Audit Priorities (SAPs)
  - the need to balance ongoing areas of audit interest (including follow-up work) with potential new pieces of audit work.
- 123.** The rolling work programme covers the entire range of audit work that Audit Scotland undertakes on behalf of the Auditor General and Accounts Commission. It is organised and resourced to make the effective use of the collective audit evidence available from the performance audit programme, overview reporting, statutory reporting (S22 and S102) and the Commission's approach to auditing Best Value. The full rolling programme is available on Audit Scotland's [website](#).
- 124.** The table below sets out performance audit reports and other outputs that Audit Scotland intends to publish on behalf of the Auditor General and the Accounts Commission during the period covered by this annual audit planning guidance (2017/18) that require appointed auditor input. The table sets out:
- the title and planned publication date for each audit
  - audit scope and objectives
  - any anticipated appointed auditor involvement in the audit (including timing and likely resource requirements)

Performance audit title and planned publication date	Scope and objectives of the audit	Appointed auditor input	Date required	Resources
City Deals – publication Winter 2018	This audit will report on the development of City Deals to date, especially in relation to the establishment of governance and project management arrangements.	Intelligence / evidence / judgements gathered through the course of routine local audit work in relation to City Deal arrangements as applicable to the audited body.	N/A	Minimal additional time requirement as part of routine work.
Digital – crosscutting	As part of Audit Scotland's digital strategy, we are identifying issues and risks and our audit response to these.	At this stage, rather than requesting a formal return through planning guidance we will provide auditors with information and guidance on current issues and risks, and ask that they consider these for their audited body as part of the planning process.	N/A	Picked up as part of audit planning process.
Health and social care integration part 2 – publication Autumn 2018	The audit will follow up on the emerging risks highlighted in the <a href="#">2015 report</a> , including: governance arrangements; budget setting; strategic planning; engagement with the voluntary sector and carers;	There is a requirement for a minimum data set in support of this audit. Specific requirements will be confirmed by the audit team, however it will encompass information such as: timescales for agreeing budgets;	31 July 2018	Up to 5 days

Performance audit title and planned publication date	Scope and objectives of the audit	Appointed auditor input	Date required	Resources
	and the development of localities.	shifts in resources from acute to community-based care; progress in agreeing budgets and publishing meaningful strategic plans; governance arrangements.		

125. For those audits where there are no specific information requests planned during 2017/18 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.

### Impact reports

126. Auditors will be requested to provide information to support PABV in assessing the impact of the following performance audits during 2017/18:

Audit	Description	Date	Resources
Changing models of health and social care	Will assess impact of the performance audit published in March 2016.	Winter / Spring 2018	2-3 days
Court efficiency	Will assess impact of the performance audit published in September 2015.	Autumn / Winter 2017	2-3 days
Higher education in Scottish universities	Will assess impact of the performance audit published in July 2016.	Spring 2018	2-3 days (SFC auditor)
Roads maintenance follow-up	Will assess impact of the performance audit published in August 2016.	Winter / Spring 2018	2-3 days
Social work in Scotland	Will assess impact of the performance audit published in September 2016.	Spring 2018	2-3 days

Audit	Description	Date	Resources
Supporting Scotland's economic growth	Will assess impact of the performance audit published in July 2016. Will also take into account the findings of the Scottish Government's reviews of the role of the Scottish Enterprise and Highlands and Islands Enterprise and how they integrate with the wider economic development/employability agenda.	Winter 2017 / Spring 2018	2-3 days

### Targeted follow-up

127. There are no requirements for auditors to undertake specific targeted follow up audit work in 2017/18.

# Technical support on annual accounts

## Guidance on preparing the independent auditor's report

- 128.** The Code of Audit Practice requires appointed auditors to set out the results of their audit work on the annual accounts in an independent auditor's report in accordance with Technical Guidance Notes (TGNs) on model independent auditor's reports prepared annually by Audit Scotland.
- 129.** The model reports set out in the TGNs for 2017/18 will comply with ISA (UK) 700 adapted for Audit Scotland's requirement for each type of body.
- 130.** The 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
  - matters on which auditors are required to report by exception, e.g. whether adequate accounting records have been kept.
- 131.** TGNs for 2017/18 will be provided which 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.
- 132.** Appointed auditors are responsible for forming an opinion on the financial statements and other related matters. While appointed auditors act independently, Audit Scotland has a role in ensuring consistency and uniformity of judgements. Audit Scotland therefore provides technical support to appointed auditors in respect of these responsibilities to inform their professional judgement.
- 133.** Audit Scotland's technical team 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.

## Technical bulletins/updates

- 134.** Audit Scotland will also provide periodic updates to keep auditors' knowledge up-to-date on the main public sector technical developments in the quarter that are relevant to their audit appointment, and to provide guidance on any emerging risks.



## IFRS 16 Leases

- 135.** IFRS 16 Leases supersedes IAS 17 Leases and its associated interpretations, and is expected to apply in the public sector from 2019/20. IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. This means that public body lessees will account for operating leases in a similar way to the current IAS 17 treatment for finance leases.
- 136.** As a practical expedient, an entity is not required to reassess whether a contract is or contains a lease at the date of initial application. Public bodies therefore only need to apply IFRS 16 to contracts that were previously identified as leases under IAS 17 and IFRIC 4. Nevertheless, the International Accounting Standards Board allowed private sector entities three years to implement IFRS 16, and it is important that public bodies understand the implications and have adequate preparation time. Key tasks for public bodies include
- analysing operating lease contracts to separate the lease element from the service element. Under IAS 17, accounting for operating leases is akin to accounting for services so potentially the identification of the lease element has not previously been a priority. Under IFRS 16, separation and identification of assets and liabilities is more likely to make a material difference
  - determining the interest rate implicit in the lease to measure the present value of the lease payments. It is likely that in many cases public bodies will not currently have sufficient information about how the lessor priced the contract to determine the rate implicit in the lease. If this is the case, they will need to use their incremental borrowing rate. However, a relevant incremental borrowing rate will be based on a rate that would have to be paid in borrowing funds over a similar term and with a similar security to acquire an asset of a similar value in a comparable economic environment. This will therefore vary across the different types of assets that public bodies hold under operating leases, and there may be practical difficulties in doing so.
- 137.** As part of the 2017/18 audits, auditors should assess the arrangements public bodies are making for complying with IFRS 16 and satisfy themselves that they are adequate.

## Technical databases

- 138.** Audit Scotland's technical team 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.
- 139.** Local government auditors must complete and send the data capture workbook to the [outputs](#) email address (firms) or add it to the audit's outputs library in iShare (ASG) by **6 July 2018**. 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.

140. The 2016/17 databases are available from the Technical reference library and the 2017/18 database will be available by **27 July 2018**.

## Contact point

141. The main contact for technical support is **Paul O'Brien**, [pobrien@audit-scotland.gov.uk](mailto:pobrien@audit-scotland.gov.uk), 0131 625 1795.

# Fee for the audit

142. 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

143. 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 in local government bodies
Audit support	The part of the agreed fee that is retained by Audit Scotland to meet the cost of 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

144. 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.
145. 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.
146. Audit Scotland will notify auditors as soon as possible about the expected fees for 2017/18.

## Agreed fee

147. 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%).
148. 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](mailto:osmith@audit-scotland.gov.uk)) or **John Gilchrist** ([jgilchrist@audit-scotland.gov.uk](mailto:jgilchrist@audit-scotland.gov.uk)) and obtain approval. Initial discussions with the audited body about a proposed fee outside the range are permitted.
149. Some bodies in the central government sector (as specified in paragraph 161) 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.
150. Fees agreed with bodies may be revised during the audit, within the range described in paragraph 147. 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.
151. The agreed fee is composed of four elements:
- Auditor remuneration
  - Pooled costs
  - Contribution to performance audit and Best Value work (LG only)
  - Audit support.
152. 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.
153. 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

154. 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 were reduced in each sector by the base discount.

## Pooled costs

**155.** 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

**156.** 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. 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 are 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

**157.** 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

**158.** 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. Each auditor was informed of their net discount in each sector in 2016.

**159.** Where auditors engage in non-audit services 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

**160.** 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

161. 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**.
162. 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

163. 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.
164. If the additional work can be accommodated within the range described in paragraph 147 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 the [outputs](#) email address. 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 182).
165. 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 169), 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.
166. Once approved by Audit Scotland, 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.
167. Firms carrying out additional work should invoice Audit Scotland as described in paragraph 189. In the local government sector any recoverable VAT on additional fees will be applied to reduce the contribution in respect of local government bodies.
168. Grade related rates may also be used by the PABV Group or the correspondence team, for example, to inform 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/correspondence team. 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/correspondence team 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.

169. The maximum grade related daily rates (including VAT at 20%) that apply both to firms and to Audit Scotland staff for 2017/18 audits are shown below:

Partners/Directors/ Asst. Directors	Senior Audit Managers/ Audit Managers	Qualified staff	Other staff
£2,022	£1,122	£679	£452

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 159).

170. 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 services

171. Auditors invited to undertake non-audit services 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 services (see **Appendix 1**).
172. 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 Ethics Partner has also approved that the work is in accordance with Ethical Standards
  - provide the expected fee income if available.
173. Auditors are responsible for billing the audited body directly for such work.
174. All non-audit services carried out during the year must be declared on final fee claims.

# Claiming remuneration

175. 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

176. Auditors' remuneration and related expenses should be claimed using the 2017/18 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.

177. Auditors should submit all pro forma claims electronically to [outputs@ishare.audit-scotland.gov.uk](mailto: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.

178. 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 Scotland showing an agreed fee, or it should accompany the initial claim) or the expected fee.

179. 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.

180. The following rules must be followed when completing the schedule of instalments on the initial fee claim pro forma:

- All instalment dates/tax points should refer to the 21st of each month.
- The first instalment should allow at least 10 working days from date of receipt for the claim to be processed in Audit Scotland. This is due to the time needed to check and authorise claims and for a standing order to be set up. If auditors are unsure if there is enough time for a claim to be processed they should defer the first instalment to the next month.
- The first instalments in all sectors must be no earlier than 21 November 2017. The last instalment dates are set at those shown in the following table:

Sector	Last instalment
Local authority	21 October 18



Sector	Last instalment
Health	21 July 18
Scottish Water	21 June 18
Central government	21 October 18
Further education	21 October 18

- 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.
181. 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
182. 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).
183. 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.
184. 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

185. 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).
186. Any expenses being claimed on the initial claim must be approved by **Owen Smith** or **John Gilchrist** before submitting the claim.
187. 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.

188. 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 189).

### Additional audit work

189. 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 164) or on their own invoice stationery where it merits a separate fee (as described in paragraph 165). 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](mailto:outputs@ishare.audit-scotland.gov.uk) with confirmation from the audited body that they are satisfied with the work. Non-audit services that has been approved by Audit Scotland should be billed to the audited body, not to Audit Scotland per paragraph 173.
190. 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 169 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 159).

## Audit Services Group

### Claiming fees

191. 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 Scotland.
192. 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.
193. 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 (i.e. input based) show audits as more than 100% complete, the 'Adjusted WIP' column within the online report should be altered to reflect the true (i.e. output based) extent of completion.

## Additional work

194. ASG should claim credits for additional audit work undertaken separately from the agreed fee via Audit Scotland. 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.
195. Audit Scotland uses such claims to instruct the Finance team to invoice the audited body. The claim/notification should therefore include any special billing instructions (e.g. the preferred invoice narrative and the name and address of the officer in the audited body to whom the invoice should be sent).
196. 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 Scotland. Fee claims and billing requests relating to additional audit work should be submitted to **Owen Smith** or **John Gilchrist**.

## All auditors

### Referred correspondence

197. Auditors should discuss the likely cost of investigating correspondence from the public referred to the auditor by the correspondence team with reference to the maximum grade related rates set out in paragraph 169. Claims should be submitted 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 for the attention of **Angela Canning**, Assistant Director ([acanning@audit-scotland.gov.uk](mailto:acanning@audit-scotland.gov.uk)).

# Reporting audit progress

198. 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.
199. 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 Scotland as soon as they think that either of these deadlines may not be met.
200. 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.
201. For firms' audits, a pro forma progress report for each audit should be submitted quarterly to [outputs@ishare.audit-scotland.gov.uk](mailto: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 services 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 services 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 Scotland. 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 Fiscal Commission
- 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

## Central government bodies and colleges participating in the National Fraud Initiative

### 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 <sup>1</sup>
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 <sup>2</sup>
Office of the Scottish Charity Regulator	SG
Police Investigations & Review Commissioner	SG
Registers of Scotland	OS
Revenue Scotland	SG
Risk Management Authority	SG
Royal Botanic Garden Edinburgh	OS

Body	Own System (OS) or SG Systems (SG)
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 <sup>2</sup>
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 <sup>2</sup>
Teachers' Superannuation Scheme	SG <sup>2</sup>
Transport Scotland	SG
VisitScotland	OS

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

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



**College NFI participants**

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

# 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](mailto:outputs@ishare.audit-scotland.gov.uk) (firms) or added to the outputs library in 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
13/10/17	Submit engagement lead & manager contact details & audited body billing address changes for invoice purposes	Owen Smith	15
07/11/17	Submit initial fee claim (firms)	Owen Smith	177
05/01/18	Submit December progress report (firms)	Owen Smith	201
19/01/18	Submit Current issues return 1	Leigh Johnston	108
28/02/18	Submit annual audit plan	Owen Smith	18
28/02/18	Submit NFI questionnaire	Anne Cairns	114
04/04/18	Submit March progress report (firms)	Owen Smith	201
30/06/18	Certify annual accounts	Owen Smith	33
30/06/18	Submit excel version of audited accounts & Consistency certificate	Owen Smith	37
02/07/18	Submit audited accounts and annual audit report	Owen Smith	33
02/07/18	Submit minimum dataset	Leigh Johnston	120
30/06/18	Submit all remaining outputs of the audit	Owen Smith	31
04/07/18	Submit final fee claim & June progress report (firms)	Owen Smith	201
20/07/18	Submit Current issues return 2	Leigh Johnston	108

## Local government

Date	Activity	Contact	Ref
13/10/17	Submit engagement lead & manager contact details & audited body billing address changes	Owen Smith	15
07/11/17	Submit initial fee claim (firms)	Owen Smith	177
05/01/18	Submit December progress report (firms)	Owen Smith	201
19/01/18; 23/03/18; 20/07/18; 19/10/18	Submit Accounts Commission current issues returns	Dave McConnell	108
28/02/18	Submit NFI questionnaire	Anne Cairns	114
31/03/18	Submit annual audit plan	Owen Smith	18
04/04/18	Submit March progress report (firms)	Owen Smith	201
27/04/18	Last date for submitting fraud returns	Anne Cairns	100
04/07/18	Submit June progress report (firms)	Owen Smith	201
06/07/18	Submit technical database return	Paul O'Brien	139
27/07/18	Technical database available	Paul O'Brien	140
31/07/18	Submit minimum dataset on IJB	Leigh Johnston	119
31/07/18*	Certify EMA grant claim	Paul O'Brien	95
28/09/18	Submit WGA assurance statement and return to NAO, where required	Paul O'Brien	93
30/09/18*	Certify CJSW grant claim	Paul O'Brien	95
30/09/18	Certify annual accounts	Owen Smith	33
01/10/18	Submit audited accounts and annual audit report	Owen Smith	31
01/10/18	Submit BV data return (firms)	Fiona Mitchell- Knight	81
01/10/18	Submit minimum dataset	Carol Calder	120
03/10/18	Submit September progress report (firms)	Owen Smith	201
06/10/18*	Certify non-domestic rates return	Paul O'Brien	95
30/11/18	Certify housing benefits subsidy claim	Paul O'Brien	95
30/11/18	Submit all remaining outputs of the audit	Owen Smith	31
30/11/18	Submit final fee claim & final progress report (firms)	Owen Smith	201

## Central government

Date	Activity	Contact	Ref
13/10/17	Submit engagement lead & manager contact details & audited body billing address changes for invoice purposes	Owen Smith	15
07/11/17	Submit initial fee claim (firms)	Owen Smith	177
05/01/18	Submit December progress report (firms)	Owen Smith	201
19/01/18	Submit Current issues return 1	Michael Oliphant	108
28/02/18	Submit annual audit plan	Owen Smith	18
28/02/18	Submit NFI questionnaire	Anne Cairns	114
04/04/18	Submit March progress report (firms)	Owen Smith	201
27/04/18	Last date for submission of NDPB fraud returns	Anne Cairns	100
15/06/18	(SW only) Certify accounts, submit audited accounts and annual auditors report	Owen Smith	33
15/06/18	(SW only) Submit all remaining outputs of the audit	Owen Smith	31
15/06/18	(SW only) Submit final fee claim (firms) & final progress report	Owen Smith	201
04/07/18	Submit June progress report (firms)	Owen Smith	201
20/07/18	Submit Current issues return 2	Michael Oliphant	108
28/09/18	Submit WGA assurance statement and return to NAO, where required	Paul O'Brien	93
03/10/18	Submit September progress report (firms)	Owen Smith	201
31/10/18	Certify annual accounts, submit audited accounts and annual audit report	Owen Smith	33
31/10/18	Submit all remaining outputs of the audit	Owen Smith	31
31/10/18	Submit final fee claim & final progress report (firms)	Owen Smith	201

## Further education

Date	Activity	Contact	Ref
13/10/17	Submit engagement lead & manager contact details & audited body billing address changes for invoice purposes	Owen Smith	15
07/1/17	Submit initial fee claim (firms)	Owen Smith	177
05/01/18	Submit December progress report (firms)	Owen Smith	201
28/02/18	Submit NFI questionnaire	Anne Cairns	114
23/03/18	Submit Current issues return 1	Mark MacPherson	108
04/04/18	Submit March progress report (firms)	Owen Smith	201
02/07/18	Submit annual audit plan	Owen Smith	18
04/07/18	Submit June progress report (firms)	Owen Smith	201
09/11/18	Submit Current issues return 2	Mark MacPherson	108
03/10/18	Submit September progress report (firms)	Owen Smith	201
31/12/18	Certify annual accounts	Owen Smith	33
31/12/18	Submit audited accounts and annual audit report	Owen Smith	33
31/12/18	Submit minimum dataset	Mark MacPherson	120
31/12/18	Submit all remaining outputs of the audit	Owen Smith	31
07/01/19	Submit final fee claim & final progress report (firms)	Owen Smith	201

# Appendix 5

## Current risks

### EU withdrawal

- 202.** The UK Government invoked article 50 of the Lisbon Treaty on 29 March 2017, commencing the process of the UK's withdrawal from the EU. The timetable for this process set out in the Treaty is two years, although this may be extended by agreement. In the Queens Speech following the 2017 UK election, the UK government set out its legislative programme, including a suite of UK Bills to deliver EU withdrawal. The first of these, the European Union (Withdrawal) Bill is currently being considered by the UK and Scottish Parliaments. Bills on customs, trade, immigration, fishing and agriculture are expected to follow. Concurrently, the UK Government is negotiating the terms of withdrawal with the remaining EU member states.
- 203.** EU withdrawal will have significant and profound implications for devolved government in Scotland and for Scottish public bodies and councils. An initial [assessment](#) by the UK Government has identified 111 areas where powers returning from the EU intersect with the devolution settlement in Scotland, covering areas such as agriculture, the environment, public procurement and state aid. The Scottish Parliament's Information Centre, has also identified the areas affected by EU withdrawal in briefings on:
- [anticipated EU Funding in Scotland 2014 – 2020](#), which provides a picture of the EU funding Scotland was scheduled to receive over the next few years, how it will be spent and by whom. This includes pre-allocated funding in areas such as agriculture, fisheries and economic development (ESF and ERDF) and competitive funds in areas such as research.
  - [the impact of EU membership in Scotland](#), which includes an analysis of the data relating to Scotland's economic and social links to the EU and covers topics such as trade, inward investment, migration, public finance, higher education, transport, energy, agriculture, fisheries and the environment.
- 204.** There remains significant uncertainty about the detailed implications of EU withdrawal. Nonetheless, given the potential timetables involved, it is critical public sector bodies are working to understand, assess and prepare for the impact on their business. Key aspects of this are likely to include three broad areas:
- workforce – the extent to which potential changes to migration and trade policies are likely to affect the availability of skilled and unskilled labour.
  - funding – the extent to which potential changes to funding flows, including amounts anticipated under existing EU funding programmes, are likely to affect the finances of the organisation and the activity that such funding supports.

- regulation – the extent to which potential changes to regulation across a broad range of areas currently overseen at an EU level are likely to affect the activities of the organisation.

## New Financial Powers

- 205.** The provisions of the 2012 and 2016 Scotland Acts and the accompanying Fiscal Framework agreement are leading to fundamental changes to the Scottish public finances. New tax raising, borrowing and social security powers provide the Scottish Parliament with more policy choices – but also mean the Scottish budget is subject to greater volatility, uncertainty and complexity. There is also a stronger link between the performance of the Scottish economy (relative to the Rest of the UK) and available funding. Many of these powers were introduced in 2017/18, with others (notably devolution of approximately £2.8 million of social security spending) expected to be phased in by 2021. More information is available from Audit Scotland's [e-hub](#) Financial Devolution in Scotland, the journey so far.
- 206.** Proposals have been made for changes to the Scottish budget process as a result, with these likely to be introduced for the 2019/20 budget –with the Scottish Government publishing an initial five-year Medium Term Financial Strategy by June 2018. Further changes will follow, including increasing expectations that the Scottish Government and public bodies report on their contribution towards the national outcomes in their published plans and performance reports, supporting improved Parliamentary scrutiny.
- 207.** The changes are likely to impact across public bodies to varying degrees, both directly (for example where an organisation's activities include additional responsibilities as a result of the new powers) and indirectly (for example as a result of potential changes to the way the Scottish Government manages its overall budget).

## Ending of public sector pay cap

- 208.** Pay increases in the public sector have been frozen and then capped at 1% for seven years. Politicians in both Westminster and Holyrood are talking about ending the public sector pay cap. Further information will be available once the Westminster public sector pay bodies receive their advice from ministers and the Scottish Government publishes its Public Sector Pay Policy 2018-19.
- 209.** Nicola Sturgeon said when introducing the [Programme for Government 2017-18](#) "First, I confirm that we will lift the 1 per cent public sector pay cap. The pay cap, although never desirable, was necessary to protect jobs and services. However, with inflation on the rise, it is not sustainable. Our nurses, teachers, police officers and firefighters deserve a fairer deal for the future. The need to recruit the staff on whom our public services depend also demands a new approach. We will therefore aim to secure from next year pay rises that are affordable but which reflect the real-life circumstances that our public servants face and the contribution that our public services make to our country's overall prosperity."
- 210.** It remains unclear which public sector workers will benefit from lifting the cap, when the increases will take effect, and how any such increases will be funded. All public bodies will

need to consider the potential impact of the ending of the pay cap as they prepare their budgets and consider their financial sustainability.

## Openness and transparency

211. There are signals of changing and more challenging expectations for openness and transparency in public business. In view of this direction of travel, 2016/17 annual audit reports highlighted the need for public bodies to keep this area under review and to consider whether there is scope to enhance transparency.
212. Audit Scotland is currently preparing a short audit commentary on openness and transparency to promote a consistent audit message across the public sector. The starting point is that as auditors we do not need to be, nor would it be appropriate for us to be, prescriptive about openness and transparency. We can however expect public bodies to have considered the issue carefully and to have reached a reasonable position through consultation, debate and good decision-making. In other words, to have a clear rationale for their arrangements, as part of their overall governance framework and with reference to recognised good practice and public expectations.
213. Audit Scotland plans to produce its audit commentary on openness and transparency in the autumn, in time to support 2017/18 audit work.