

Code of audit practice

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Audit Scotland

Audit Scotland is a statutory body set up in April 2000, under the Public Finance and Accountability (Scotland) Act 2000. It provides services to both the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Executive and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

Auditor General for Scotland

The Auditor General for Scotland is the Parliament's watchdog for ensuring propriety and value for money in the spending of public funds.

He is responsible for investigating whether public spending bodies achieve the best possible value for money and adhere to the highest standards of financial management.

He is independent and not subject to the control of any member of the Scottish Executive or the Parliament.

The Auditor General is responsible for securing the audit of the Scottish Executive and most other public sector bodies except local authorities and fire and police boards.

The following bodies fall within the remit of the Auditor General:

- departments of the Scottish Executive eg the Department of Health
- executive agencies eg the Prison Service, Historic Scotland
- NHS boards and trusts
- further education colleges
- water authorities
- NDPBs and others eg Scottish Enterprise.

The Accounts Commission

The Accounts Commission is a statutory, independent body, which through the audit process, assists local authorities in Scotland to achieve the highest standards of financial stewardship and the economic, efficient and effective use of their resources.

The Commission has five main responsibilities:

- securing the external audit
- following up issues of concern identified through the audit, to ensure satisfactory resolutions
- reviewing the management arrangements which audited bodies have in place to achieve value for money
- carrying out national value for money studies to improve economy, efficiency and effectiveness in local government
- issuing an annual direction to local authorities which sets out the range of performance information which they are required to publish.

The Commission secures the audit of 32 councils and 34 joint boards (including police and fire services). Local authorities spend over £9 billion of public funds a year.

Foreword

The new legislative framework for public sector audit in Scotland and the creation of Audit Scotland provide a unique opportunity to apply a unified public sector audit model across the public sector in Scotland.

This Code of Audit Practice has been prepared by Audit Scotland and approved by the Auditor General and the Accounts Commission to apply to the audits of all bodies within our respective remits.

The Code emphasises the common features of public audit across all sectors, whilst recognising that there are differences in the underlying statutory frameworks.

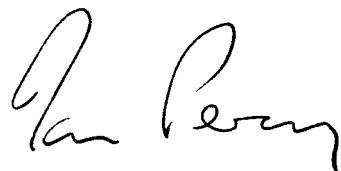
In preparing the Code, Audit Scotland has built upon the previous Code issued by the Accounts Commission to cover local government and the National Health Service and updated it to reflect new auditing standards and frameworks issued by the International Federation of Accountants and the Auditing Practices Board, and the growing emphasis on corporate governance, risk management and performance issues. The Code also recognises that the Auditing Practices Board now issues Practice Notes covering aspects of public sector audit and the Code requires auditors to have regard to them.

The creation of Audit Scotland and the development of this Code allow us to promote co-ordination and co-operation between the auditors of different parts of the public sector, particularly where one part provides funds to another or where several parts are contributing to the same project. In so doing, any gaps in accountability between funder and funded can be identified and addressed.

It is our belief that an audit carried out in accordance with the principles in the Code will meet our joint objectives of ensuring a high standard of stewardship of public funds and promoting the economic, efficient and effective use of resources.



Robert W Black
Auditor General for Scotland
July 2001



Professor J P Percy CBE
Chairman, Accounts Commission for Scotland

Introduction

Background

1. There is a general expectation that those responsible for the conduct of public business and the handling of public money are held fully accountable for the conduct of that business in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.
2. Additionally, it is an objective of Government policy to deliver more responsive and higher quality public services that are integrated, user orientated and focused on outcomes. This requires a whole-systems approach to performance measurement and may involve partnerships with other organisations in the public and private sectors with implications for the efficient and effective delivery of public programmes and projects and the safeguarding and stewardship of public money.
3. The prime responsibility for ensuring both that public business is conducted in accordance with the law and proper standards and that public money is handled with absolute integrity and spent appropriately rests with the Scottish Ministers, elected members, Accountable Officers, governing bodies, boards, managers and officials. To discharge this accountability, public bodies and those responsible for the conduct of their affairs require to establish and maintain proper arrangements for the governance of their affairs and the stewardship of resources at their disposal.
4. The special accountabilities attached to the conduct of public business and use of public money mean that audit in the public sector requires to be planned and undertaken from the wider perspective of providing not only assurance on the financial statements (and statements of internal control, where appropriate) prepared by public bodies, but also providing a view on matters such as regularity (or legality), propriety and use of resources in accordance with the concepts of “value for money” and best value. In so doing, it contributes positively to the corporate governance arrangements of public bodies that enable them to operate effectively with due regard to regularity, propriety, good value for money and improved performance.
5. Accordingly, whilst the basic principles of a financial statements audit are common to both the public and private sectors, external auditors in the public sector in addition to giving an independent and objective opinion on public bodies’ financial statements also review, and report on, aspects of the arrangements made by the body to ensure the proper conduct of its affairs and to manage performance and use of resources.
6. Audit in the public sector adds value not just by analysing and reporting what has happened, but also by being forward looking, by identifying areas where improvements can be made and by encouraging good practice. In this way it helps to promote improved standards of governance, better management and decision-making, and a more effective use of the taxpayer’s resources.

7. Public audit is an important link in the chain of accountability and holding to account. It strengthens accountability, both upwards to the elected or appointed members who provide resources, and outwards to the consumers and beneficiaries, taxpayers and the wider community. This is achieved through the:
 - independence of the auditor from the body being audited
 - wide scope of public audit, covering the financial statements, regularity, propriety and value for money
 - ability of the auditor to make the results of audits and reviews available to the public and the democratically elected representatives responsible for funding the activities concerned.
8. These features are consistent with the '*Principles of Public Audit*' as defined by the Public Audit Forum¹ which comprises all the national audit agencies in the United Kingdom. This statement has been accepted by Government and is seen as relevant across the public sector.

Roles of the Auditor General, Accounts Commission and Audit Scotland

9. The Auditor General, a Royal appointment on the nomination of the Scottish Parliament, plays a key role in holding the Scottish Executive and certain other Scottish public spending bodies (with the principal exception of local authorities and related bodies, including joint boards) to account for the proper, efficient and effective use of public money. The Auditor General is responsible for securing the audit of the financial statements of the Scottish Executive and other public bodies and for initiating studies into the economy, efficiency and effectiveness with which they have used their resources. Bodies audited under the Auditor General's remit include departments of the Scottish Executive, executive agencies, non-departmental public bodies, National Health Service boards and trusts, colleges of further education and water authorities. Audited financial statements and auditors' reports (including reports by the Auditor General in certain cases) are sent to the Scottish Ministers and laid before the Scottish Parliament. The Auditor General also reports to the Scottish Parliament on other matters, including value for money examinations.
10. The Accounts Commission is a statutory independent body appointed by the Scottish Ministers whose purpose is to hold local government to account by using the audit process to give assurance on probity, stewardship and financial management; effect continuous improvement; promote the economic, efficient and effective use of resources and secure the fair presentation of financial and performance information. Issues arising from the audit are reported to the Accounts Commission through the Controller of Audit. The Accounts Commission has the power to report and make recommendations to the Scottish Ministers as well as to audited bodies and can hold hearings. If it considers that there has been an illegality or a financial loss due to negligence or misconduct, it may impose sanctions, including censure, suspension or disqualification from office. [Subject to commencement order being made].

¹ 'The principles of public sector audit: A statement by the public audit forum', October, 1999.

11. Audit Scotland is a statutory body that provides services to the Auditor General and the Accounts Commission. Appointments to undertake audits are made by the Auditor General and the Accounts Commission to Audit Scotland staff and private firms. Audit Scotland provides guidance and support to all auditors on technical matters and monitors performance of auditors through a quality control process. Once appointed, auditors act independently in carrying out their responsibilities and in the exercise of their professional judgement.

Code of audit practice

12. Consistent with the nature of public sector audit described above and as a condition of appointment, this Code has been developed as a basis of defining the responsibilities of an auditor appointed by the Auditor General or Accounts Commission to undertake the audit of a public sector body (“the audited body”) in relation to:
 - general principles to be applied by the auditor
 - corporate governance
 - performance management, and
 - financial stewardship.
13. The Code is prepared on the basis of an approach in which work in relation to one element informs and is complementary to work in relation to the other elements. Central to work in relation to each objective or responsibility is a risk-based approach to audit planning which reflects the auditor’s overall assessment of the relevant risks that apply to the audited body. This, in turn, will be influenced by the audited body’s own risk assessments and management processes.

Scope

14. This Code sets out the way in which an auditor appointed by the Auditor General or the Accounts Commission should carry out functions under the Public Finance and Accountability (Scotland) Act 2000 or the Local Government (Scotland) Act 1973. The Code includes the expectations of the Auditor General and the Accounts Commission in developing areas such as statements of internal control. However, the application of the Code in any particular case must depend on the specific circumstances and on the auditor’s assessment of what is reasonable and appropriate in those circumstances; the provisions of the Code should be read and applied in that context.
15. The bodies subject to audit by the Auditor General and the Accounts Commission are governed by various statutory and regulatory requirements. The auditor’s responsibilities under the Code therefore vary according to the nature of the audited body. For some aspects of the work carried out the auditor is required to give an explicit opinion on a matter eg, the financial statements. For other aspects the auditor is required to report matters arising based on the work undertaken. In so reporting the auditor should make clear the scope of the work carried out.

16. There may also be circumstances in which, subject to there being no conflict with statute, parts of the Code may be inappropriate to the audit of certain bodies, for example, because of the relative size or nature of the body concerned. The auditor should apply the Code to the audit of such bodies as judged appropriate, taking into account any guidance issued by Audit Scotland.

Application

17. This Code replaces the Code published by the Accounts Commission in February 1996 (in respect of the audit of local government and NHS bodies) and guidance related to external audit arrangements issued by sponsor departments or other bodies. It applies to all audit work that relates to financial years commencing on or after 1 April 2001.
18. Existing guidance issued by the Accounts Commission or Audit Scotland in relation to the audit of local government and NHS bodies remains applicable until superseded.

General principles

Objectives

19. The auditor's objectives are to:

- (a) provide an opinion on, to the extent required by the relevant authorities, the audited body's financial statements and the regularity of transactions in accordance with standards and guidance issued by the Auditing Practices Board.
- (b) review and report on, to the extent required by relevant legislation and the requirements of the Code:
 - (i) the audited body's corporate governance arrangements as they relate to:
 - the audited body's review of its systems of internal control
 - the prevention and detection of fraud and irregularity
 - standards of conduct, and prevention and detection of corruption
 - its financial position;
 - (ii) aspects of the audited body's arrangements to manage its performance, as they relate to economy, efficiency and effectiveness in the use of resources and, in relation to relevant local government bodies, the audited body's arrangements for preparing and publishing specified performance information, and the audited body's compliance with requirements in relation to Best Value.

Scope of the audit

- 20. The auditor should take reasonable steps to plan and carry out the audit so as to meet these objectives and comply with the requirements of the Code. Audit work should be planned and performed on the basis of the auditor's assessment of audit risks, so as to obtain such information and explanations as are considered necessary to provide sufficient evidence to meet the requirements of the Code.
- 21. The auditor does not act as a substitute for the audited body's own responsibility to establish proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

Statutory duties of auditors

- 22. The statutory duties of the auditor in relation to bodies within the remit of the Auditor General are summarised in Annex 1. The statutory duties of the auditor in relation to local government bodies are summarised in Annex 2. Responsibilities in relation to objections to local authority accounts are described in Annex 4.

Professional standards and guidance

23. In carrying out an audit of financial statements under this Code, the auditor is required to comply with Statements of Auditing Standards and have regard to any relevant Practice Notes and other guidance and advice issued by the Auditing Practices Board.
24. The auditor is also required to comply with relevant ethical standards and guidance issued or adopted by the relevant professional accountancy bodies.
25. When necessary, Audit Scotland, acting on behalf of the Auditor General or Accounts Commission, will supplement this Code by issuing guidance to the auditor to be applied in the conduct of the audit of the financial statements or in the discharge of other responsibilities under this Code.

Independence and objectivity

26. The auditor is appointed to provide an independent and objective appraisal of the discharge by management of stewardship responsibilities. It is important that the auditor carries out audit work with independence and objectivity and that this is demonstrable at all times. In exercising professional judgement, the auditor should ensure that an objective attitude is maintained at all times. The auditor should not act in any way that might give rise to – or be perceived to give rise to – a conflict of interest. In particular, the auditor and audit staff should avoid any official, professional or personal relationships the nature of which might cause the auditor to limit the extent or character of the audit, involvement in a decision-making or management capacity in the operation of the audited body, and any material direct or indirect financial interest in the transactions or services of the audited body (other than as a taxpayer or general consumer of the services provided).
27. The auditor should resist and report to the Auditor General or Controller of Audit any improper attempt to influence the exercise of judgement in the conduct of the audit or compilation of any report or certificate.
28. The auditor, or any firm with which the auditor has a direct or indirect association, shall not agree to carry out any work beyond that considered necessary for the application of this Code for an audited body without the prior approval of Audit Scotland. Such approval will not be given where there would be a significant conflict of interest with the firm's role as auditors.

Confidentiality

29. The auditor should comply with relevant professional and ethical guidance and take all reasonable steps to ensure that they and their staff treat as confidential all information received or obtained during the course of the audit. The auditor should recognise that in the public sector there is a greater degree of transparency expected and take particular care in the presentation of information in documents that may be expected to enter the public domain. Auditors should also have regard to the terms of any Memoranda of Understanding or similar documents entered into by the Accounts Commission or Auditor General with inspectorates or similar bodies.

Audit framework

Approach

30. The auditor should carry out the audit in a professional manner, as efficiently and effectively, and in as timely a way as possible. Therefore, in exercising professional judgement in framing an audit approach to meet the requirements of this Code, the auditor should:

- (a) plan and perform the audit, determining where to direct work and allocate resources, having regard to the concepts of materiality and significance, to ensure that the audit is tailored to the circumstances of the audited body
- (b) recognise that each part of the audit needs to be viewed in the context of the whole ie, that no single part stands alone and work in relation to one element informs work in relation to others
- (c) seek to establish effective co-ordination arrangements with the audited body's internal auditors and, if relevant, auditors of other public sector bodies, inspectors or review agencies, and Audit Scotland
- (d) adopt a constructive and positive approach to audit work, supporting and where appropriate encouraging change in the audited body's practices, while providing independent scrutiny and assurance, and fulfilling statutory and professional obligations
- (e) report in such a way as to inform the audited body's members and management of matters of significance arising from audit work and of the nature and grounds for concerns, indicating corrective action that may be required
- (f) establish arrangements to review whether or not the audited body has properly considered any matters identified during the audit or those of previous periods and, where appropriate, has implemented agreed actions.

Planning

31. Audit plans should be prepared in support of the objectives outlined in this Code covering both the period of appointment ("the long term plan") and each audit period. The long-term plan should be revised as appropriate throughout the appointment. Plans should aim to establish the means of achieving the audit objectives, assist in the direction and control of the work, address those significant and operational risks relevant to audit responsibilities and assist in ensuring that work is completed expeditiously.

32. The starting point for the audit planning process – and indeed the audit as a whole – is a thorough level of knowledge of the characteristics of the audited body, its responsibilities and principal activities, the risks it faces, and its corporate governance arrangements. This will allow the auditor to meet responsibilities not only in relation to the financial statements, but also such

matters as regularity and performance management. The planning process will therefore address:

- the external environment within which the audited body operates, including (if appropriate) its relationship with the sponsoring department or other organisations, including those having a significant influence on the performance of the body, economic considerations such as funding arrangements, social and technological factors, the political environment and environmental considerations
- the “framework of authorities” under which the audited body operates, including Parliamentary authority, authorising legislation and regulations and guidance issued under legislation
- the control environment which the audited body has established, including organisation structure, philosophy and operating style, integrity and ethical values, roles, responsibilities and authority levels, and human resource policies
- the audited body’s risk assessment procedures covering corporate and activity level objectives and the approach to the management of change
- the audited body’s approach to performance management
- information and communication systems used by the audited body, addressing appropriateness, accuracy and timeliness of reports to management, links to the audited body’s strategic plans and external and internal channels for communication, and monitoring arrangements
- general controls such as authorisations, segregation of duties, supervision and review, internal audit, and those relating to information technology.

33. Such information can be drawn from within the audited body itself through review of documentation and discussions with appropriate members and managers, including internal audit, and an awareness of relevant national issues, local policies and major matters of public interest, the results of previous audit work and action taken in relation to reports, data relating to financial or performance indicators and statistical comparisons and trends. Guidance may also be issued by Audit Scotland, for example, in the form of Technical Bulletins.
34. It is the responsibility of the audited body to identify and address its operational and financial risks, and to develop and implement proper arrangements to manage them, including adequate and effective systems of internal control. The auditor should consider and assess those risk management arrangements as part of the assessment of audit risk. In doing so, the auditor will be able to derive an audit plan that properly tailors the nature and conduct of audit work to the circumstances of the audited body, in turn ensuring that audit resources are directed to those areas of greatest risk.
35. The plan for each audit period should outline the auditor’s proposed approach to meeting responsibilities in the light of the assessment of audit risk and the requirements of this Code. The long term plan and each period’s plan should be discussed with the senior management of the audited body and its audit committee or another committee which fulfils the functions of an audit committee.

Materiality and significance

36. The concept of materiality applies to the auditor's work in relation to financial statements and acknowledges that those statements can rarely be absolutely correct and that a degree of tolerance is therefore acceptable. In the public sector qualitative as well as quantitative factors may be significant, particularly in addressing the regularity objective.
37. In this Code, the term significance is used to describe an equivalent concept in relation to aspects of corporate governance arrangements and performance management. As the factors used to determine significance may be different to those used for materiality a significant matter may not necessarily be material in relation to the financial statements.
38. Assessment of what is material or significant is a matter of professional judgement, taking account of the audited body and its circumstances, and includes consideration of both the quantitative and qualitative aspects of the item or matter in question. Consideration needs to be given to the interests of not only the audited body and its members but of other stakeholders such as the Scottish Parliament.
39. Materiality and significance are key considerations in the auditor's assessment of audit risk, given its impact on the level of audit work to be carried out.

Reporting the audit

40. Reports from the auditor are the primary means by which the results of audit activity are brought to the attention of senior management of the audited body, elected or board members and other stakeholders, including the Scottish Parliament and the public.
41. The mechanisms for reporting the results of the audit will vary according to the statutory and financial frameworks applicable to the audited body. However, it is expected that the auditor will as a minimum provide:
 - a report or certificate to the audited body and, as appropriate, the Auditor General and Scottish Parliament or Accounts Commission that the audit of the financial statements has been completed in accordance with applicable statutory requirements and including an opinion on those financial statements
 - reports or letters addressed to management of the audited body and, if appropriate, members and copied to, as appropriate, the Auditor General or Controller of Audit, bringing to their attention matters arising from the auditor's work under this Code
 - an annual audit report addressed to the audited body and, as appropriate, the Auditor General or Controller of Audit.
42. The auditor may also be required to provide opinions on specific matters such as grant claims.
43. The auditor should prepare and issue all outputs from the audit in a timely way both during the audit and at its completion, recognising any specific reporting deadlines. Depending on circumstances, reports to the audited body should either include or cross refer to statements emphasising that:

- it is the responsibility of management of the audited body to prepare complete and accurate accounts and to implement appropriate internal control systems
- weaknesses notified by the auditor, for example, in systems, are only those which have come to the attention of the auditor during normal audit work in accordance with the Code and therefore are not necessarily all of the weaknesses which may exist
- communication of issues arising from the audit of the financial statements or of weaknesses by the auditor does not absolve management from its responsibility for the addressing the issues raised and for maintenance of an adequate system of control.

Opinions

44. Model audit opinions appropriate to each type of audited body will be provided to the auditor by Audit Scotland, having regard to Statements of Auditing Standards and Practice Notes.

Annual audit report

45. It is an important and valuable feature of the external audit process that, at the conclusion of each year's audit, the auditor provides a report summarising the significant matters arising from the whole of that year's audit to the members of the audited body or others with governance responsibilities within the audited body and, as appropriate, the Auditor General or Controller of Audit.

46. The addressees of the report will vary according to the nature of the audited body, but the report should always be addressed to elected or board members or to the most senior official as appropriate. The report should also form the basis of discussions with the audited body's audit committee, either prior to or as soon as possible after the formal completion of the audit of the financial statements. If the audited body does not have an audit committee then the report should be discussed with an appropriate group of members and with senior management.

47. The purpose of the annual audit report is to set out the scope, nature and extent of the audit work that has been carried out for the period and to summarise the auditor's opinions or conclusions and, where appropriate, significant issues arising from the work. In broad terms, the report should be used to:

- expand upon any qualification in the auditor's report or certificate in relation to the financial statements, explanatory paragraph or reference to the audited body's failure to comply with a statutory requirement
- report or direct attention to any matters of significance arising from the audit process
- set out, as appropriate, the respective responsibilities of management and the auditor in relation to issues associated with regularity, propriety and performance management
- note the action taken or the auditor's recommendation as to action required to be taken by members or management to resolve any issues or areas of concern arising in the period under review and previous periods.

48. Where appropriate, the annual audit report should cross-refer to other reports or outputs on the results of, or matters arising from, specific aspects of the auditor's work issued during the period.
49. While it is for the auditor to determine the content of the annual audit report having regard to the broad purpose of the report set out above and guidance issued by Audit Scotland, the auditor should obtain the agreement of management as to matters of fact in advance of its finalisation. Matters which should be included in an annual audit report are inter alia the quality and appropriateness of corporate governance arrangements, internal control arrangements, including internal audit, results of statutory objections to accounts, instances of fraud, financial matters calling for comment, appropriateness of arrangements for performance management and any undue delay in the preparation or submission of financial statements.
50. The report should be concerned for action and should therefore be accompanied by an action plan summarising the recommendations and setting out deadlines and responsibilities for implementation agreed with management. The report should include any issues where agreement could not be reached. Management's consideration of the remedial action to be taken should include an assessment of the wider implications of the conclusions and recommendations in reports arising from the audit. The responsibility for monitoring the audited body's implementation of recommendations rests with the audit committee of the body or its equivalent. The auditor will have regard to progress on implementation and may report accordingly.
51. In general, an audited body is encouraged to make the annual audit report publicly available and the auditor should be aware that the annual audit report and other management reports may also require to be submitted to a sponsoring department or funding body.
52. In certain circumstances the Auditor General or Controller of Audit may follow up matters arising from the audit and prepare a report for the Scottish Parliament or Accounts Commission, respectively. The annual report will be the main source of information for any such reports, although the auditor should identify and report issues to Audit Scotland on a timely basis.
53. In certain circumstances, the Controller of Audit is statutorily obliged and has discretion in other instances to make a report to the Accounts Commission. Further information on the requirements and circumstances which are likely to give rise to a report under Section 102, Local Government (Scotland) Act 1973 is given in Annex 3.

Reports to management

54. The auditor should communicate findings and views on matters arising out of the audit by way of reports to management of the audited body. Management reports should be submitted on a timely basis throughout the year and be concerned for action. In support of this, final versions of management reports, having been discussed in draft form with management, should include an action plan prepared by management summarising the recommendations and giving target dates for implementation and details of those managers or officers designated by the audited body's management as responsible for implementation. Prior to finalisation of the action plan, management should assess the wider implications of the conclusions and

recommendations proposed. The action plan forms the basis for the systematic monitoring by management, the body's audit committee and the auditor of the implementation of recommendations and measurement of change.

55. Management reports should be prepared, as required, on each aspect of the auditor's work in connection with this Code. Separate reports should normally be produced for each discrete piece of work. Reports should be addressed to those who have authority to act on the matters reported, but the auditor should agree with the audited body's chief executive or a relevant senior official the reporting processes to be adopted and the manner in which management reports are to be considered by the audited body's audit committee or equivalent.
56. In the case of a local government body, a copy of all such reports should be submitted to the body's "proper officer" in terms of Section 95, Local Government (Scotland) Act 1973.
57. Finalised management reports should also be submitted to Audit Scotland throughout the audit.

Financial statements

Stewardship of resources

58. The financial statements of the audited body are an essential means by which it accounts for its stewardship of the resources made available to it and its financial performance in the use of those resources. It is the responsibility of the audited body to:

- ensure the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority
- maintain proper accounting records
- prepare financial statements which (as appropriate depending on the financial reporting framework) give a true and fair view or present fairly the financial position of the body and its expenditure and income (or equivalent) in accordance with the relevant financial reporting framework, for example, the Resource Accounting Manual or an Accounting Code of Practice.

The auditor's role

59. The auditor is required to audit the financial statements and to give an opinion:

- whether (as appropriate depending on the financial reporting framework) they give a true and fair view or present fairly the financial position of the audited body and its expenditure and income (or equivalent) for the period in question
- whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements
- except for local government bodies, on the regularity of the expenditure and receipts.

60. In carrying out this responsibility, the auditor provides reasonable assurance that, subject to the concept of materiality, the financial statements:

- are free from material misstatement, whether caused by fraud or other irregularity or error
- comply with the statutory and other requirements applicable to them
- comply with relevant requirements for accounting presentation and disclosure.

61. In forming the opinion and in addition to the requirements of accounting standards, it is expected that the auditor will have considered compliance with such requirements on the form of financial reporting as may be applicable.

62. In carrying out an audit of financial statements the auditor is required to comply with Statements of Auditing Standards and to have regard to any relevant Practice Notes and other guidance and advice issued by the Auditing Practices Board.

Regularity of financial transactions

63. The concept of regularity reflects the concern that public money raised through taxation should only be used for approved purposes. The preparation of financial statements by the audited body is an important means by which it is accountable for the use of public money and leads to an implied assertion regarding the regularity of financial transactions. It is the responsibility of the audited body to establish appropriate systems to ensure the regularity of financial transactions.

64. The Public Finance and Accountability (Scotland) Act 2000 requires the auditor to give a report on the regularity of expenditure and receipts being incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers for those audited bodies falling within the responsibility of the Auditor General (Annex 1).

65. The auditor should plan and perform audit procedures having regard to guidance from the Auditing Practices Board, recognising the definition of regularity implied by the Public Finance and Accountability (Scotland) Act 2000, and evaluate and report the results thereof, recognising that non-compliance by the audited body with statute or regulations may have material financial consequences. To meet this requirement, the auditor needs to:

- have a sufficient understanding of such laws, regulations and guidance as are applicable to the audited body in order to consider them when auditing the assertions related to the determination of the amounts to be recorded in the financial statements and the disclosures to be made; and
- test compliance with such provisions.

66. Accordingly, the auditor should obtain a sufficient understanding of the audited body's framework of authorities and test for regularity, keeping under review:

- the audited body's arrangements for implementing new legislation or statutory requirements which may have significant financial consequences
- the applicability to the audited body of relevant national issues which may have financial consequences including, for example, matters on which guidance is issued by Audit Scotland
- transactions that are unusual or of questionable legality and which may have significant financial implications.

67. While regularity adds an additional dimension to the audit of financial statements in the public sector, as far as possible, the auditor should adopt an integrated audit approach covering the audit of the financial statements, systems and of regularity.

68. For the auditor of a local government body, the auditor needs to recognise the requirements of Section 102, Local Government (Scotland) Act 1973. The audit implications of the responsibilities are summarised in Annex 3. In addition, again in the context of a local government audit, the auditor should also consider the particular arrangements within which the body's designated monitoring officer discharges his statutory responsibilities and should review any advice which the monitoring officer gives to the body to the effect that it does not have powers for any specific course of action.

Corporate governance arrangements

Background

69. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviour at the upper levels of the organisation. The public sector in Scotland is complex; the constituent bodies vary greatly in size, do not operate within a common statutory framework or have a standard organisational structure. It is important, therefore, to recognise through the audit process the diversity of bodies and the different models of governance that apply, each of which require special consideration and impose varying sets of accountabilities. Despite this diversity, the three fundamental principles of corporate governance - openness, integrity and accountability - apply equally to all bodies, irrespective of whether the body is elected or appointed, or whether it comprises a group of people or an individual.

70. Each audited body, through for example its chief executive or accountable officer, has a responsibility to put in place arrangements for the conduct of its affairs, including compliance with applicable guidance, ensure the legality of activities and transactions and to monitor the adequacy and effectiveness of these arrangements in practice. Audited bodies will usually involve their Audit Committee or similar in monitoring these arrangements. Commensurate with the wider scope of a public sector audit, this Code gives the auditor a responsibility to review and, where appropriate, report findings on the audited body's corporate governance arrangements as they relate to:

- the audited body's review of its systems of internal control, including its reporting arrangements
- the prevention and detection of fraud and irregularity
- standards of conduct, and arrangements in relation to the prevention and detection of corruption
- the financial position of the audited body.

71. The protection of public money is at all times a matter of general concern and auditors should recognise the importance of their duties in relation to corporate governance as an important safeguard in ensuring the establishment and maintenance of proper arrangements.

Systems of internal control

72. In order to ensure the proper conduct of its business, the audited body has a responsibility to develop and implement systems of internal control, including risk management and systems of financial, operational and compliance controls. It is becoming customary and in some cases mandatory for many of the audited bodies covered by this Code at least annually to conduct a review of the effectiveness of the body's systems of internal control and report publicly that they have done so. The review should take account of the work of internal audit and should usually be carried out through the Audit Committee.

73. Increasingly as part of the development of corporate governance within the public sector, each audited body is being required by relevant authorities to make a statement of how it has applied the principles of corporate governance codes or frameworks either generally or specified for application to the audited body. This should provide sufficient information to enable stakeholders to evaluate how the principles have been applied, together with a statement as to whether or not it has complied throughout the accounting period with appropriate provisions of the code or framework.

74. Risk management is an important dimension to the establishment of systems of internal control. There are three components of a system of risk management:

- timely identification of key business risks
- consideration of the likelihood of risks crystallising and the significance of the consequent financial or other impact on the body
- establishment of priorities for the allocation of resources available to control risk and the setting and communicating of clear objectives.

75. The reporting on these processes requires member and senior management involvement in understanding risk management systems, implies the need for formal risk management systems with structured processes, including quality control, and necessitates consideration of risks across all activities. In assessing risk management systems, it is important to appreciate that controls are only as effective as the people within the audited body who operate them. For this reason, the auditor should consider and understand the culture that prevails within the body.

76. The auditor is required to review and report on the compliance statement given under the code or framework before publication in so far as it relates to those matters designated for review. This responsibility is discharged by reviewing and, where appropriate, examining evidence relevant to the audited body's arrangements in accordance with any guidance issued by Audit Scotland. The auditor is not responsible for reviewing the effectiveness of the audited body's procedures for ensuring compliance with the code or framework.

77. The monitoring of controls provides assurance that managers are assessing the existence of risks and the effectiveness of controls over the risks to move towards an optimum level of control. The audited body's internal audit arrangements form an important part of management's monitoring and review of internal control arrangements and in ensuring that appropriate monitoring of risks and controls takes place.

78. Accordingly, in each period's planning arrangements, as part of the assessment of the control environment, the auditor is expected to carry out an assessment of the audited body's internal audit arrangements and to report on, and seek management's agreement to remedy, any deficiencies which are identified. Assuming that assessment to be satisfactory, and given internal audit's role in examining the control systems established by management, the auditor should take steps to ensure that effective and efficient use is made of the combined audit resource available. Provided the auditor is satisfied that an internal auditor has taken an appropriate approach to the assessment of a financial system and that the work may be

relied upon, the auditor may judge that no additional work is required in relation to that system for a given period.

79. Whilst the auditor, as part of the risk based approach to the audit of the financial statements, is likely to concentrate effort on the significant systems and key controls in support of the opinion on those financial statements, the auditor's wider responsibilities in relation to the use of public money require that due consideration is given to the financial systems and controls of the audited body as a whole. Accordingly, over the period of the appointment, the auditor should review financial systems that may not be considered material in relation to an opinion on the financial statements, but which require to be considered as part of the wider dimension of the audit, and also in support, for example, of obligations in relation to the arrangements for the prevention and detection of fraud and irregularity. In undertaking this work the auditor should take account of any work performed by internal audit.

Prevention and detection of fraud and irregularities

80. It is the responsibility of the audited body to establish arrangements to prevent and detect fraud and other irregularity. As part of its corporate governance framework and control systems it needs therefore to put in place proper arrangements for:

- developing, promoting and monitoring compliance with standing orders and financial instructions
- developing and implementing strategies to prevent and detect fraud and other irregularity; and
- receiving and investigating allegations of breaches of proper standards of financial conduct or fraud and irregularity.

81. The auditor's responsibility in this area is discharged by reviewing and, where appropriate, examining evidence that is relevant to these arrangements, particularly in relation to aspects of internal financial control such as segregation of duties, authorisation and approval processes and reconciliation procedures.

82. While it is not the auditor's responsibility to prevent or detect fraud or irregularity, the auditor should at all times be alert to the potential for breaches of procedures, and of fraud and other irregularity. If weaknesses in aspects of the audited body's arrangements which might facilitate such instances are identified or notified in the course of audit work, the auditor should report them timeously to management of the audited body and those charged with governance responsibilities. Indications of fraud and other irregularity, from whatever source and whatever the potential value involved, should be followed up promptly. In most cases the auditor will discharge this responsibility by informing the appropriate level of management at the audited body and recommending that they take an appropriate course of action which, according to circumstances, might include referral to another agency.

83. The audit of the financial statements should be planned so that there is a reasonable expectation of detecting misstatements arising from fraud or other irregularity that are material in relation to those financial statements. This is considered further in relation to the audit of the financial statements (paragraphs 58 to 68).

84. Fraudulent transactions cannot, by definition, be regular since they are without proper authority. In the circumstances of proven or suspected fraud, the auditor requires to consider the impact on the regularity part of the opinion on the financial statements.
85. Auditors are required to make submissions of instances of fraud and irregularity to Audit Scotland in accordance with its requirements and to review related reports circulated by Audit Scotland, drawing conclusions therefrom and taking action as appropriate.

Standards of conduct, integrity and openness

86. Propriety is concerned with the way in which public business should be conducted. It is concerned with fairness and integrity and includes matters such as the avoidance of personal gain from public business, even-handedness in the appointment of staff, open competition in the letting of contracts and the avoidance of waste and extravagance. In understanding these matters, the auditor should recognise that the public view of propriety is as much about perception as reality.
87. It is the responsibility of the audited body to ensure that its affairs are managed in accordance with proper standards of conduct. It needs therefore to put in place proper arrangements for:
 - implementing and monitoring compliance with appropriate guidance on standards of conduct, for example, guidance issued by the Scottish Ministers
 - expressing and promoting appropriate values and standards across the body
 - developing, promoting and monitoring compliance with codes of conduct that advise members, officers or managers of their personal responsibilities and expected standards of behaviour
 - developing, promoting and monitoring compliance with standing orders and financial instructions, including requirements on all aspects of the management of contracts.
88. Although no less important than regularity, propriety is less readily susceptible to objective verification and is not expressly covered in the opinion on the financial statements. Nevertheless, recognising the importance of these matters in relation to the integrity of public funds, the auditor should consider whether the audited body has put in place adequate arrangements to maintain and promote proper standards of financial conduct and to prevent and detect corruption. The auditor discharges this responsibility by reviewing and, where appropriate, examining evidence that is relevant to these arrangements.
89. Whereas the loss to the audited body is usually apparent in the case of “fraud”, in the case of corruption, an elected or appointed board member or employee may benefit from the corrupt act without there being any loss to the audited body or impact on its financial statements. Corrupt practices may arise in relation to the tendering and award of contracts, the settlement of contractors’ final accounts and claims, the award of permissions, consents and licences or preferential treatment, secondary employment of staff having an impact on their work for the audited body, hospitality, the pecuniary and

political interests of members, officers or managers and the disposal of assets.

90. The auditor should therefore establish that the audited body adopts and keeps under review standing orders and financial instructions, financial regulations and schemes of delegation, monitors the circumstances in which particular contractors are appointed, issues appropriate instructions for the handling of matters relating to contracts and draws the attention of all members and management to the existence of guidance and codes of conduct.
91. While it is not the auditor's responsibility to prevent or detect failure to secure or maintain the appropriate level of integrity and openness, auditors should be alert to the potential for corruption and breaches of standards of conduct in all aspects of their work. If weaknesses in aspects of the audited body's arrangements, which in the auditor's view might facilitate such instances, are identified or notified in the course of audit work, the auditor should report them timeously to management of the audited body. Indications of breaches of proper standards of conduct or of corruption, from whatever source, should be followed up promptly. In most cases the auditor will discharge this responsibility by informing the appropriate level of management at the audited body and recommending that they take an appropriate course of action which, according to circumstances, may include referral to another agency.

Financial position

92. It is the responsibility of the audited body to conduct its affairs and to put in place proper arrangements to ensure that its financial position is soundly based having regard to:
 - such financial monitoring and reporting arrangements as may be specified
 - compliance with statutory financial requirements and achievement of financial targets
 - levels of balances and reserves
 - the impact of planned future policies and known or foreseeable future developments on the audited body's financial position.
93. Auditors should consider whether the audited body has established adequate arrangements to ensure that its financial position is soundly based and, where appropriate, examine evidence that is relevant to the arrangements. This should also have regard to the auditor's responsibility with respect to going concern as part of the audit of the financial statements.
94. In carrying out this responsibility, the auditor should have regard to the audited body's:
 - financial performance in the year under audit
 - compliance with statutory financial requirements and financial targets
 - ability to meet known statutory and other financial obligations, actual or contingent; and

- responses to known developments which may have an impact on its financial position.

95. The auditor is not expected to undertake significant additional audit procedures beyond those required in order to understand the financial planning and management arrangements of the audited body and those required in the consideration of the going concern concept. The auditor is expected to include any relevant findings in the annual audit report.

Performance audit

Background

96. The wider dimension of the public sector audit requires that the audit process give consideration to the way in which the audited body secures economy, efficiency and effectiveness in the use of its resources. Indeed, consideration of aspects of the audited body's performance management arrangements is seen as an important component of the auditor's responsibilities under the Code. The terms economy, efficiency and effectiveness are frequently referred to under the generic term "value for money". Achievement of value for money by the audited body depends on the existence of sound management arrangements in relation to its services, including procedures for planning, appraisal, authorisation and control, accountability and evaluation of the use of resources. It is the responsibility of the audited body to ensure that these matters are accorded the appropriate priority and resources, and that proper procedures are established and operate satisfactorily.

97. A key objective of performance audit is to assist in the process of continuous improvement.

98. The Local Government (Scotland) Act 1973 places a duty on the auditor of local government bodies to be satisfied that the body has made proper arrangements for securing economy, efficiency and effectiveness in the use of resources. The Public Finance and Accountability (Scotland) Act 2000 gives the Auditor General the right to initiate examinations into the economy, efficiency and effectiveness with which audited bodies and certain other bodies have used their resources in discharging their functions.

99. The auditor of local government bodies also has a responsibility to review and report on:

- the arrangements that a specified audited body has made to prepare and publish performance information in accordance with directions issued by the Accounts Commission to facilitate appropriate comparisons (by reference to the criteria of cost, economy, efficiency and effectiveness) between the standards of performance achieved by different relevant bodies in each financial year and the standards of performance achieved by such bodies in different financial years
- the specified audited body's compliance with requirements in respect of the preparation and publication of Best Value performance management plans
- work in relation to economy, efficiency and effectiveness and performance indicators and performance management and planning complement each other by examining the audited body's management and service delivery arrangements.

Arrangements for securing value for money

100. As part of the wider responsibilities under the public sector audit model described in this Code, the Auditor General requires that for audited bodies falling within his remit the auditor will consider whether the audited body has put in place adequate and appropriate arrangements to secure economy, efficiency and effectiveness in the discharge of its functions. This will include “pooled” arrangements between bodies for the discharge of functions.

101. This places an obligation in relation to consideration of a body’s arrangements for securing value for money on the auditors of each part of the public sector covered by the Code.

102. The auditor discharges the responsibility to consider the audited body’s arrangements for securing value for money by reviewing and, where appropriate, examining evidence that is relevant to aspects of these arrangements, including the deployment of resources in specific services and functions. As part of the planning for the discharge of this responsibility, auditors should have regard to:

- their assessment of audit risks and significance
- evidence from other aspects of the audit or previous audit work
- where appropriate, the work of other auditors, inspectors and review agencies
- any guidance issued by Audit Scotland.

Use of resources

103. As part of their statutory responsibilities, the Auditor General and the Accounts Commission will procure through Audit Scotland examinations of the use of resources and publish reports or guidance. These performance audit reviews, which may be undertaken at a specific body, within a sector (such as the NHS) or on a Scotland-wide basis, promote good management practice and the best use of public money in service delivery. Depending upon the sector involved and the nature of the review this work may be carried out by the auditor, central Audit Scotland staff or by others.

104. In addition to these reviews, sponsor departments or other funding bodies may conduct their own reviews into the use of resources and publish reports or guidance. Also the Secretary of State may request the Accounts Commission to conduct or assist in studies designed to improve economy, efficiency, effectiveness and quality of performance by local authorities in the administration of housing benefit and council tax benefit.

105. In accordance with guidance issued by Audit Scotland, the auditor may be requested to participate in one or more studies, the outcome of which may be the publication of a national report or an examination of the implications of a particular topic or study for an audited body at local level or a review of the audited body’s response to national recommendations. Areas for review, for example, may include consideration as to how an audited body is applying the principles of Best Value to its services and functions.

106. The auditor may also consider the use of resources in services or functions as part of a review agreed with the audited body in addition to or, in certain circumstances, instead of a programme of study initiated by Audit Scotland.

In identifying potential areas for review and in the execution of the work, the auditor should consider relevant comparative performance indicators – where they are available – and the scope for identifying improvements in the use of resources, although it is recognised that there may be some instances where potential benefits cannot be accurately quantified.

107. In addition, following agreement between the auditor and audited body as to the resources required to complete the year's value for money programme in accordance with guidance from Audit Scotland, the audited body may agree with the auditor that a further assignment considering its use of resources in a particular area should be undertaken.
108. In reviewing the use of resources in the discharge of functions, the auditor is not entitled to question the policy objectives of the audited body, but should have regard to the effects of policy and consider the arrangements by which policy decisions have been formulated, implemented and evaluated, including whether objectives have been set.
109. During the currency of the appointment the auditor should consider and report the progress made by the audited body in implementing the recommendations arising from reviews in earlier years.

Best value performance management and planning

110. Best Value requires local government bodies to develop a performance management and planning framework which is fundamentally about establishing clear standards and targets for all the body's activities, identifying where and how improvements can be made, and reporting on performance. Best Value is underpinned by the four key principles of accountability, transparency, continuous improvement and ownership. The essential elements are sound governance (customer focus, sound strategic, operational and financial management), performance measurement and monitoring, continuous improvement through competition, option appraisal and other tools, and long-term planning and budgeting.
111. A local government body delivering Best Value will have established a performance management and planning framework which delivers continuous improvement, a clear commitment to challenge, comparison, consultation and competition, and a rigorous approach to analysing service delivery mechanisms and processes.
112. Audit Scotland will issue guidance on the approach to be followed by the auditor in relation to performance management and planning, including the need to agree with the audited body the service areas to be reviewed. Decisions on the application of the guidance will be dependent on the organisational structure of the local government body, the existence of service plans, management and reporting structure and review activity. In undertaking a review of the audited body's performance management and planning the objectives are to:
 - provide an independent, external report on the audited body's progress in implementing appropriate frameworks
 - identify good practice and areas of concern
 - ensure that services are planning for improvement.

Performance information

113. The auditor should undertake appropriate work to satisfy himself whether a local government body has put in place adequate arrangements for the collection, recording and publication of statutory performance indicators by reviewing, and examining evidence that is relevant to, these arrangements in accordance with guidance issued by Audit Scotland.
114. In relation to a review carried out in the course of an examination into economy, efficiency and effectiveness of the use of resources initiated by the Auditor General under Section 23, Public Finance and Accountability (Scotland) Act 2000, the auditor may consider the criteria used by the audited body to assess the use of resources. Achievement of financial or other targets in relation to the audited body's financial position may also be relevant in this respect.

Annex 1

Statutory duties in relation to bodies falling within the remit of the Auditor General

The statutory duties of the auditor are derived through appointment by the Auditor General in terms of the Public Finance and Accountability (Scotland) Act 2000.

The auditor's report must set out the auditor's findings on:

- whether the expenditure and receipts shown in the financial statements were incurred or applied in accordance with
 - any enactment by virtue of which the expenditure was incurred or the income received
 - the Budget Act or Acts for the financial year to which the financial statements relate²
- whether the expenditure or receipts shown in the financial statements were incurred or applied in accordance with any applicable guidance issued by the Scottish Ministers;
- whether the financial statements comply with any applicable direction by virtue of any enactment.

The auditor must send the financial statements and the auditor's report to the Auditor General, who may prepare a report on the financial statements.

² Scottish Executive and other bodies receiving money from the Scottish Consolidated Fund only.

Annex 2

Statutory duties in relation to local government bodies

The statutory duties of the auditor in relation to local government bodies are contained principally within Part VII, Local Government (Scotland) Act 1973:

- to audit the financial statements of the audited body and place a certificate on the statements to the effect that the audit has been conducted in accordance with Part VII of the Act;
- to satisfy himself that the financial statements have been prepared in accordance with all statutory requirements applicable to them;
- to satisfy himself that proper accounting practices have been observed in the preparation of the financial statements;
- to satisfy himself that the body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources;
- to satisfy himself that a local authority has made adequate arrangements for collecting, recording and publishing prescribed performance information;
- to hear an interested person's objection to the financial statements.

The auditor should also be conversant with responsibilities in relation to Section 102, Local Government (Scotland) Act 1973, summarised in Annex 3.

Additionally, under the Local Government Planning and Land Act 1980 and the Local Government Act 1988, the auditor is required to give a written opinion on the prescribed financial objectives applicable to a local authority's direct labour and direct service organisations. This specific duty is the subject of separate guidance issued by the Controller of Audit.

Annex 3

Statutory reports under section 102, Local Government (Scotland) Act 1973

Under Section 102(1), Local Government (Scotland) Act 1973, the Controller of Audit is required to submit such reports to the Accounts Commission as they may require with respect to the accounts of a local authority. Under Section 102(2), the Controller of Audit may make a report to the Accounts Commission on any matters arising out of or in connection with the accounts of a local authority.

Having considered any matter arising out of the audit of the accounts of any local authority and having made such enquiries as he sees fit, in certain circumstances the Controller of Audit may, under Section 102(3), make to the Accounts Commission a special report with respect to the accounts of a local authority. The Controller of Audit may report where he is of the opinion that:

- any item of account is contrary to law; or
- there has been a failure on the part of any person to bring into account any sum which ought to have been brought into account; or
- any loss has been incurred or deficiency caused by the negligence or misconduct of any person or by the failure of the authority to carry out any duty imposed on them by any enactment; or
- any sum which ought to have been credited or debited to one account of the authority has been credited or, as the case may be, debited to another account of the authority and the authority has not taken or is not taking steps to remedy the matter.

A fundamental feature of the process which might give rise to the Controller of Audit making a report to the Accounts Commission is the role which the auditor plays in bringing circumstances which may give rise to a report to the attention of the Controller of Audit. Therefore, should the auditor of a local government body identify any matter which could potentially lead to a report under Section 102, immediate contact should be made with Audit Scotland. It is emphasised that the need to bring the matter to the early attention of Audit Scotland takes precedence over the need to have prepared a detailed report or to have formed a final or definitive view on the matter. In normal circumstances immediate notification to Audit Scotland should be followed by the submission of a detailed report.

Annex 4

Public rights of inspection and objection under the Local Government (Scotland) Act 1973

The wider public interest dimension attaching to the audit of public money is explained in the first section of the Code. In relation to the audit of the financial statements of a local authority, the auditor of that body requires to have regard to the right of members of the public to:

- inspect a local authority's accounts, books and records and take copies or extracts thereof;
- lodge with the auditor a written objection to those accounts, together with a statement of the grounds thereof;
- appear before and be heard by the auditor with respect to that objection.

Written objections require to be lodged directly with the local authority, any officer concerned, the auditor and with the Controller of Audit. The auditor should advise the Controller of Audit promptly of any objections or submissions received directly. If requested by the objector, the local authority, or any officer of the authority who may be concerned, the auditor is required by statute to afford that party an opportunity to appear before and be heard by the auditor with respect to the objection.

Apart from the statutory rights of the public to make objections to a local authority's financial statements, the Controller of Audit may accept for consideration submissions made at any time by members of the public which concern the financial statements of a local authority or are otherwise relevant to the auditor's responsibilities and functions. The Controller of Audit will advise auditors of the terms of the matter raised and of the nature and extent of any investigation that is required.

Appendix – glossary

Any references in the Code to “he” or “himself” are to be interpreted as referring equally to the male or female.

Accounts Commission

The Accounts Commission for Scotland (established under the Local Government (Scotland) Act 1973).

Audit

Work carried out by auditors to meet the requirements of the Code, including the expression of an opinion on the financial statements and reviews of the audited body’s corporate governance arrangements and of aspects of the audited body’s performance management arrangements.

Auditor General

Auditor General for Scotland (established under the Scotland Act 1998 and the Public Finance and Accountability (Scotland) Act 2000).

Audit Scotland

Corporate body established under Section 10, Public Finance and Accountability (Scotland) Act 2000 which provides assistance and support to the Auditor General and Accounts Commission in the exercise of their respective functions.

Audited Body

Body to which the Auditor General or Accounts Commission is responsible for appointing the external auditor, comprising both the members of the body (for example, elected members of a local authority or executive and non-executive directors or trustees of NHS bodies) and its management or officers.

Auditor (the) or Auditors

Auditors appointed by the Auditor General under Section 21, Public Finance and Accountability (Scotland) Act 2000 or by the Accounts Commission under Section 97, Local Government (Scotland) Act 1973.

Authorities

Relevant Acts of Parliament or the Scottish Parliament, statutory instruments, directions, regulations, or other guidance, with which audited bodies are required to comply.

Best Value

A performance management and planning framework which establishes clear standards and targets for a body’s activities.

Code (the)

The Code of Audit Practice issued by Audit Scotland with the approval of the Auditor General and the Accounts Commission.

Corruption

The offering, giving, soliciting or acceptance of an inducement or reward that may influence the actions taken by the audited body, its members or managers.

Financial statements

Annual or periodic financial statements, abstract of accounts or the account in the prescribed form on which the auditor expresses an opinion.

Fraud

Intentional distortion of financial statements and accounting records and/or misappropriation of assets involving deception to obtain an unjust and illegal financial advantage.

Legality

The statutory basis or authorisation for an action or transaction.

Local Government Bodies (Councils)

Local authorities, including joint and related boards and committees, established in terms of the Local Government (Scotland) Act 1973, as amended or replaced by the Local Government etc. (Scotland) Act 1994.

Materiality (and significance)

An expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor's report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included within them. A public sector audit is different in that entities other than the addressees of the auditor's report may be regarded as principal users of the financial statements, their use being formally stated or implied in statute. The auditor of a public sector body considers whether there are any principal users, in addition to the addressees of the auditor's report, whose decisions might be influenced by omissions or misstatements.

Members

Those individuals who are responsible for the governance and overall direction and control of the audited body, including elected or appointed members.

Regularity (of expenditure and receipts)

Whether, subject to the concept of materiality, the expenditure and receipts of the audited body have been incurred or applied in accordance with (i) any applicable enactment by virtue of which the expenditure was incurred or the income received and guidance issued by the Scottish Ministers; (ii) the Budget Act or Acts for the financial year, or any part of the financial year, to which the financial statements relate, and (iii) Sections 4 to 7 of the Public Finance and Accountability (Scotland) Act 2000.

Scottish Ministers (the)

The members of the Scottish Executive (the First Minister, such Ministers appointed by the First Minister, the Lord Advocate and the Solicitor General for Scotland) appointed under the Scotland Act 1998.



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