Quality of public audit in Scotland

Annual report 2024/25

AUDIT SCOTLAND

Contents

Accessibility

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Key facts

125	Local government audits	32 councils, 30 integration joint boards, 11 pension funds, 27 joint boards and joint committees, and 25 charitable trusts
85	Central government audits	Scottish Government, 13 agencies, 10 non-ministerial departments, 55 non-departmental public bodies, and 6 others
23	NHS audits	14 territorial boards and 9 special boards
20	Further education audits	
7	Audit providers	Audit Services Group, Azets Audit Services, Deloitte, EY, Forvis Mazars, Grant Thornton, and KPMG
233/253	2023/24 audits complete by 31 March 2025	

Key messages

1 Auditors and bodies have worked well together to increase the proportion of audits delivered by target dates in the past year, from 45 per cent for 2022/23 audits to 55 per cent for 2023/24 audits and a further nine per cent completed more than a month earlier than the previous year. The number of audits delivered on time should approach expected performance levels within three years provided that appropriate quality financial reporting and support is provided by the relevant public bodies and no significant new obstacles arise. The associated risks that could impact on achieving this are being closely monitored.

2 All performance audit outputs were delivered on time except for those delayed by the pause in reporting in the period leading up to the UK General Election.

3 Performance audits show good compliance with audit standards. This shows that performance audit methodologies are operating well, and audit staff are delivering high-quality audit work.

4 Seventy-five per cent of financial audits reviewed showed good compliance with audit standards, with audit staff delivering high-quality audits. This evidences that when properly applied, financial audit methodologies were operating well. Some financial audits were not consistently complying with audit standards. Auditors have developed plans to identify the root causes, make the required improvements, and monitor the progress of these improvements.

5 One Audit Scotland financial audit for a smaller public body required significant improvements. Audit Scotland confirmed that the financial statements contained a classification misstatement that exceeded the auditor’s materiality but did not impact the net liability position. The auditor will engage with the body to ensure that any necessary corrections and disclosures are made in the 2024/25 accounts in addition to the root cause analysis and improvement planning noted above.

6 Stakeholder perceptions on the quality of audit work indicates that auditors are performing their work to a good level.

7 Auditors complied with Ethical Standards, have systems in place to comply with audit quality standards, and have appropriate plans for improvements to their audit methodologies where required.

8 Annual audit plans and annual audit reports demonstrated a high level of compliance with the Code and related guidance.

Introduction

1. The Auditor General for Scotland and Accounts Commission published a revised Audit Quality Framework (AQF) in 2024. This sets out Audit Scotland's approach to achieving high-quality public audit across all audit work and providers. The Audit Quality and Appointments (AQA) team prepares this report to provide assurance on audit quality, including compliance with the Financial Reporting Council's Ethical Standard, to the Auditor General for Scotland and the Accounts Commission. AQA does not conduct audit work and is independent from auditors.

2. This report is based on the Audit Quality Indicators (AQIs) from the AQF. The AQF set AQIs with targets, which are used as thresholds to prompt further investigation. This report includes the results of each AQI and, where the AQI is not met, AQA's assessment of the circumstances and what AQA is doing to secure continuous improvement.

Public audit in Scotland

3. The Auditor General for Scotland and the Accounts Commission set out the principles and themes of public audit in Scotland and how it fits with, and responds to, the public policy environment in Scotland in Public audit in Scotland 2023–28. They also set out the scope for public audit for auditors to follow in the Code of Audit Practice 2021.

4. The public audit model in Scotland includes a series of controls to reduce threats to auditor independence. These include the independent appointment of auditors by the Auditor General for Scotland and Accounts Commission, rotation of auditors every five years, independent fee-setting arrangements, independent approval procedures for any non-audit services work and a comprehensive AQF.

Audit Scotland and appointed firms

5. Public audit is conducted by Audit Scotland auditors and appointed firms who are subject to an open and rigorous procurement process. Approximately two-thirds of financial and Best Value annual audit work is carried out by Audit Services Group, with the remaining third conducted by appointed firms. The firms appointed are Azets Audit Services, Deloitte, EY, Forvis Mazars, Grant Thornton and KPMG. Performance audit and additional Best Value work is carried out by Audit Scotland auditors.

1. Ethics

Compliance with ethical standards

Introduction

6. All auditors must comply with the FRC's Ethical Standard and the Code to avoid any actual or perceived conflicts of interest. Audit Scotland and appointed firms are required to confirm their compliance with the Ethical Standard annually.

7. Audit Scotland monitors the scope and value of any non-audit services (NAS) which could compromise the auditor's independence and scrutinises all applications to carry out NAS.

Findings

Audit quality indicator 1: Percentage of audit providers confirming compliance with ethical requirements

Target: 100 per cent

8. All auditors confirmed that they complied with ethical requirements.

9. Auditors carried out permitted NAS to the value of £23,000 during the 2023/24 audits. This equates to 0.08 per cent of the total fees. This compares to £19,000, which equated to 0.07 per cent of total fees during 2022/23 audits.

10. AQA only approved work that clearly complied with the Ethical Standard and the Code. All audit providers confirmed that they did not carry out any NAS without the prior approval of AQA.

Conclusion

Auditors complied with their ethical requirements, so no conflicts of interest arose when carrying out their audits.

2. Audit delivery

Monitoring of audit outputs against target dates

Introduction

11. Audit Scotland sets target dates for key milestones and audit completion to ensure that audits are completed in a timely manner. Audit Scotland expects auditors to do all they can to meet the targets but also recognises that there may be events beyond auditors' control that result in the targets being missed.

12. The target is for key milestones and audit completion to be delivered on time or improving. The pandemic caused audits to be delayed, and auditors are working to get back to target dates, so we consider audits that were completed less than 11 months after the previous year's audit to be improving.

13. The Auditor General for Scotland and Accounts Commission have a dynamic work programme that covers a range of public sector bodies and services. The Auditor General for Scotland and Accounts Commission review the work programme quarterly to ensure it remains relevant, focused, up-to-date and reflects their strategic priorities.

Findings

Audit quality indicator 2: Percentage of audits meeting key planning milestones by the target date, ie annual audit plan is submitted by target date

Target: 100 per cent on time or improving

14. 171 of 214 (80 per cent) 2024/25 annual audit plans due by 31 March 2025 were submitted by the target date and a further two were improving. This failed to meet the target but is a significant improvement on the 67 per cent of 2023/24 annual audit plans. Annual audit plans for further education are due by 30 June 2025.

15. Of the 41 audits where the annual audit plan was not prepared by the target date:

- Twelve were for bodies where the 2023/24 audit was not yet complete
- Eleven were for bodies where the late completion of the 2032/24 audit contributed to the delay

- Nine were presented to the body by the target date but not submitted to Audit Scotland and a further two had submitted a draft to the body
- Four were due to audit staff availability and one because the auditor prioritised other audits
- Two were because it is the first year's audit for the body.

Audit quality indicator 3: Percentage of audits completed by the target date

Target: 100 per cent on time or improving

16. Overall, 55 per cent of 2023/24 audits were completed by the target date, an increase from 45 per cent of 2022/23 audits (Exhibit 1). A further nine per cent of audits that were completed after target dates were completed less than 11 months after the previous year's audit (24 per cent 22/23), making progress towards recovery (Exhibit 2 and 3, page 10).

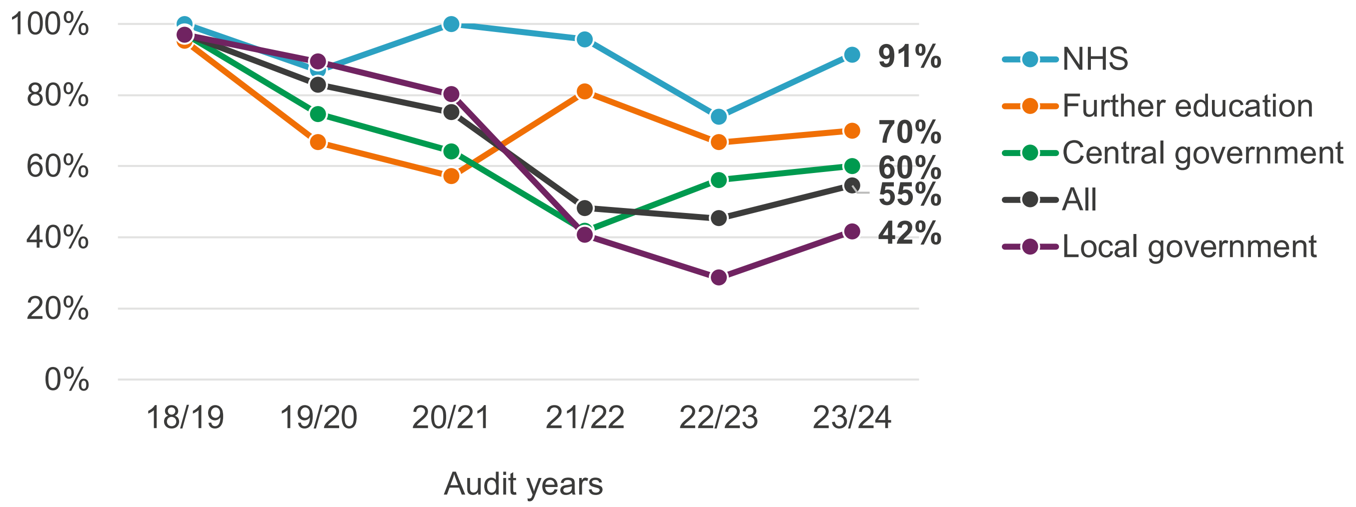
17. This resulted in 64 per cent of 2023/24 audits being on time or improving, below the target. Despite this, completion by target date improved in all sectors.

18. There remains one 2022/23 audit that is not complete. The auditor is working with the body to complete the 2022/23, 2023/24 and 2024/25 audits as a single batch during the summer of 2025.

Exhibit 1

Audit delivery by target dates is increasing in all sectors after falling in the previous four years

Percentage of audits completed by target dates analysed by sector and year.

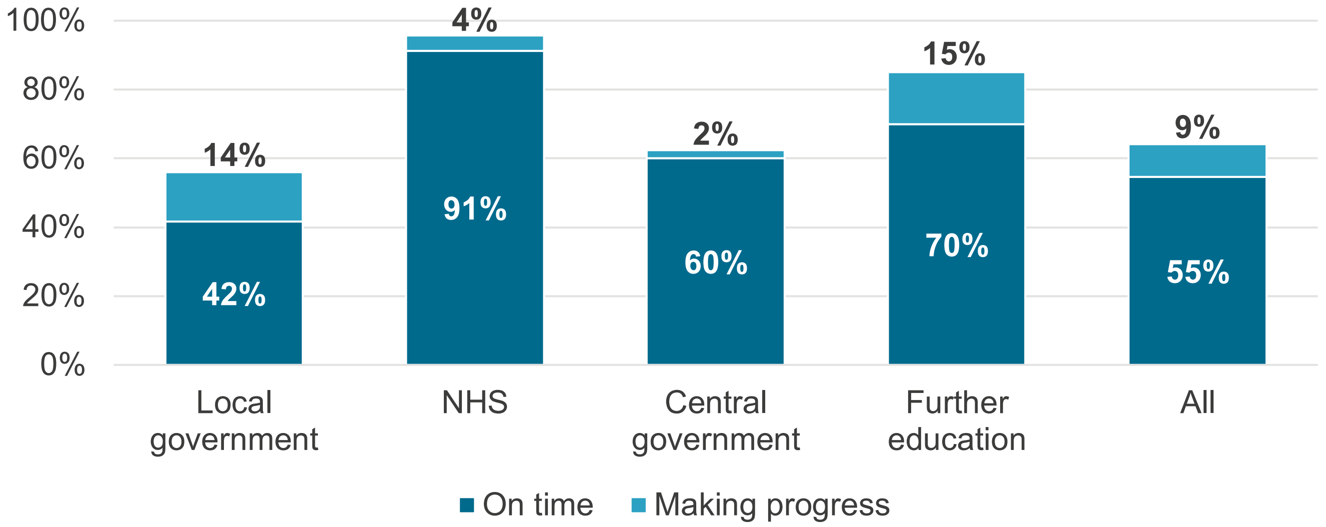


Source: Audited accounts

Exhibit 2

An additional nine per cent of audits are making progress to get back to target dates

Percentage of 2023/24 audits on time and making progress analysed by sector.



Source: Audited accounts

Exhibit 3

2023/24 audits

Number of 2023/24 audits completed analysed by sector.

Sector	Local government	NHS	Central government	Further education	All
Number of audits	125	23	85	20	253
Audits completed by target date	52	21	51	14	138
Audits late and making progress	18	1	2	3	24
Audits late and not making progress	55	1	32	3	91

Source: Audit Scotland

19. Based on auditor plans to deliver their 2024/25 audits and best estimates of future progress, 93 per cent of audits should return to expected dates by 2026/27. This relies on auditors and bodies continuing to work together to bring forward delayed audits by similar amounts of time as they have done this year and no significant new obstacles arising.

20. Audits failed to meet target dates or make progress for a variety of reasons. Often there are multiple causes for delays. Where there is a delay, it can lead to circumstances that cause further delays. Of the 91 audits that were late and not making progress, 46 were primarily due to the auditor, 27 were primarily due to the body and 18 were beyond the control of either.

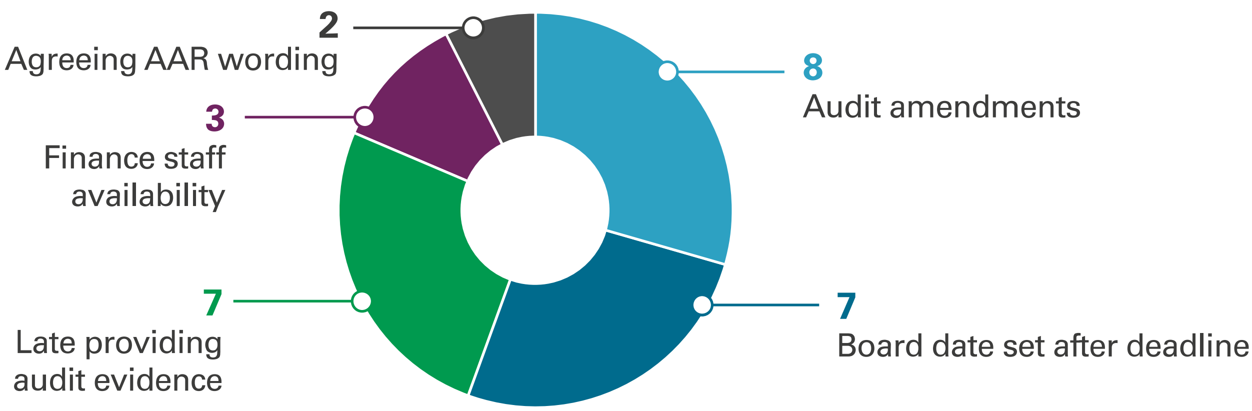
21. Of the 46 (51 per cent) audits delayed primarily because of the auditor, 38 were because auditors prioritised other audits and eight were because of audit staff availability.

22. Of the 27 (30 per cent) audits delayed primarily because of the body, the primary reasons are shown in Exhibit 4.

Exhibit 4

Audit amendments, delays providing evidence and setting late board dates make up more than three quarters of delays caused by bodies

Primary reasons for delays to audits that failed to meet target dates or make progress caused by audited bodies.



Source: Audit Scotland

23. Of the 18 (20 per cent) audits delayed by reasons beyond the control of both auditor and audited body, ten were because of delays the year before and eight were because auditors were unable to obtain audit information from bodies other than the audited body.

24. The largest single cause of delays was from auditors prioritising other audits. Audit Services Group and KPMG used this as part of a planned approach to return to target dates over the course of the appointment. This is a reasonable approach to balance the need to recover to target dates with delivering high-quality audit and maintain staff wellbeing.

25. The number of delays caused primarily by bodies suggest that auditors have less capacity to accommodate audits that encounter difficulties than they used to. This is likely to be at least in part because of efforts to accelerate audits to bring them back to target dates.

26. Auditors are planning to advance audit delivery based on their knowledge of audited bodies, what is achievable for them, and where their time can be most valuably spent in aspiring for earlier completion. They will achieve this by, for example:

- prioritising those audits that may carry greater risks or be of particular stakeholder interest
- prioritising, as far as is appropriate, audited bodies where assurances are required to be provided to other auditors, eg pension funds
- as far as possible, maintaining completion dates for audits signed off by the Planning Guidance target completion date in 2023/24.

27. Auditors will continue to work closely with audited bodies to prioritise and reprioritise audit work as required – for example, reallocating resources when there are delays in responses from audited bodies due to unexpected complexities or difficulties with staffing.

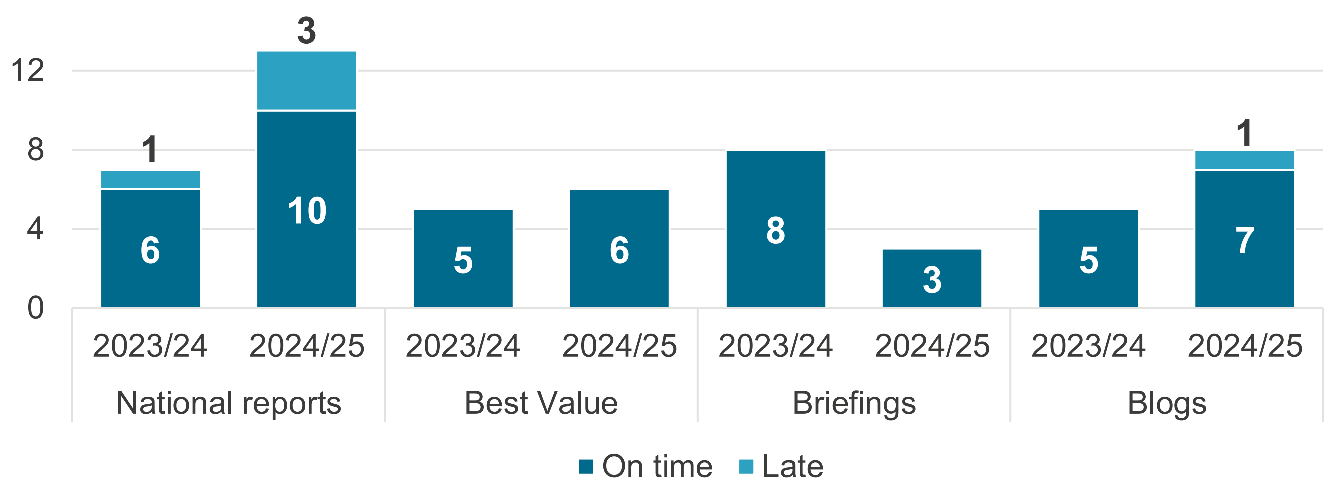
Audit quality indicator 4: Percentage of performance audit outputs published as planned per Audit Scotland's work programme

Target: 90 per cent

28. 26 of 30 (87 per cent, 96 per cent 2023/24) performance audit outputs were published as planned during the year 2024/25, not meeting the target (Exhibit 5).

Exhibit 5
2024/25 performance audit outputs

Number of 2024/25 performance audit outputs published on time or late by type.



Source: Audit Scotland

29. The July 2024 UK General Election was called after the publication plan was prepared which led to four outputs being published later than planned. This is because Audit Scotland does not publish any reports that make findings, comment, and recommendations about the performance of public bodies and services during the period leading up to a General Election. All other outputs were published on time.

30. The Auditor General and Controller of Audit published five statutory reports in 2024/25, all within the statutory laying date. The s102: Renfrewshire Council (Dargavel) update was published later than planned because of the UK General Election.

Conclusion

Auditors and bodies have worked well together to increase the proportion of audits delivered by target dates in the past year, from 45 per cent for 2022/23 audits to 55 per cent for 2023/24 audits and a further nine per cent improving. The numbers of audits delivered on time should approach expected performance levels within three years provided that appropriate quality financial reporting and support is provided by the relevant public bodies and no significant new obstacles arise.

Delays caused primarily by the auditor were reasonable.

Auditors completed their planning by the target date or shortly afterwards for all audits where this was reasonably possible.

Auditors have made appropriate and proportionate plans to continue to improve audit delivery for 2024/25 audits.

All performance audits outputs were delivered on time except for those delayed by the pause in reporting in the period leading up to the UK General Election.

Audit Scotland actions

AQA will continue to monitor auditors’ plans to improve delivery performance.

AQA will discuss how the most delayed audits can be brought back to expected dates with both bodies and auditors.

Auditors will undertake detailed planning for the 2025/26 and 2026/27 audit years, informed by progress on 2024/25 audits, to clarify the number of audits at risk of not being completed by the end of the appointment round.

3. Quality standards

Compliance with relevant quality standards

Introduction

31. Audit Scotland requires auditors to comply with the International Standard for Quality Management 1 (UK) (ISQM1). This requires auditors to annually evaluate their system of quality management and conclude whether the system of quality management provides individuals with reasonable assurance that the following objectives are being achieved:

- Auditors and personnel fulfil their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements.
- Engagement reports issued by auditors are appropriate in the circumstances.

Findings

Audit quality indicator 5: Percentage of audit providers confirming compliance with ISQM1 system of quality management requirements

Target: 100 per cent

32. All auditors confirmed that they complied with ISQM1 system of quality management requirements. This includes completing an annual evaluation of the system of quality management.

- Six out of seven auditors concluded that the system of quality management provides reasonable assurance that the objectives of the system are being achieved.
- Forvis Mazars concluded that 'except for matters related to deficiencies that have a severe but not pervasive effect on the design, implementation and operation of the system of quality management, the system provides the firm with reasonable assurance that the objectives of the system are being achieved. No pervasive deficiencies were identified'.

33. In their Transparency report, Forvis Mazars identified three matters that 'on balance their potential to impact on certain quality risks was significant enough to be identified as severe, without being pervasive'. These were:

- Maturity of the System of Quality Management
- Resourcing audits and Capacity Assessments
- Audit file assembly.

34. Further details are available on pages 121–122 of the Forvis Mazars Transparency report 2024.

Conclusion

All auditors have systems in place to comply with ISQM1 and have appropriate plans for improvements to their audit methodologies where required.

4. Quality results

External and internal quality reviews

Introduction

35. Audit quality reviews provide evidence on whether audit work complies with the Code and ISAs. They also highlight areas to improve audits in the future.

36. Audit Scotland commissions the Institute of Chartered Accountants in England and Wales (ICAEW) to carry out external reviews. Senior and appropriately experienced staff from each firm carry out internal reviews.

37. Reviews use the Financial Reporting Council's scoring methodology for consistency and comparability (Exhibit 6).

Exhibit 6

External quality review grading

Description of each grade used in audit quality reviews.

Grade	Standard	Description
1	Good	We identified no areas for improvement of sufficient significance to include in our report.
2	Limited improvements required	We identified one or more areas for improvement of limited significance.
3	Improvements required	We identified one or more key findings requiring more substantive improvements.
4	Significant improvements required	We identified significant concerns in one or more areas regarding the sufficiency or quality of audit evidence, the appropriateness of key audit judgments or another substantive matter such as auditor independence.

Source: Financial Reporting Council

Findings

Audit quality indicator 6: Percentage of external quality reviews requiring no more than limited improvements

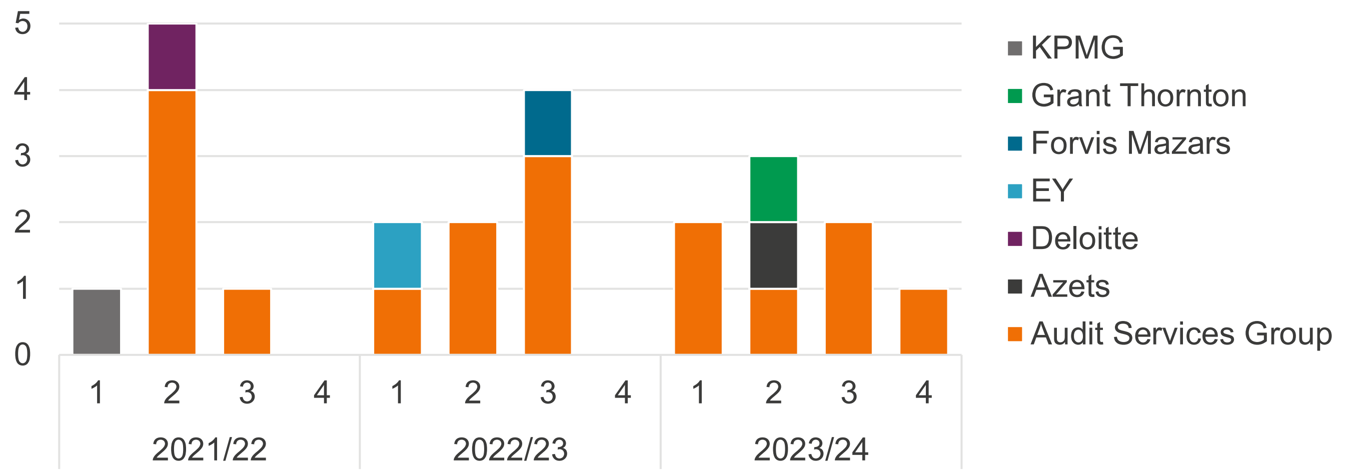
Target: 80 per cent annual

38. ICAEW carries out a programme to review each firm over a three-year cycle, each Audit Scotland Audit Director over a three-year cycle for both financial audit and performance audit work, and each Audit Scotland Senior Manager over a six-year cycle.

Financial audits

39. ICAEW found that five of eight (62.5 per cent) external reviews required no more than limited improvements (Exhibit 7). This is below the target of 80 per cent but is an improvement since last year (50 per cent).

Exhibit 7
Financial audit external quality reviews
Number of reviews at each grade, by auditor and year.



Source: Audit Scotland

40. Audit Scotland achieved the first council and territorial health board external reviews to receive the highest rating that identified no areas for improvement of sufficient significance to report.

41. The main thematic finding last year was that more audit work is required by Audit Scotland to evaluate the appropriateness of management expert's work on non-current assets. ICAEW did not identify any such cases this year.

42. ICAEW followed up Forvis Mazars' audit that required improvement last year and found that the 2023/24 audit addressed all the matters requiring improvement.

43. The work to support wider scope responsibilities including Best Value was of a generally good quality, though in some cases there was scope to improve the audit trails between the work undertaken and judgements reported.

44. The quality reviews identified several areas of good practice including clearly documented audit work, and clearly considered and documented audit approaches. Examples include consideration of valuation work on non-current assets, IT risk assessment, identification of journals to test management override, and well documented and thought-out working papers to support wider scope work.

45. Three external reviews required improvement or significant improvement. The areas requiring improvement or significant improvement related to testing liabilities, investments and over-reliance on another auditors' work. The improvements required on investments may be common to some of Audit Scotland pension fund audits and those related to over-reliance on another auditor's work may be common to some of Audit Scotland's local government charitable trust audits.

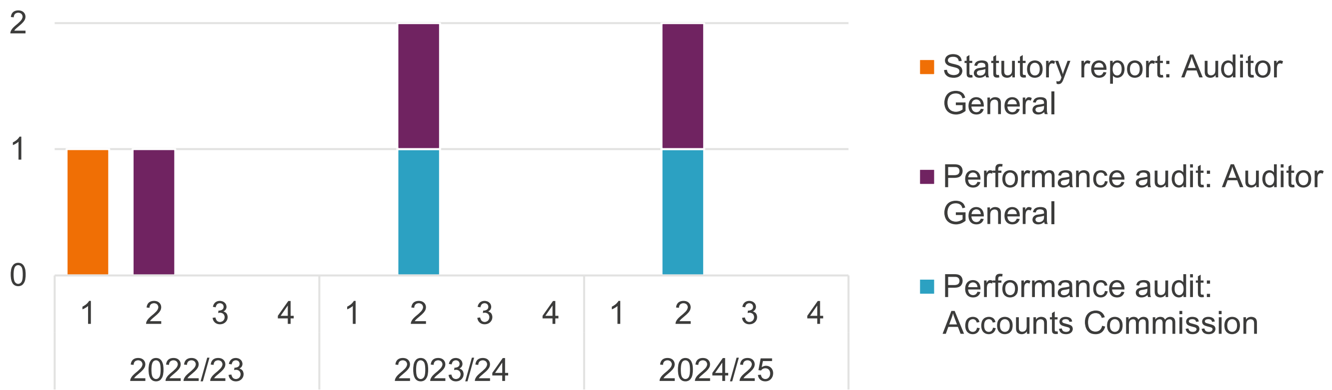
Performance audit outputs

46. Both performance audit output reviews required no more than limited improvements (Exhibit 8), meeting the target.

Exhibit 8

Performance audit external quality reviews

Number of reviews at each grade, by output type and year.



Source: Audit Scotland

47. The reviews identified several areas of good practice including:

- the links to referenced reports and referenced exhibits were effective in helping the reader to navigate the report
- the use of definition boxes which feature near the body text on the page are helpful for the reader in understanding the report
- the record of evidence was clearly completed and referenced.

Audit quality indicator 7: Percentage of internal quality reviews requiring no more than limited improvements

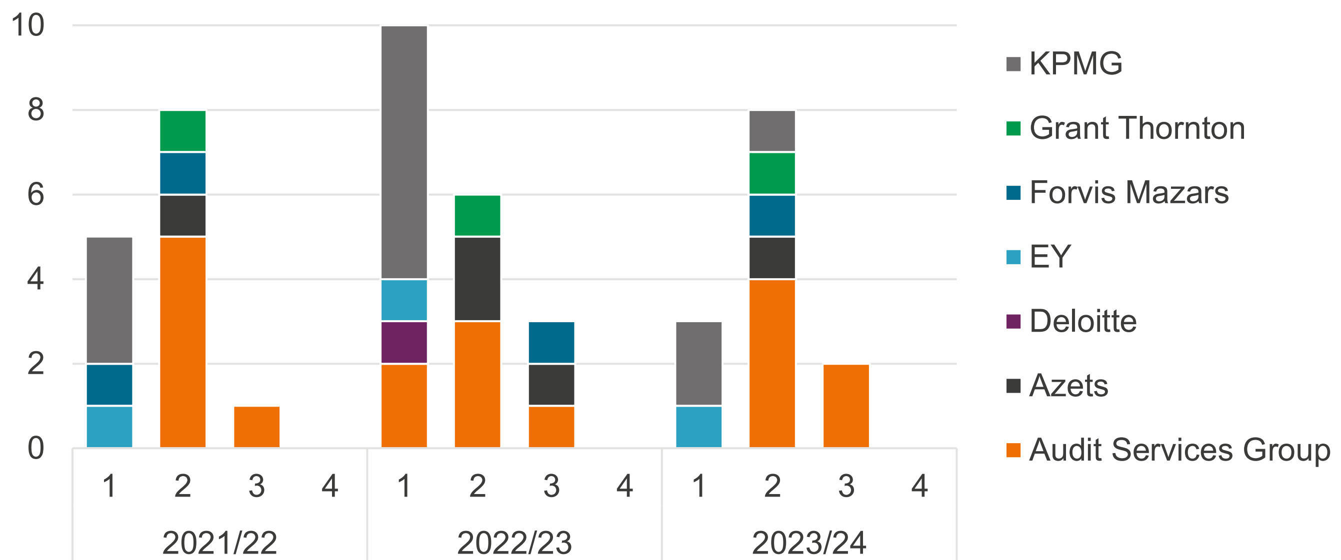
Target: 80 per cent annual

48. Auditors conduct reviews of their own portfolio of audits to assure themselves of compliance with internal quality management standards and support continuous improvement. Audit Scotland's contract with the firms requires them to conduct at least one review of a Scottish public sector audit each year. The timing of the reviews means that Deloitte's and EY's reviews of 2023/24 audits are not included.

Financial audits

49. Auditors found that 11 of 13 internal reviews (85 per cent) required no more than limited improvements (Exhibit 9), meeting the target.

Exhibit 9
Financial audit internal quality reviews
Number of reviews at each grade, by auditor and year.



Source: Audit Scotland

50. The reviews identified several areas of good practice including:

- There are indications that enhanced guidance and templates to support Audit Scotland's audit work on land and building valuations are contributing to further audit recommendations in annual audit reports to improve the accuracy of financial reporting.
- Several examples of good practice were identified related to the planning and risk assessment stage of the audit. For example, good documentation of fraud inquiries and related risks and fraud arrangements; clear assessment of laws and regulations, and good documentation of risks of material misstatement and audit responses.
- Effective audit work and impactful reporting on Best Value arrangements was noted across several Audit Scotland audits, particularly for the two councils reviewed.

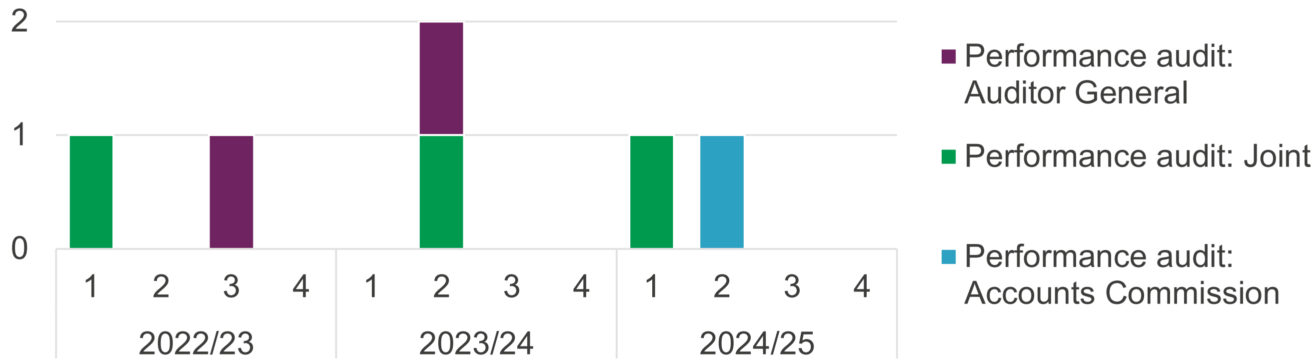
51. Two internal reviews required improvement. Areas for improvement included:

- Where audited bodies use a service organisation (for example, an external entity that provides financial services, or an investment manager), documenting an understanding of the controls at the service organisation and at the audited body is necessary.
- Audit procedures could be enhanced when evaluating the accuracy of the source data and inputs used as the basis for the revaluations, such as building floor plans. Although some audit teams are discussing these aspects with the valuer, evaluating the underlying source data and evidence for each item in the sample was not always clear. Audit work to assess the reasonableness and justification for assumptions and methods used by the valuer could be further developed including greater consideration of obsolescence factors, contingency costs, external work costs and professional fees.
- Testing of the opening balances for heritage asset balances, in addition to testing additions during the year, would provide additional assurance for the existence of the full portfolio of assets. The body's impairment process to assess the location, security and condition of heritage assets should be critically evaluated to provide further assurance over existence and valuation of these assets.

Performance audit outputs

52. Both performance audit output reviews required no more than limited improvements (Exhibit 10, page 21), meeting the target.

Exhibit 10
Performance audit internal quality reviews
Number of reviews at each grade, by output type and year.



Source: Audit Scotland

53. The reviews identified several areas of good practice including:

- Teams engaged with a wide range of stakeholders to inform the audit scope and sought feedback from the Equalities and Human Rights Advisory Group on the emerging messages.
- The review and approvals log for the planning section was very comprehensive. There was a clear description of the review points and actions taken to address them.
- The audit team included a member with extensive knowledge and experience of the topic area.

Audit quality indicator 8: Percentage of external quality reviews requiring significant improvements

Target: 0 per cent annual

Financial audits

54. One Audit Scotland financial audit review of a small body (12.5 per cent) required significant improvements, meaning the target was not met (paragraph 45). Audit Scotland confirmed that the financial statements contained a classification misstatement that exceeded the auditor's materiality but did not impact the net liability position.

Performance audit outputs

55. External quality reviews did not identify any performance audit outputs as requiring significant improvements, meeting the target.

Audit quality indicator 9: Percentage of internal quality reviews requiring significant improvements

Target: 0 per cent annual

Financial audits

56. Internal quality reviews did not identify any financial audits as requiring significant improvements, meeting the target.

Performance audit outputs

57. Internal quality reviews did not identify any performance audit outputs as requiring significant improvements, meeting the target.

ICAEW Audit Scotland summary

58. ICAEW provided the following comments on the audits they reviewed:

We undertook eight file reviews of financial audits, six covering Audit Scotland and two from appointed firms. In addition, we conducted a focused review to follow up on issues that required improvement at our previous visit in a file we reviewed at another appointed firm. We also inspected two performance audits, both conducted by Audit Scotland.

The quality of audit work, across financial and performance audits, was of a generally good standard in many areas. On the financial audit files reviewed, five of the eight files were either good or generally acceptable. We did not identify any significant thematic areas. In the files requiring improvement or significant improvement, all relating to audits conducted by Audit Scotland, we identified weaknesses in testing liabilities, investments and over-reliance on another auditors' work. The performance audits were both generally of a good standard.

As part of the financial audit, we also reviewed audit work to support the wider scope responsibilities. We did not identify any significant findings in these reviews. However, on Audit Scotland reviews, we identified some other findings. In two instances, audit trails between reports and underlying work were unclear and in one less complex body, the risk assessment and subsequent audit work on financial sustainability needed further work.

The responses of both Audit Scotland and the appointed firms demonstrate they are intending to take appropriate action to address all the findings raised. This includes plans to conduct detailed root cause analysis on files that require improvement or significant improvement. Any key findings[1] identified from our reviews should be considered as part of the evaluation process of the applicable appointed auditor's System of Quality Management.

[1] Relate to 'principal findings' that are the driver of a file requiring improvement or significant improvement or represent a significant thematic issue.

We identified good practice across all files reviewed and mainly related to aspects of comprehensive and clearly documented audit work and audit approaches.

Audit Scotland's whole-firm procedures remain generally appropriate for the size and nature of the organisation. The key aspects of whole-firm procedures, relevant to auditing public bodies, for the two appointed firms covered in this limited review are also generally appropriate.

Conclusion

Performance audit methodologies are operating well, and audit staff are delivering high-quality audit work.

Most financial audits showed good compliance with audit standards, with audit staff delivering high-quality audits. This evidences that when properly applied, financial audit methodologies were operating well.

Some financial audits were not consistently complying with audit standards. Auditors have developed plans to identify the root causes, make the required improvements, and monitor the progress of these improvements.

One Audit Scotland financial audit for a smaller public body required significant improvements. Audit Scotland confirmed that the financial statements contained a classification misstatement that exceeded the auditor's materiality but did not impact the net liability position.

Audit work to support wider scope responsibilities including Best Value was of a generally good quality.

Audit Scotland actions

Audit Scotland's Innovation and Quality group will review audit approaches and guidance including the processes for auditing valuations of pension fund assets, and reliance on another auditor's work for charitable trusts.

Audit Scotland will engage with the body where the misstatement occurred to ensure that any necessary corrections and disclosures are made in the 2024/25 accounts.

Audit Scotland's Innovation and Quality group will support the audits with improvements required through facilitating root cause analysis and undertaking hot reviews during the 2024/25 audit year.

5. Audit quality survey

Stakeholder perceptions

Introduction

59. AQA commissions the Diffley Partnership to conduct an annual independent stakeholder feedback survey. The survey invites directors of finance, chief executives, and chairs of boards or audit committees (or their respective equivalents) whose 2023/24 audits have been, or were expected to be, completed by the close of the survey to each complete the survey for the different perspectives they had about the audit.

60. This resulted in the Diffley Partnership inviting 539 individuals (501 in 2022/23) in audited bodies to provide feedback on the 2023/24 financial audits and performance audit outputs published in the past year. 278 individuals (247 in 2022/23) completed responses (51.6 per cent, 49 per cent 2022/23). This increase in the response rate is a positive sign that stakeholders are willing to engage with us on their views of public audit and making further improvements to audit quality.

61. The survey asked stakeholders to consider financial audit work under the following criteria:

- the usefulness of the annual audit overall (financial and wider scope audit work)
- for local governments, the appropriateness of coverage of Best Value.

62. The survey asked stakeholders to consider performance audit outputs against principles based on the International Organisation of Supreme Audit Institutions (INTOSAI) standards. These were whether a report is:

- high quality, which means that the report is comprehensive, convincing, timely, reader-friendly and balanced, and
- useful, which means that recommendations are likely to contribute significantly to addressing the weaknesses or problems identified by the audit.

63. The survey asked stakeholders to respond to questions using a scale of 1 to 5 where 1 is ‘very poor’ and 5 is ‘very good’. We analyse responses by using the mean score. This is the average of respondents’ views on a question within a particular category, either by sector or auditor.

Findings

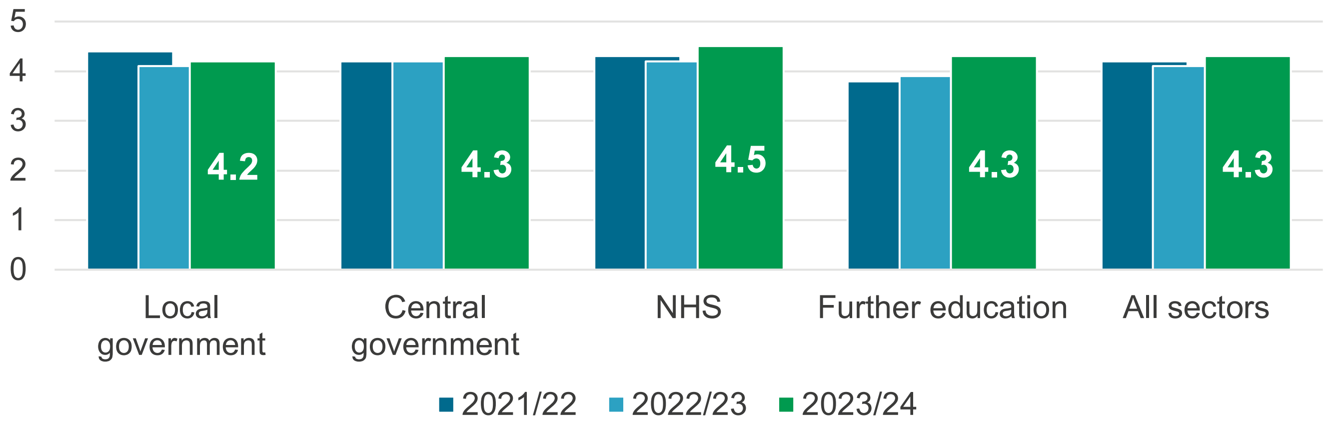
Audit quality indicator 10: Perception of the usefulness of the annual audit

Target: 4 out of 5

Perception of the usefulness of the annual audit overall

64. Stakeholders' views on the usefulness of the annual audit have improved with 85 per cent of stakeholders believing their annual audit is fairly or very useful (78 per cent in 2022/23), with a mean score of 4.3 (4.1 in 2022/23) (Exhibit 11), exceeding the target in all sectors.

Exhibit 11
Stakeholder perceptions on financial audits are improving
Mean score for each auditor for the usefulness of the annual audit.



Source: Diffley Partnership

65. The most frequently used words by stakeholders to describe financial audits were 'assurance' (65 responses) and 'useful' (46 responses).

Perception of the appropriateness of coverage of Best Value

66. Stakeholders' views on how well auditors covered Best Value in their annual audit report were steady at 3.9 (3.8 in 2022/23), just below the target.

67. The score for Audit Scotland auditors was above the average at 4.2, which reflects positively on both Audit Scotland and the specialist Performance Audit and Best Value team.

Audit quality indicator 11: Stakeholder perception on the quality of performance audit outputs

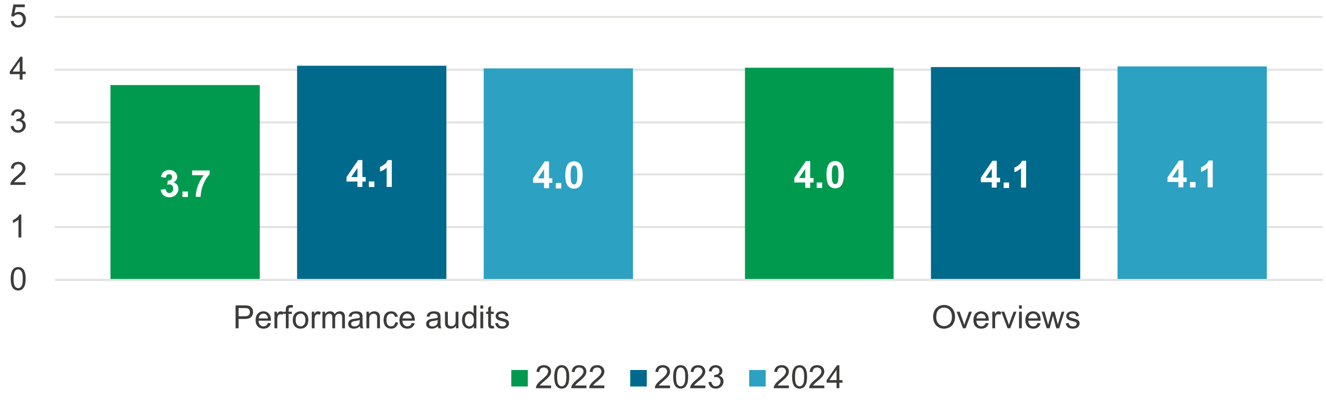
Target: 4 out of 5

68. Stakeholder perception on the quality of performance audit outputs has overall remained steady. The mean score is 4.0 (4.1 in 2022/23) for performance audits and 4.1 for overview reports (4.1 in 2022/23) (Exhibit 12), meeting the target for both types of report.

Exhibit 12

Stakeholder perception of the quality of performance audit outputs is steady

Mean score of perception of the quality of performance audits and overview reports.



Source: Diffley Partnership

69. There were five overview and four performance audit reports in 2024/25. The perception of quality ranged from 3.9 to 4.3 for overview reports and from 3.9 to 4.1 for performance audit reports.

Audit quality indicator 12: Stakeholder perception on the usefulness of performance audit outputs

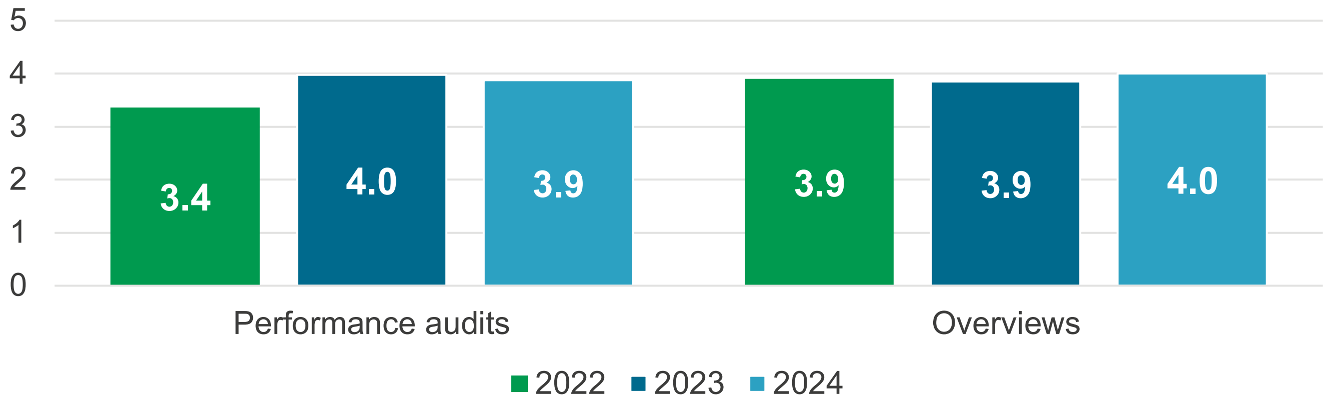
Target: 4 out of 5

70. Stakeholder perception on the usefulness of performance audit outputs has also remained steady. The mean score is 3.9 (4.0 in 2022/23) for performance audits and 4.0 for overview reports (3.9 in 2022/23) (Exhibit 13, page 27), just below the target for performance audits and meeting the target for overviews.

Exhibit 13

Stakeholder perception of the usefulness of performance audit outputs is steady

Mean score of perception of the usefulness of performance audits and overview reports.



Source: Diffley Partnership

71. The perception of usefulness ranged from 3.8 to 4 for performance audit reports and from 3.7 to 4.3 for overview reports.

Conclusion

Stakeholder perceptions on the quality of audit work indicates that auditors are performing their work to a good level.

There is no systemic cause for concern in the small number of indicators below target.

Audit Scotland actions

AQA has discussed the results with each auditor to understand the circumstances where feedback has been negative.

6. Other measures

Other measures of audit quality

Introduction

72. AQA reviewed a sample of audit outputs to assess their quality and to monitor timelines, scope, compliance with the Code requirements, compliance with Guidance on planning the annual audit, compliance with ISAs (UK) and clarity of recommendations.

73. High-quality audit outputs provide assurance to stakeholders and adds value by recommending improvements, identifying risks, increasing insight, and facilitating foresight.

74. AQA monitors Prior Period Errors (PPEs) to identify any implications relating to audit quality. Quality of public audit in Scotland 2023/24 reported that a significant number of PPEs were incorporated in the 2022/23 financial statements. The change in auditor as part of the auditor rotation led to differences in approach in areas such as valuation of property and pensions.

75. AQA reviewed PPEs reported by auditors to determine if PPEs had reduced to an acceptable level and to ensure that there are no implications relating to audit quality.

Findings

Annual audit plans (AAPs)

76. All AAPs reviewed showed a good level of compliance with the 2021 Code and 2023/24 Guidance on planning the annual audit. Good practice by auditors included:

- clear explanation by the auditor of audit quality arrangements
- clear and concise explanations of auditors’ responsibilities for Best Value
- inviting board members to contact the audit team should they have any concerns and using information from the National Fraud Initiative to inform fraud risks
- use of appendices to highlight changes to auditing standards and their impact on the audit, and sectoral developments and their impact on the audited body

- an explanation of which parts of property plant and equipment were subject to additional audit procedures, and which were not.

77. Auditors of local government pension funds are inconsistent in how they described their planned audit work on Best Value in their AAPs. Seven of 10 AAPs from two auditors (six Audit Scotland, one KPMG) reviewed did not refer to Best Value.

78. Auditors of bodies that are not councils or pension funds continue to be inconsistent in explaining their work to meet their Best Value responsibilities. Five of 22 AAPs from five different auditors did not, or did not adequately, refer to Best Value.

Annual audit reports (AARs)

79. Most AARs (84 per cent) reviewed demonstrated a high level of compliance with the Code and related guidance. Examples of good practice included:

- clear narrative on the significant financial and wider scope risks and other key audit matters and how these were addressed by the auditor
- well written, balanced annual audit reports that explains to the reader, the audit process from planning to completion in a clear and concise manner
- clear recommendations that are useful, specific, and practicable
- clear judgements regarding the effectiveness and appropriateness of the arrangements in place at audited bodies
- detailed action plans setting out clear findings, management responses and implementation dates
- thorough follow-up of prior year recommendations.

80. The most common areas for improvement were:

- Auditors should ensure that all AARs are addressed to the audited body and (depending on the sector) to either the Auditor General or Controller of Audit.
- Auditors should ensure that all AARs provide an explanation of the significant judgements in determining materiality amounts.
- Auditors should ensure that all their AARs contain a reference to the level of performance materiality that has been set and how this was applied by the auditor in their audit of the accounts.
- Auditors should ensure that all their AARs contain a clear conclusion on the effectiveness of arrangements by the

accountable officer to secure Best Value for central government and NHS bodies.

- Auditors should ensure that all recommendations have an agreed target date and responsible officer for implementing recommendations.

Best Value thematic reports

81. All Best Value thematic reports that were reviewed were of a good quality, clearly written, and fully compliant with the Guidance on planning the audit and Code of audit practice.

Prior period errors

82. Our review found that the number of PPEs have reduced from 11 per cent in 2022/23 to 7.5 per cent in 2023/24. This is in line with our expectations for the second year of the five-year audit appointment.

Conclusion

Auditors' AAPs, AARs and Best Value thematic reports demonstrated a high level of compliance with reporting requirements under the Code and related guidance.

Audit Scotland actions

AQA has discussed findings with auditors and confirmed the changes auditors plan to make in response to the findings.

AQA will continue to monitor outputs to ensure they are of high quality and compliant with the Code and related guidance.

Appendix

Audit Quality Indicators 2024/25

AQI	Service area	Target	Actual	Result
1	**Independence** Percentage of audit providers confirming compliance with ethical requirements. Ethics, page 7	100%	**100%** (100% for 2022/23)	Target met
2	**Performance monitoring and remediation** Percentage of audits meeting key planning milestones by the target date, ie annual audit plan is submitted by target date. Audit delivery, page 8	100% on time or improving[1]	**81%** (74% for 2023/24)	Target not met
3	**Performance monitoring and remediation** Percentage of audits completed by the target date. Audit delivery, page 9	100% on time or improving[1]	**64%** (69% for 2022/23)	Target not met
4	**Performance monitoring and remediation** Percentage of performance audit outputs published as planned per Audit Scotland's work programme. Audit delivery, page 12	90%	**87%** (96% for 2023/24)	Target not met
5	**Quality monitoring** Percentage of audit providers confirming compliance with ISQM 1 system of quality management requirements. Quality standards, page 14	100%	**100%** (100% for 2022/23)	Target met

Cont.

AQI	Service area	Target	Actual	Result
6	**Quality monitoring**			
	Percentage of financial audit external quality reviews requiring no more than limited improvements. (Grade 1 & 2)	80% annual	**62.5%** (50% for 2022/23)	Target not met
	Percentage of performance audit external quality reviews requiring no more than limited improvements. (Grade 1 & 2) Quality results, page 16		**100%** (100% for 2022/23)	Target met
7	**Quality monitoring**			
	Percentage of financial audit internal quality reviews requiring no more than limited improvements. (Grade 1 & 2)	80% annual	**85%** (84% for 2022/23)	Target met
	Percentage of performance audit internal quality reviews requiring no more than limited improvements. (Grade 1 & 2) Quality results, page 16		**100%** (100% for 2022/23)	Target met
8	**Quality monitoring**			
	Percentage of financial audit external quality reviews requiring significant improvements. (Grade 4)	0% annual	**12.5%** (0% for 2022/23)	Target not met
	Percentage of performance audit external quality reviews requiring significant improvements. (Grade 4) Quality results, page 16		**0%** (0% for 2022/23)	Target met
9	**Quality monitoring**			
	Percentage of financial audit internal quality reviews requiring significant improvements. (Grade 4)	0% annual	**0%** (0% for 2022/23)	Target met
	Percentage of performance audit internal quality reviews requiring significant improvements. (Grade 4) Quality results, page 16		**0%** (0% for 2022/23)	Target met

Cont.

AQI	Service area	Target	Actual	Result
10	**Stakeholder perception**			
	a) Perception of the usefulness of the annual audit overall	4/5[2]	**4.3/5** (4.1/5 2022/23)	Target met
	b) Perception of the appropriateness of coverage of wider scope		New indicator: Not added to 2023/24 survey	
	c) Perception of the appropriateness of coverage of best value (LG only)		**3.9/5** (3.8/5 2022/23)	Target not met
	Audit quality survey, page 24			
11	**Stakeholder perception**			
	Perception of the quality of: a) Overview reports	4/5[2]	**4.1/5** (4.1/5 2022/23)	Target met
	b) Performance audits		**4.0/5** (4.1/5 2022/23)	Target met
	Audit quality survey, page 24			
12	**Stakeholder perception**			
	Perception of the usefulness of: a) Overview reports	4/5[2]	**4.0/5** (3.9/5 2022/23)	Target met
	b) Performance audits		**3.9/5** (4.0/5 2022/23)	Target not met
	Audit quality survey, page 24			

1 Improving means within 11 months from date output was last signed. This is considered an appropriate timescale for effective audit reporting to stakeholders.

2 Target applies to a, b and c (where applicable).

Quality of public audit in Scotland

Annual report 2024/25

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