

Transparency

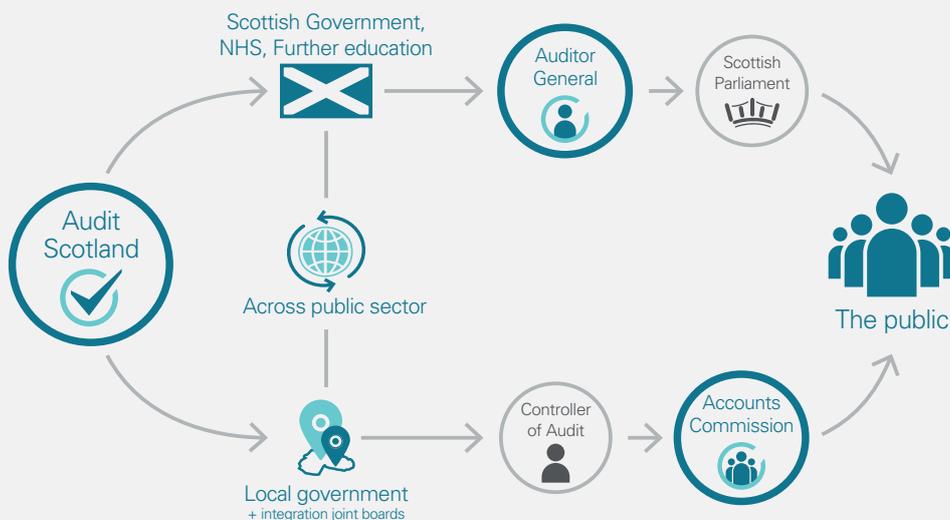
Report 2019



Who we are

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

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



About us

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

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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Key messages

- 1** Completing audits on time is important for timely accountability and improvement. Our performance against audit deadlines remained strong in 2019 with the majority of our financial audits, performance audits and Best Value reports completed within planned timescales.
 - 2** Eighty-nine per cent of our staff feel encouraged to deliver high-quality audits and 63 per cent say they receive sufficient training. But only 27 per cent felt they had sufficient time and staff resources to deliver high-quality audits, a decline on last year's result. We have taken steps to address this by building capacity, through innovative approaches and by streamlining our work. Details are provided on page 19 of this report.
 - 3** We have robust audit quality arrangements which include systematic quality reviews across all aspects of our audit work. By further enhancing our quality arrangements in recent years to include independent assessment of performance audits and Best Value work, we are now leaders in this area.
 - 4** All eight internal quality reviews were classed as 'good' or 'limited improvements required'. Of the seven external reviews, five were classed as 'limited improvement required' and two were classed as 'improvement required'. This represents a substantial improvement in audit quality during a time of resourcing challenges and is testament to the professionalism of our staff. We are also pleased to see the positive impact of our investment in our performance audit approach. As well as good practice, the reviews also highlighted areas for improvement, and we have prepared an action plan in response. This includes reviews of aspects of our audit approaches. Details are provided on page 25 of this report.
 - 5** Feedback from audited bodies highlights high level of satisfaction with the annual audits, the professionalism of our audit staff and the audit outputs. But there was variation in stakeholders' views on the extent to which performance audits, Best Value assurance reports and overview reports help public bodies deliver improvement.
 - 6** The independence of auditors from the organisations they audit is a fundamental principle of public audit. We recognise auditor independence is key and have stringent controls in place to mitigate actual or perceived threats to independent audit and reporting. Details are provided on pages 28 and 29 of this report. Audit independence was maintained across all aspects of our audit work in 2019.
 - 7** Adding value is central to our approach across our audit work and the work we do to support public audit in Scotland. We are constructive and forward looking, identify areas for improvement and recommend and encourage good practice. In 2019, our audits added value by supporting accountability and scrutiny. We also added value by recommending improvements to financial and performance reporting and in how public services are managed and delivered. We provided insight on key issues and risks affecting finances and performance in the public sector in Scotland, participated in professional bodies and contributed to scrutiny improvement.
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Key priorities for 2020

Our priorities for 2020 are all set in the context of the significant and wide-ranging implications of the COVID-19 pandemic. All priorities in 2020 need to take account of the impact of COVID-19 on our staff and on our audit work:

- Managing the impact of COVID-19 on our staff and on our audit work and its quality, ensuring that audit quality is maintained.
- Reviewing and refreshing our financial audit approach.
- Improving how we resource our audit work.
- Monitoring developments in the auditing profession and adjusting our approaches as appropriate.
- Supporting audit quality through guidance and training.
- Improving how we evidence the impact and value of our work.

Introduction

- 1.** This is Audit Scotland's annual Transparency Report. As an audit provider we are required to prepare this report under the [audit management and quality guidance](#) published by Audit Scotland's Audit Quality and Appointments (AQA) team. The report includes the quality monitoring results of audits undertaken by the Audit Services Group (ASG) and Performance Audit and Best Value (PABV). It covers all aspects of our audit work in 2019 and the work we did to support audit quality during the year and so provides assurance on the quality of our work to the Auditor General and the Accounts Commission.
- 2.** The report is also used by AQA, together with similar reports from the appointed private firms, to inform AQA's independent reporting on audit quality. AQA reports to the Auditor General and the Accounts Commission, the statutory commissioners of public audit in Scotland.
- 3.** Audit quality is at the centre of all we do. We focus on ensuring that our work is of the highest standard, meeting the requirements of international auditing standards, the Code of Audit Practice (the 'Code') and our approved audit approaches.
- 4.** The Transparency Report summarises our audit quality arrangements and our performance in delivering audits in 2019. It also provides examples of how we added value through our work. It covers our annual financial audits as well as performance and Best Value audits completed between January and December 2019.
- 5.** Delivering quality audits is of course only part of what we do. Audit Scotland drives the Scottish public audit arrangements. High-quality audit work supports effective parliamentary scrutiny, improves the use of public money and maximises the influence and impact of audit across the public sector. More information about our wider work is available in our other corporate publications available on our [website](#).
- 6.** The expectations of audit remain in the spotlight. Sir Donald Brydon's review of the quality and effectiveness of audit was published in December 2019 and Sir Tony Redmond is reviewing local authority financial reporting and external audit in England. We are monitoring developments closely to ensure we are up to date with recognised best practice. And, of course, we need to assess and manage the impact of the COVID-19 pandemic on our staff and audit work.
- 7.** We have reviewed the Code in preparation for the new audit appointments, the timing of which may be affected by the impact of COVID-19. Once finalised, we will consider the implications of the new Code for our audit approaches.
- 8.** With continuing pressures on public finances and a rapidly changing and uncertain external environment, 2019 was another challenging year for the organisations we audit and for us and our audit work. We responded by further strengthening the quality, relevance and value of our work to ensure we do the right work at the right time, in the best interests of the audit and our people. We have a strong base for continuous improvement as we strive to deliver audits to the highest standards and provide the best possible support for public audit in Scotland.
- 9.** Looking ahead, the COVID-19 pandemic is likely to have a major impact on the timing of audits and our approach to the work during 2020 and perhaps beyond.

A central element to our response is that the impact of COVID-19 should not undermine the delivery of high-quality audits.

How we are organised

10. Audit Scotland is governed by a board, consisting of a non-executive board chair, the Auditor General, the chair of the Accounts Commission, and two non-executive members appointed by the Scottish Commission for Public Audit (SCPA), a commission of the Scottish Parliament comprising five MSPs that reports to Parliament and appoints external auditors for Audit Scotland. The Audit Scotland Board is responsible for all Audit Scotland's functions. It exercises its powers and authorities through its Scheme of Delegation.

11. Audit Scotland's arrangements provide effective governance while preserving the independence of the Auditor General and the Accounts Commission in their statutory roles. All audit judgements are made independently by the Auditor General, the Accounts Commission, the Controller of Audit and appointed auditors. A management team oversees Audit Scotland's day-to-day operations.

12. Audit Scotland's costs are met from audit charges to public bodies and funding from the Scottish Parliament through its annual Budget Act. Audit fees are set to recover the costs of local audit work and, where appropriate, a contribution to other audit and support costs. Audit Scotland's spending and use of resources are examined by the SCPA.

13. Further details about our board, management team and finances are available in our [annual report](#).

Delivering audits

Main messages

- Completing audits on time is important for timely accountability and improvement. Our performance against audit deadlines remained strong in 2019. 119 of 123 (97 per cent) of 2018/19 financial audits and 13 of 15 (87 per cent) of performance audit, overview and Best Value reports were completed within planned timescales.
- We published twelve other outputs, including impact reports, key issues and briefing papers. We also published a wide range of technical and good practice guidance and checklists, interactive data graphics and animations in support of our audit reports.

Our performance in 2019

14. We publish a range of audit outputs on the finances and performance of Scotland's public bodies. Two Audit Scotland business groups undertake audit work – Audit Services Group (ASG) and Performance Audit and Best Value (PABV). ASG delivers approximately two-thirds of the financial audits. The remainder are conducted by appointed private firms. PABV delivers the programme of national performance audits and overview reports. PABV also works with appointed auditors to produce statutory reports (a specific type of report made under statutory powers by the Auditor General or the Controller of Audit, depending on the sector) and Best Value Assurance Reports (BVARs) on councils.



15. In the year to December 2019, we delivered a range of outputs across these areas:



- delivered 123 annual audits of 2018/19 financial statements under the Code, and related accounts including returns to the National Audit Office (NAO) for the UK Whole of Government Accounts



- audited the Scottish elements of the European Agricultural Funds Accounts (EAFA) as part of the consortium led by the NAO



- prepared eleven statutory reports highlighting significant issues identified during the 2018/19 financial audits



- completed four national performance reports on a wide range of topics, from the NHS workforce to higher education finances and digital government



- prepared four overview reports assessing the overall performance of key parts of the public sector, covering the NHS, local government and the further education sectors



- published six Best Value Assurance Reports and one Best Value follow-up report

- published twelve additional outputs such as impact reports, key issues and briefing papers as well as a range of good practice and technical guidance and checklists, interactive data graphics and animations in support of our main audit reports.

16. The following sections briefly describe the three main areas of audit activity – annual financial audits, performance audits (including overview reporting), and Best Value audits – and summarise other outputs we published during 2019. In line with the good practice principles of openness and transparency, all our reports are available on our website.

Annual financial auditing

17. Annual financial audits provide independent audit opinions on the accounts and other related opinions. Auditors also provide conclusions on the key aspects of organisations' finances and operations, designed to support accountability and improvement. As such, annual financial audits provide independent assurance to the organisations we audit and stakeholders, including the public. Appointed auditors carry out these audits in accordance with the Code which, in addition to the opinion-related work, requires auditors to consider wider-scope audit dimensions ([Exhibit 1, page 10](#)). We aim to add value through our reports and recommendations.

Exhibit 1

Audit dimensions



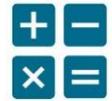
Source: Code of Audit Practice

18. Completing audits on time is important to support timely accountability and improvement. We work to the deadlines in planning guidance issued annually under the Code. In some cases, these are earlier than the statutory deadlines, to ensure timeliness of audit reporting.

19. During 2019, we completed 119 out of 123 (97 per cent) of our 2018/19 annual audits on time (96 per cent in 2018). This included the audit of the Scottish Government Rural Payments and Inspections Division's operation of the European Agricultural Guarantee Fund and the European Agricultural Fund for Rural Development¹. [Exhibit 2 \(page 11\)](#) shows our performance in delivering annual audit plans, independent auditor's reports and annual audit reports by the deadlines set out in the planning guidance along with comparative figures for the previous year.

Exhibit 2

Percentage of outputs delivered by the planning guidance

Audit output	Year				
		Local government (%)	Central government (%)	Health sector (%)	Further education (%)
Annual audit plan	2018/19	100	84	100	100
	2017/18	97	82	100	100
Independent auditor's report	2018/19	94	100	100	100
	2017/18	97	93	100	100
Annual audit report	2018/19	89	93	100	100
	2017/18	97	93	100	100

20. Exhibit 2 shows a high level of compliance with the planning guidance deadlines. Our performance in central government, health and further education sectors was broadly the same as in 2017/18 with a slight improvement in the submission of the central government annual audit plans. Like last year, delays were largely outwith our control. Delays in submitting central government annual audit plans were mainly due to the timing of audited bodies' audit committee meetings. Delays in issuing central government annual audit reports arose from delays in the routine factual accuracy checking process.

21. In local government, we issued more annual audit plans on time but there were more delays in audit completion compared to last year. Specifically, four local government audits were late (two in 2017/18) and seven annual audit reports were completed after the planning guidance deadlines (two in 2017/18). This was due to factors outwith our control such as auditors not receiving the audited accounts or further evidence in sufficient time to meet the deadline.

22. In addition to annual audit plans, independent auditor's reports and annual audit reports, we issued management reports for 61 (50 per cent) of our audits, an increase on 2018 (48 of our audits, or 39 per cent) These reports set out the results of our interim audits including, for example, internal control weaknesses.

23. Modified audit opinions are issued where an auditor concludes that the accounts contain material misstatements, where significant expenditure has been incurred in breach of rules, or where reporting requirements have not been met. Audit Scotland auditors issued two modified opinions in 2019 (one in 2018), for Tayside Contracts Joint Committee and for Renfrewshire Council.

24. The audit opinion for Tayside Contracts Joint Committee was modified due to the failure of significant trading operations to break-even over a three-year period. A similar opinion was also issued for this body in 2017/18. The modified opinion for Renfrewshire Council related to the adequacy of accounting records arising from difficulties the council experienced in implementing a new ledger system.

25. In addition to the two modified audit opinions, the auditor also qualified the regularity opinion on the accounts of Social Security Scotland with respect to expenditure on Carer's Allowance. This was because the available estimates of

error and fraud did not provide enough evidence to determine whether this spending was in line with the relevant legislation. This was a result of the Scottish Government's arrangements for delivering Carer's Allowance, which place reliance on the Department of Work and Pensions.

Performance audits, overview reporting and statutory reports

26. Audit Scotland delivers the programme of national performance audits for the Auditor General and the Accounts Commission. Performance audits are a key component of the independent assurance provided by the Auditor General and the Accounts Commission on the proper and effective use of public money and the quality of public services across national and local government in Scotland.

27. The national and cross-cutting performance audit work is solely delivered by Audit Scotland. The [rolling five-year programme](#) is informed by our assessment of public sector audit risks, extensive external engagement and on-going programme development activity. In addition to performance audits, our work programme also includes overview reporting on local government, the NHS and further education colleges. The programme is refreshed annually to ensure it reflects current risks, emerging audit intelligence and the strategic priorities of the Auditor General and the Accounts Commission. Once approved by the Auditor General and the Accounts Commission, we will publish the refreshed work programme. The timing of publication will be affected by the impact of COVID-19.

28. Progress on the work programme is reported quarterly. Thirteen of 15 (87 per cent) of performance audit, overview and Best Value reports (see the following section) were completed to planned timescales during 2019. The two exceptions were:

- The [Social security: implementing the devolved powers](#) performance audit – publication date was revised from March to May 2019. This was due to the complexity of auditing a new body and the new social security arrangements alongside the statutory financial audit.
- The [Revenue financing of assets: the NPD and Hub Models](#) – publication date was revised to January 2020 to enable the audit team to undertake further audit work as deemed necessary.

29. We had to postpone the publication of the [Scotland's City Region and Growth Deals](#) performance audit and the [Highland Council Best Value Assurance Report](#) to January 2020 due to the publication moratorium in the lead-in to the UK parliamentary election in December 2019.

30. Statutory reporting represents a significant element of our work programme. Under the Public Finance and Accountability (Scotland) Act 2000, the Auditor General can prepare a report on issues from the audits for which the Auditor General is responsible (section 22 reports). The Controller of Audit has similar powers under the Local Government (Scotland) Act 1973 in relation to local authority audits (section 102 reports). Collectively, these are known as statutory reports. In 2019 we prepared eleven section 22 statutory reports highlighting significant issues identified during 2018/19 including on [Social Security Scotland](#), [NHS Tayside](#) and [the Scottish Police Authority](#).

Best Value auditing

31. The Accounts Commission's current framework for auditing and reporting Best Value requires a Best Value Assurance Report (BVAR) for each council at least once during the five-year audit appointment.

32. The Controller of Audit reports overall conclusions from this approach through an Annual Assurance and Risks Report (AARR). The AARR provides the Accounts Commission with a summary of the Best Value related findings reported by auditors in annual audit reports and BVARs. It also covers the Accounts Commission's five

strategic audit priorities² and provides a summary of the pace, depth and continuity of improvement in the councils that received a BVAR in any year.

33. In 2019, the Controller of Audit produced six BVARs and one Best Value follow-up report for consideration by the Accounts Commission. The latest AARR, published in February 2020, covered Best Value work in 2019 and concluded that:

- our audit work continues to provide good coverage of the Accounts Commission's strategic audit priorities and takes account of the challenging background of reducing budgets, rising demand for services and the delivery of an increasingly complex range of national policies
- the integrated approach to auditing BV in councils is effective
- BVARs are having an impact, with all councils implementing improvements in response to the reports
- areas of risk are well understood and there are plans in place to cover these areas through our audit work in future.

34. During 2019, we supported the Accounts Commission's new approach to Best Value auditing which will come into force with the new audit appointments from autumn 2021. We also undertook development work to inform the Commission's consideration of Best Value auditing in Integration Joint Boards.

Other outputs

35. We use a range of other methods to communicate our audit work and practices, to engage our stakeholders and ensure our work is accessible and valuable to those who use and provide public services in Scotland. To support public audit in Scotland, we draw on the wide range of material we have available to provide outputs which add value and help continuous improvement. Examples of other outputs we published in 2019 included:



Impact reports summarising the impact of performance audits

such as [Transport Scotland's ferry services](#)



Good practice guidance and checklists

for example, [Planning for outcomes](#) and [Principles for community empowerment](#)



Key issues and briefing papers

including an [Update on Drug and alcohol services](#), the [Enterprise and skills review](#) and [Operation of the fiscal framework](#)



Supplementary outputs and electronic resources

in support of our published audit reports, for example [e-hubs](#), [Tableau visualisations](#) and [animations](#).

Audit quality

Main messages

- We have robust audit quality arrangements which include systematic quality reviews across all aspects of our audit work. This includes independent assessment of performance audits and Best Value work, making us leaders in this area.
- Eighty-nine per cent of our staff feel encouraged to deliver high-quality audits and 63 per cent say they receive sufficient training. But only 27 per cent felt they had sufficient time and staff resources to deliver high-quality audits, a further decline on last year's results. We have taken steps to address this by building capacity, through innovative approaches and by streamlining our work. Details are provided on page 19 of this report.
- All eight internal quality reviews were classed as 'good' or 'limited improvements required'. Of the seven external reviews, five were classed as 'limited improvement required' and two were classed as 'improvement required'. This represents a substantial improvement in audit quality during a time of resource challenges and is testament to the professionalism of our staff. As well as good practice, the reviews also highlighted areas for improvement, and we have prepared an action plan in response. This includes reviews of aspects of our audit approaches. Details are provided on page 25 of this report.
- Feedback from audited bodies highlights high level of satisfaction with the annual audits, the professionalism of audit staff and the main audit outputs. But there was variation in stakeholders' views on the extent to which performance audits, Best Value assurance reports and overview reports help public bodies deliver improvement.

Audit quality arrangements

36. The quality of our work is critical because it forms the basis of our audit conclusions and recommendations. The quality of our work also helps maintain our reputation and, ultimately, our ability to make a difference to public services and how public money is spent.

37. The Director of ASG is responsible for the quality of financial audits delivered by Audit Scotland's in-house audit practice. The Director of PABV is responsible for quality of performance audits, Best Value auditing and other statutory reports. In all cases, the work is done in accordance with International Standard of Quality Control 1 (ISQC1).

38. The Auditor General and the Accounts Commission are involved at key stages of audits. The Auditor General takes a close interest in the process leading to section 22 statutory reports. Similarly, the Auditor General and the Accounts Commission are involved in key stages of performance audits.

39. The Audit Scotland board and its audit committee also have important roles in audit quality. The board approves the audit quality framework (paragraph 41) and

obtains assurances from reports produced by the Audit Quality and Appointments (AQA) team, which works independently of the audit delivery functions. The audit committee's remit includes advising the board on the arrangements for audit quality monitoring and reporting. The committee also considers AQA's *Quality of public audit in Scotland* annual report prior to its submission to the board.

40. Audit Scotland's Audit Quality Committee oversees the quality review programme of financial, performance and Best Value audits and identifies training needs arising from the quality review work. The committee includes representatives from ASG, PABV and Corporate Services.

Audit quality framework

41. The [Audit Quality Framework \(AQF\)](#) applies to all audit work and providers. It combines the highest professional and ethical standards with comprehensive arrangements for internal and external quality reviews. It also provides for systematic and consistent reporting on audit quality to Audit Scotland's audit committee, the Auditor General, the Accounts Commission and to the public.

42. These arrangements complement [Public Audit in Scotland](#) and the [Code of Audit Practice](#) which require auditors to comply with professional standards, including International Standards on Auditing (UK) and the [Financial Reporting Council's \(FRC's\) revised Ethical Standard 2016](#).

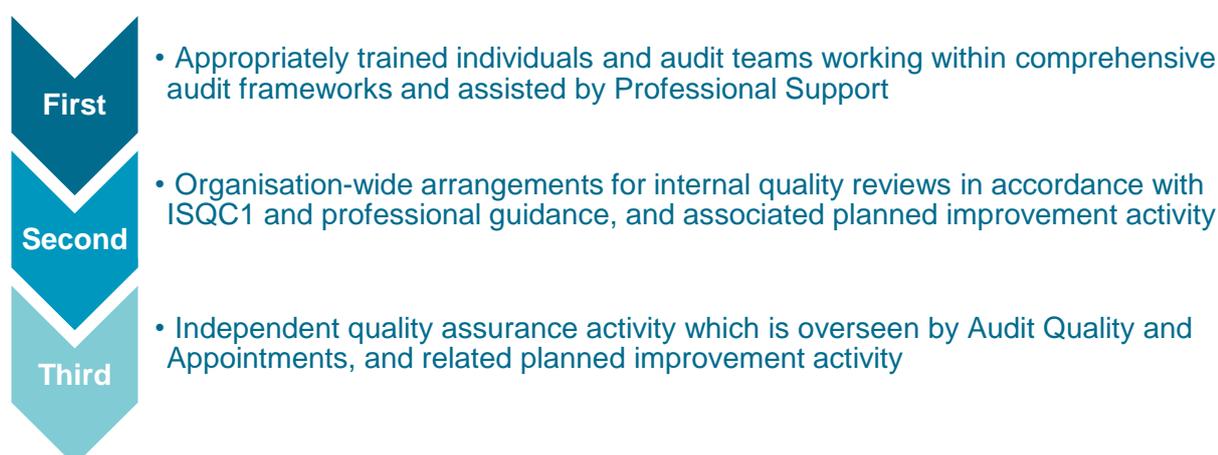
43. In 2019, we further enhanced our quality arrangements. In particular, we:

- updated the Audit Management Framework for performance audits and overview reporting
- adopted the International Organisation of Supreme Audit Institutions (INTOSAI) standards which is authoritative international guidance on performance audit work.
- initiated a refresh of our approach to annual financial audits.

44. Our model for audit quality includes three lines of assurance ([Exhibit 3](#)). There are arrangements at each level to provide assurance on quality control and how auditors combine knowledge and procedures in achieving audit quality.

Exhibit 3

Three lines of assurance



First line of assurance

45. Our first line for assuring quality centres on our people and our teams. In this section of the report we set out the audit frameworks and supporting arrangements which assist our staff and teams to provide high-quality audit work. At the end of this section, we set out what our people have told us about the extent they feel encouraged, resourced and supported to deliver quality audits.

Audit Guide for annual financial audits

46. The Audit Guide provides a common framework for the consistent delivery of high-quality public sector annual financial audits, with professional judgement at its centre. Fundamental to the approach is full compliance with the requirements of the Code, supplementary guidance from Audit Scotland's Professional Support including the annual planning guidance, International Standards on Auditing (UK), applicable Practice Notes, and other guidance issued by the Financial Reporting Council. The Audit Guide is reviewed annually to reflect changes to auditing standards and to capture learning from quality reviews.

47. Our audit work is proportionate, and risk based. Auditors exercise professional scepticism and demonstrate that they understand the environment in which public policy and services operate. Work is tailored to the circumstances of the audit and the audit risks identified. Risks can change during the audit and there are risks that can impact on more than one area of our Code responsibilities.

Audit Management Framework for performance audits

48. Our Audit Management Framework (AMF) supports high-quality performance audit work. In 2019, we completed our review of the AMF to ensure compliance with the INTOSAI standards for performance auditing. These standards apply the principles of key financial auditing standards in a performance audit context. We also developed more detailed guidance, templates and checklists for colleagues to meet the requirements of the revised AMF.

49. We adopted INTOSAI standards for all performance audits started after March 2019. In November 2019, we carried out a programme of 'hot reviews' to ensure that audits are carried out in accordance with the new AMF requirements. While we found that there was a good level of compliance with the revised AMF, the reviews also highlighted the need for further guidance for colleagues in some areas, mainly in terms of documenting audit work. This had no impact on audit judgements.

50. Phase two of the AMF project is now underway and involves further work to tailor the AMF to the specific requirements of other PABV outputs, starting with overview reports and briefings.

Best Value manual for Best Value auditing

51. The Auditing Best Value manual provides guidance for local government auditors and sits alongside the Audit Guide for annual financial audits.

52. Last year's review of the effectiveness of the Best Value audit approach found that it was fit for purpose and met the Accounts Commission's objectives. But it also highlighted several learning points which we took into consideration during 2019 in planning and delivering the programme of Best Value audits. We updated the Best Value manual accordingly.

Professional Support

53. Audit Scotland's Professional Support is a key part of our arrangements for audit quality. It provides cross-organisation support on financial, performance and Best Value audits. This involves:

- providing support and audit guidance to Audit Scotland including accounting and auditing training

- producing technical and other guidance under the Code to all audit providers (Audit Scotland and the private firms) and promoting good practice in financial reporting
- coordinating, supporting and contributing to Professional Leadership (which involves Audit Scotland's Leadership Group who, as part of their roles, champion areas of interest and lead our activities)
- carrying out internal quality reviews
- coordinating the audit contribution to counter-fraud arrangements.

Working with other audit agencies and international organisations

54. Audit Scotland is a member of the Public Audit Forum (PAF), a consultative and advisory body made up of the four UK national audit organisations³. Its remit includes enhancing the efficiency and effectiveness of public audit and high standards of audit across the public sector by active co-operation between the national audit agencies, sharing knowledge and good practice on the application of audit standards and codes of audit practice.

55. Our involvement in PAF provides on-going discussions with colleagues from the other UK audit agencies on key aspects of our financial and performance audit approaches. It is helpful to learn from others involved in public audit and to challenge, to be challenged and reflect on whether our approaches can be improved further to enhance audit quality.

56. Promoting our work internationally and learning from good practice are central to our international strategy. This provides a further dimension to our approach to audit quality. We do this through a range of activities such as hosting visits and presenting to delegations from other countries, attending or presenting at conferences and 'knowledge cafes', building networks, and knowledge sharing with overseas audit institutions. In 2019, twenty colleagues from across Audit Scotland were directly involved in international work including meetings with overseas audit representatives, attending or presenting at conferences, and working directly with overseas institutions.

57. We are using the Canadian Audit and Accountability Foundation (CAAF) database to source information from over 50 audit institutions worldwide on digital audit, public financial management and fraud, and make connections with other audit agencies. We have also started benchmarking the impact of our performance audits against the good practice set out in the CAAF's discussion paper [The Impact of Performance Audits: Defining, Measuring and Reporting Impact](#).

People-related audit quality indicators

58. Our people are our most important assets. Having the right staff, allocating the right time to audits and providing the right training are central in delivering high-quality audits. The quality of staff input is demonstrated through qualifications, staff surveys and training.

Qualifications

59. Audit Scotland staff were appropriately qualified with 95 per cent of staff working on financial audits either CCAB (Consultative Committee of Accountancy Bodies) or Chartered Institute of Management Accountants qualified, or in training for a CCAB qualification. A number of ASG staff also hold other qualifications such as ICT.

60. PABV staff have a wide range of professional and policy backgrounds. These include audit, research and public policy-related qualifications in disciplines such as economics and social sciences. These wide-ranging backgrounds and experience support the delivery of high-quality audit work. In addition, 22 per cent of PABV staff were also either CCAB qualified or in training for a CCAB qualification, which enables flexible working across Audit Scotland.

Staff survey

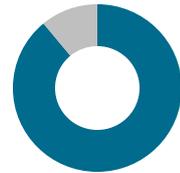
61. We surveyed ASG and PABV staff to seek their views on how well they were supported to deliver high-quality audits during 2019. As last year, the survey reflects the views of staff directly involved in delivering audits. The survey response rate was 56 per cent for ASG and 43 per cent for PABV (52 per cent in total) which is significantly higher than last year's response of 36 per cent in ASG and 34 per cent in PABV. The results of this survey and comparison with last year's results are shown in [Exhibit 4](#).

Exhibit 4 Staff survey results



Percentage of staff who said that they were encouraged to deliver high-quality audit work.

89%
(94% in 2018)



Percentage of staff who felt that they had sufficient time and resources to deliver high-quality audits.

27%
(35% in 2018)



Percentage of staff who thought that they received enough training and development to enable them to deliver high quality audits.

63%
(57% in 2018)



62. Eighty-nine per cent of staff felt encouraged to deliver high-quality audit work and 63 per cent of staff thought that they received enough training and development to enable them to deliver high-quality audits. These results show a strong culture of support for high-quality audit in Audit Scotland and that our efforts to further enhance training and development are having a positive effect. Staff told us the training offer improved in 2019 and that they would welcome more online training and a shift to making more training mandatory. We will consider these points in 2020.

63. Only 27 per cent of staff said that they had sufficient time and resources to deliver high-quality audits, an eight per cent decrease from a low base in 2018. We worked to maintain resourcing levels and improve the way we resource audits, but staff feedback confirmed that these changes didn't make a difference quickly enough on the ground. Staff told us that they experienced significant challenges in resourcing audits with increased reliance on temporary staff and overtime working. Like last year, this survey followed soon after our corporate Best Companies staff survey in which staff once again expressed concerns about resourcing of audits and challenges in dealing with workload pressures and the impact on staff wellbeing. This was more evident in some smaller teams which encountered particular difficulties due to promotions, staff turnover and the expansion of our work.

64. We take the challenges associated with resourcing seriously and are committed to addressing our staff's concerns. We have engaged with Audit Scotland's health, safety and wellbeing committee and the union executive and considerable work has already taken place to identify ways of improving the way we resource audits. We have reviewed deployment of our staff to audit work, the work demands asked of our staff and workforce planning for the skills we will need in the future. As a result, we implemented resourcing initiatives during 2019 and we expect to start seeing the benefits during 2020, subject of course to the new challenges presented by the impact of COVID-19. In particular, we are building capacity, applying more innovative approaches to resourcing and streamlining our work including:

- increased recruitment to keep ASG and PABV staffing at establishment levels, for example we recruited 15 new staff to support the new financial powers (NFP) work
- targeted actions to support resourcing during peak audit times such as the timing of appointment of professional trainees, continued engagement with student placements, ongoing work on creating a pool of seasonal staff for financial and performance audit work such as temporary re-employment of recently retired Audit Scotland staff. (These measures, in particular may be affected by the impact of COVID-19)
- more agile movement between ASG and PABV teams during peak workload periods
- focusing on joint resource planning for ASG and PABV, including consideration of the merits of a single resource group
- reviewing our strategic workforce planning
- managing work demands and streamlining our audit and corporate improvement projects – this includes some longer-term developments such as preparations for the next round of audit appointments, review of our current audit approach in ASG and work on integrating Best Value work with local government annual audits.

65. As indicated, the impact of COVID-19 on working arrangements means that some of these actions may be delayed. We will keep options for improving resourcing under review as audit priorities become clearer and will maintain our focus on resourcing and well-being throughout 2020. This will include a stronger focus on joint resource and workforce planning across ASG and PABV and streamlining projects. It will also include further investment in helping staff maintain physical, emotional and mental wellbeing. In doing so, we will continue using the [Healthy Working Lives Scotland framework](#) to guide our efforts. Our aim ultimately through this is to work in the best interests of our staff and ensure that we have the capacity and resilience to maintain and improve the quality of our audit work.

Our approach to learning and development

66. A challenging and complex environment for the public sector in Scotland and changing expectations of auditors emphasise the need for us to continue to invest in learning and development. It also means we need to work hard to create the right culture to deliver world class audit and build high-performing teams. We must continue to retain talented people and ensure that everyone who works here is able, encouraged and supported.

67. Our 2019/20 learning and development (L&D) strategy supports Audit Scotland's two priorities - delivering world class audit and being a world class organisation. The broad range of topics in the L&D plan focuses on helping our auditors develop the right knowledge, skills and behaviours to deliver world class audit and equip them for the future. The Personal Development and Growth Group leads the strategic direction of learning, development and personal growth at Audit Scotland and ensures that the plan is delivered effectively.

68. All centrally scheduled learning is accessed through the L&D portal. The portal is a 'one-stop-shop' L&D hub which enables colleagues to plan, schedule and attend formal L&D events up to twelve months in advance. In 2019, the average number of training days across ASG and PABV was 10.4 days per person which includes training courses, knowledge cafés and conference attendance. The figure excludes our Institute of Chartered Accountants (ICAS) training scheme and additional CPD carried out by colleagues through, for example on-the-job learning.

69. In spring 2019, we launched self-directed learning across the organisation. This is designed to empower colleagues to take ownership of their development and tailor their learning to meet their individual professional needs and career aspirations.

70. We have also refreshed our approach to recruitment, selection and 'on-boarding' to provide colleagues joining Audit Scotland with a positive early experience in their new roles. As part of this, we ran recruitment and selection workshops and worked with managers to make 'on-boarding' a success.

71. We remain committed to our professional trainee, modern apprentice and student placement programmes as part of our workforce planning and long-term talent strategies. Audit Scotland runs one of the largest public sector accountancy training schemes in Scotland, with 47 trainees and staff working towards the ICAS qualifications. In 2019, our trainees passed 96 out of 109 exams (88 per cent) on their first sitting. We also have two modern apprentices and run mentoring and coaching schemes.

Staff training

72. During 2019, we provided a wide range of internal and external training courses, workshops and 'knowledge cafes' to support high quality audits. These included:

- technical training courses on accounting and auditing standards, including follow-up sessions led by ICAS and Professional Support on key issues from the 2018 quality review programme
- 'softer skills' training such as management essentials, 'thinking on your feet' and presentation and engagement skills
- training courses to support both new and existing colleagues in ASG and PABV such as an introduction to Audit Scotland, financial awareness and on the use of electronic audit working papers.

73. ICAS also provided training to the quality team prior to the start of the internal quality review programme on key aspects of auditing standards, areas for improvement and moderation of scores.

74. We have planned training and development opportunities for colleagues for 2020 and will continue to draw on the expertise of Professional Support as we deliver new training and support improvement. This will include consideration of mandatory training for staff in ASG and PABV.

Compliance with International Education Standard (IES) 8

75. The International Accounting Education Standards Board's (IAESB's) IES 8 focuses on the professional competence requirements for engagement leads who have responsibility for financial audits. IES 8 is primarily aimed at International Federation of Accountants (IFAC) member bodies, but recognises the shared responsibilities of engagement partners, public accounting firms, and regulators as part of the system of quality control for audits.

76. While we demonstrated compliance with IES 8 in 2018 and in 2019, we are planning a more detailed compliance review during 2020.

Second and third lines of assurance

77. Our second and third lines of assurance are based on systematic reviews of the quality of the audits. The second line is about our processes for ongoing quality assurance, including 'hot' and 'cold' reviews of audit work. These are carried out by experienced senior staff within Audit Scotland. The third line of assurance is independent quality assurance activity, carried out by those not directly involved in audit work, including ICAS. We have worked hard in recent years to include performance auditing and Best Value audits under these arrangements, making us leaders in this area. This section of our report summarises the approach and the results of quality reviews in 2019.

Quality reviews

78. There is a range of quality control activity in Audit Scotland which provides assurance on the quality of our audit work:

- **Internal reviews of quality carried out by audit teams themselves as individual audits progress.** More experienced members of the audit team review the audit work of less experienced staff to ensure audit work achieves its objectives, conclusions are appropriate, and work complies with the audit methodology and auditing standards. This type of review extends to all types of work including financial, performance and Best Value auditing.
- **Engagement quality control reviews (EQCRs) within ASG and PABV.** Audit Directors conduct internal peer reviews of higher-risk annual financial audits and internal peer reviews take place at scoping and draft report stages of each performance and Best Value audit. In 2019, seven annual financial audits were selected for EQCRs based on their risk profile – four central government, two health and one local government audit.
- **Organisation-wide quality control activity.** Such reviews include 'hot'⁴ and 'cold'⁵ reviews by Professional Support and are used to continuously improve our audit processes and methodologies. The cold review process is further strengthened by Audit Scotland's reciprocal arrangements with other UK audit agencies who perform reviews in ASG and peer reviews of performance audits and statutory reports in PABV. These arrangements enable shared learning and good practice among the audit agencies.
- **External independent assessments.** These complement our internal reviews and cover ICAS reviews of financial audits, performance audits and Best Value work. In addition, AQA performs thematic reviews of annual audit plans and annual audit reports. These independent reviews provide a very high level of assurance on audit quality.

79. Where appropriate, the Financial Reporting Council's (FRC's) scoring methodology is applied across the quality activities to provide a consistent and comparable scoring basis for the different quality activities ([Exhibit 5, page 22](#)). For this report, a score of 2a or above demonstrates a satisfactory level of quality.

Exhibit 5 FRC's scoring methodology

1		Good	No areas for improvement that warrant inclusion in the quality assurance report.
2a		Limited improvements required	Limited concerns in a small number of areas identified. In such circumstances the auditor would adjust the audit approach in subsequent years' audits to address the issues raised.
2b		Improvements required	A number of matters are reported but these are assessed as neither individually nor collectively significant. In such circumstances it is expected that the auditor would consider whether any remedial action is required in respect of the audit inspected and to amend procedures for subsequent audits.
3		Significant improvements required	<p>The QA reviewer has significant concerns in relation to the:</p> <ul style="list-style-type: none"> • sufficiency or quality of evidence • the appropriateness of key judgements • the implications of other matters that are considered to be individually or collectively significant. <p>In such circumstances some remedial action may be requested to address the issues identified and to confirm that the audit opinion remained appropriate.</p>

Results of internal quality control reviews

80. All seven 2018/19 financial audits subject to a cold review (100 per cent) demonstrated a satisfactory level of quality (score 2a or above). This is a significant improvement on last year when nine out of eleven (82 per cent) 2017/18 financial audits received a 2a score or above and two received a 2b score. The internal review of the PABV's NHS overview report also received a 2a score.

81. We also carried out three hot reviews of performance audits focused on checking compliance with the revised AMF. The hot review approach was essentially a shortened version of our cold review approach allowing for any remedial issues to be acted upon quickly as the reviews were carried out in real time.

82. Hot reviews found that there was a good level of compliance with the revised AMF and therefore INTOSAI standards, but they also highlighted the need for further guidance for colleagues.

83. All remedial issues arising from the hot reviews have been highlighted to the audit teams and are in the process of being actioned.

84. Additionally, we carried out a thematic review of audit sampling and the application of Substantive Analytical Procedures (SAPs) across 24 2018/19 financial audits to assess whether improved guidance issued after last year's cold reviews had resulted in fewer issues in these areas.

85. The review found that, while there were some examples where auditors performed SAPs effectively, auditors were still not comfortable with the application of SAPs and with reducing the level of substantive testing as a result. The internal

quality monitoring team is carrying out a further review of the use of SAPs to identify good practice for sharing more widely.

86. The thematic review also found that the audit sampling approach was inconsistent, and the justification of sample sizes was not always clearly documented. Our response to these issues is outlined in paragraph 94.

87. EQCRs of all seven 2018/19 annual audits concluded that audit risks identified were addressed through the audit work and that there was a sound basis for the proposed audit opinion.

Results of ICAS external quality controls reviews

88. Seven audits we delivered in 2019 were selected for external quality reviews by ICAS. Five (71 per cent) were classed as 'limited improvement required' and two (29 per cent) were classed as 'improvement required'. Overall, this represents a substantial improvement compared with last year. We are particularly pleased to see the positive impact of our investment in our performance audit approach, which now reflects the INTOSAI standards for performance auditing.

89. Overall, we recognise that, in line with increasing quality expectations, we need to continue to ensure we deliver our audits to the highest quality. We have identified further actions for improvement, and these are described in the following section.

Common themes from internal and external quality control reviews

90. The results show a significant improvement in audit quality across all measures during a time of resource challenges. This is because staff invested extra time and effort to deliver audits to quality and time, which is testament to the professionalism of our staff. We recognise that this is not sustainable in the longer-term and, as highlighted earlier in the report, we will continue to focus on resourcing and wellbeing throughout 2020.

Strengths and good practice identified

91. Feedback from reviews highlighted several areas of good practice across our audit work, including:

- Good and well recorded knowledge and understanding of audited bodies, their business and policy subject matter.
- Well documented audit planning such as team risk assessment meeting, justification of materiality, early consideration of independence and ethics, and consideration of risks and audit dimensions.
- Elements of good practice in the use of preliminary analytical reviews.
- Evidence of appropriate two-way communication with audited bodies and wider stakeholder groups throughout audits.
- Audit work conducted in support of the audit approach set out at planning.
- Audit documentation of a high standard including a clear file structure reflecting the approved audit approach and clear links between key messages in audit reports and documented evidence.
- Clear trail of review, approval and clearance of reports.
- Well recorded evidence of peer reviews of annual audits.

Areas for improvement

92. The 2018/19 cold reviews identified the following areas for improvement:

- Audit documentation – like last year, auditors did not always adequately record work done and clearly explain audit judgements and conclusions in the audit files.
- Audit evidence sampling – audit sampling approach and the justification of sample sizes was not always clearly documented for financial audits and in some cases, auditors did not apply the audit approach to sampling in a consistent manner.
- Reliance on the work of other auditors and other sources - there was not always sufficient documentation of the level of assurance obtained from reliance on audit work carried out by other auditors or from other sources.
- Some less common areas for improvement in financial audits included testing of journal entries, and audit review of the laws and regulations affecting audited bodies.
- Performance audits identified the need for us in some cases to ensure our teams are familiar with the updated Audit Management Framework. The reviews also identified the need for further refinement of related guidance such as on records management.

93. Auditors who received a quality review of 2018/19 audits have been asked to consider a root cause analysis for their quality findings. The main reasons identified were resourcing challenges and time pressures to complete the financial audits on time.

94. The 2018/19 cold reviews identified a smaller number of areas for improvement in comparison with last year but some of these are recurring. We therefore stepped up our response to quality review findings and will build on last year's actions by:

- producing an updated detailed action plan which will continue to be monitored by our Audit Quality Committee
- joint ICAS/ Professional Support training activities to raise awareness of the key issues arising from our quality monitoring work
- further improvements in our audit methodologies to take account of quality findings, for example guidance on sample size justification, the approach to substantive audit procedures and performance audit documentation
- a training session on the AMF later in 2020 for all PABV staff to ensure familiarity with all aspects of the updated AMF
- a BVAR information sharing session in October 2020 for the ASG and PABV staff involved in the year 5 BVARs, including a discussion of any quality review findings and the approach to documenting BVAR audits
- considering the required revisions to the Best Value audit manual
- reviewing our current audit approach, including the ASG Audit Guide as a whole, with planned application of the refreshed approach from 2020/21 financial audits onwards – the newly established project board oversees progress, provides challenge and makes decisions at key stages of the refresh project.

Feedback from audited bodies

95. AQA commissioned an independent survey to seek views about the quality and impact of audit work. As last year, survey respondents expressed a high level of satisfaction with the usefulness of the annual audit, with a particular recognition of the assurance that audit provides. Audit teams also continued to score highly with stakeholders on all aspects of the process. In addition, survey respondents rated

all aspects of the main audit outputs (annual audit plans and annual audit reports) highly. But there was significant variation in stakeholder views on how much performance audits, Best Value assurance reports and overview reports help bodies to deliver improvement.

Prior period errors

96. Auditors reported that ten prior-period errors were corrected in 2018/19 financial statements (22 in 2017/18). Two of these had no impact on the overall financial position. The other eight represented over or understatements of the 'bottom line' with an aggregate total value of £273 million. Of this, the single largest prior-period error amounted to £255 million in a central government body due to the use of an incorrect valuation model for its financial assets related to student loans.

97. Of the remaining seven prior-period errors, six were in the area of capital accounting and one related to overstated income. The largest capital accounting error was in a council with a total value £13.4 million. This was due to an error in how the council had been calculating the valuation of its housing stock related to the calculation of average weekly rents figures. In our view, these prior-period errors are not indicative of the need for further technical guidance to auditors.

Developments in audit quality arrangements

98. Audit Scotland closely monitors developments in the auditing profession and considers whether these have a bearing on our approaches and ensuring we are following and promoting recognised best practice.

99. In our 2018 report we outlined several reports that were produced in response to corporate failures and audit quality issues such as the [FRC's thematic review of audit culture](#)⁶, Sir John Kingman's [independent review of the FRC](#)⁷ and the Competition and Markets Authority (CMA) [review of the market for the provision of statutory audit](#)⁸. We highlighted key issues set out in these reports and related aspects of the Scottish public audit model.

100. The sections below focus on relevant aspects of audit quality in Audit Scotland under each of the four key issues highlighted by the reports – independence, scope of audit, audit quality - culture and regulation.

101. The quality and effectiveness of audit continued to be in the spotlight during 2019 through further independent reviews into external audit. These included Sir Donald Brydon's [review into the quality and effectiveness of audit](#)⁹ which was published in December 2019, and the ongoing review of local authority financial reporting and external audit in England by Sir Tony Redmond.

102. The Brydon review was mainly focused on the corporate sector with the model of public audit different, particularly in Scotland. We are considering its recommendations and its implications for public audit. We will also consider the UK Government's response and implications of any actions it sets out for both the audit profession and our organisation.

Independence

103. Audit Scotland has controls in place to mitigate actual or perceived threats to independence including independent appointment of auditors by AQA, enforced rotation of auditors, 'fit and proper' disclosures and arrangements to control non-audit services. These are described in more detail in the 'Independence and ethics' section of this report.

Scope of audit

104. As indicated earlier in this report, we apply a wider-scope audit, looking beyond the financial statements to areas such as financial sustainability and value for money. Our auditors also continued to work with audited bodies to streamline financial statements and improve the clarity of management commentaries. In

addition, through membership of bodies such as Local Authority (Scotland) Accounts Advisory Committee (LASAAC), CIPFA-LASAAC and the Financial Reporting Advisory Board (FRAB), Audit Scotland staff also influence public sector financial reporting standard setters.

105. The expectations gap between what we do as public sector auditors and what stakeholders and the public expect remains an issue. We counter this by being clear about the respective responsibilities of auditors and public bodies and in our public reports. We will also continue to:

- bring key issues to the attention of those charged with governance and use our escalation procedures such as statutory reporting
- consider and report on wider-scope dimensions in addition to the opinion-related work, in line with the requirements of the Code
- respond to issues of concern, submitted to us by the public, as appropriate.

Audit quality – culture

106. The FRC culture report emphasised that high quality audit is supported by fundamental principles, rigorous standards, due process and mandated quality assurance. But it also recognised that auditing is judgemental and based on human decisions and, as such, high-quality audit cannot be assured through rules and standards alone. As an audit provider we have a range of controls in place which promote a positive audit culture and its contribution to audit quality.

Regulation

107. Last year we used the Kingman review of the FRC and the Competition and Markets Authority (CMA) review of the market for the provision of statutory audit in the UK commercial sector as an opportunity to further consider our own arrangements and the unique features of public sector audit in Scotland. We considered the relevance of recommendations for our work as part of our review of the AQF.

Learning from good practice

108. Learning from good practice is central to our audit quality approach.

109. This year we started a review of the impact of our performance audits against the good practice set out in the CAAF's discussion paper [The Impact of Performance Audits: Defining, Measuring and Reporting Impact](#), published in April 2019. On initial review, Audit Scotland performs well against good practice in relation to demonstrating the value and impact across the five-year rolling programme of performance audits.

110. Our success in embedding impact considerations in our working practices is linked to our adoption of INTOSAI standards for performance audits, closer working between PABV staff and communications colleagues at each stage of an audit and the effects of our strengthened corporate quality framework. There is also some scope to further develop our approach to impact through, for example, more routine monitoring and reporting of progress against audit recommendations.

Independence and ethics

Main message

- **The independence of auditors from the organisations they audit is a fundamental principle of public audit. We recognise auditor independence is key and have stringent controls in place to mitigate actual or perceived threats to independent audit and reporting. These include enforced rotation of auditors, 'fit and proper' disclosures completed by all staff annually and arrangements to control non-audit services. Audit independence was maintained across all aspects of our audit work in 2019.**

111. Independence is a fundamental principle of public audit and is central to its effectiveness. Auditors must be independent to avoid improper influence and allow work to be carried out freely. Independence encompasses the methods of appointment of auditors, the financial relationship between auditor and audited bodies, discretion in the amount of work necessary and the ability to access information necessary for audit work.

112. We have adopted the FRC's Ethical Standards for auditors, not just for financial audits but for all our work. We have a rigorous process in place to ensure that all our auditors comply with the FRC's revised Ethical Standard 2016 to avoid any actual or perceived conflicts of interest. The FRC published the latest revised Ethical Standard in December 2019 which will apply to our 2020/21 audits. We are currently reviewing our policies for compliance.

113. The Director of Audit Services, a member of Audit Scotland's management team with direct reporting lines to the board, is our Ethics Partner. This position has the necessary seniority, relevant experience, authority and leadership role to ensure compliance with the Ethical Standard. The Ethics Partner's role includes responsibility for the adequacy of policies and procedures relating to integrity, objectivity and independence, including communication on these matters and providing guidance to achieve a consistent application of the Ethical Standard. The Ethics Partner' also advises the Audit Scotland Board on ethical matters.

114. We have controls in place to mitigate actual or perceived threats to independence and these include:

- the appointment of independent auditors by the Auditor General and Accounts Commission
- enforced rotation of auditors
- 'fit and proper' disclosures completed by all staff annually and reviewed by each business group's compliance partner
- arrangements to control non-audit services.

115. We continue to safeguard auditors' independence by:

- continuing to emphasise the strengths of the Scottish public sector audit model in our communications and through our work
- ensuring the tendering arrangements for audit work remain robust and proportionate and by maintaining an in-house practice of sufficient scale and quality.

116. Stringent controls are outlined in our ethical policies where a member of staff leaves to join an audited body and our quality procedures guard against issues and risks flagged by the FRC. We also have a rigorous process in place for staff to declare hospitality and gifts whether received, declined or provided. This includes maintaining a register of all hospitality and gifts.

117. To demonstrate compliance with the Ethical Standard and to manage staff relationships with senior finance staff at audited bodies, all Audit Scotland staff are required to complete an annual 'fit and proper' form confirming their compliance with standards and bringing to attention any possible conflicts of interest. As every year, all ASG and PABV staff completed their 2019/20 fit and proper form. Of these, 18 potential conflicts of interest (seven percent) were noted and acted upon by the Ethics partner. Auditors have not had to report any concerns in relation to independence and the Ethical Standard to audited bodies, confirming that audit independence was maintained across all aspects of our audit work in 2019.

118. Audit Scotland auditors are required to obtain permission from the Ethics Partner before committing to any non-audit services. The approval process includes consideration of both the FRC's Ethical Standard and the Code, recognising the wider scope of public sector audit and the consequent increased risk of 'self-review' threats to independence. The scope and value of any non-audit work which could compromise the auditor's independence is monitored by the AQA which scrutinises all applications to carry out non-audit services. There were no non-audit services that were refused by the Ethics Partner.

119. During 2019, there were two instances of non-audit work undertaken by Audit Scotland staff:

- An audit of the Scottish Funding Council's Education Maintenance Allowance grant claim undertaken by the audit team and with a total value of £2,000 included in the overall audit fee. AQA confirmed that, under the Ethical Standard this was an 'audit-related service', a subset of non-audit services for which any threats to auditor independence are clearly insignificant. As such, AQA and Audit Scotland's Ethics Partner granted approval to the auditor to carry out this non-audit work in 2019 and in the following two years.
- Independent investigation into the allocation of a tenancy at Renfrewshire Council and the complaints that have arisen as a result of that decision. This work was requested by the Council, undertaken by members of the audit team and had the total value of £7,200. AQA once again confirmed that, under the Ethical Standard this was an 'audit-related service' for which any threats to auditor independence are insignificant.

Adding value

Main messages

- **Adding value is central to our approach across our audit work and the work we do to support public audit in Scotland. We are constructive and forward looking, identify areas for improvement and recommend and encourage good practice.**
- **In 2019, our audits added value by supporting accountability and scrutiny. We also added value by recommending improvements to financial and performance reporting and in how public services are managed and delivered.**
- **We provided insight on key issues and risks affecting finances and performance in the public sector in Scotland, participated in professional bodies and contributed to scrutiny improvement.**

120. We add value through our audits by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we promote improved standards of governance, better management and decision-making, more effective use of resources and enhanced openness and transparency.

121. Adding value is of course central to our approach – across the range of our audit work and in the work we do to support public audit in Scotland. In this section of our Transparency Report we highlight some specific areas, with examples, that demonstrate added value in 2019.

Adding value through annual audit work

122. We aim to add value to audited bodies by providing insight on financial sustainability, financial management, governance and transparency and value for money. We encourage those public bodies without a medium to long-term financial strategy to consider their financial position in the longer term to ensure that they have a complete picture of their financial position and the challenges they face in meeting their objectives over time. We have also highlighted that this should link to an overarching, organisation-wide workforce plan.

123. We supported this approach in presenting reports to audit committees. During 2019, several audited bodies developed either an overarching long-term financial strategy or components supporting longer-term financial planning. This helped those organisations identify any problems with affordability at an earlier stage.

Adding value through wider scope work – some examples

Workforce planning at the Scottish Funding Council (SFC)

We highlighted issues with workforce capacity at SFC in 2019. In response, the SFC prepared a workforce plan and made a case for more resource to support its activities.

Dundee City Council's long-term financial strategy

Following our recommendation in last year's annual audit report, Dundee City Council's elected members approved a long-term financial strategy in 2019. The Council is also planning to link it to its transformation programme.

124. Added value is 'in-built' to our approach and the attitude which our staff apply. For example, in our day-to-day meetings with elected representatives, senior staff, non-executives across the public sector and beyond, we draw on our deep, cross-sector understanding to provide challenge and support. This includes our participation in audit bodies' audit committees where, alongside our audit reports, we provide insight on wider issues affecting the organisations we audit.

Adding value by supporting financial management – some examples

Improvements in Scottish Government's internal audit

In 2018, we reported that the Scottish Government's internal audit function did not comply with significant aspects of Public Sector Internal Auditing Standards (PSIAS) and made recommendations for improvement. In 2019 we found that, in responding to our recommendations, internal audit had made clear improvements to better reflect the requirements of PSIAS.

Scottish Government's new framework for financial interventions in private companies

Following a review of investments in private companies, we recommended the Scottish Government develops a framework that clearly outlines its role in financial interventions in private companies to support decision-making over where, when and at what level to invest. In 2019, the Scottish Government produced the guidance for inclusion in the Scottish Public Finance Manual.

Improved internal controls over journals at the Scottish Fiscal Commission

We identified a lack of controls over authorisation and management oversight of journals. As a result, the Scottish Fiscal Commission agreed to work with the Scottish Government's accountancy services and internal audit to improve the management of transactions in its financial ledger.

Accounting for assets at Aberdeenshire Council

We reviewed the substance of a transaction where funding was contributed to support a third party's project. The council had contributed £45 million to the project over a number of years, but the asset was in the ownership of Transport Scotland. As it did not directly result in the creation of a council owned asset, the audit team worked with finance officers to ensure the correct accounting treatment in the year the asset become operational.

125. Transparency means that the public have access to understandable, relevant and timely information about public organisations' decisions and how they are using their resources, ie money, people and assets. During 2019, we made recommendations to audited bodies to enhance transparency.

Adding value by supporting enhanced transparency – some examples

Independent review of IT project management and governance at the Scottish Public Pensions Agency (SPPA)

In February 2018, the Scottish Public Pensions Agency closed its project to deliver a unified pension administration and payment system. Following audit work, the Auditor General reported on SPPA's management of the project in the statutory report [Scottish Public Pensions Agency – Update on management of PS Pensions project](#), published in June 2019. In response to this report, the SPPA has agreed to commission an independent review of the governance and project management for its replacement project as it starts to plan for the procurement of a new system.

Improved performance reporting at North Lanarkshire Council

In 2018, we concluded that performance reporting was insufficient as the Audit and Scrutiny Panel had not received meaningful 2017/18 performance information. In 2019, we noted improvements in performance reporting with a full performance report and further detailed reports presented to the Panel.

126. During 2019, we also provided technical assistance on accounting and reporting issues across audited bodies including for annual report disclosures. This resulted in some organisations revising the form and content of their annual reports and accounts to provide better information about their activities and performance.

Adding value through technical assistance – some examples

Enhanced disclosures in East Dunbartonshire Integration Joint Board (IJB) annual report and accounts

In 2018, we reported that the annual report and accounts provided for audit were of poor quality. We provided the IJB with the good practice note on the content and format of IJB annual reports and accounts issued by Audit Scotland's Professional Support. As a result, the IJB made significant improvement to the content and format of the 2018/19 annual report and accounts.

Enhanced disclosures in NHS Forth Valley annual report and accounts

The audit team worked with the Health Board's officers to improve the quality of the performance report within the Board's annual report and accounts. This resulted in more accessible reporting which provided a more comprehensive overview of performance and the context in which the Board operated during the year. The Board is planning to make further improvements to the performance report in 2020.

Changes in charity accounting at Angus Council

The council implemented our recommendation to prepare accrual accounts for its two charities. This removed the need for accounting adjustments between the ledger and receipts and payments accounts and made the accounts preparation process smoother.

Improvements in Transport Scotland's performance report

Following our recommendation, TS improved performance reporting within its annual report and accounts. The revised performance report articulates major achievements against each of the nine objectives in the corporate plan and represents a substantial improvement on earlier years' annual reports.

127. Audit Scotland's Professional Support prepared the annual planning guidance, which is the key guidance for auditors in planning audits under the Code

issued by the Auditor General and the Accounts Commission. It also produced a range of supplementary guidance such as technical guidance notes and technical bulletins.

128. Professional Support's outputs such as sector-specific 'frequently asked questions' supported audit quality and communication across Audit Services and the appointed firms. This also provided a focus on key emerging issues and, where appropriate, a consistent audit approach such as in relation to accounting for pension liabilities.

129. Professional Support also promoted good practice by:

- producing good practice notes on financial reporting, for example good practice notes on performance reports in central government bodies and on governance statements for colleges
- delivering a joint ICAS/Professional Support training event which identified areas of good practice and where improvement in the quality of audit work was needed.

Adding value through Best Value auditing

130. The current five-year programme of Best Value work began in 2017. The Annual Assurance and Risks Report (AARR) published in February 2020 shows that the pace and depth of continuous improvement in the seven councils where a BVAR was published in 2019 and January 2020 (year 3) is reported as mixed. The AARR also reported that all twelve councils which had BVARs published in Years 1 and 2 of the programme published improvement plans in response to the Commission's findings and recommendations. Auditors reported that around half of the recommendations have been implemented, with the remainder ongoing.

Adding value through Best Value auditing – an example

Improvements at Clackmannanshire Council

The January 2018 BVAR included recommendations for the council to address its acute financial position. These included ensuring coherent combined leadership between councillors and officers, collaborative working and the use of external assistance to support improvement. Our June 2019 BVAR progress update report found that the council was making the investment necessary to create the conditions for change and has responded positively to the Accounts Commission's findings. The report highlights the council's use of external assistance and focus on collaborative work as part of its approach to financial sustainability, as well as improved working relationships between councillors and officers.

Supporting effective parliamentary scrutiny

131. Audit Scotland, the AGS and the Accounts Commission share a common goal – to improve the quality of public services by scrutinising how the Scottish Government and other public bodies spend money and deliver policy. Our support for the Parliament has taken on greater significance over recent years because of the significant new financial powers that are being transferred to the Scottish Parliament and the efforts that were made to improve budget scrutiny in line with the recommendations of the Budget Process Review Group (BPRG).

132. A central strand of this work is the support that Audit Scotland provides to the Public Audit and Post Legislative Scrutiny Committee (PAPLS) through our performance audit reports, briefings and support for the committee's scrutiny of Accountable Officers and public bodies. Audit Scotland also works in partnership with private sector audit firms to ensure high quality section 22 reporting to PAPLS

and our communications team offers support and guidance to colleagues who have less experience of appearing before Parliamentary Committees.

133. Alongside our work with PAPLS and the Finance and Constitution Committee, we are increasingly seeing our work being used by subject committees of the Parliament, such as Education and Skills, Justice, Equalities and Human Rights, Social Security, Local Government and Communities and Rural Economy and Connectivity.

134. During 2019, Audit Scotland had 25 briefing and evidence sessions with Parliamentary committees. We also attended several business planning meetings and contributed to a number of committee enquiries. For example, some of our colleagues attended the Parliament's Equalities & Human Rights Committee to support members' scrutiny of the Scottish Governments' draft budget 2020/21. The inquiry intends to explore public sector funding to third sector organisations that deliver national equalities and human rights priorities, and to assess the accountability of public bodies partnering with the third sector. Our work was mentioned 228 times by committees, 16 times in parliamentary questions and 16 times during First Minister's Questions. Feedback from MSPs on the quality and value of Audit Scotland's work in supporting parliamentary scrutiny continues to be strong.

Adding value through insight on key issues and risks

135. Identifying issues and key risks that lie ahead is an essential part of what we do. For example, because of the implications of EU withdrawal and Scotland's new financial powers, we have in-house teams working on the crucial areas of change. Their priority is to put in place effective audit arrangements to enable the Parliament to receive independent assurance on new bodies and the implementation of policies.

136. We have taken several steps to provide a clearer picture through updated reports, a timeline and bringing material together on a website hub. We are keeping a close watch on issues as they develop, including identifying associated audit risks and ensuring they are reflected in our work programme and are considered in our audits of public bodies.

137. For example, with the Scottish budget becoming more and more complex, it is difficult to understand how tax receipts, policy changes and economic growth feed through to the Scottish budget via the fiscal framework. Our [Operation of the fiscal framework](#), published in October 2019, looked at how the fiscal framework is operating in practice and how the Scottish Government has used the powers available to it. It has so far been referenced by the Finance and Constitution Committee in its pre-budget scrutiny as well as by other experts such as the Fraser of Allander Institute and the Scottish Fiscal Commission. In addition, every year we publish an additional assurance report alongside the NAO report on the administration of Scottish Income Tax by HMRC. This helps set the Scottish context of NAO's work on Scottish Income Tax in a transparent and understandable way.

138. Outcomes-based budgets are the focus of several BPRG's recommendations, but outcomes objectives can be difficult to follow through to the finances. The Scottish Exchequer team in Audit Scotland considers and supports scrutiny of more complex cross-cutting outcomes and how these are shown through budgets. In 2020 this included attendance at Equalities and Human rights workshops, maintaining links with the Scottish Government's Equalities and Budget Advisory Group, and discussing budget transparency issues with the Scottish Human Rights Commission.

139. We also hosted round-table meetings for organisations to discuss how the public sector and its partners are being affected by and preparing for EU withdrawal. The bodies attending included representatives from Universities Scotland, British Medical Association Scotland, and the Society of Chief Officers of Environmental Health in Scotland. Additionally, in December 2019 we published

[Preparing for withdrawal from the European Union](#) briefing paper which builds on the key issues paper published in October 2018. The paper provides illustrations of the impact that preparing for withdrawal from the EU has had on public bodies and suggests questions for public bodies to ask themselves about their ongoing preparations for EU withdrawal.

140. During 2019, we have also published a suite of briefing papers on significant topics in which we have an audit interest. These have included:

- [Planning for outcomes](#) – this paper set out the main factors that support planning for outcomes and drew together learning from our previous reports and wider knowledge of good practice and activity in this area.
- [Openness and transparency](#) – this guidance paper was prepared to help appointed auditors promote continuous improvement and a striving towards the highest standards of governance and accountability across public services in Scotland.
- [Drug and alcohol services](#) – this paper provided an overview of the current position of drug and alcohol services in Scotland and summarised the progress against recommendations made in [our 2009 report](#).
- [Student loans](#) – this paper provided an overview of student loans in Scotland. It highlighted some of the key data, provides trend analysis and notes some significant features of the student loan system.

141. Our work looking at digital across the public sector continues to have impact. We published our [Principles for a Digital Future](#) in May 2017 to support public bodies embarking on ICT projects. The principles outlined in the briefing remain relevant and continue to be used and referred to across the public sector. For example, the Scottish Government considered these when designing its revised Technical Assurance Framework and Digital First Service Standards. The Local Government Digital Office also considered them as it developed its plans and digital maturity assessment model.

142. We continue to be invited to local, national and international events to discuss these principles and more recently, the findings from our [Enabling Digital Government](#) report, published in June 2019. During 2019, we also presented our findings at a variety of events, including local audit committees, national seminars and conferences and an OECD SIGMA programme event in North Macedonia.

Adding value through participation in professional bodies, contributions to external events and scrutiny improvement

143. We are represented on a wide range of international and UK professional bodies and audit agencies and through these we can influence professional standards and share and learn from good practice. For example:

- The Auditor General is a board member of Public Sector Audit Appointments (PSAA) and the Chair of its Audit Committee
- The Director of ASG is the Chair of CIPFA Scotland
- Members of the Leadership Group participate on the FRC's Audit and Assurance Council, LASAAC (Local Authority (Scotland) Accounts Advisory Committee), CIPFA/LASAAC Board, the ICAS public sector panel, the ICAEW Scotland strategy board and the Financial Reporting Advisory Board (FRAB).

144. Because of our position in the public sector and the knowledge and experience of our staff we are often asked to contribute to conferences, seminars and in other forums. Examples include presentations on the principles of good governance in the public sector and leading discussion about practical aspects of good governance in a public sector context.

145. Professional Support hosted a number of roundtable events during 2019 to support the audit approach and learning. These included the annual planning event where Professional Support facilitated a discussion of the purpose and content of the planning guidance, and the overall audit approach.

146. Audit Scotland works with other scrutiny bodies to make sure that the scrutiny of public sector bodies is better targeted and more proportionate to identified risks. The main focus of our development work is on local government, on behalf of the Accounts Commission, to coordinate and facilitate local government scrutiny.

Endnotes

- 1 Within the UK, a consortium of Audit Scotland, NAO, WAO and NIAO fulfil the role of the UK Certifying Body for the European Agricultural Guarantee Fund (EAGF) and the European Agricultural Fund for Rural Development (EAFRD) Accounts for the United Kingdom, known as the Agricultural Funds. The EAGF finances expenditure associated with PILLAR 1 schemes, which are designed to encourage production and provide guaranteed prices for specific products. The EAFRD finances specific rural development programmes, known as PILLAR 2 schemes.
- 2 The Accounts Commission's strategic audit priorities are issues that the Commission considers particularly important to report through audit work.
- 3 Public Audit Forum (PAF) is made up of Audit Scotland, National Audit Office (NAO), Wales Audit Office (WAO) and Northern Ireland Audit Office (NIAO).
- 4 Hot reviews are carried out before the audit opinion is signed or the report issued to provide assurance that the judgements in the reports are appropriate and are supported by appropriate audit evidence. Overall judgements, conclusions and the wording of the independent auditor's report are reviewed at a proportion of financial audits based on audit size, risk or likelihood of a modified opinion.
- 5 Cold reviews are conducted after the completion of the audit and provide a higher level of assurance than hot reviews. They differ from hot reviews in that they cannot change the work in the event of an error. Cold reviews go into greater depth than hot reviews. The samples of financial audits reviewed ensure that all auditors that sign an opinion are reviewed at least once in a three-year cycle and cover all sectors and sizes of audit.
- 6 [Audit Culture Thematic Review](#), Financial Reporting Council, May 2018.
- 7 [Independent review of the Financial Reporting Council](#), Sir John Kingman, December 2018.
- 8 [Statutory audit services market study](#), Competition & Market Authority, April 2019.
- 9 [Report of the independent review into the quality and effectiveness of audit](#), Sir Donald Brydon, December 2019.

Appendix

2018/19 annual audits

Local government audits:

Councils	Pension Funds	Integration Joint Boards (IJBs)	Other Joint Boards
Aberdeenshire	Fife	Aberdeenshire	Aberdeen City and Shire SDPA
Angus	North East Scotland	Angus	Central Scotland Valuation Joint Board
Argyll and Bute	Orkney Pension Fund	Argyll and Bute	Clyde Muirshiel Park Authority Joint Committee
Clackmannanshire	Scottish Borders	Clackmannanshire and Stirling	Clyde Valley Learning and Development Joint Committee
Comhairle nan Eilean Siar	Strathclyde	Dundee City	Dunbartonshire and Argyll and Bute Valuation Joint Board
Dundee City	Tayside	East Dunbartonshire	East of Scotland European Consortium
East Dunbartonshire		East Lothian	Glasgow and Clyde Valley SDPA
East Lothian		East Renfrewshire	Glasgow City Region City Deal Cabinet Joint Committee
East Renfrewshire		Fife	Grampian Valuation Joint Board
Fife		Glasgow City	Lanarkshire Valuation Joint Board
Glasgow City		Inverclyde	Mugdock Country Park Joint Committee
Inverclyde		Moray	NESTRANS

Councils	Pension Funds	Integration Joint Boards (IJBs)	Other Joint Boards
Moray		North Lanarkshire	Renfrewshire Valuation Joint Board
North Lanarkshire		Orkney	Scotland Excel
Orkney Islands		Renfrewshire	SESplan
Renfrewshire		Scottish Borders	Tay Road Bridge Joint Board
Scottish Borders		South Lanarkshire	Tayside SDPA
South Lanarkshire		West Dunbartonshire	Tayside Contracts Joint Committee
Stirling		Western Isles	Tayside Valuation Joint Board
West Dunbartonshire			West of Scotland Archaeology Service Joint Committee
			West of Scotland European Forum

Central government audits:

Architecture and Design Scotland	Non-Domestic Rates Account	Scottish Legal Aid Board
Children's Hearings Scotland	QLTR	Scottish Natural Heritage
Creative Scotland	Quality Meat Scotland	Scottish Parliamentary Corporate Body
Creative Scotland Lottery Fund	Registers of Scotland	Scottish Police Authority
Crown Office and Procurator Fiscal Service	Revenue Scotland	Scottish Public Pensions Agency
Education Scotland	Risk Management Authority	Scottish Qualifications Authority
Food Standards Scotland	Royal Botanic Garden Edinburgh	Scottish Teachers' Superannuation Scheme
Forest Enterprise Scotland	Scottish Children's Reporter Administration	Skills Development Scotland
Forestry Commission Scotland	Scottish Consolidated Fund	Social Security Scotland
Highlands and Islands Enterprise	Scottish Criminal Cases Review Commission	Sportscotland
National Galleries of Scotland	Scottish Enterprise	Sportscotland Lottery Fund

National Library of Scotland	Scottish Fiscal Commission	Standards Commission for Scotland
National Museums of Scotland	Scottish Funding Council	Transport Scotland
National Records of Scotland	Scottish Government	VisitScotland
NHS Superannuation Scheme (Scotland)	Scottish Land Commission	Water Industry Commission for Scotland

Health audits:

NHS Borders
NHS Fife
NHS Forth Valley
NHS Grampian
NHS Greater Glasgow and Clyde
NHS Lanarkshire
NHS Orkney
NHS Tayside
NHS Western Isles
NHS National Services Scotland

Further education audits:

Edinburgh College
Dundee & Angus College

Transparency

Report 2019

This report is available in PDF and RTF formats, along with a podcast summary at:

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