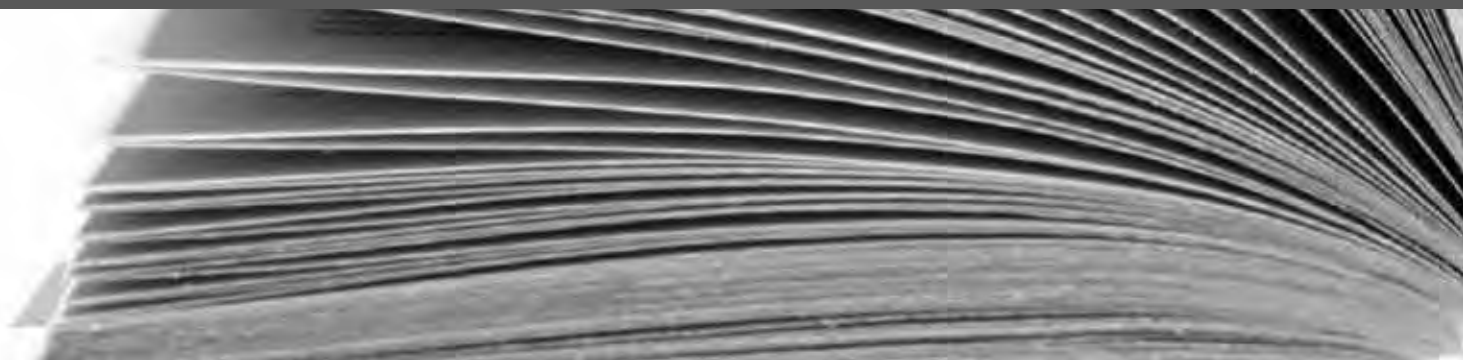


Code of audit practice



Prepared for the Auditor General for Scotland and the Accounts Commission
May 2011



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

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Foreword



This Code will help to ensure a high standard of stewardship of public funds and promote Best Value.



The Code of Audit Practice (the Code) is a high-level statement of the main features of public audit in Scotland and the principles which auditors should adopt in carrying out their work.

The public sector is experiencing financial constraints that may continue during the life of the Code. In such times it is particularly important that auditors remain independent and free from undue influence, whether real or perceived.

When audited bodies are experiencing significant challenges to maintain or improve services, the independent external auditor can comment objectively on how bodies are responding to the pressures upon them.

In revising the Code, Audit Scotland has considered carefully how the audit process can maximise the benefits of audit while minimising the financial burden on audited bodies, consistent with maintaining professional standards and stakeholder expectations. The most significant change to the Code has been to reflect developments in the way that Best Value audit is conducted and the introduction of shared risk assessments of councils. These assessments are conducted jointly with other scrutiny bodies. In addition, auditors are now required to report separately on the audit of local government pension funds as part of their appointment as auditors of the councils that administer these funds.

The revised Code 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 remits.

In approving the Code we believe that audits carried out in accordance with its stated basic principles will help us to meet our joint objectives of ensuring a high standard of stewardship of public funds and promoting Best Value in the use of resources, using an approach which is risk based, proportionate and adds value.



Robert W Black
Auditor General for Scotland



John Baillie
Chair, Accounts Commission for
Scotland

Part 1. Introduction



This Code applies to audits for financial years starting on or after 1 April 2011.



Code of audit practice

1. This Code is part of the overall framework for the conduct of public audit in Scotland. The Code outlines the responsibilities of external auditors and it is a condition of their appointment by the Auditor General or the Accounts Commission that they follow it.

2. The overall framework in which the Code sits is set out in Exhibit 1.

Scope

3. The Code explains how external auditors should carry out their functions under the Public Finance and Accountability (Scotland) Act 2000 or the Local Government (Scotland) Act 1973. The audit of financial statements is covered by engagement and ethical standards issued by the UK Auditing Practices Board (APB), so the Code focuses more on the wider functions of public sector auditors. It includes the expectations of the Auditor General and the Accounts Commission in areas such as shared risk assessment and Best Value. When necessary, Audit Scotland, acting on behalf of the Auditor General or the Accounts Commission, will amend or supplement the Code by issuing guidance to auditors.

4. The Code expects work in each part of the audit to inform and complement work in other parts. Fundamentally, each responsibility or objective requires a risk-based approach to audit planning which reflects auditors' and other scrutiny bodies' overall assessments of the business risks that apply to an audited body. This assessment should be influenced by bodies' own risk management processes and assessments and any guidance issued by Audit Scotland (eg, about priorities and risks, and the interests and expectations of key stakeholders).

Exhibit 1

The overall framework

Framework element	Purpose
Legislation	Establishes the legal basis for audits to be carried out
Joint statement on the principles for the audit of Scottish public sector bodies	Sets out the overarching principles for integrated public audit
Code of Audit Practice	Outlines the responsibilities of appointed auditors
Letter of appointment	Sets out the contractual elements of an auditor's appointment
Guidance issued by Audit Scotland	Provides detailed guidance on the application of the Code for particular years or specific pieces of work

Source: Audit Scotland

5. There are occasions when the application of the Code depends on the specific circumstances at audited bodies and auditors' assessments of what is reasonable and appropriate in those circumstances. Subject to statutory requirements, there may also be circumstances where parts of the Code are impracticable or inappropriate, for example because of the small size or nature of a body. Auditors should apply the Code to the audit of such bodies, insofar as they judge it appropriate, taking account of any guidance issued by Audit Scotland.

Application

6. This Code replaces the one published by Audit Scotland in March 2007 and applies to audits for financial years starting on or after 1 April 2011.

Public bodies

7. Those responsible for public business and handling public money must be held accountable, in accordance with the law and proper standards, to those who use and pay for the services provided. Public resources should be safeguarded, properly accounted for and used economically, efficiently and effectively. Public bodies, including Audit Scotland, are expected to operate within the principles of Best Value, which means the achievement of continuous improvement in the delivery of their functions. This includes having regard to the concepts of economy, efficiency and effectiveness and the need to meet equal opportunity requirements, and contributing to the achievement of sustainable development.

8. Public bodies, including Audit Scotland, also have statutory duties to promote equal opportunities and diversity in the course of their work.

9. The Scottish ministers, elected members, governing bodies, boards, accountable officers, managers and officials have primary responsibility for ensuring that public business is conducted in accordance with the law and proper standards, and that public money is handled with integrity and spent appropriately. Public bodies and those responsible for conducting their affairs must discharge this accountability by establishing and maintaining proper governance arrangements and effective stewardship of the resources at their disposal.

Public sector auditors

10. The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements and associated documents such as governance statements, but providing a view also, where appropriate, on matters such as regularity (or legality), propriety, performance and the use of resources in accordance with the principles of Best Value and 'value for money'.

11. Accordingly, while the basic principles for auditing financial statements are common to the public and private sectors, external auditors in the public sector (whether Audit Scotland staff or private firms) also review and report on aspects of arrangements made by bodies to ensure the proper conduct of their affairs and to manage performance and the use of resources.

12. Public sector audit adds value, not only by reviewing and reporting on what happened, but also by looking forward, identifying where improvements can be made, and promoting good practice. In this way public sector audit contributes to improved standards of governance, better management and decision-making, and more effective use of taxpayers' money.

13. 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 consumers, beneficiaries, taxpayers and the wider community. This is achieved through the:

- independence of auditors from the bodies being audited, including independent appointment by the Auditor General or the Accounts Commission, rather than by the audited bodies themselves
- wider scope of public audit, as described above
- ability of auditors, the Auditor General, the Accounts Commission and Audit Scotland to make the results of audits and reviews available to the public and to democratically elected representatives.

Roles of the Auditor General, the Accounts Commission and Audit Scotland

14. Public sector audit in Scotland is delivered through three bodies:

- The Auditor General for Scotland.
- The Accounts Commission.
- Audit Scotland.

These bodies work closely together and by looking at issues across boundaries aim to maximise the effectiveness of their work.

The Auditor General for Scotland

15. The Auditor General for Scotland is the Parliament's watchdog for ensuring propriety and value for money in the public bodies that fall within his remit. The Auditor General is responsible for investigating whether these bodies achieve the best possible value for money and adhere to the highest standards of financial management. The Auditor General is independent and not subject to the control of any member of the Scottish Government or the Parliament.

16. The Auditor General is responsible under the Public Finance and Accountability (Scotland) Act 2000 (the 2000 Act) for appointing the external auditors of most of the public bodies outside the local government sector. The following bodies fall within the Auditor General's remit:

- The Scottish Government and its agencies.
- National Health Service bodies.
- Further education colleges.
- Scottish Water.
- Non-departmental public bodies and others (eg, Scottish Enterprise).

17. Audited annual financial statements, including the independent auditors' reports and reports by the Auditor General, where the Auditor General decides these are appropriate, are sent to the Scottish ministers to be laid before the Scottish Parliament. The Auditor General may also report to the Scottish Parliament on value for money examinations.

The Accounts Commission for Scotland

18. The Accounts Commission is the public's independent watchdog appointed by the Scottish ministers which, through the audit process, requires local government bodies in Scotland (including councils, police authorities and fire and rescue authorities) to achieve the highest standards of financial stewardship and the economic, efficient and effective use of their resources. The Commission has four main responsibilities:

- Securing the external audit, including the audit of Best Value and Community Planning. The Commission appoints auditors to local government bodies under the Local Government (Scotland) Act 1973.
- Following up issues of concern highlighted through the audit, to ensure satisfactory resolutions.
- Carrying out or promoting national performance audits to improve economy, efficiency and effectiveness in local government.
- Issuing an annual direction to local authorities which sets out the range of performance information they are required to publish.

19. The Accounts Commission also has a statutory duty to cooperate and coordinate with other specified bodies (such as Healthcare Improvement Scotland and HM Chief Inspector of Constabulary) in relation to the scrutiny of efficiency, effectiveness and economy in local authorities, social services and health services.

20. Matters arising from local government audits are reported to the Commission through the Controller of Audit. The Commission has the power to report and make recommendations to the Scottish ministers and audited bodies, and can hold hearings. If it considers that there has been illegality or financial loss due to negligence or misconduct, the Commission may impose sanctions including censure, suspension or disqualification from office.

Audit Scotland

21. Audit Scotland is a statutory body set up under the 2000 Act to provide services to the Auditor General and the Accounts Commission, including undertaking value for money audits on their behalf. Audit appointments are made by the Auditor General or the Accounts Commission, either to Audit Scotland staff or to private firms of accountants.

22. Audit Scotland is organised around three principal business groups:

- Audit Services – which, along with private accountancy firms, comprises the persons appointed to audit the bodies falling within the remit of the Auditor General and the Accounts Commission.
- Best Value and Scrutiny Improvement – which includes developing the approach to joint scrutiny and leading the conduct of Best Value audits.
- Performance Audit – which includes preparing and delivering a programme of national performance audits.

This Code is directed principally at the appointed auditors.

23. Audit Scotland provides guidance and support to auditors and, on behalf of the Auditor General and the Accounts Commission, monitors their performance through a rigorous quality appraisal process. Once appointed, auditors act independently in carrying out their responsibilities and in exercising their professional judgement.

24. Audit Scotland also has statutory powers to conduct data matching exercises which, among other things, assist public bodies to prevent and detect fraud. Auditors monitor the role played by bodies in such exercises.

Part 2. Framework for public sector auditors in Scotland



Audit work should adhere to the ten general principles outlined in this section of the Code.



Statutory and other duties of auditors

25. Auditors' work is governed by statutory duties, professional engagement and ethical standards and the expectations of stakeholders, including the Auditor General and the Accounts Commission. Auditors' statutory duties are summarised in Appendix 1. Responsibilities for objections to local government accounts are described in Appendix 2.

Objectives

26. Auditors' main objectives are to:

- provide an opinion on audited bodies' financial statements and, where required by the relevant authorities, the regularity of transactions
- review and report on, as appropriate, other information published with the financial statements, including the annual governance statement, statement on internal control or statement on internal financial control, and remuneration report
- review and report on (as required by relevant legislation, the Code and any guidance issued by Audit Scotland):
 - audited bodies' corporate governance arrangements as they relate to: their review of systems of internal control; the prevention and detection of fraud and irregularity; standards of conduct; and prevention and detection of corruption
 - their financial position
 - audited bodies' arrangements to achieve Best Value. For local authorities, the Accounts Commission has approved arrangements under Section 53 of the Local Government

in Scotland Act 2003 so that a team in Audit Scotland is primarily responsible for discharging the auditors' formal responsibilities in this area

- other aspects of audited bodies' arrangements to manage their performance, as they relate to economy, efficiency and effectiveness in the use of resources
- in local government bodies, arrangements for preparing and publishing statutory performance information
- examine and report on grant claims and other returns submitted by audited bodies, to the extent required by the relevant authorities, and in accordance with any guidance issued by Audit Scotland
- where required, review and report on the whole of government accounts return
- participate in arrangements to cooperate and coordinate activity with other scrutiny bodies and, where appropriate, the Scottish ministers. These include, in particular, the arrangements established by the Accounts Commission for the planning of local government audit, inspection and scrutiny.

General principles

27. Audit work conducted under the Code should adhere to the following general principles:

Auditors should be independent
Auditors should carry out their work with independence and objectivity, and comply with relevant Ethical Standards. They should be, and should be seen to be, impartial. Auditors, or any associated firms, should not carry out any work for an

audited body if it would impair their independence or might be reasonably perceived as such.

Audit work does not replace the need for a body to obtain legal or other professional advice.

Public audits should be wide in scope reflecting the special accountabilities that attach to the use of public money

Special accountabilities attach to the use of public money and the conduct of public business, so the scope of public audit is wider than in the private sector and includes aspects of public stewardship, Best Value and performance management. Appointed auditors contribute to this wider scope work as set out in the Code and in guidance issued by Audit Scotland.

Audits should be based on a comprehensive assessment of risk, undertaken in partnership with other scrutiny bodies

Auditors should tailor their work to audited bodies' circumstances, so that audit effort is directed to areas of greatest risk. This should be achieved by a thorough, risk-based approach to audit planning that reflects auditors' and other relevant scrutiny bodies' knowledge and understanding of an audited body's business and an assessment of the risks it faces.

Any relevant self-evaluation activity by audited bodies should be considered as part of such risk assessments. The weight given to the results of any such activity should depend on the robustness of underlying approaches.

Auditors should obtain the information and explanations necessary to provide sufficient evidence to meet their responsibilities, but they are not expected to review all aspects of audited bodies' arrangements, systems or records.

Auditors should report in public, without fear or favour

Auditors should report as they find. Their reports should be available to the Scottish Parliament, other stakeholders and the public, where appropriate. Audit is an essential element of accountability and the process of public reporting.

Auditors should work in partnership with Audit Scotland and each other

Without prejudicing their independence, auditors should work in partnership with Audit Scotland and with each other. This helps, for example, to identify common priorities and risks, treat consistently any issues arising that impact on a number of audited bodies, and to further develop an efficient and effective approach to public audit.

Auditors should share information about identified risks, good practices and barriers to improvement so that lessons to be learnt and knowledge of what works can be disseminated to all relevant bodies. Auditors should share information and intelligence gathered at audits, including how national performance reports have been used by, and impacted on, audited bodies.

One of the cornerstones of working in partnership is attending and contributing to the meetings that are organised regularly by Audit Scotland for all auditors engaged in specific sectors (eg, local government or health audits).

Auditors should work collaboratively with other scrutiny bodies

Auditors should coordinate their activities with other scrutiny bodies to prevent duplication and to ensure that demands on audited bodies are minimised. In some cases this is likely to entail joint activity. Any assessment of a body's overall performance in relation to corporate issues should be

undertaken so that auditors are able to provide information to all relevant scrutiny bodies for the purposes of their duties. The scope of such work and the extent of joint activity should be determined by a shared assessment of risk.

Auditors should rely on the reported results of the work of other scrutiny bodies in relation to corporate or service performance without carrying out procedures to assess the quality of the work performed and without re-performing work, except where it would not be reasonable to do so (eg, to provide assurance for the audit opinion on the financial statements).

Auditors should have regard to any protocols, such as the Local Government Scrutiny Joint Code of Practice, that the Accounts Commission, Auditor General or Audit Scotland agrees with other scrutiny bodies and any associated guidance.

Audits should act as a catalyst to help public bodies to improve their performance

Auditors should encourage audited bodies to take ownership of findings and challenge them to improve. Auditors should help management to improve and recognise that failure to improve is itself a key business risk for public bodies.

Auditors should carry out audits to high standards using suitably skilled and experienced staff

Auditors should carry out their work professionally, efficiently and effectively, and as timely as possible. Auditors should comply with relevant quality standards and respond positively to the results of quality monitoring and reviews of their work. Audit judgements should be based on evidence of performance against appropriate transparent criteria, including achievement of value for money.

Audits should be informed by an assessment of costs and benefits, with a concern for achieving Best Value or value for money

Public bodies and their auditors should make best use of public resources. Any assessment of performance should take account of bodies' use of resources. Auditors' recommendations can themselves contribute to increased cost pressures so, in making recommendations aimed at improving performance, auditors should consider the practical and resource implications.

Auditors should balance confidentiality and information security with public accountability and freedom of information

Auditors should comply with statutory and other requirements relating to the security, holding and disclosure of information, particularly personal or sensitive information, received or accessed during audits.

The public has a statutory right to information held by public authorities, although exemptions may apply. Public authorities include the Auditor General for Scotland, the Accounts Commission and Audit Scotland.

28. These general principles underpin the Code and provide the framework within which the scope and objectives of audit work are determined.

Fulfilling the general principles

29. Auditors should take reasonable steps to plan and carry out their work so as to meet their objectives and comply with the Code. Auditors do not substitute for audited bodies' own responsibilities for putting in place proper arrangements:

- to ensure that public business is conducted in accordance with the law and proper standards

- for ensuring that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively to deliver services.

30. In framing an approach and plan to meet their objectives and fulfil the general principles, auditors should:

- recognise that each part of an audit needs to be viewed in the context of the whole programme of audit work. No one part stands alone and work for one part should inform the others
- have regard to any national priorities and risks identified by Audit Scotland
- recognise that public bodies may operate and deliver services through partnerships, arm's-length organisations or other forms of joint working with other public, private or third sector bodies. Auditors have a right to information held by audited bodies, group entities and others which may assist in reviewing how bodies carry out their functions through such arrangements and how they manage their financial commitments
- seek to conduct audits as efficiently and effectively as possible. This should include discussing with audited bodies how they can contribute to this, for example, through timely and effective production of working papers and information required for audits and responding fully and promptly to requests for comments on draft audit outputs
- coordinate effectively with internal auditors, and any service auditor, and place as much reliance as practicable on their work. Audit Scotland assumes, when setting indicative audit fee ranges, that internal audit work is undertaken

which auditors can place reliance upon, in accordance with relevant auditing standards. All other things being equal, audited bodies with good governance arrangements and relevant high-quality internal audit may be able to negotiate lower fees

- have regard to the wider system of audit, inspection and regulation of public bodies, and establish effective coordination to make best use of overall scrutiny resources. Auditors should cooperate with other external auditors, other scrutiny bodies and Audit Scotland, and share information and intelligence, as required, to enable knowledge of good practice to be transferred across public bodies. Sharing information and intelligence is also important to consistency and maximising the overall impact of scrutiny.

31. The conclusion of the annual audit planning process should be document(s) setting out how auditors intend to meet their responsibilities, in the light of their assessment of risks. These should be consistent with any shared assessment of risk undertaken with other scrutiny bodies and any agreements to coordinate work. Audit plans should also provide for reviewing whether audited bodies have properly considered any matters that have been identified previously and whether agreed actions have been implemented. For all but the smallest audits, auditors should discuss the audit plan, or a summary, with the audited body at an early stage. Plans should be reviewed throughout the audit and updated as necessary.

Part 3. Financial statements and corporate governance



Auditors are required to carry out audits in accordance with International Standards on Auditing (UK and Ireland).



Financial statements

Audited bodies' responsibilities

32. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources. Audited bodies are responsible for:

- ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority
- maintaining proper accounting records
- preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the relevant financial reporting framework (eg, the Financial Reporting Manual or an Accounting Code of Practice)
- preparing and publishing with their financial statements an annual governance statement, statement on internal control or statement on internal financial control and a remuneration report
- preparing consolidation packs and, in larger bodies, preparing a Whole of Government Accounts return.

33. Many audited bodies publish other information, such as an annual report, alongside the financial statements.

34. Audited bodies should prepare financial statements in accordance with statutory timescales or in good time to allow audits to be completed by any dates specified by sponsoring directorates or other bodies (eg, the relevant Scottish Government Health Directorate for NHS bodies). Financial statements should be prepared in accordance with all relevant regulatory requirements and be supported by accounting records and working papers prepared to an acceptable professional standard.

Auditors' responsibilities

35. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:

- whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
- whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
- the regularity of the expenditure and income (except for local government bodies).

36. Auditors should review and report on, as appropriate, other information published with the financial statements, including the directors' report, annual governance statement, statement on internal control or statement on internal financial control and the remuneration report.

37. Where required, auditors should also review and report on the Whole of Government Accounts return.

38. In carrying out their responsibilities, auditors provide reasonable assurance, subject to the concept of materiality, that financial statements:

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

39. Auditors are required to carry out the audit of financial statements of the bodies covered by this Code in accordance with International

Standards on Auditing (UK and Ireland), International Standard on Quality Control 1 (UK and Ireland) and Ethical Standards as issued by the APB.

Auditors should also have regard to applicable practice notes, bulletins and other guidance issued by the APB.

Regularity of financial transactions

40. The concept of regularity reflects concern that public money should be used only for approved purposes. The preparation and audit of financial statements is an important means by which audited bodies are held accountable for their use of public money and leads to an implied assertion that the reported financial transactions are regular. Audited bodies are responsible for establishing appropriate systems to ensure the regularity of financial transactions.

41. Auditors of audited bodies falling within the Auditor General's remit are required to report whether expenditure and income were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish ministers.

42. For these audits, auditors should plan and perform audit procedures having regard to guidance from the APB, recognising the definition of regularity in the Public Finance and Accountability (Scotland) Act 2000. Auditors should evaluate and report the results of these procedures, recognising that non-compliance by audited bodies with statute or regulations may have material financial consequences. To meet this requirement, auditors should:

- have sufficient understanding of the laws, regulations and guidance that apply to audited bodies when auditing the assertions related to the determination of the amounts to be recorded in the financial statements and the disclosures to be made
- test compliance with such provisions.

43. Accordingly, auditors should obtain sufficient understanding of audited bodies' frameworks of authorities and test for regularity, keeping under review:

- audited bodies' arrangements for implementing new legislation or statutory requirements which may have significant financial consequences
- national issues which may be relevant to audited bodies and have financial consequences (eg, matters on which guidance is issued by Audit Scotland)
- transactions that are unusual or of questionable legality and which may be significant by value or context.

44. While regularity adds another dimension to public audit, auditors should, so far as possible, adopt an integrated approach to the audit of financial statements, systems and regularity.

45. Auditors should be alert to issues which may warrant the preparation of a report by the Controller of Audit under Section 102 of the Local Government (Scotland) Act 1973 (Appendix 3) or by the Auditor General under Section 22 of the Public Finance and Accountability (Scotland) Act 2000. Auditors should also consider the arrangements within which designated local government monitoring officers discharge their statutory responsibilities. Auditors should review any advice those officers give bodies that the bodies do not have powers for a specific course of action.

46. Auditors of local government bodies are not required by statute to give a report on regularity but, where they identify a failure to comply with a statutory requirement, the Code requires that they consider including an explanatory paragraph in the independent auditor's report on

the financial statements and other reporting requirements. In other sectors, an explanatory paragraph may require to be considered in place of a modified report on regularity (eg, where a health body fails to meet a non-statutory financial target prescribed by the Scottish ministers).

47. Where there are supplementary financial statements, such as local government trust funds and the common good, auditors assess whether regulations or trust deeds have been complied with to the extent that non-compliance might cause a material misstatement in the body's financial statements as a whole.

Corporate governance arrangements

Background

48. Compliance with International Standards on Auditing (UK and Ireland) involves auditors in understanding the business of an audited body, assessing risks and devising a response. This requires auditors to understand the governance arrangements in the body and, where appropriate, how it monitors the governance arrangements in delivery partner organisations. The following paragraphs describe those features of governance arrangements that are different from, or have increased emphasis to, those in the private sector.

Audited bodies' responsibilities

49. It is important to recognise the diversity of audited bodies, the distinct roles of management and non-executives and the models of governance that apply, each of which require special consideration and impose different accountabilities. However, the three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.

50. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.

Auditors' responsibilities

51. Consistent with the wider scope of public audit, the Code gives auditors a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:

- bodies' reviews of corporate governance and systems of internal control, including their reporting arrangements
- the prevention and detection of fraud and irregularity
- standards of conduct and arrangements for the prevention and detection of corruption
- the financial position of audited bodies.

52. Protecting public money is a general concern and auditors' duties in relation to corporate governance are an important safeguard in ensuring the establishment and maintenance of proper arrangements. While the Code refers separately to auditors' responsibilities for reviewing arrangements for achieving Best Value and performance management and for reviewing aspects of corporate governance, these arrangements and their review by auditors are usually closely integrated.

53. Auditors do not examine every financial activity or accounting procedure as this would be contrary to the risk-based approach that underpins the Code. Auditors should rely on the

results of the evaluation of audited bodies' systems, supplemented, as necessary, by appropriate tests of control or detail. While auditors aim to identify major weaknesses in systems reviewed, their work should not be relied upon to identify all weaknesses that may exist.

Systems of internal control

Statements of corporate governance or internal control etc

54. Audited bodies are responsible for developing and implementing systems of internal control, including risk management, financial, operational and compliance controls. They are required to conduct annual reviews of the effectiveness of their governance, systems of internal control, or internal financial control, and report publicly that they have done so. Such reviews should take account of the work of internal audit and be carried out by those charged with governance, usually through bodies' audit committees.

55. Rigorous self-evaluation should be a central part of audited bodies' performance management to support continuous improvement and they may apply a variety of approaches. Annual reviews of the effectiveness of governance and internal control arrangements should reflect the results of these.

56. Auditors are required to review and report on the compliance statements given by bodies under the relevant code or framework before their publication. This is discharged by reviewing and, where appropriate, examining evidence relevant to audited bodies' arrangements in accordance with any guidance issued by Audit Scotland. Auditors are not required to consider whether the statements cover all risks and controls, or form an opinion on the effectiveness of procedures, but report where compliance statements are not consistent with their knowledge of the body.

Reviews of financial systems

57. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. Informed by their assessment of risk, auditors should also consider reviewing financial systems that may not be material to their opinion, but which are sensitive or significant by context. However, the extent of this work should also be informed by the activities of internal audit.

Prevention and detection of fraud and irregularities

58. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. This includes:

- developing, promoting and monitoring compliance with standing orders and financial instructions
- developing and implementing strategies to prevent and detect fraud and other irregularity
- receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity
- participating, when required, in data matching exercises carried out by Audit Scotland.

59. Auditors should review and report on these arrangements. While auditors do not substitute for audited bodies own responsibilities, and are not responsible for preventing or detecting fraud or irregularity, they should be alert to the potential for breaches of procedures, and of fraud and irregularity. Auditors examine evidence that is relevant to these arrangements, particularly aspects of internal financial control such as segregation of duties, authorisation and approval processes and reconciliation procedures.

60. Fraudulent transactions cannot, by definition, be regular since they are without proper authority. Where fraud is proven or suspected auditors should consider the impact on the regularity part of the opinion on the financial statements, where applicable.

61. Auditors may be required to submit information about instances of fraud and irregularity to Audit Scotland. They should also review information about frauds circulated by Audit Scotland and consider whether any action is required in relation to their own audits. These arrangements are not a substitute for the discharge of any statutory obligations placed on auditors.

Standards of conduct and arrangements for the prevention and detection of bribery and corruption

62. Propriety is about how public business should be conducted. It is concerned with fairness and integrity and includes avoiding personal gain, even-handedness in the appointment of staff, and avoiding waste and extravagance.

63. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and should put proper arrangements in place for:

- implementing and monitoring compliance with appropriate guidance on standards of conduct and codes of conduct for members and officers
- promoting appropriate values and standards
- developing, promoting and monitoring compliance with standing orders and financial instructions.

64. Auditors should consider whether bodies have adequate arrangements in place to maintain and promote proper standards of financial conduct and to prevent and detect bribery

and corruption. Auditors review and, where appropriate, examine evidence that is relevant to these arrangements and reporting their findings.

65. While a loss often arises from fraud, corruption may not lead to a loss to an audited body or impact on its financial statements. Corruption may arise, for example, in the tendering and award of contracts, the award of permissions, consents and licences, the secondary employment of staff, hospitality and the pecuniary and political interests of members or officers.

66. Auditors should therefore establish that bodies adopt and regularly review standing orders and financial regulations and schemes of delegation. Auditors should also establish that members, management and employees' attention is drawn to guidance and codes of conduct and that they are made aware that failure to comply may have serious consequences.

67. While auditors are not responsible for preventing or detecting failure to maintain an appropriate level of integrity and openness, they should be alert to the potential for corruption and breaches of standards of conduct in all aspects of their work. If weaknesses in arrangements are identified or notified, auditors should report them promptly to management or those charged with governance.

Financial position of audited bodies

68. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based having regard to:

- such financial monitoring and reporting arrangements as may be specified

- compliance with any statutory financial requirements and achievement of financial targets
- balances and reserves, including strategies about levels and future use
- the impact of planned future policies and foreseeable developments on their financial position.

69. Auditors should consider whether audited bodies have established adequate arrangements to ensure that their financial position is soundly based, where appropriate, examining evidence that is relevant to the arrangements.

70. Auditors should have regard to audited bodies':

- financial performance in the period under audit
- compliance with any statutory financial requirements and financial targets
- ability to meet known or contingent statutory and other financial obligations
- responses to developments which may have an impact on their financial position
- financial plans for future periods.

71. Auditors are not otherwise expected to undertake significant additional audit procedures beyond those required to understand the financial planning and management arrangements of audited bodies and to consider the going concern concept. However, these are key areas in the current economic circumstances and may require more detailed consideration than would normally be required.

Part 4. Best Value, use of resources and performance



The audit of Best Value and other scrutiny work is determined through a shared risk assessment process.



Audited bodies' responsibilities

72. Local authorities have a statutory duty to make arrangements to secure Best Value; defined as the continuous improvement in the performance of functions. In securing Best Value, local authorities must maintain a balance of quality and cost considerations and have regard, among other things, to economy, efficiency and effectiveness (or 'value for money') and the need to meet equal opportunity requirements and contribute to the achievement of sustainable development. Local authorities also have a duty for community planning, which is to initiate, maintain and facilitate consultation among and with public bodies, community bodies and others about the provision of services in the area of the local authority and the planning of that provision.

73. Best Value and Community Planning is broad in scope but a successful authority will:

- work with all relevant organisations in its area to identify a clear set of priorities that respond to the needs of the community in both the short and the longer term
- be organised to deliver those priorities
- meet and clearly demonstrate that it is meeting the community's needs.

74. For other sectors, the Scottish Public Finance Manual explains that accountable officers appointed by the Principal Accountable Officer for the Scottish Administration have a specific responsibility to ensure that arrangements have been made to secure Best Value.

75. Achievement of Best Value or value for money depends on the existence of sound management arrangements for services, including procedures for planning, appraisal, authorisation and control,

accountability and evaluation of the use of resources. Audited bodies are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily.

Auditors' responsibilities

76. The Local Government (Scotland) Act 1973 places a duty on the auditors of local government bodies to be satisfied that proper arrangements have been made for securing Best Value and complying with responsibilities relating to community planning.

77. 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 to discharge their functions. The results of such examinations may be presented to the Scottish Parliament and considered by its Audit Committee.

78. Auditors of local government bodies also have a responsibility to review and report on the arrangements that specified audited bodies have made to prepare and publish performance information in accordance with directions issued by the Accounts Commission.

The audit of Best Value

79. The Local Government in Scotland Act 2003 introduced duties for Scottish local authorities relating to Best Value and Community Planning. The Accounts Commission holds authorities to account for these duties. The Commission has approved arrangements under Section 53 of the Local Government in Scotland Act 2003, so that a team in Audit Scotland is primarily responsible for discharging the auditors' responsibilities in this area – and conclusions provided in

a published report by the Controller of Audit. Auditors are key members of this team. The Commission may make findings on the report and/or hold hearings.

80. The timing and scope of these audits and other scrutiny work necessary to support them is determined through a shared risk assessment process. This also considers which scrutiny body is best placed to conduct such work and the need for any joint activity. Auditors should undertake work assigned to them in line with their other responsibilities in the Code. This includes monitoring progress and the impact of actions previously agreed by bodies in response to Best Value reports.

81. In accordance with guidance issued by Audit Scotland, the Auditor General may also require for bodies falling within his remit that auditors consider whether accountable officers have put in place appropriate arrangements to satisfy their corresponding duty of Best Value. Where no requirements are specified for auditors in a period they may, in conjunction with their audited bodies, agree to undertake local work in this area. Auditors discharge such local work 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 this work, 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 and other scrutiny bodies
- any guidance or toolkits issued by Audit Scotland.

Use of resources

82. As part of their statutory responsibilities, the Auditor General and the Accounts Commission may procure through Audit Scotland examinations of the use of resources by audited bodies and publish reports or guidance.

83. In accordance with guidance issued by Audit Scotland, auditors may be requested from time to time to participate in:

- a performance audit which may result in the publication of a national report
- an examination of the implications of a particular topic or performance audit for an audited body at local level
- a review of a body's response to national recommendations.

84. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments. In identifying areas for review, and in executing their work, auditors should consider relevant comparative performance indicators, if available, and the scope for identifying improvements in the use of resources. In local government such work should only be undertaken once it has been agreed through shared risk assessment processes.

85. Audits should examine how audited bodies assess how well and how efficiently public services meet needs, and how they are experienced by citizens. This means that, so far as practicable, auditors should take a 'whole system' approach, looking across traditional organisational boundaries and considering outcomes.

86. During the course of their audit appointment auditors should consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years.

Performance information

87. The Local Government Act 1992 requires the Accounts Commission to specify information which local authorities must publish about their performance.

88. Auditors should undertake appropriate work to satisfy themselves that bodies have put in place adequate arrangements for the collection, recording and publication of statutory performance information by reviewing and examining evidence that is relevant to these arrangements in accordance with any guidance issued by Audit Scotland.

Part 5. Reporting the audit



Auditors should report clearly so that the action required to secure improvement is understood.



Overview

89. Reports from auditors are the main means of bringing audit findings to the attention of senior management, those charged with governance (elected or board members, accountable officers) and other stakeholders.

90. As a minimum, auditors will provide:

- an independent auditor's report (opinion) on the financial statements, addressed to the audited body and, as appropriate, the Auditor General and Scottish Parliament or the Accounts Commission
- an annual audit report addressed to the body and, as appropriate, the Auditor General or the Controller of Audit
- reports or letters addressed to the management of audited bodies and, where appropriate, those charged with governance, bringing their attention to matters arising from auditors' work under the Code.

91. Auditors may also be required to provide opinions on matters such as consolidation packs (including those for Whole of Government Accounts), grant claims and statistical returns.

92. For councils that administer the local government pension scheme, auditors are required to provide a separate audit opinion on the financial statements of the pension fund (which are not included in the main financial statements of these councils). The auditors should also prepare a separate annual audit report addressed to the pension fund committee and the Controller of Audit.

General considerations

93. Auditors should prepare and issue their outputs promptly, both during the audit and at its completion, and meet any specified reporting deadlines. Auditors' outputs should normally include or cross refer to statements emphasising that:

- management of the audited body is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems
- weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work in accordance with the Code, and may not be all that exist
- communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

94. Auditors should communicate regularly with bodies and ensure that emerging findings are discussed at the appropriate level. Auditors should consult bodies on the factual accuracy of all draft outputs. They should also consider whether their conclusions are consistent with those arising from the work of other auditors and scrutiny bodies.

95. In local government, communicating the strategic issues arising from shared risk assessment and scrutiny coordination will be led by a single point of contact for the scrutiny bodies. The nominated individual will act as the coordinator, ensuring that meetings and discussions with the audited body are organised efficiently and effectively. Bodies are encouraged to engage routinely with this individual. Auditors

should engage with this process and cooperate with other scrutiny bodies to manage contact appropriately at the most senior level of audited bodies. Auditors should also undertake this lead role if requested by Audit Scotland.

96. Auditors should report clearly so that the intended audience understands the:

- nature and scope of their work
- significant issues arising
- conclusions and judgements reached
- action that may be required to secure improvement.

97. Audit outputs should:

- be clear and succinct and relevant to their audience
- be written in plain language, avoiding jargon and technical terms, wherever possible
- draw clear conclusions and make recommendations.

98. Recommendations should be:

- specific and have considered the implications (eg, costs and benefits) for the audited body
- included in an agreed action plan which includes management's responses, target dates for implementing change, and the officer responsible.

99. Auditors should not question the merits of audited bodies' policies (except for accounting policies or legality), but they may examine the arrangements for reaching policy decisions and consider their effects. Bodies are responsible for deciding whether and how to implement recommendations. Auditors should avoid any perception that they have a role in bodies' decision-making arrangements.

100. The prime responsibility for monitoring the implementation of audit recommendations rests with the audit committee of the body, or its equivalent, although auditors will also monitor progress and may report accordingly.

101. Where auditors undertake work with other scrutiny bodies they should generally report jointly. The report should clearly identify the auditor as a co-author, be 'badged' appropriately and describe the extent of each party's involvement. In some circumstances, such as reporting overall conclusions from Best Value auditing to the Commission, the auditor cannot be a co-author for statutory reasons.

Independent auditor's reports

102. Having regard to auditing standards and practice notes, and in the interests of consistency, Audit Scotland provides auditors with model forms of independent auditor's reports for the main types of audited body.

Annual audit reports

103. At the conclusion of the annual audit, auditors are required to issue a report summarising the significant matters that arose from the audit as a whole. The annual audit report should be addressed to:

- those charged with governance, which may be elected or board members, the accountable officer or the most senior official charged with governance responsibilities within the audited body
- the Auditor General (for bodies audited under the 2000 Act) or the Controller of Audit (for local government bodies).

104. The purpose of the annual audit report is to set out concisely the scope, nature and extent of the audit, and to summarise the auditor's opinions (ie, on the financial statements) and conclusions and any significant issues arising.

105. The Auditor General or Controller of Audit (Appendix 3) may follow up matters arising from audits and prepare reports for the Scottish Parliament or Accounts Commission, respectively. Annual audit reports are also the main formal source of information for these reports, although auditors should always inform Audit Scotland promptly about any significant matters that arise.

106. The annual audit report should form a key part of discussions with audit committees, either prior to or as soon as possible after the formal completion of the audit of the financial statements. If an audited body does not have an audit committee then the report should be discussed with an appropriate group of members or the accountable officer and senior management.

107. The annual audit report should reflect the responsibilities given to auditors under the Code and have regard to any other guidance issued by Audit Scotland. It should:

- normally include a short executive summary of the most important issues arising
- refer to the respective responsibilities of management and auditors
- expand upon any modified audit opinion, explanatory paragraph or failure to comply with a statutory requirement, included in the independent auditor's report

- refer to any undue delay in the submission of, or if necessary conclusions about the quality of, the financial statements presented for audit (eg, citing material changes required as a result of audit)
- include the auditor's views on:
 - the quality and appropriateness of corporate governance and internal control arrangements, including internal audit
 - arrangements for the prevention and detection of fraud, and any significant fraud arising
 - arrangements for maintaining standards of conduct and the prevention and detection of corruption
 - the body's financial position
- identify any failure by a body to adequately consider relevant national performance audit reports issued by Audit Scotland
- refer, if significant, to the outcome of any statutory objections to the accounts (in local authorities) or correspondence referred to an auditor by Audit Scotland
- include, where relevant, the auditor's view on the appropriateness of arrangements for performance management and achieving continuous improvement (eg, summarising progress against a previous Best Value action plan)
- refer, where relevant and significant, to other audit reports, reports issued jointly following work undertaken with other scrutiny bodies or reports by inspectorates issued during the period

- generally, direct attention to the significant weaknesses or risks identified from the audit and note the action taken or auditor's recommendations to resolve any such significant issues or areas of concern arising in the period under review and previous periods.

108. Annual audit reports should be concerned with achieving change and be accompanied by agreed action plans covering the significant risks identified from the audit and any recommendations. They should also refer to any significant issues where agreement was not reached.

109. Unnecessarily long reports may not hold the attention of their audience. Annual audit reports should not normally include detailed descriptions of management arrangements, budgetary performance, financial outturn, or other information that has already been reported to members by management, unless to set a risk or weakness in sufficient context. Further, the annual audit report is not simply a summary of all audit activity for the year. A reference in an annual audit report should not leave a reader unclear about its purpose.

110. Exceptionally, Audit Scotland may request that a specific topic is referred to in the annual audit report, but will aim to avoid this being used solely as a vehicle for gathering information or intelligence.

111. Audited bodies should be encouraged to make the annual audit report publicly available. In any event, Audit Scotland will publish auditors' annual audit reports on its website. It is particularly important, therefore, that auditors use plain language in annual audit reports whenever possible.

Reports to management and those charged with governance

112. Auditors should communicate findings and views on matters arising during the course of audits through reports to management and, where relevant, to those charged with governance (eg, the report required under International Standard on Auditing 260). These should be submitted promptly following work and copied simultaneously to Audit Scotland. Auditors should plan to deliver management reports for the period before the annual audit report is issued, although this is not a reason in itself for holding back the annual audit report.

113. Auditors should agree the reporting arrangements to be adopted, and the manner in which reports are to be considered by those charged with governance (as well as audit committees, or their equivalent) with audited bodies' senior management.

114. Management reports should be addressed to those who have authority to act on them. In the case of local authorities, a copy of all management reports should be submitted to the proper officer designated under Section 95 of the Local Government (Scotland) Act 1973.

Grant claims

115. Audited bodies are responsible for ensuring the accuracy, completeness and timely submission of any grant claims and returns. The Scottish ministers, sponsoring bodies or others may require independent examination as a condition of accepting claims or returns and before a grant is paid.

116. In conjunction with audited bodies, auditors should identify the claims likely to be submitted for audit and assess, agree and incorporate the resources required in audit plans and fees.

117. However, for further education colleges, the demand for the examination of claims and returns varies significantly and this work should be undertaken outside the remit of the Code as a locally agreed arrangement between the auditor and the body.

118. For local government bodies Audit Scotland notifies auditors about the claims and returns which are approved for examination. Others should not be accepted without consulting Audit Scotland. Auditors should have regard to the grant notes and other guidance issued by Audit Scotland.

Part 6. Other matters



Auditors should be helpful but they must not prejudice their independence.



Technical support and guidance

119. Audit Scotland provides technical support and guidance to all appointed auditors. While auditors act independently of Audit Scotland, consistency of opinions in similar circumstances is important. Auditors should normally follow such guidance and they should advise Audit Scotland promptly if they intend not to follow guidance issued on an important issue.

Ad hoc requests for auditors' views

120. Bodies sometimes seek their auditors' views on the regularity, accounting treatment or performance management implications of transactions, or proposed courses of action, before embarking upon them. Auditors should aim to be helpful, but must bear in mind that:

- their independence must not be prejudiced by being involved in audited bodies' decisions
- they are not financial or legal advisers to their audited bodies
- they should not act in any way that might fetter their ability to report on a matter, or to exercise the statutory powers conferred on them, the Auditor General, the Controller of Audit, the Accounts Commission or Audit Scotland.

121. Auditors' responses should not be taken by audited bodies to suggest that proposed transactions or courses of action will be exempt from challenge in future, whether by auditors or others. Bodies and their management are responsible for deciding whether or not to embark on transactions or activities.

Correspondence

122. Audit Scotland may consider at any time (eg, outside any statutory objection period) correspondence from the public or other interested parties about the finances of an audited body or an issue which is relevant to auditors' functions. Correspondence of this nature received directly by auditors should be referred immediately to Audit Scotland.

123. In all such cases, Audit Scotland will advise the auditor about the extent of any enquiries that may be required. Auditors should have regard to any guidance issued by Audit Scotland when dealing with such correspondence.

Responsibilities to third parties

124. While the results of audits can be made available to the public, the auditor's duty of care in respect of the audit of the bodies covered by this Code extends only:

- for local government bodies, to the audited body, the Accounts Commission, the Controller of Audit and Audit Scotland
- for all other bodies, to the audited body, the Auditor General, Audit Scotland and the Scottish Parliament (under statute, most audited financial statements require to be laid before the Parliament).

125. Although reports may be addressed to members or managers, they are prepared solely for the use of bodies referred to above. Auditors do not undertake to have responsibilities to members, directors, accountable officers, managers or the Scottish ministers in their individual capacities, or to third parties.

Appendix 1.

Auditors' statutory duties

For bodies falling within the Auditor General's remit

Auditors' statutory duties are derived from appointment by the Auditor General under the Public Finance and Accountability (Scotland) Act 2000. Auditors' reports (ie, the auditor's independent report in relation to the financial statements) must set out the auditor's findings on:

- whether the expenditure and receipts¹ 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(s) for the financial year, or any part of the financial year, to which the financial statements relate
 - Sections 4 to 7 of the 2000 Act, relating to the Scottish Consolidated Fund (the Fund)
- where sums have been paid out of the Fund for the purpose of meeting such expenditure, whether the sums were applied in accordance with Section 65 of the Scotland Act 1998
- whether the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any

applicable guidance (whether as to propriety or otherwise) issued by the Scottish ministers

- whether the financial statements comply with any applicable direction by virtue of any enactment.

Auditors must send the financial statements, including the auditor's report, to the Auditor General who may prepare a report on the financial statements under Section 22 of the 2000 Act.

For local government bodies

Auditors' statutory duties for local government bodies are contained principally within Part VII of the Local Government (Scotland) Act 1973. These are to:

- audit the financial statements and place a certificate (ie, independent auditor's report) on the statements stating that the audit has been conducted in accordance with Part VII of the Act
- satisfy themselves that:
 - the financial statements have been prepared in accordance with all applicable statutory requirements
 - proper accounting practices have been observed in the preparation of the financial statements

- the body has made proper arrangements for securing Best Value and is complying with its community planning duties²

- a local authority has made adequate arrangements for collecting, recording and publishing prescribed performance information

- hear any objection to the financial statements lodged by an interested person.

Auditors should also be familiar with the responsibilities in Section 102 of the Local Government (Scotland) Act 1973, summarised in Appendix 3.

¹ The relevant accounting frameworks require most audited bodies under the Auditor General's remit to prepare financial statements on an accruals basis and the independent auditors' report usually refers to income rather than receipts.

² The Accounts Commission has approved arrangements under Section 53 of the Local Government in Scotland Act 2003 so that a team in Audit Scotland is primarily responsible for discharging the auditor's responsibilities in this area – providing overall conclusions on a local government body's arrangements in a public report by the Controller of Audit. The auditor is a key member of this team.

Appendix 2.

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

The wider public interest dimension to the audit of public money is explained throughout the Code. For the audit of the financial statements of local government bodies, auditors are required to have regard to the right of citizens 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 the Controller of Audit.³ Auditors 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 must give the relevant party an opportunity to appear before, and be heard by, the auditor with respect to the objection.

Auditors should have regard to any additional guidance issued by Audit Scotland when dealing with objections to the accounts of a local authority.

³ Audit Scotland may also consider correspondence received at any time about the finances of an audited body or an issue which is relevant to auditors' functions. See Part 6. Other matters.

Appendix 3.

Statutory reports under Section 102 of the Local Government (Scotland) Act 1973

Section 102(1)

Under Section 102(1) of the Local Government (Scotland) Act 1973 the Controller of Audit may, and if required by the Accounts Commission shall, submit reports to the Commission about:

- the accounts of local authorities
- any matters arising from the accounts or the audit of local authorities that the Controller considers should be considered by a local authority or brought to the attention of the public
- the performance of a local authority of their duties relating to Best Value and accountability and community planning set out in the Local Government in Scotland Act 2003.
- there has been a failure on someone's part to bring into account a sum which ought to have been brought into account
- a loss has been incurred or deficiency caused by the negligence or misconduct of a person, or by the failure of an authority to carry out a duty imposed on them by any enactment
- a sum which ought to have been credited or debited to one account of an authority has been credited or debited to another account and the authority has not taken, or is not taking, steps to remedy the matter.

Section 102(2) requires any report under Section 102(1) to be copied to any local authority named in the report and to any other persons that the Controller thinks fit.

Section 102(3)

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

- an item of account is contrary to law

A fundamental feature of the process which might give rise to a report to the Accounts Commission is the role which auditors play in bringing circumstances which could give rise to a report to the attention of the Controller. For example, should the auditors of a local government body identify a matter which could potentially lead to a report under Section 102(3), immediate contact should be made with Audit Scotland. The need to draw early attention to the matter takes priority over the need to have prepared a detailed report or for the auditor to have formed a definitive view on the matter.

Immediate notification to Audit Scotland should normally be followed by the submission of a detailed report.

Appendix 4.

Glossary of terms

Audit	Work carried out by auditors to meet any of the requirements of the Code.
Audited body (or body)	A body (or account) for which the Auditor General or the Accounts Commission is responsible for appointing an auditor, ⁴ comprising the members of the body (eg, elected members of a local authority or executive and non-executive directors of NHS bodies), an accountable officer, management and other officers, as appropriate.
Auditing Practices Board (APB)	The body responsible in the UK for issuing auditing and ethical standards and other guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.
Auditors (or appointed auditors)	External auditors of public bodies appointed by the Accounts Commission under Section 97 of the Local Government (Scotland) Act 1973 or the Auditor General under Section 21 of the Public Finance and Accountability (Scotland) Act 2000. These include appointed auditors in Audit Scotland's Audit Services Group and private firms. Where indicated in the Code, auditors also include other staff from Audit Scotland (eg, the staff primarily responsible for the audit of Best Value in local government).
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 duty of audited bodies or accountable officers. Defined in statute for local authorities as continuous improvement in the performance of functions. In securing Best Value, local authorities are required to balance issues of quality and cost, have regard to efficiency, effectiveness, economy and the need to meet equal opportunity requirements, and contribute to the achievement of sustainable development.
Best Value audit	A Best Value audit may be part of an assurance and improvement plan for a body, following the shared risk assessment process undertaken by a joint scrutiny network (also referred to as a local area network or LAN). An assurance and improvement plan sets out the shared risk assessment of a body and the proposed scrutiny response. It includes all scrutiny activity at corporate and service level in a body.
Code (the)	This Code of Audit Practice issued by Audit Scotland with the approval of the Auditor General and the Accounts Commission.

⁴ The local government pension scheme is a fund of the administering council. The council's appointed auditor is responsible for the audit of the council's main financial statements and those of the pension fund.

Controller of Audit	The officer appointed by the Accounts Commission under Section 97(4) of the Local Government (Scotland) Act 1973. The Controller of Audit has statutory reporting functions, in particular those referred to in Appendix 3 of the Code.
Ethical Standards	Ethical Standards issued by the APB.
Financial statements	Annual or periodic financial statements, abstract(s) 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.
Joint scrutiny network	A joint forum for developing a shared risk assessment and assurance and improvement plan, comprising inspectors, regulators and auditors. Also referred to as a local area network (or LAN).
Local government bodies	Councils, joint boards, committees and other associated bodies, established under 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 independent 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	The individuals responsible for the governance and overall direction and control of the audited body, including elected or appointed members or accountable officers.
Other (joint) scrutiny bodies	<p>Inspectorates and other public sector organisations that have a role in assessing aspects of organisational performance, compliance with professional standards and the competence of professional staff.</p> <p>In local government, the relevant organisations are listed in Schedule 14 of the Public Services Reform (Scotland) Act 2010 alongside the Accounts Commission. They have a duty to cooperate with each other and, where appropriate, with the Scottish ministers, under the Act.</p>

Regularity (of expenditure and income)	Whether, subject to the concept of materiality, expenditure and income has 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. Strictly, the legislation refers to receipts rather than income. Where the accounting framework requires audited bodies to account for income this is the term more commonly used in independent auditors' reports.
Shared risk assessment (SRA)	A process involving a joint approach using key information about a body to plan scrutiny activity that is proportionate and based on risk. SRA is undertaken by a joint scrutiny network and leads to the preparation of an assurance and improvement plan, part of which may be the conduct of a Best Value audit.
Statement on internal control	Depending on the relevant authorities, audited bodies are required to publish an annual governance statement, statement on internal control or internal financial control with their financial statements. The disclosures in these statements are supported and evidenced by the body's assurance framework.
Third sector	The third sector includes voluntary and community organisations, charities, social enterprises and cooperative and mutual organisations.
Those charged with governance	Those charged with governance are defined in auditing standards as 'those persons entrusted with the supervision, control and direction of an entity'. In most cases, for example, this might be a full council or board of management, an audit committee (where established) or another committee with delegated responsibility for receiving the financial statements.
Whole of Government Accounts (WGA)	The WGA initiative is to produce a set of consolidated financial statements for the entire UK public sector on commercial accounting principles. The larger public sector bodies in Scotland are required to submit a consolidation pack to the relevant Scottish Government directorate which is based on, but separate from, their statutory accounts.

Code of audit practice

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