

# Audit Quality Framework



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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1. This Audit Quality Framework (the Framework) describes Audit Scotland's approach to achieving world-class audit quality across all audit work.
2. The Auditor General for Scotland (the Auditor General) and the Accounts Commission are responsible for appointing auditors to conduct the audits of bodies under their respective remits following a rigorous procurement process that is independent of the individual audited bodies. The Auditor General and the Accounts Commission therefore require independent assurance about the quality of the audit work. As set out in paragraph 13 of the Code of Audit Practice, Audit Scotland is responsible for providing support to the Auditor General and the Accounts Commission, including monitoring audit performance through quality appraisal. This Framework sets out how Audit Scotland provides the Auditor General and the Accounts Commission with robust, objective and independent quality assurance over the work of Audit Scotland and the firms.
3. The Framework provides clarity and consistency of approach for all users:
  - It helps explain the important role that audit quality plays in providing assurance on the use of public money; it highlights the impact of audit quality arrangements in demonstrating auditor performance, underpinning stakeholder confidence and driving continuous improvement.
  - For auditors, the Framework explains the structure and processes in place to assure audit quality and provides the necessary evidence that professional standards of quality have been achieved.
  - For the Auditor General and the Accounts Commission, the Framework recognises the fundamental importance of audit quality to their roles and the need to provide regular assurances to them through comprehensive reporting on audit quality and on auditor performance.
  - It encompasses a single set of shared quality arrangements that apply to all types of audit work.
4. Quality is at the core of public audit in Scotland and is the foundation for building consistency and confidence across all audit work. This Framework helps drive Audit Scotland's vision for [world-class audit](#). There are significant challenges ahead for public sector bodies, particularly in relation to financial constraints and the need to deliver service objectives with fewer resources. High quality external audits provide assurance, add value and can support audited bodies to achieve their objectives.
5. The Framework complements [Public Audit in Scotland](#) and the [Code of Audit Practice 2016](#) (the Code). These documents require auditors to comply with the highest professional standards, including International Standards on Auditing (UK) and the Financial Reporting Council's Ethical Standard.
6. This Framework will help Audit Scotland measure audit quality and provide a strong evidence base through: greater use of Key Performance Indicators (KPIs) and introduce new

arrangements for external reviews of quality and application of the Financial Reporting Council's audit file grading system.

7. The Framework has been prepared in consultation with the Auditor General, the Accounts Commission, Audit Scotland staff and firms.

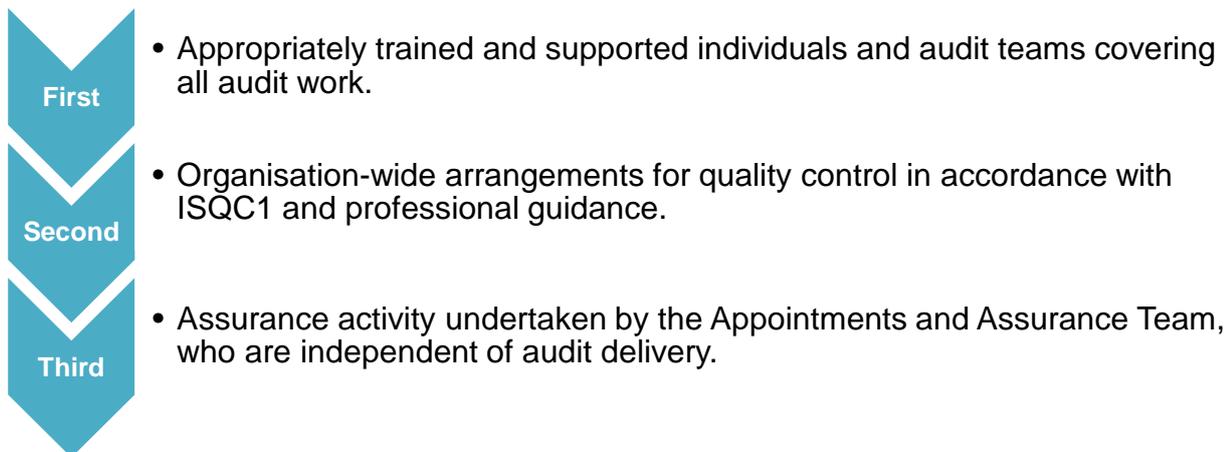
# Audit Quality Framework

8. This Framework:
  - applies to all audit work and providers
  - extends the performance indicators of quality
  - includes new in-year reporting arrangements
  - provides for revised annual public reporting.
9. There are three core principles that underpin our commitment to quality:
  - quality is embedded at all levels within the organisation engaged in the delivery of the audit
  - quality will be assessed in terms of outputs, outcomes and where we have made a difference, as well as inputs and processes
  - the approach to quality should drive continuous improvement for the public sector in Scotland.
10. The International Auditing and Assurance Standards Board (IAASB) states that: "Audit quality encompasses the key elements that create an environment which maximises the likelihood that quality audits are performed on a consistent basis." The IAASB further explains: "A quality audit is likely to have been achieved by an audit team that:
  - exhibited appropriate values, ethics and attitudes
  - was sufficiently knowledgeable, skilled and experienced, and had sufficient time allocated to perform the audit work
  - applied rigorous audit processes and quality control procedures that complied with law, regulation and applicable standards
  - provided useful and timely reports
  - interacted appropriately with relevant stakeholders."
11. This Framework encompasses the key elements of the IAASB's Framework, together with the International Standard of Quality Control (ISQC1).

## Lines of assurance

12. The model for audit quality in the public sector set out in this Framework includes three lines of assurance ([Exhibit 1](#)). There are arrangements in place at each level to provide assurance on the robustness of the quality control and monitoring procedures and how auditors combine knowledge and procedures in achieving audit quality.

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**Exhibit 1 – Lines of assurance**

Source: Audit Scotland

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**Recommended practice**

13. In addition to the requirements of ISQC1, auditors are expected to comply with the professional guidance for each of the components in the Framework. The Framework also takes account of the following:
  - Framework for Audit Quality (IAASB – 2014)
  - Audit Quality Framework (Financial Reporting Council (FRC) – 2008)
  - Professional scepticism (FRC – 2012)
  - Professional judgement framework for financial reporting (Institute of Chartered Accountants Scotland (ICAS) – 2016)
  - Auditor skills in a changing business world (ICAS & FRC – 2016)
  - Scope to improve quality control practices (FRC – 2017)
  - Reports on findings from quality reviews by national and international audit regulators.
14. The structure set out in the IAASB's best practice arrangements have been adapted to encapsulate Audit Scotland's approach to quality, as shown in [Exhibit 2](#).

Exhibit 2 – Audit Quality Framework



Source: Audit Scotland

## Inputs

### Values, ethics and attitudes

15. All auditors must comply with the [Financial Reporting Council's revised Ethical Standard 2016](#) to avoid any actual or perceived conflicts of interest.
16. To demonstrate compliance with the Ethical Standard:
  - All Audit Scotland staff are required to complete and submit an annual 'fit and proper form' confirming their compliance with standards and bringing to attention any possible conflicts of interest. As part of this process, staff are required to confirm they have read relevant policy documents and are up to date with their professional training. Business group directors and compliance managers review all disclosures and safeguards are put in place to resolve any issues.
  - Firms are required as part of their professional and contractual requirements to confirm their compliance with the Ethical Standard as part of their annual report submitted to the Appointments and Assurance Team (AAT) in Audit Scotland.
  - The scope and value of any Non-Audit Services (NAS) which could compromise the auditor's independence is monitored by the AAT who scrutinise all applications to carry out NAS.

### **Knowledge, experience and time**

17. All audit providers undertaking public sector audits in Scotland are committed to ensuring auditors have the necessary knowledge, experience and time to undertake their work. KPIs are used to monitor and report on the level of qualifications and training activity delivered by audit providers.
18. The Professional Support team provides technical guidance and support on new and emerging issues to all appointed auditors.

### **Audit processes and quality control procedures**

19. Rigorous audit and quality control processes are in place across audit functions. All audit providers are responsible for establishing their own audit processes and quality control procedures in accordance with their professional requirements. The arrangements must ensure compliance with ISQC1.
20. All audit providers are required to submit a return to the AAT at the beginning of the five-yearly appointment, providing detailed information on how the auditor complies with ISQC1. Any changes to the arrangements during the appointment period are also reviewed by the team and followed up to assess compliance and report on any deviations.
21. In addition to regular technical and professional updates, auditors are expected to undertake a programme of internal 'hot' or coaching reviews of audit and performance work before the conclusion of the audit where necessary, in accordance with professional standards. These reviews are designed to support auditors by identifying and correcting any shortfalls in quality before the conclusion of the audit.

## **Outputs**

### **Reporting**

22. High-quality audit reports provide assurance to stakeholders on the subject matter of the audit and add value by making recommendations for improvement, identifying risks to service performance, increasing insight and facilitating foresight.
23. The AAT reviews reports produced to assess the quality of these reports and to monitor timeliness, scope and clarity of recommendations. The AAT will also undertake focussed thematic studies following these reviews where an area of concern has been identified.

### **Quality monitoring**

24. Quality monitoring is undertaken in accordance with ISQC1 for financial audits and the International Organisation of Supreme Audit Institutions (INTOSAI) standards for performance and Best Value audits. Such reviews are called 'cold' reviews. The results of these reviews are used to ensure that lessons are learned and to continuously improve processes and methodologies.
25. The quality monitoring regime includes both internal and independent external cold reviews of samples of all types of audit work to provide direct assurance over audit work commissioned

by the Auditor General and the Accounts Commission. The results of internal cold reviews are reviewed and reported on by the AAT; external cold reviews are carried out by an external provider commissioned by Audit Scotland.

26. The FRC file-grading system is applied to the assessment of audit quality. The single grading regime aids consistency and comparability across all audit work commissioned by the Auditor General and the Accounts Commission.
27. The outcomes from all reviews are assessed by the AAT to ensure appropriate standards are met. These are reported to the Auditor General and the Accounts Commission and a summary is included in the published Audit Quality annual report, together with associated targets and KPIs which set performance in the context of previous years and comparable organisations.

### **Improvement feedback for auditors**

28. Auditors are supported in learning from the results of the quality review procedures. The findings from external cold reviews are discussed with auditors to identify and support improvement where necessary.

### **Impact**

29. The Code of Audit Practice makes clear that auditors must ensure that audit work adds value to the public sector in Scotland. The audit approach takes into account the feedback sought and received from stakeholders on the issues that should be addressed and the added value of audit work. Consideration of the application of the Code's wider scope dimensions is also included within the independent external assurance reviews carried out and the results are included in the Audit Quality annual report which assesses both the quantitative and qualitative impact of audit work.

## **Key roles**

30. Individuals directly and professionally responsible for leading the day-to-day delivery of audit work have key responsibility for audit quality within their job descriptions. Appointed auditors, engagement leads and assistant directors work within a clear organisational structure and set of arrangements for quality control and assurance.

### **Auditor General and Accounts Commission**

31. The Auditor General and the Accounts Commission are responsible for appointing auditors to conduct the financial audits of bodies under their respective remits following a rigorous procurement process that is independent of the individual audited bodies. The Auditor General and the Accounts Commission also publish performance audits in their own names: they approve the scope of the work and the final reports based on the work carried out by Audit Scotland.
32. The quality of audit work undertaken on behalf of and for the Auditor General and the Accounts Commission is of fundamental importance to their roles.

33. As commissioners of audit work, the Auditor General and the Accounts Commission obtain assurance from the independent AAT that the work of Audit Scotland engagement leads and assistant directors and firms of appointed auditors is of appropriate quality.
34. The Auditor General and the Accounts Commission Committees receive biannual reports on audit quality from the AAT. The Accounts Commission uses these and the draft Audit Quality annual report to inform its public reporting to its stakeholders on quality through the Accounts Commission's Annual Report.

### **Audit Scotland Board and Audit Committee**

35. The Audit Scotland Board has overall responsibility for the strategic direction of the organisation and for approving significant policies. This Framework is approved by the Board, together with the Audit Quality annual report, which forms part of the overall framework of assurances provided annually by management to those charged with governance.
36. The governance role exercised by the Board and its audit committee over the Audit Quality Framework provides assurance to the Auditor General and the Accounts Commission, as commissioners of audits, on the quality of work carried out by Audit Scotland staff and firms of appointed auditors. The committee's remit includes advising the Board on the arrangements for audit quality monitoring and reporting and it receiving a biannual report on quality and considering the Audit Quality annual report prior to approval by the Board.

### **Management Team**

37. Management Team, along with the Board, sets the tone at the top to ensure that auditors recognise their responsibilities within the Framework. Management Team has the executive responsibility for establishing arrangements to ensure that audit outputs are of a sufficient quality standard.

### **Appointments and Assurance Team**

38. The AAT provides assurance on audit quality. It is independent from auditors undertaking audits and supports the implementation of this Framework across all audit work and providers. The team is led by an assistant director who reports directly to the Chief Operating Officer to maintain independence and compliance with professional ethics. The team use the sources of assurance in paragraph 39 to form an opinion on the quality of audit being delivered and provide regular update reports to Management Team. The responsibilities of this team include:
  - developing the Code of Audit Practice and related guidance on the wider scope of public audit
  - advising the Auditor General and Accounts Commission on audit appointments, procuring audit services and contract management
  - conducting thematic reviews and reviewing auditor outputs to contribute to quality assessments
  - supporting Audit Scotland's ethics partner and providing advice and guidance to staff, firms, the Accounts Commission and the Auditor General on ethical standards issues in accordance with [FRC's revised Ethical Standard 2016](#)

- ensuring NAS work is appropriate and compliant with [FRC's revised Ethical Standard 2016](#)
- maintaining the Audit Quality Framework
- preparing the Audit Quality annual report and in-year reporting to the Management Team, Audit Scotland Audit Committee and Board, Auditor General and Accounts Commission
- overseeing the programme of external quality control and monitoring the results of the reviews undertaken in line with ISQC1 by both Audit Scotland auditors and appointed firms
- managing and reporting on the independent external assurance programme
- maintaining the KPIs for quality including specifying the range of KPIs required
- liaising with Audit Scotland's internal Audit Quality Committee
- managing client and stakeholder feedback and reporting results
- carrying out quality reviews, on an exception basis, if serious issues of concern arise.

39. The AAT will obtain assurance from the following sources:

- reports on auditors' internal quality monitoring results
- results of KPIs
- results from independent external quality assurance
- FRC annual reports on individual firms
- annual assurance reports provided by firms and output of the Audit Quality Committee
- own direct work including reviews of outputs, stakeholder feedback and thematic reviews.

### **Professional Support team**

40. Audit Scotland's Professional Support team is led by an assistant director who reports to the Director of Audit Services. It provides a centre of excellence for world-class support arrangements for auditors covering all sectors, providers and products. The team's responsibilities include:

- promoting continuous improvement across all audit work including the identification of good practice and areas for improvement
- supporting external professional relationships and representation on external bodies to enable public audit consideration of new developments
- preparing guidance to supplement the Code on the application of auditing and accounting standards to the public sector for use by all audit providers to inform their judgement and maximise consistency, confidence and impact of audit delivery.

### **Audit Quality Committee**

41. The Audit Quality Committee forms part of the internal arrangements within Audit Scotland for quality assurance and continuous improvement across all audit work performed by Audit Scotland staff. The committee includes representatives from the Audit Services Group and Performance Audit and Best Value Business Group. The Audit Quality Committee's remit

includes responsibility for oversight of the quality control programme which forms part of the second line of assurance shown in [Exhibit 1](#) for work undertaken by Audit Scotland.

### **Appointed firms**

42. Appointed firms are responsible for implementing their own audit quality arrangements in compliance with ISQC1 and their professional regulator's requirements, and for publishing annual Transparency Reports. Additional independent quality assurance reviews of public sector audits are carried out by the body appointed by Audit Scotland. The results of these reviews are reported to the Auditor General and Accounts Commission and summarised in Audit Scotland's Audit Quality annual report.
43. Firms are required to produce an annual report on work completed in the year and submit this to the AAT for review. This is used to inform the overall assurance included in the Audit Quality annual report.
44. Audit Scotland and the firms collaborate in order to coordinate coverage of the wider scope audit responsibilities as outlined in the Code. Audit firms are expected to engage with Audit Scotland in regular dialogue through meetings and organised events to share current issues and good practice.

### **Regulation**

45. The Framework is based on the laws and regulations relating to financial reporting and includes good practice within the IAASB 2014 Framework for Audit Quality as detailed in paragraph 10 of this report.
46. Public sector specific accounting and auditing guidance is prepared by Professional Support and disseminated to all auditors and audited bodies to encourage consistency and delivery of high quality audits.
47. Paragraph 13 of this document highlights the statutory and recommended practice requirements for corporate governance of audit quality that have been considered when developing this Framework.

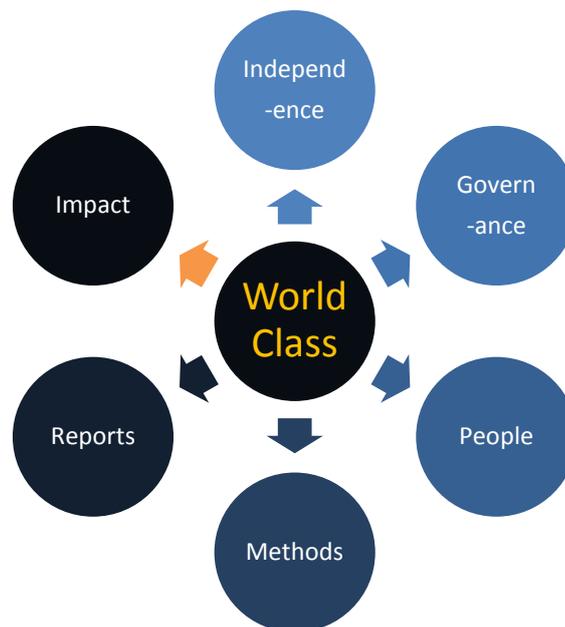
# Reporting

48. Firms are required to follow the Statutory Auditors (Transparency) Instrument 2008 published by the FRC. Audit Scotland prepares an Audit Quality annual report to meet the requirements of this Instrument on a voluntary basis.
49. Audit quality forms part of Audit Scotland's regular performance monitoring arrangements including reporting on a number of KPIs. The AAT has responsibility for preparing biannual reports on audit quality for the Audit Scotland audit committee, the Auditor General and the Accounts Commission and an Audit Quality annual report. The reports form part of the evidence available to the Accountable Officer in the preparation and approval of the Governance Statement prior to the sign-off of the Annual Report and Accounts. They also inform the Accounts Commission's reporting on audit quality through its annual report.
50. The Audit Quality annual report describes the governance arrangements in place and draws together an overview of the quality arrangements and the results of the quality monitoring and review processes in compliance with this Framework.
51. The Audit Quality annual report is considered by the Audit Scotland Board and the Accounts Commission annually prior to finalisation. The Board and the Accounts Commission have the opportunity to consider effectiveness of the Framework in ensuring expected quality standards are achieved and whether the findings in the report are consistent with feedback from stakeholders and other intelligence received by members from their wider governance capacity.

# Appendix: World-class audit

52. The 2015-18 Corporate Plan sets out the vision to be a world-class audit organisation that improves the use of public money. There are six components of this world-class ambition ([Exhibit 3](#)).

## Exhibit 3 – World-class components



Source: Audit Scotland

53. The following section sets out how the Framework contributes to achieving the components of our world-class ambition.

### Independence

54. Independence underpins the approach to audit quality. The Auditor General and the Accounts Commission are independent of the audited bodies within their remits. Audit appointments are only made after consideration of actual or potential conflicts of interest. Any proposed NAS work is considered carefully in line with the [FRC's revised Ethical Standard 2016](#) and taking into account the wider scope of public audit before approval is given. This is supplemented by the Audit Scotland policy on the provision of NAS by Audit Scotland's external auditor, which requires any work undertaken to be notified to the chair of the Audit Committee in advance of the work being undertaken.

## Governance

55. The Framework sets out the arrangements for governance of audit quality. It reflects important changes which strengthen the previous arrangements for scrutiny of audit quality by the Auditor General, the Accounts Commission, including regular reporting to the Audit Committee and the Audit Scotland Board. The arrangements for governance are described and evaluated annually in the published Audit Quality annual report.

## People

56. The Framework recognises the vital importance of staff in building and maintaining a 'culture of quality'. The approach includes supporting staff in:
- getting it right first time
  - recruiting and retaining high-quality staff
  - accessing learning opportunities
  - keeping skills and knowledge up to date
  - demonstrating professional scepticism and application of sound judgement.

## Methods

57. The approach to audit quality recognises the need to be sufficiently flexible to develop new ways of working that will improve efficiency and effectiveness, to support continuous improvement and provide a focus on value for money. The Framework also ensures our approach to audit quality:
- is integrated across all audit work
  - is compliant with relevant International Standards for auditing and performance work
  - is consistent and proportionate
  - includes meaningful performance indicators.

## Reports

58. By following the Framework, auditors are expected to be able to produce reports that are:
- quality assured through independent reviews that are evidence based
  - compliant with the Code and regulations
  - timely, add value and create impact.
59. Reports on the results of the quality control and monitoring arrangements described in this Framework will be:
- balanced and transparent, while identifying good practice and areas for improvement
  - comparable across Audit Scotland business groups and firms
  - used to drive continuous improvement.

## Impact

60. The components of the approach to quality, which will demonstrate impact, include:
- internal and external assessments of quality across the organisation which will use a consistent scale so that the results are comparable
  - a suite of KPIs of quality which will be monitored and published
  - stakeholder satisfaction – Parliamentarian and other stakeholder feedback will inform the assessment of quality and be used to identify areas for improvement
  - clearer analysis of the impact resulting from financial and performance audits, including the application of the wider audit dimensions included in the Code.