Audit quality

Audit Scotland's transparency report 2024/25

AUDIT SCOTLAND

Contents

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Foreword from Audit Scotland Board

The purpose of this Transparency Report is to provide bodies audited by Audit Scotland with assurance on the quality and timeliness of work delivered on 2023/24 annual audits and performance audit outputs during the 2024/25 financial year.

The results of the quality reviews carried out by Audit Scotland staff (independent from the teams delivering the audits) and the Institute of Chartered Accountants in England and Wales provide assurance regarding the organisation's overall system of quality management and the audit approach that teams should follow. The board is pleased with some of the individual quality review gradings, particularly the highest-level grades assigned to two of the largest public body audits and one of the performance audit outputs.

However, the board is disappointed that one of the 16 quality reviews, for a smaller public body, was graded as requiring significant improvement. Our target is for no reviews to be assigned that lowest grade, and we take that result very seriously. We are, however, satisfied with the robustness of the response being taken by Audit Scotland staff. As summarised later in this report, the actions being taken by Audit Scotland, including a root cause analysis, are intended to ensure that the quality findings that led to the low grading are addressed for 2024/25. Those follow-up actions have identified a classification misstatement in the body's accounts that exceeded the auditor's threshold for materiality but did not impact the net liability position. The audit team will engage with the body to make the necessary adjustments in 2024/25.

We also do not consider that a disappointing result from one quality review should detract from the excellent work carried out by Audit Scotland teams, or overshadow the other results from our quality monitoring. In particular, we are pleased that the quality reviews did not identify any recurring findings from previous years or any thematic weaknesses in audit approach, and that a number of examples of good practice have been uncovered.

A related area which the board considers important is the timeliness with which annual audits are delivered. We note that 61 per cent of 2023/24 annual audits were delivered by the target audit completion dates set by the Auditor General and the Accounts Commission. While we are pleased that shows an advance from the 48 per cent for 2022/23 audits, and commend the effort of Audit Scotland teams to accomplish that increase, we have set a clear expectation that there needs to be significant improvement over the next three years so that target dates are met for all audits other than in exceptional circumstances or where the public body does not deliver appropriate support to the audit process. We are particularly keen to see improved performance in the local government sector. However, it is important that increased completion rates do not come at a cost to audit quality which remains paramount.

Key messages

1 Audit Scotland completed 61 per cent of 2023/24 annual audits by the target completion dates set by the Auditor General and Accounts Commission (95 of 155 audits). This is a significant improvement on 2022/23 audits (48 per cent). This reflects the need to prioritise the achievement of high quality over meeting target completion dates, but also shows a marked improvement in timeliness since the delays that started in 2019/20. We will continue to build on this improvement in a sustainable way for the next three years.

2 During the 2024/25 financial year, five statutory reports were prepared by the Auditor General for Scotland and the Controller of Audit on matters arising from the annual audit for submission to the Scottish Parliament and Accounts Commission respectively.

3 The Controller of Audit provided a report to the Accounts Commission on the Best Value arrangements at six councils. At least one report will be prepared on each of the 32 councils over the current five-year audit appointments.

4 Audit Scotland produced 24 performance audit outputs, including reports, briefing notes, and blogs during the 2024/25 financial year. Although the publication of some outputs had to be delayed due to the UK Parliament elections, all scheduled outputs for the year were published by the year end.

5 Audit Scotland's overall system for managing quality at an organisation-level complies with international standards on quality management.

6 At an individual audit level, our quality monitoring includes reviews of audits still in progress (hot reviews). Hot reviews were carried out at six annual audits and two performance audit outputs so Audit Scotland's quality team could assist the audit team in the quality of audit outputs before they were issued. Good practice and areas for improvement identified by the reviews were shared with all colleagues.

7 Audit quality reviews are also carried out at a sample of audits after the audit output has been issued (cold reviews) to assess compliance with professional standards. Audit Scotland views the quality grades overall as generally a satisfactory outcome but with areas for improvement. Across the 16 cold quality reviews:

- 19 per cent were graded at 1 (no improvements identified)
- 50 per cent were graded at 2 (small number of improvements)
- 25 per cent were graded at 3 (some improvements)
- One review was graded at 4 (significant improvements). Follow-up actions identified a classification misstatement in the 2023/24 accounts that exceeded the auditor’s threshold for materiality but did not impact the net liability position. The audit team will engage with the body to make the necessary adjustments in 2024/25.

8 The results of a survey on the extent to which audit colleagues felt supported in the delivery of high-quality audits showed:

- 87 per cent reported that the culture of the organisation helps them deliver high-quality audits
- 75 per cent (an increase from last year’s 62 per cent) reported that on-the-job coaching, guidance, learning and development and other support helps them deliver high-quality audits
- 59 per cent reported that internal quality reviews help them to deliver high-quality audits
- 45 per cent (an increase from last year’s 34 per cent) reported that they had sufficient time and resource to deliver high-quality audits.

9 Feedback from an independent survey of audited bodies indicates satisfaction with the quality and usefulness of the annual audits and performance audit outputs.

Introduction

Purpose and scope of report

1. This transparency report is aimed at providing public bodies in Scotland and other external stakeholders with assurance on the quality of audits delivered by Audit Scotland. It covers 2023/24 annual audits and performance audit outputs issued during the 2024/25 financial year. The report sets out:

- a brief overview of Audit Scotland
- information on Audit Scotland's role in the delivery of audits
- the arrangements for supporting and monitoring audit quality
- the results of audit quality reviews and other monitoring activities.

2. This transparency report is part of a suite of corporate reports from Audit Scotland. Each report gives a distinct but complementary perspective; this report is framed from the perspective of Audit Scotland as a provider of public audit. It is designed to be read on a stand-alone basis but further information on Audit Scotland's wider role, the appointment of auditors, and the arrangements for independent monitoring of quality is provided in our Annual Report and Accounts and the Quality of Public Audit in Scotland (QPAS) report.

System of quality management

3. International Standard on Quality Management (ISQM) (UK) 1 applies from December 2022 and requires a system of quality management (SoQM) to be designed, implemented and operated which provides reasonable assurance that:

- audits are conducted in accordance with professional standards and applicable legal and regulatory requirements; and
- audit reports are appropriate.

4. Audit Scotland's SoQM consists of a variety of components, including arrangements for:

- governance that supports audit quality and ensures compliance with ethical requirements
- performing and resourcing the audits

- robust quality monitoring, including and hot and cold reviews of individual audits.

5. ISQM (UK) 1 requires those with ultimate responsibility and accountability for the SoQM to evaluate it at least annually to conclude whether it provides reasonable assurance that quality objectives required by the standard are being achieved. In Audit Scotland, the Executive Team collectively share ultimate responsibility and accountability for the SoQM.

6. Our latest annual evaluation was subject to review by our Quality and Ethics Committee (QEC) in October 2024. The QEC approved the recommendation that our SoQM provides our organisation with reasonable assurance that our quality objectives are being achieved (the highest level of assurance available under ISQM (UK) 1).

7. An independent inspection of Audit Scotland's SoQM is carried out annually by the Institute of Chartered Accountants in England and Wales (ICAEW). The latest inspection in April 2025 concluded that our SoQM continues to be generally appropriate for the size and nature of the organisation.

Audit Quality Manual

8. In February 2025, Audit Scotland produced our first Audit Quality Manual to set out the organisation's arrangements and activities to support the delivery of high-quality audit of public bodies in Scotland. This includes clearly defining what we mean by high-quality audit in a public audit context. This definition is set out in the following table:

Features of high-quality audits	
Audit assurance	Provide stakeholders with a high-level of assurance and support public bodies to achieve their objectives.
Compliance with standards	Compliance with both the spirit and the letter of auditing and ethical standards (including application of independence and objectivity).
Risk assessment and planning	Robust risk assessment, scoping and planning, informed by a thorough understanding of the audited bodies and their environment.
Audit approach and evidence	An effective audit approach with a focus on: • gathering sufficient and appropriate audit evidence • rigorous testing and analysis • avoiding conflicts of interest • strong quality management procedures.
Professional judgement and scepticism	Robust professional judgement and scepticism, and challenging audited bodies effectively.

Features of high-quality audits	
Supervision and review	Effective supervision and review by Engagement Leads and senior staff to ensure quality of audit work performed.
Timely communication and reporting	Reporting clear, unambiguous and transparent audit findings, opinions, conclusions, and recommendations in a timely way.

9. The Manual sets out Audit Scotland's SoQM using the components of ISQM (UK) 1. This includes information on the framework of quality monitoring activities which support continuous improvement of our audit work.

Audit Quality Framework

10. A separate team within Audit Scotland (Audit Quality and Appointments) is independent from the audit delivery teams and maintains an Audit Quality Framework (AQF) which sets out a framework to provide the Auditor General and the Accounts Commission with quality assurance over the work conducted on their behalf by Audit Scotland and external firms.

11. A revised AQF was issued in November 2024. The key changes are to have Audit Quality Indicators (AQIs) that have a greater focus on external and internal quality reviews, and delivery of audit outputs against due dates. In addition, the three lines of assurance model has been removed. More information on the revised AQIs is provided in the QPAS report.

1. Overview of Audit Scotland

This chapter explains the tripartite model for public audit in Scotland, and the governance arrangements for audit quality in Audit Scotland

Audit Scotland

12. Audit Scotland is established under the Public Finance and Accountability (Scotland) Act 2000. We are Scotland's national public audit agency and provide the Auditor General for Scotland and the Accounts Commission with the services they need to carry out their duties.

Tripartite model

13. The Auditor General, Accounts Commission, and Audit Scotland lead the system of public audit in Scotland to ensure that it is independent, objective, and adds value. We carry out this 'system leader' role by coordinating and supporting the delivery of high-quality public audit in Scotland by all audit providers in consultation with key stakeholders. We work with professional regulators, audit and accountancy bodies and private-sector audit firms to promote and strengthen public audit and improve financial and performance reporting by public bodies.

14. Public audit in Scotland 2023–28 sets out our shared vision, mission and outcomes for public audit. We also have a Corporate Plan on how we attend achieving those outcomes. More information is provided in our Annual Report and Accounts.

15. The Auditor General and Accounts Commission appoint Audit Scotland staff in our Audit Services business group (ASG) to undertake most of the annual audits of public bodies across Scotland. They appoint private firms to carry out the remaining annual audits. The Audit Quality and Appointments team (AQA) ensure the Auditor General and Commission are provided with independent assurance on the quality of the audits delivered by all audit providers using the AQF.

16. Audit Scotland delivers the performance audit programmes of the Auditor General and the Commission through our Performance Audit and Best Value business group (PABV).

17. Audit Scotland's Innovation and Quality business group (I&Q) provides support to ASG and PABV in the delivery of high-quality audits.

Governance

Board and standing committees

18. Audit Scotland's Board sets and monitors the organisation's strategic direction. This includes approving the AQF.

19. The Audit Committee is one of the board's two standing committees and plays a key role in the governance around audit quality. For example, the committee:

- provides assurance to the board on the arrangements for audit quality monitoring and reporting
- considers the assurances provided in the QPAS report prior to its submission to the board
- recommends the approval of this transparency report to the board.

20. The other standing committee is the Remuneration and Human Resources Committee which sets and reviews the main terms and conditions for Audit Scotland staff.

Quality and Ethics Committee (QEC)

21. Audit Scotland's QEC comprises representatives from all business groups. The QEC's aim is to drive continuous improvement in audit quality and promote high ethical standards. The focus of the QEC's work is to promote compliance with:

- professional standards, and internal guides, so that all audit work performed by Audit Scotland is delivered to a consistently high quality
- the FRC Ethical Standard and Audit Scotland's policy on that standard so that audit teams conduct themselves in a manner that meets the highest ethical expectations.

2. Delivering high-quality audits

This chapter sets out the arrangements in Audit Scotland for delivering high-quality public audits

Introduction

22. ISQM (UK) 1 states that high-quality audits are achieved through planning and performing audits and reporting on them in accordance with professional standards and applicable legal and regulatory requirements.

23. The delivery of high-quality annual audits and performance audit outputs has always been a key objective of our audit work. Our audits provide independent assurance, recommend improvements, and support the basis for effective scrutiny.

24. Key to the arrangements on audit quality is the designation of an Audit Director in ASG and in PABV to act as a lead on audit quality and set the appropriate tone from the top. These quality leads work collaboratively with I&Q.

25. Some quality procedures are carried out by each audit team as the audits progress. Other quality procedures are performed centrally (discussed in Chapter 3).

Annual audits

26. ASG audit teams were responsible for delivering 155 statutory annual audits in 2023/24, which was approximately two-thirds of the audits commissioned by the Auditor General and Accounts Commission.

27. The Executive Director of ASG has overall accountability for timely and impactful audits which are delivered by audit teams led by an engagement lead for each audit. Engagement leads are usually Audit Directors but for less complex bodies the role is carried out by Senior Audit Managers. Engagement leads are formally appointed as auditor by the Auditor General and Accounts Commission for the audit years in the period from 2022/23 to 2026/27. The audit year 2023/24 was the second of that five-year appointment period.

28. The high-level framework for delivering annual audits is set out in the Code of Audit Practice approved by the Auditor General and the Commission, with more detail provided in supplementary guidance provided by I&Q and AQA.

29. The main outputs from the 2023/24 annual audits were:

- 135 Annual Audit Plans
- 155 Independent Auditor's Reports (some charities administered by councils have multiple sets of accounts each with a report, but for simplicity each charity is counted here only once)
- 135 Annual Audit Reports (some audits do not require a separate report of this type hence the lower number).

30. Depending on local circumstances, other outputs related to the annual audit included management reports and certificates for government returns.

31. At the core of the annual audit is the public body's financial statements. An audit of the financial statements involves audit teams examining the financial transactions and balances of each body to conclude on whether the financial statements are in accordance with the applicable financial reporting framework and free from material misstatements. The relevant professional standards under which financial statements audits require to be performed are International Standards on Auditing (ISAs) as applied by the FRC in the UK.

32. ISA (UK) 220 deals with the specific responsibilities regarding quality management at the individual audit level. This encompasses quality procedures that are performed by each audit team as the audits progress. This includes, for example:

- the work of individual audit staff being reviewed by more senior colleagues within the team to confirm that objectives are being met and the work is being performed in accordance with required methodologies
- the provision of on-the-job coaching by more senior audit staff to reinforce learning from formal training to support staff in the practical application of the audit approach
- the engagement lead having overall responsibility for the quality of the audit, including sufficient and appropriate involvement throughout the audit to be able to determine that the significant judgments made, and the conclusions reached, are appropriate.

33. Engagement leads provide opinions on the annual accounts of public bodies to either provide assurance that they are free from material misstatement or report any material misstatements that audit procedures identify that are not corrected. In most cases, audited bodies make correcting adjustments for the misstatement that audit teams identify. In 2023/24, these adjustments were particularly impactful in areas such as pensions and asset valuations, the application of IFRS 16 and related disclosures. For example:

- A large number of bodies continued to have net pension assets which originally occurred in 2022/23. Considerable work was required during 2023/24 to revisit and restate prior year figures where they were identified as materially incorrect based on enhanced guidance. Our Annual Audit Reports across a number of sectors included a significant number of material adjustments identified by the audit process.

- An issue relating to the tool used for calculating and presenting pension figures in the Remuneration and Staff Reports of health boards was identified through audit testing. Although the tool correctly calculated pension figures, the way in which figures were presented resulted in an error that was repeated across most boards' accounts. This had also been the case the previous year. As a result, the cash equivalent transfer value of pensions was incorrectly reported. Due to prompt intelligence sharing between audit teams in collaboration with I&Q, these issues were able to be corrected without delays to audit completion and actions have been taken by health boards that will ensure this issue is not repeated.

- The Scottish Government audit team identified that provisions in respect of the Redress Scheme (set up to make payments to victims of historical child abuse) had not been discounted to take account of the time value of money. The value of the provision was reduced by £80.7 million.

- The audit team at a council identified that software licences had been incorrectly capitalised rather than being treated as revenue spending, resulting in intangible assets of £5.487 million being overstated.

34. The Code of Audit Practice requires the scope of annual audits to be wider than the annual accounts so that it also encompasses conclusions on certain aspects of a public body's corporate arrangements, namely financial sustainability; financial management; vision, leadership and governance; and use of resources to improve outcomes. Some examples of recommendations arising from that wider scope work are provided at Appendix 1.

Statutory reports on issues arising from annual audits

35. The Auditor General and the Controller of Audit can prepare a report on matters arising from the annual audits for submission to the Scottish Parliament or Accounts Commission respectively. Collectively, these are known as statutory reports. Audit Scotland, in concert with the appointed firm where applicable, supports the Auditor General and Controller in the preparation of statutory reports, and also provides evidence at Parliament and to the Commission.

36. Five statutory reports highlighting matters arising from the 2023/24 annual audits (and one follow-up from 2022/23 audits) were prepared during the 2024/25 financial year. These were on the following subjects:

- A significant fraud at Aberdeen City Council.
- Ferguson Marine Port Glasgow (Holdings) Limited.
- Governance and management failings at the Water Industry Commission for Scotland.
- The Scottish Government Consolidated Accounts.
- An update report on Renfrewshire Council's failings in providing school accommodation for Dargavel.

37. The Controller of Audit also uses these statutory powers to report to the Accounts Commission on each council's performance in meeting its Best Value duties at least once over the five-year audit appointment. During the 2024/25 financial year, the Controller prepared six reports on selected councils.

Performance audit outputs

38. The Executive Director of PABV is accountable for the quality of performance audit outputs set out in the PABV dynamic work programme. Performance audit outputs comprise reports arising from full performance audits, sectoral overview outputs, and other outputs which are designed to communicate our findings in a timely, relevant and impactful way.

39. PABV's work programme is dynamic and is continually refreshed to ensure it remains up-to-date, agile, responsive to current risks and emerging audit intelligence, and reflects the strategic priorities of the Auditor General and the Accounts Commission.

Performance audit reports

40. Performance audit reports focus on the economy, efficiency and effectiveness of public services. Performance audit reports generally consider specific policy areas, services, projects or programmes. The Auditor General and the Accounts Commission use feedback from stakeholder engagement and consultation to inform the themes and proposed topics for performance audit reports. Five performance audit reports were published during the 2024/25 financial year.

41. Performance audits are conducted in accordance with professional standards issued by the International Organisation of Supreme Audit Institutions (INTOSAI) since 2019. These are authoritative international consensus-based guidance on how to deliver high-quality performance audit work.

Sectoral overview outputs

42. Some outputs provide an overview of issues in a particular sector. Five overview outputs were issued during the 2024/25 financial year on local authorities, integration joint boards, health boards, and colleges.

Other performance audit outputs

43. We deploy a wide range of outputs to communicate our audit findings and insights, engage our stakeholders and ensure our work is accessible and valuable to those who use and provide public services in Scotland. We draw on the wide range of material we have available and our unique insights to produce outputs which add value and promote continuous improvement. Fourteen briefing papers, blogs and other outputs were published during 2024/25 including:

Briefing papers that summarise key issues

such as Additional support for learning

Blogs that initiate debate and raise awareness

such as Council Tax rises in Scotland

Other outputs on key issues

such as The National Fraud Initiative in Scotland

44. INTOSAI standards also apply to these other outputs, but in a proportionate manner.

45. Audit Scotland's framework for capturing, monitoring, evaluating and reporting the impact of recommendations also applies to those arising from our performance audit outputs. Examples of impact are briefly outlined in Appendix 1.

Financially qualified staff

46. ASG staff were appropriately qualified to perform 2023/24 annual audits, with 97 per cent per cent of staff either qualified with a Consultative Committee of Accountancy Body (CCAB) or Chartered Institute of Management Accountants, or in training for a CCAB qualification (96 per cent last year). The remaining three per cent, although not in CCAB training, are experienced auditors who we deploy in appropriate work. Several ASG staff also hold qualifications in other specialist areas, such as IT.

47. PABV staff have a wide range of professional and policy backgrounds. These include audit, research, and public policy-related qualifications in disciplines such as economics and social sciences. This depth and breadth of knowledge and insight enhances the delivery of high-quality work. In addition, 12 PABV staff were also either CCAB qualified or in training for a CCAB qualification during 2024/25, which supports flexible working across Audit Scotland.

48. All financially qualified staff at Audit Scotland are required to maintain their Continuing Professional Development and take ownership of their own learning and development pathway.

Supporting the delivery of audits

49. I&Q supports audit teams in the delivery of high-quality audits. The main activities are summarised in the following table:

Activity	Features
Development of approaches for the financial statements component of the annual audits and performance audits	It is important ASG and PABV deploy robust audit approaches performed in the most efficient way as this underpins the delivery of high-quality audits on a consistent basis. I&Q produces the Audit Guide for ASG and the Audit Management Framework (AMF) for PABV, along with supplementary guidance on areas that arise during the year. These internal guides set out methodologies that assist in the practical application of professional standards. Looking ahead, we are undertaking a key corporate project to modernise and transform our audit approaches, so they are clearly defined, risk-based, data driven and delivered through integrated auditing software and tools that automate and standardise processes.
Provision of a central support ‘help-desk’ for auditors to consult with on difficult or contentious matters	Consultation helps to improve overall audit quality by: • improving the application of professional judgement • assisting the appropriate application of audit methodologies and professional standards • facilitating meaningful discussion and challenge which should result in more robust, defensible and better documented audit evidence.
Preparation of guidance on the application of accounting standards to the public sector	The guidance supplements the Code of Audit Practice and is provided to ASG (and the appointed firms) to: • inform their judgement • maximise consistency • support the delivery of high-quality audits.

Activity	Features
Application of technology to optimise both audit efficiency and quality	The Digital Audit team within I&Q supports auditing in a digital environment through the use of data analytics and automation tools. The team uses specialist expertise to identify, develop and apply technology to optimise the efficiency and quality of audit work. This includes the development of tools that analyse data to deepen the insights gained.
Delivery of learning and development	We provide a wide range of learning opportunities to support the delivery of high-quality audits including: • technical training courses on subjects such as audit methodologies, financial reporting developments and data analytics • personal development learning such as writing in plain language, management essentials, emotional intelligence, mental health learning and recruitment and selection.

50. The delivery of the Best Value component of annual audits is supported by a central team within PABV who provide guidance on the required annual thematic work and draft the related audit reports.

Developing our people

51. It is important that our audit staff are appropriately trained and equipped and have the competence and capability to consistently perform high-quality audits.

52. The increasing expectations placed on auditors coupled with a shortage of qualified and skilled staff across the audit profession means it is crucial that we retain and develop our staff as well as attract and recruit high calibre individuals. This emphasises the need for us to invest in continuous professional, technical and personal learning and development (L&D). This is a key element of our People Strategy.

Learning and developing arrangements

53. An internal audit review of Audit Scotland’s L&D arrangements during the 2024/25 financial year looked at the processes in place to ensure that staff receive appropriate L&D to meet their, and the organisation’s, requirements. It reviewed the support on offer, the process in place for monitoring staff L&D and the reporting arrangements in place. The review provided a strong level of assurance (the highest available) on the L&D arrangements, highlighting several points of good practice.

Learning and Development plan

54. We published an L&D plan in August 2024. The broad range of topics in the L&D plan focuses on helping our colleagues to develop the right knowledge, skills and behaviours to deliver high-quality audits, demonstrate Audit Scotland's values and equip them for the future.

55. The 2024/25 plan introduced learning pathways for each band of staff, giving clarity over professional, mandatory and development training. Individuals access their learning pathway through our corporate Learning Management System.

56. The self-directed learning through the personal development process is designed to empower colleagues to take ownership of their development and tailor their learning to meet their individual professional needs and career aspirations.

57. The mandatory training in key areas includes crucial management skills aligned to organisational values, including identifying and managing challenging behaviours, effectively addressing underperformance, and recognising good performance.

58. The 2024/25 plan included an in-person Financial Audit Update day held in March 2025 which links our strategic priorities with the financial audit approach and changes in financial reporting requirements for 2024/25. The event was mandatory for colleagues involved in the delivery of the annual audit.

Delivery of professional learning

59. We deliver training on a hybrid basis, which means it includes instructor-led training and e-learning. The average number of days of learning and development recorded by each member of staff during 2024 was 19.8 days (2023: 18.5 days).

60. We have L&D opportunities planned for colleagues for 2025 and will continue to draw on the expertise of the Professional Support and Learning team and other colleagues as we deliver new training and support improvement. Our learning offer includes a range of online training courses and face-to-face events addressing technical knowledge, audit skills, business skills and initiatives to help colleagues with their health and wellbeing.

Professional trainees

61. Every year we contribute to developing the next generation of public sector finance professionals. Audit Scotland runs one of the largest public sector accountancy training schemes in Scotland, with around 60 colleagues working towards Institute of Chartered Accountants in Scotland (ICAS) qualifications. In 2024, our trainees passed 132 out of 140 exams (94 per cent) on their first sitting, which maintains last year's performance. We work with ICAS to review the syllabus and support for trainees.

62. We remain committed to our graduate trainee, modern apprenticeships, student summer internship, and college and school leavers programme as part of our workforce planning and long-term talent strategies. We also support audit officers with individual learning agreements to complete relevant qualifications.

63. While many trainees choose to continue their career with us after completing their trainee programme, we are proud of colleagues' career successes in other areas of the public sector, including in finance management teams, where they apply the skills, knowledge, and behaviours developed with us as Audit Scotland.

Independence and ethics

64. ISQM (UK) 1 requires all audit staff to understand relevant ethical requirements, including those relating to independence, and to fulfil the related responsibilities. The independence of auditors from the public bodies they audit is a fundamental principle of public audit. We consider that auditor independence is paramount and have stringent controls in place to mitigate conflicts of interest that may create actual or perceived threats to our independence. Controls in place at Audit Scotland to protect our independence include those set out in the following table:

Area	Control
Ethical Standard	Adoption of the FRC's Ethical Standard and the preparation of a policy that applies the standard to the specific circumstances of public audit.
Ethics Partner and Deputy	The Executive Director of I&Q is our Ethics Partner, as this position has the necessary seniority, experience, and authority to ensure compliance with the Ethical Standard. Our governance arrangements around ethics also includes the Director of Quality and Support as Deputy Ethics Partner.
Hospitality register	A rigorous process in place for staff to declare hospitality and gifts whether received, declined, or provided. This includes maintaining a register of all such incidents.
Fit and proper declarations	The completion of 'Fit and Proper' forms by all staff annually, which are reviewed by the Deputy Ethics Partner. The form confirms compliance with professional standards and discloses any possible conflicts of interest. Potential conflicts are flagged to the Ethics Partner so that any necessary mitigations can then be put in place.

Area	Control
Non-audit services	Arrangements to control non-audit services (ie, professional services provided to an audited body other than core audit activity). Audit Scotland auditors are required to obtain permission from the Ethics Partner and AQA before committing to any non-audit services. The approval process includes consideration of both the Ethical Standard and the Code of Audit Practice, recognising the wider scope of public sector audit and the consequent increased risk of 'self-review' threats to independence. There were no non-audit services carried out in respect of 2023/24 annual audits.

65. Auditor independence was maintained across all aspects of our audit work in 2023/24 annual audits and in the PABV work programme for 2024/25.

System leader for public audit

66. Audit Scotland's responsibilities for leading the system of public audit in Scotland are driven by I&Q working closely with senior colleagues in ASG and PABV. Some key activities in this regard are summarised in the following table:

Area	Activity
Parliamentary scrutiny	Our work is used by the Public Audit Committee (PAC) and Parliamentary subject committees. We hold briefing and evidence sessions with the committees, attend business planning meetings and contribute to committee enquiries. Feedback from MSPs on the quality and value of Audit Scotland's work in supporting parliamentary scrutiny continues to be strong.
Professional bodies and institutes	Directors and other senior staff are members of the accounting standard-setting bodies for local government in Scotland and at a UK level, as well as panels and boards operated by the UK accounting institutes. We are also often asked to contribute to conferences, seminars and other forums. For example, we regularly provide updates at meetings of the finance director groups in local government and health sectors.
Technical and other guidance	We provide guidance to all appointed auditors, including the appointed firms, to supplement the Code of Audit Practice, all of which are available on the website.

Area	Activity
Sharing good practice in financial reporting	We carry out thematic reviews of specific disclosures in the audited annual accounts of public bodies. We share the good practices, and any areas of improvement, to help drive up the quality of financial reporting.
Roundtable events	We host roundtable events for deeper discussions on a particular issue.
Sector meetings	We host periodic meetings between Audit Scotland audit staff and the appointed firms to discuss the key audit risks and issues arising in each sector.
Public Audit Forum	Audit Scotland is a member of the Public Audit Forum (PAF), a consultative and advisory body made up of the four UK national audit agencies. We work with them to enhance the efficiency and effectiveness of public audit and promote high standards of audit across the public sector through active cooperation between the national audit agencies, and the sharing of knowledge and good practice on the application of professional standards and codes of audit practice.
Influencing developments in the audit profession	We closely monitor developments in the auditing profession, and consider how these may impact our audit approaches and the work we do to drive forward quality in public audit in Scotland more generally. We contribute to consultations and discussion papers to ensure that Audit Scotland's distinctive voice is heard.
Scrutiny bodies	We work with other scrutiny bodies to make sure that the scrutiny of local government bodies is better targeted and more proportionate to identified risks. These include the scrutiny bodies for health and social care, education, and housing. We also attended the annual Improvement Service Public Sector Improvement Forum, a sectoral learning event where we deliver an update on best value and requested areas of interest.

3. Internal quality reviews

Second level of assurance

This chapter explains the different types of internal quality reviews carried out by Audit Scotland and also reports the results

Introduction

67. ISQM (UK) 1 requires the establishment of a monitoring and remediation process to provide information on the design, implementation and operation of the SoQM, and take appropriate actions to respond to identified deficiencies.

68. Internal audit quality monitoring arrangements in place across Audit Scotland include:

- the quality team within I&Q performing systematic quality reviews of annual audits and performance audit outputs
- audit directors in ASG carrying out engagement quality reviews (EQRs).

Types of internal quality reviews

69. The different types of quality review undertaken are summarised in the following table:

Type	Activity
Quality reviews of a sample of audits in progress (hot reviews)	Hot reviews are carried out on audits that are in progress before the related audit output is issued and therefore directly contribute to the quality of the audit.
Quality reviews of a sample of completed audits (cold reviews)	Cold reviews are carried out on completed audits (ie, after the audit output had been issued) to assess compliance with applicable professional standards and internal guides. Audits subject to full cold reviews are graded (see below for information on grades). Follow-up cold reviews are not graded.
Engagement quality reviews	EQRs are an objective evaluation of the significant judgments made by the audit team and the conclusions reached thereon. They are conducted before the report is issued to provide additional audit assurance.

Type	Activity
Thematic and in-flight reviews	Thematic and in-flight reviews of both in-progress and completed audits assess particular areas of interest or risk, sometimes over a range of multiple audits.

70. Audit Scotland's arrangements ensure that the individuals performing the quality reviews have the required competence and capabilities, including sufficient time, to perform the reviews effectively and objectively.

Hot reviews

Annual audits

71. For annual audits, the I&Q quality team's programme of hot reviews covered six 2023/24 audits across all sectors and was completed in December 2024.

72. Good practice and areas for improvement were identified and shared with ASG colleagues. Common areas are summarised in the following table:

Good practice	Areas for improvement
Consultation on difficult and contentious matters (ISA (UK) 220)	Risk assessment of financial IT systems (ISA (UK) 315)
Consultation regarding potential modifications to the audit opinion (ISA (UK) 700)	Documentation of controls activities for key systems (ISA (UK) 315)
Fraud inquiries with management (ISA (UK) 240	Consideration of service organisation relationships and related controls (ISA (UK) 402)
Application of professional scepticism (ISA (UK) 200)	Review of complex IT systems and related general IT controls (ISA (UK) 315
Effective Engagement Lead review of areas of risk and critical judgement (ISA (UK) 220)	Documenting challenge over land and building valuations (ISA (UK) 500)

Performance audit outputs

73. Hot reviews are thematic and were carried out on two performance audit outputs. The themes and related good practice identified for the 2024 reviews are summarised in the following table:

Theme	Summary of good practice
Audit budgeting	• Good compliance with guidance on budgeting • Monthly review and monitoring of budgets • Increased budget to mitigate the identification of a risk to delivery.
External stakeholder engagement	• Preparation of detailed stakeholder engagements plans • Establishment of advisory groups.

Cold reviews

Grading methodology

74. Audit Scotland uses the same four-point grading methodology that the Financial Reporting Council (FRC) uses for their quality reviews. The grades depend on the extent of the quality reviewer's concerns over:

- documentation of the audit work
- sufficiency and quality of evidence
- appropriateness of significant judgements
- other areas (individually or collectively).

75. A description of each grade is set out in the following table:

Grades used in cold quality reviews

Grade	Standard	Extent of concerns about weaknesses in these areas			
		Documentation	Evidence	Significant judgements	Other areas
1	**Good**	Limited	None	None	Limited
2	**Generally acceptable but small number of improvements required**	Restricted	Limited	Limited	Some
3	**Some improvements required**	Widespread	Some	Some	Significant
4	**Significant improvements required**	–	Significant	Significant	Very significant

76. It is not necessary for the quality reviewer to have concerns in all four areas. For example, some concerns about the sufficiency and quality of evidence would result in a grade 3, even if there were no concerns about documentation, significant judgements, or other areas.

Annual audits

77. The I&Q quality team carried out a programme of cold reviews of the 2023/24 annual audit at six audited bodies. The key criteria used to determine the selection are as follows:

- Risk factors including risk of material misstatement, technical complexity of the audit, and prior year issues.
- An engagement lead is reviewed at least once in every audit rotation.
- Staff turnover on audit engagements.
- Consideration of EQRs undertaken.
- Consideration of previous internal and external quality reviews.

Grades

78. Four of the six audits (67 per cent) were graded at 2 or above (one fewer than last year (83 per cent). The AQF sets a target of 80 per cent. However, for the third year in a row, no audits were graded at 4 which meets the AQF target. A summary of the results is set out in the following table:

Results of internal cold quality reviews on 2023/24 annual audits

Grade	2022/23	2023/24
1 Good	2	**0**
2 Generally acceptable but a small number of improvements required	3	**4**
3 Some improvements required	1	**2**
4 Significant improvements required	0	**0**

79. The above grades were arrived at after a moderation process involving senior colleagues in I&Q with input from the quality reviewer for each audit.

Strengths and good practice

80. The quality reviews highlighted good practice, including the examples summarised in the following table:

File review	Good practice identified
File review 1	The planning files were completed to a good standard, with clear documentation of the audit approach and risk assessment. In addition, fraud arrangements and related inquiries with management and those charged with governance were well documented. For the audit of service concession arrangements, the audit team closely followed the requirements in Audit Scotland's technical guidance note. This included reviewing the application of the financial flexibility permitted by the Scottish Government over service concessions and clear documentation of audit work performed. Matters arising from the audit were well documented, including clear minutes of a clearance meeting with officers, discussing key points and remaining steps to resolve issues and conclude the audit.
File review 2	The audit team documented detailed judgements to support their rebuttal over the presumed risks of fraud. A detailed breakdown of the main income and expenditure steams had been recorded along with conclusions on the potential for fraudulent financial reporting. The audit team used a template to consider the report provided by the auditors' expert on actuarial assumptions used in the valuation of pension liabilities. This was well documented and provided a clear link between the expert's report and the audit approach. There was a high standard of file review for the Best Value work, which added to the quality of the audit report.
File review 3	The work carried out on the management commentary was comprehensive, well documented and resulted in several amendments to ensure compliance with the financial reporting framework. Fraud inquiries with management, internal audit and the Audit Committee were well documented and there was a good description on file of fraud arrangements, related policies and reporting to the Audit Committee.

File review	Good practice identified
File review 4	The audit team performed a clear assessment of relevant laws and regulations. A risk assessment was completed for each element reviewed which was clear and easy to follow. The audit team prepared thorough documentation to set out their assessment of fraud risk, including the rebuttal of fraud over income and expenditure and consideration of the main categories of transactions, and a review of the fraud reporting arrangements. The work carried out on both the Performance Report and Governance Statement was comprehensive, well documented and resulted in several amendments to the annual report and accounts to ensure compliance with the financial reporting framework.
File review 5	The audit team evidenced a sound understanding of the financial reporting requirements for the downward revaluation of a significant property. Given the complexity of the issue, the engagement team consulted with Audit Scotland's Professional Support team to draw their conclusions, evidencing good use of professional scepticism.
File review 6	The audit team performed a detailed analysis of the journals processed in the year taking into account the fraud risk characteristics. The sampling approach applied by the audit team was clearly documented and justified. The audit work performed to review compliance with laws and regulations was comprehensive and clearly concluded on the requirements of all aspects of the audit programme. The audit team completed a detailed review of the Performance Report and confirmed full compliance with all disclosure requirements.

Areas for improvement

81. The quality reviews identified areas for improvement, including those set out in the following table:

Area	Areas for improvement
Service organisations	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.

Area	Areas for improvement
Valuation of land and building	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.
Heritage assets	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.
Other improvement areas	Other key findings were observed on individual audit files, in areas including: • Audit evidence (ISA (UK) 500): There were some instances reported where further audit evidence could have been obtained across a few account areas, such as accruals, and equity investments. • Risk assessment of financial IT applications (ISA (UK) 315): There were some instances where the review of externally hosted applications and relevant controls could have been clearer, such as consideration of general IT controls where IT risks may be present. Some documentation improvements when assessing the wider IT environment were also noted. • Related parties (ISA (UK) 550): Some improvements were identified related to obtaining evidence to support management inquiries and ensuring the completeness of related party transactions had been considered for all senior officers.

Performance audit reports and related outputs

82. Two quality reviews of performance audit outputs were carried out between January and March 2025. Selections were based on consideration of engagement leads, profile and complexity of the audit, and follow up of improvement areas raised in prior year quality reviews.

Grades

83. One review was graded at 1 and the other was graded at 2 which shows an improvement from last year (two graded at 2). This exceeds the target in the AQF which is for 80 per cent of reviews to be graded at 2 or above.

Strengths and good practice

84. The quality reviews highlighted good practice, including the examples summarised in the following table:

Output	Good practice identified
File review 1	• The review and approvals log for the planning section was comprehensive. There was a clear description of the review points and actions taken to address them. • Stakeholder engagement through the audit was very good. For example, the team engaged with a wide range of stakeholders to inform the audit scope and sought feedback on the emerging messages. • When a new member joined the team the audit manager confirmed that there were no conflicts of interest. • The approach the team adopted for recording interview schedules and meeting notes worked well. • The audit team clearly documented the rationale for selecting fieldwork sites. • The audit judgements in the final report were supported by relevant case studies.
File review 2	• The audit team engaged with the Equalities and Human Rights Advisory Group (EHRAG) early and advised that the group provided invaluable advice on equalities and human rights issues in the sector, what to consider as part of the methodology and suggested wider stakeholder contacts.

Areas for improvement

85. The quality reviews identified areas for further improvement, including those set out in the following table:

Area	Improvement
File review 1	The Record of Evidence could be clearer in linking evidence to findings and conclusions.
File review 2	The documentation of reviews and approvals could be improved.

Sharing findings

86. Reports setting out the findings from the reviews have been issued directly to the relevant audit teams.

87. General findings are also shared with other audit teams to highlight common areas for improvement and good practice more widely. Findings are shared in a number of ways including periodic Quality Bulletins and feedback sessions, including a joint session with I&Q and ICAEW.

Engagement quality reviews

88. ISQM (UK) 2 deals with the performance of an EQR including the appointment and eligibility of an engagement quality reviewer. EQRs in Audit Scotland are typically performed by an Audit Director to review significant judgements and conclusions reached by the audit team, and the appropriateness of proposed audit opinions of high-risk audits.

89. ISQM (UK) 2 became mandatory for financial statements audits for periods beginning on or after 15 December 2022, ie 2023/24 audits onwards. However, as encouraged by the standard, Audit Scotland adopted it early and successfully implemented it for 2022/23 annual audits. This included I&Q developing a new EQR procedure and supporting guidance. Six EQRs were carried out on 2023/24 annual audits.

90. ISQM (UK) 2 is also effective for ‘other assurance and related services engagements’. Robust review arrangements, such as a peer review process, are already in place for performance audit outputs and therefore I&Q and PABV are considering where EQRs may add value to those outputs.

4. External independent cold reviews

This chapter explains the arrangements for independent quality inspections and reports the results

91. In addition to the internal quality reviews carried out by the I&Q quality team described in Chapter 3, there is also a programme of external quality inspections carried out by an independent reviewer. AQA commissioned ICAEW to carry out external cold reviews of a sample of 2021/22 to 2026/27 annual audits and performance audit outputs over the equivalent period.

92. External quality reviews are carried out by ICAEW on audits performed by Audit Scotland and the appointed firms to assess compliance with applicable professional standards. These reviews also use the FRC grading methodology which facilitates comparability with the internal reviews.

Annual audits

93. ICAEW carried out a cold review of the 2023/24 annual audit at six audited bodies.

Grades

94. Three cold reviews were graded at 2 or above (50 per cent) maintaining last year's performance, including two graded at 1 (34 per cent) compared with one last year which is an excellent result. The AQF target is for 80 per cent of reviews to be graded at 2 or above. Two reviews were graded at 3 (34 per cent) which is also an improvement on the outcomes last year. However, one review was graded at 4 for the first time in a couple of years. A summary of the results is set out in the following table:

Results of external cold reviews

Grade	2022/23	2023/24
1 Good	1	2
2 Small number of improvements required	2	1
3 Some improvements required	3	2
4 Significant improvements required	0	1

95. Audit Scotland takes all grade 4 reviews seriously and is taking appropriate follow-up actions to address the issues identified to ensure they do not recur and are isolated. They include the following:

- A review of the working papers for the audit identified that the findings related to issues with the way in which the audit approach was implemented at that body, rather than deficiencies in the audit approach itself that need to be addressed.
- The follow-up actions also identified a classification misstatement in the 2023/24 accounts that exceeded the threshold set by the auditor for materiality but did not impact the net liability position. The audit team will engage with the body to make the necessary adjustments in 2024/25.
- A restricted cold review of another 2023/24 audit performed by the same engagement lead was carried out by the quality team and the same issues were not found.
- The engagement lead will be supported by a hot review for the 2024/25 audit.

96. Some of the areas requiring improvement for the reviews graded at 3 may be common to other audits of the same type (pension funds and charitable trust funds) and wider action is being taken to address them.

97. More information on how we follow up grade 3 and 4 reviews is provided in Chapter 7.

98. Overall, Audit Scotland views the quality grades as generally a satisfactory outcome but with some areas for improvement. We have a strong culture of continuous improvement, and our remedial actions will reflect ICAEW's key finding described above.

99. Across the 12 internal and external cold reviews of 2023/24 annual audits:

- seven (58 per cent) were graded at 2 or higher (eight in 2022/23)
- two (17 per cent) were graded at 1 (three in 2022/23)
- four (25 per cent) were graded at 3 (no change from 2022/23)
- one (8 per cent) was graded at 4 (none for 2022/23 or 2021/22).

100. It is important to note that this is a snapshot of a sample of audits and, while a year-on-year comparison may be of interest, caution should be exercised when drawing conclusions.

Good practice

101. The ICAEW reviews identified examples of good practice, including the examples summarised in the following table:

Output	Good practice identified
File review 1	• The review and consideration of the work carried out by the external valuer on fixed assets was thorough and clearly documented.
File review 2	• Good awareness of the materiality of the individual charities held and the identification of material items for testing. • A clearly documented assessment, including identification, of journals which could be susceptible to management override.
File review 3	• The IT risk assessment document clearly sets out all the relevant IT systems and how they operate in order to assess whether there are any IT risks for the audit.
File review 4	• None reported.
File review 5	• The receipt audit sampling document clearly sets out the approach and rationale to the testing carried out together with the procedures and evidence relevant to each assertion.
File review 6	• Team risk assessment meetings provided a clear summary of audit approach and assessment of risk. • Clear consideration of the cyclical approach to controls. • For both the custodian and the investment managers reviewed as part of unquoted investment testing, there was a clear assessment of recording of transactions and pricing of investment controls.

Areas for improvement

102. ICAEW's principal findings on each audit reviewed are briefly summarised in the following table:

Area	Principal finding
File review 1	• No principal findings.
File review 2	• Over reliance on the administrating council's audit work leading to gaps in audit documentation and evidence.
File review 3	• No principal findings.
File review 4	• Some evidence gaps around income, payroll and litigation claims.
File review 5	• The audit team did not demonstrate they obtained a sufficient understanding of sundry liabilities and unallocated receipts and there was no evidence of specific testing of those material balances. • The testing of the accuracy of payments to the Scottish Consolidated Fund was limited to agreement of bank statements. • There was insufficient evidence of searching for litigations and claims. • The audit team's risk assessment on financial sustainability did not sufficiently reflect the entity's key financial risks.
File review 6	• The risk assessment did not adequately direct testing of level 3 investments leading to significant gaps in audit evidence and documentation.

Performance audit outputs

103. ICAEW carried out a cold review of two performance audit outputs during 2024/25.

Grades

104. Both outputs were graded at 2 (two last year). This meets the AQF target that 80 per cent of reviews should be graded at 2 or above. While that is a good result, there was only one common area for improvement (described below) that, in ICAEW's view, prevented both reviews being graded at 1.

105. All four internal and external cold reviews were graded at 2 or higher meaning only a small number of improvements were required (100 per cent at 2 or higher last year).

Good practice

106. ICAEW identified good practice in both reviews, and highlighted the examples summarised in the following table:

Output	Good practice identified
File review 1	• There was good use of definition boxes, hyperlinks and graphics to assist the reader of the report. • The Log of Key Decisions and Approvals and the evidence grid were clearly completed and linked. • The fact check document was thorough, well completed and linked.
File review 2	• 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.

Areas for improvement

107. ICAEW identified only one area for improvement as set out in the following table:

Area	Finding
Documenting assessment of fraud and consideration of materiality	ICAEW reported that the audit teams did not sufficiently document their assessment of fraud or consideration of materiality as required by the INTOSAI standards.

108. This area for improvement was also raised last year and Audit Scotland has already taken remedial action. Work was already under way on the two outputs reviewed this year before the issue was identified which is why it was not remedied. Audit Scotland accepts ICAEW's independent judgement on the significance of this issue, but overall considers the outcome of the quality results to be excellent given there was only one principal finding, that it is a documentation issue rather than related to concerns over evidence, and that action has already been taken to address it.

5. Feedback

This chapter provides a summary of feedback on audit quality provided by audit teams and audited bodies

Feedback from audit teams

109. Audit Scotland carries out a survey every year of colleagues in ASG and PABV to seek views on how well they are supported to deliver high-quality audits.

110. For the 2024 survey, we expanded the range of questions to cover culture and aspects of audit support including: audit approach; digital audit tools; on the job support; guidance; helpdesk responses; L&D; and quality reviews. In order to interpret the results, the following definitions should be noted:

- High-quality audits mean compliance with applicable auditing and ethical standards, including being driven by risks, exercising professional scepticism, obtaining sufficient and appropriate evidence, and clear and timely reporting.
- Culture means Audit Scotland's shared values, beliefs and expectations that drive behaviours, activities and goals behaviours.

111. The response rate was 44 per cent which, although a decrease compared with last year, is high enough to be meaningful. We will nevertheless strive to increase the response rate next year. Some key results showed:

- 87 per cent reported that the culture of the organisation helps them deliver high quality audits (no equivalent question last year)
- 75 per cent (an increase from last year's 62 per cent) reported that on the job coaching, guidance and learning and development and other support helps them deliver high quality audits
- 59 per cent reported that internal quality reviews help them to deliver high quality audits (no equivalent question year). This rises to 79 per cent if neutral responses are excluded (on the basis that it is reasonable to conclude that many of those colleagues gave a neutral response because they had not been subject to quality review).

112. The detailed results are shown in the table below:

Do you agree or disagree that the following elements help you to deliver high quality audits?	Strongly agree %	Somewhat agree %	Neither agree nor disagree %	Somewhat disagree %	Strongly disagree %
1 The culture in Audit Scotland	42	45	7	7	0
2 The audit approach	22	58	7	11	2
3 The audit software	6	31	25	26	12
4 Digital audit tools	16	30	41	12	1
5 The on-the-job coaching, mentoring and review from team members	29	52	7	8	3
6 Guidance notes and templates	20	55	13	10	2
7 Responses from the support helpdesk	20	37	36	7	0
8 The learning and development events	12	60	11	16	1
9 The internal quality reviews	13	46	25	12	4
10 The external quality reviews	13	35	39	8	5

113. The results of the survey, including supporting comments, will be used to inform the audit support that audit teams receive.

114. There was also a question asking for views on whether audit teams felt they had enough time and resources to deliver high quality audits. 45 per cent (an increase from last year's 34 per cent) reported that they did have sufficient time and resource. Audit Scotland has a corporate project to improve resource management which should help to increase this percentage in due course.

Feedback from audited bodies

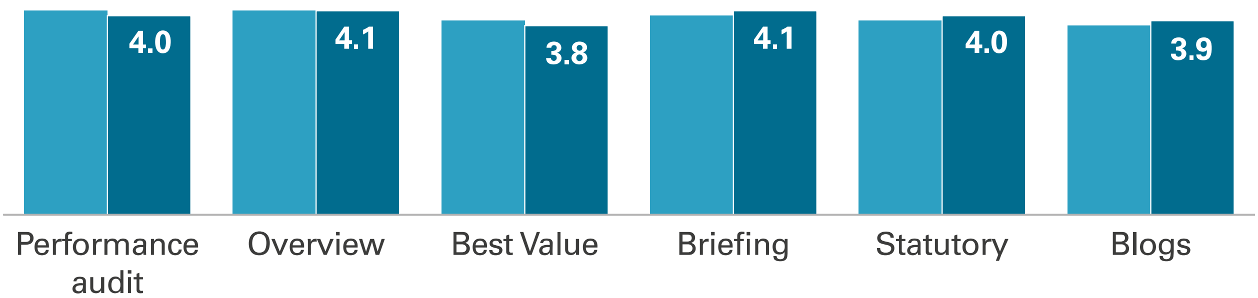
115. AQA commission an independent survey of external stakeholders to gather feedback on their views of the quality and usefulness of the annual audits and performance audit outputs. Individuals were asked to respond to questions using a scale of 1 (very poor) to 5 (very good). The target core is at least 4.

116. The results for 2023/24 annual audits for ASG were positive and are summarised in the following table:

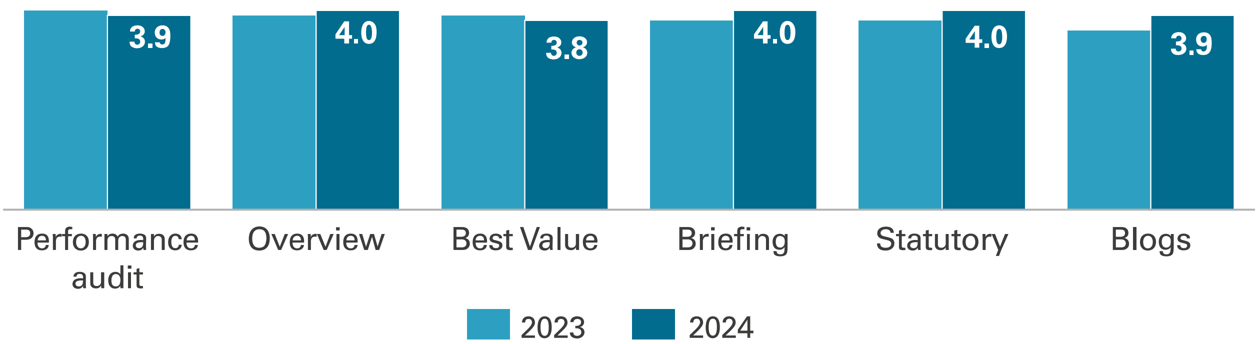
	2022/23	2023/24
Overall performance of ASG audit teams	4.3	**4.6**
Usefulness of Annual Audit Reports overall	4.2	**4.4**
Usefulness of recommendations	4.0	**4.1**
Sharing good practice	3.3	**3.5**

117. The results for the different types of performance audit outputs and statutory reports during 2024 are set out in the following charts:

Quality of PABV outputs



Usefulness of PABV outputs



118. The results are generally consistent with last year.

6. Timeliness of audit completion

This chapter summarises our performance against audit completion targets

Annual audits

119. Timely completion of annual audits supports effective scrutiny and improvement. An audit is complete when both the two main audit outputs (ie, the Annual Audit Report and Independent Auditor's Report) have been issued. ASG work to target completion dates set for all annual audit providers by the Auditor General and Accounts Commission.

120. For 2019/20 and 2020/21 audits, the Auditor General and Accounts Commission agreed to delay their target audit completion dates as a result of the impact of the pandemic on audit delivery. Those target dates began to transition back for 2021/22 audits, and the dates set for 2022/23 and 2023/24 audits were the same as those set before the pandemic (30 June for NHS, 30 September for local government, 31 August or 31 October for central government and 31 December for colleges). However, the Auditor General and Accounts Commission were clear that Audit Scotland should continue to prioritise audit quality over meeting those dates.

121. The following table shows the number and percentage of the main audit outputs for 2023/24 audits completed by the target date for each sector:

Sector	Independent auditor's report	Annual audit report
Local government	38 of 75 (50%)[1]	30 of 59 (51%)
NHS	12 of 12 (100%)	12 of 12 (100%)
Central government – agencies	6 of 10 (60%)	6 of 10 (60%)
Central government – NDPBs	33 of 50 (66%)	32 of 46 (70%)
Further education	6 of 8 (75%)	7 of 8 (88%)
Overall	**95 of 155 (61%)**	**87 of 135 (64%)**

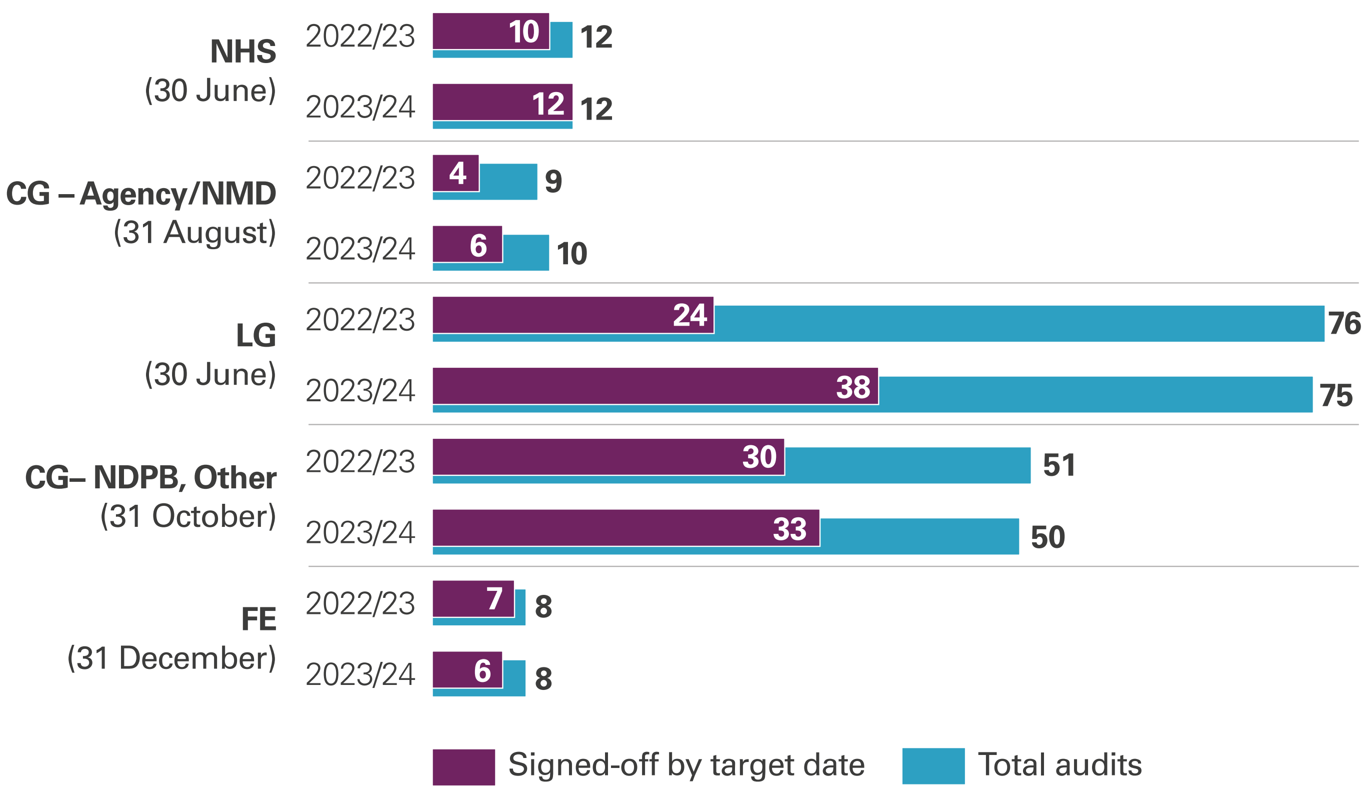
[1] Further analysed by councils (47%), integration joint boards (39%), other joint boards (60%), Pension funds (86%) and charitable trusts (41%).

122. The AQF also takes into account audits that did not meet the target completion date but where the Independent Auditor's Report was signed within 11 months of the previous year's report. By that measure, the 61 per cent above rises to 66 per cent (due to seven local government bodies and one body in other sectors improving their performance as defined in the AQF).

123. For audits that did not meet the target completion date, and are not considered to meet the AQF definition of 'improving', the main reasons for not meeting the dates are as follows (with the number of audits in brackets):

- Prioritisation of other audits (36)
- Late 2022/23 sign-off (5)
- Board date set after completion date (5)
- Staff availability at audited bodies (2)
- Audited body late providing audit evidence (2)
- Delays in receiving necessary assurances from other auditors (1).

124. The completion of Independent Auditor's Report for 2023/24 audits (61 per cent) has significantly improved compared with 2022/23 audits (48 per cent). The graph below summarises progress by sector.



125. The progress was due to the commitment and professionalism of audit teams, as well as our approach to resource planning. The detailed activities that have supported our progress have been overseen and supported by our Resource Leads Group and ASG's Management Team.

126. ASG will further advance the audit delivery position for the 2024/25 audit year while preserving audit quality and the importance of staff wellbeing. We will hold to account audited bodies that do not deliver timely appropriate financial reporting, and will reallocate resources when there are delays in responses from audited bodies The audits we intend to advance will be based on our knowledge of our audited bodies, what is achievable for them, and where our time can be most valuably spent. We will also be strongly guided by agreed prioritisation categories, 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 target completion date in 2023/24.

127. Our prioritisation approach is designed to sustain and improve the number of audits completed by the target dates in an incremental and measured way over the three years to 2026/27.

Performance audits outputs

128. The timing of the UK General Election meant that the publication of four performance audit outputs had to be delayed. However, all 24 outputs planned for publication during the 2024/25 financial year were published by the year end.

7. Quality improvement procedure

This chapter explains our arrangements for making improvements and following up quality deficiencies

Root cause analysis

129. ISQM (UK) 1 requires the severity and pervasiveness of identified quality deficiencies to be evaluated by investigating the root cause and evaluating the effect on the SoQM.

130. For a selection of audits subject to cold quality reviews, a formal root cause analysis (RCA) exercise is completed jointly between the I&Q quality team and selected audit teams each year, with the process overseen by engagement leads who have responsibility for implementing required improvement actions. RCA feedback sessions are held shortly after completing the quality reviews to determine the root causes, ie ‘why’ quality deficiencies, or good practice, have occurred.

131. Audits are selected for RCA depending on grades as follows:

- Grade 1: There is benefit in conducting RCA for a selection of grade 1 engagements to understand factors which contributed to good practice for wider sharing.
- Grade 2: A sample of audits are considered for RCA, for example, where thematic issues may arise
- Grade 3 and 4: RCA is conducted for all audits to determine the causes of areas for improvement.

132. All members of the audit team contributed to these sessions and a member of the quality team provides support as required, which includes attending and facilitating discussions for grade 3 and 4 reviews and providing guidance to audit teams.

133. The output from the feedback sessions is an RCA summary completed by a senior member of the audit team focusing on the root cause(s) for the significant areas for improvement identified and for areas of good practice.

134. The I&Q quality team collate all RCA summaries to produce an overall RCA report to highlight common, emerging issues relevant to both the ASG and PABV business groups, as well as sharing and promoting factors which led to good practice.

135. The RCA report includes proposed improvement actions for key RCA themes. The final RCA report is presented to our management teams, noting the proposed improvement actions.

136. RCA is promoted as good practice for all audits subject to quality reviews out with those selected for formal RCA to apply the principles of improvement and remediation as directed by ISQM (UK) 1.

Quality Improvement Action Plan

137. ISQM (UK) 1 requires remedial actions to be designed and implemented to address the results of RCA.

138. I&Q, in collaboration with the ASG and PABV quality leads, are jointly responsible for updating our Quality Improvement Action Plan. Updates are informed by significant quality findings, the RCA process, and any additional quality deficiencies identified from consultations with business groups and teams, including reports by the AQA team and ICAEW.

139. The improvement plan sets out:

- the significant quality deficiencies identified
- proposed improvement actions, such as enhancing audit test programmes, providing additional guidance, and informing training
- the individuals assigned to each action
- a planned timeline to implement each action.

140. The planned improvements to audit quality in the plan represents a rolling programme of actions updated on a continual basis throughout the year. The phasing of implementing the actions is determined by the different stages of the audit process, with improvements either being actioned immediately or over the medium or longer term if they involve more significant changes. The project management of the improvement plan involves presentation to the QEC and the Executive Team for regular review and is updated on a continual basis by I&Q. Progress is discussed periodically at Audit Scotland's Audit Committee.

Follow up of lower graded audits

141. Procedures are in place for cold quality reviews graded as either 3 or 4 to ensure that findings are appropriately followed up. This applies to internal and external reviews across ASG and PABV. The following table sets out the follow-up actions agreed:

Follow-up actions in response to grades 3 and 4

Grade 3 (some improvements required)	Grade 4 (significant improvements required)
A. Engagement lead action plan: Each engagement lead is required to prepare an action plan setting out how significant quality findings will be addressed for the audit in the following year/ next engagement they lead on.	
B. Restricted cold quality review follow-up: The I&Q quality team may either: • conduct a restricted cold quality review for either the same annual audit in the following year, or another subsequent engagement completed by the same engagement lead • conduct a restricted hot quality review to assess and support the audit team implement improvements required. These restricted reviews are limited to assessing the actions taken for significant quality findings. They are not graded.	**B. Hot quality review:** The I&Q quality team conducts a hot quality review for either the same annual audit in the following year, or another subsequent engagement completed by the same engagement lead. The hot review includes follow up of significant quality findings, in addition to reviewing key areas of risk and judgement on the audit file. **C. Focused review of the independent auditor's report (for annual audits, only where required):** If, in exceptional circumstances, the cold quality review reports any significant concerns regarding an audit opinion, a further focused review may be required to assess the appropriateness of the audit opinion issued. This focused IAR review is performed timeously by a senior member of I&Q, with feedback submitted to the engagement lead and Executive Director of Audit Services.
C. Full cold quality review (optional): Subject to the outcome of the above restricted follow up review, a further audit completed by the engagement lead may be considered for a full cold quality review in the following programme.	**D. Full cold quality review (optional):** Subject to the outcome of the above reviews, a further audit completed by the engagement lead may be considered for full cold quality review in the following programme.

142. The I&Q quality team report findings to the QEC after the completion of follow up quality monitoring activities, and the quality leads in ASG and PABV provide feedback to their respective business groups.

143. Periodic quality bulletins and feedback sessions for audit teams are provided to share emerging issues and promote good practice. Furthermore, if there are any systemic or widespread quality issues identified from the cold quality reviews, these matters are considered for a thematic quality review by the I&Q quality team.

Appendix 1. Examples of impact

1. We define impact as the extent to which:

- our recommendations are accepted, our audit work gets traction externally and stakeholders consider our work is effective
- our recommendations are progressed, and our audit work influences change and improvements in public bodies and public services
- our audit work contributes to the shared outcomes in Public audit in Scotland.

2. Performing a high-quality audit is a crucial prerequisite of impact. For example, if recommendations are to result in appropriate action, they must be based on appropriate and robust evidence. Stakeholders can place reliance on recommendations and the intended impact achieved only when the underlying audit work is high quality.

3. Our holistic approach to impact monitoring, evaluation and reporting covers all the audit work we deliver on behalf of the Auditor General and Accounts Commission, and stakeholder awareness and perceptions of the parties involved in public audit in Scotland. We value both quantitative and qualitative measures when monitoring and evaluating our impact and take a collaborative approach across our business groups.

4. We gather information on the impact of our work from a variety of sources: action plans in annual audit reports, progress with follow up plans for performance audit outputs, reflections from audit teams and stakeholder feedback. Measures of impact include recommendations tracking, media, parliamentary and policy monitoring, and stakeholder perceptions.

5. The full extent of impact may take time to be realised and therefore is not the focus of quality monitoring or quality review processes, which are conducted either during audits, or shortly after audits are completed. We measure the impact of our work separately, reporting annually to the Auditor General and Accounts Commission. Our impact monitoring and evaluation reports are available on our website: Our impact | Audit Scotland

Early impact of performance audit outputs

6. The impact framework focuses on the responses to the recommendations in our audit reports in the 18-month period after publication, including how our work is influencing change and what stakeholders think of it. During the past year, the framework focused on the impact of reports published between April 2022 and May 2023.

7. There has been good progress with performance audit recommendations related to effective governance. An example of this is the Auditor General report on how the Scottish Government is set up to deliver climate change goals, where the Scottish Government acted quickly to address the recommendations, and the audit team consider all of them to have been implemented within twelve months of publication. Implementation of the recommendations has resulted in improved governance and risk management processes for the climate change programme, as shown in the examples below:

How the Scottish Government is set up to deliver climate change goals	**Published April 2023**
Recommendation	**Progress since publication**
The Scottish Government should ensure that all climate change risks are effectively identified and managed.	Recommendations included specific issues that have all been addressed. As a result, risks to the climate change programme are now being actively monitored and managed and escalated to appropriate forums where necessary. The Scottish Government fed back to the audit team that the risk escalation process is now much clearer and easier.
The Scottish Government should ensure that effective assurance arrangements are in place for all its climate change governance groups.	A comprehensive performance monitoring framework and reporting dashboard has been developed, which provides the Global Climate Emergency Response Programme Board with a monthly update on progress towards climate change goals. The dashboard is used to report performance and progress against the following: • Outcome indicators from the Climate Change Plan Update, which are reported annually. • Delivery milestones, using a RAG rating to report on overall progress, finance and resources across programmes of work. • KPIs covering key sectors where data is currently available, including heat in buildings, transport, energy industries and waste. Development of KPIs for other sectors including forestry, flooding, peatland and agriculture is still in progress.

8. There has been good progress with recommendations on implementing the devolution of benefits from the Department of Work and Pensions to Social Security Scotland. Examples are provided in the table below:

Social security: Progress on implementing the devolved benefits	**Published May 2022**
Recommendation	**Progress since publication**
Social Security Scotland should strengthen its role in the prioritisation of development activity to ensure its operational needs are appropriately considered and that it has the systems and processes in place to administer benefits in the way intended.	The safe and secure delivery of the devolved benefits in Scotland remains a priority for the Scottish Government and Social Security Scotland as set out in the Social Security Programme Business Case. Completing the complex delivery of an agile programme at pace alongside protecting the performance of live services for clients requires competing priorities to be balanced. A jointly owned and governed Single Prioritised Backlog is well established and is the consolidated focal point where both the Social Security Programme and Social Security Scotland jointly assess, plan and prioritise significant change activity.
Social Security Scotland should continue to review and update its workforce planning to build the capacity and capabilities needed for its growing remit.	Having moved into a steady state workforce position, Social Security Scotland has developed workforce planning principles and its analytical, HR and operational functions are working together to develop ability to resource/workforce plan more flexibly.

9. We continue to see positive progress against the recommendations we make for audited bodies to have clearer plans and progress reporting in place to deliver policy objectives. An example is set out in the following table:

Criminal courts backlog	**Published May 2023**
Recommendation	**Progress since publication**
The Scottish Government should as a priority, finalise and publish its three-year delivery plan supporting the Vision for Justice in Scotland, setting out actions to ensure work continues to modernise the criminal justice system.	The Scottish Government published its three-year delivery plan supporting its Vision for Justice in November 2023, which was within the timescale set out within the report. The delivery plan sets out specific actions, milestones, timescales and lead agencies.

10. There is evidence that our briefing papers continue to support parliamentary scrutiny and contribute to important national discussions around reform. Scotland's public finances: Challenges and risks (published November 2022) is a good example. That short briefing paper set out the challenges facing the Scottish Government during a period of fiscal uncertainty caused by high inflation, the aftermath of the Covid-19 pandemic and the political changes around the UK 'mini-budget'. The paper gave the Auditor General a clear voice on the need for reform and the risks that could materialise if fiscal sustainability was not achieved. It was an opportunity for the Auditor General to raise awareness as part of the pre-budget scrutiny for the 2023/24 budget. The paper was well received by the Parliament, and the Public Audit Committee requested a further briefing from the Auditor General supporting parliamentary scrutiny of the difficult and complex decisions that lie ahead.

Impact of annual audits

11. The impact framework also applies to annual audits, and the following are examples of recommendations on wider scope areas arising from 2023/24 audits:

Financial planning and management

Examples of recommendations made by audit teams in 2023/24 audits

Audit teams made recommendation on:

- improving the effectiveness of financial planning and management across Scotland's public services, which is especially important in the context of current financial pressures that threaten the sustainability of public services
- more immediate financial management improvements recognising the importance of ensuring public money is well-spent related to the benefits of organisational transformation and changed ways of working to benefit financial management
- improve payroll management processes, training, and the control environment to reduce instances of incorrect payments made from public money, which can be challenging and time-consuming for audited bodies to recover
- fraud detection, thorough due diligence, expenses reimbursement, and routine financial monitoring.

Governance

Examples of recommendations made by audit teams in 2023/24 audits

Audit teams also supported good practice in relation to organisational governance. Those charged with the governance of audited bodies have a key role to play in ensuring public bodies deliver for stakeholders. In 2023/24, audit teams:

- shared best practice guidance with newer governance committees
- made recommendations where we felt the remits of different governance committees were unclear or overlapping
- identified where Registers of Interests were not being maintained to note any conflicts of interest for those charged with governance.

Digital

Examples of recommendations made by audit teams in 2023/24 audits

Given the importance of Scottish public sector digital transformation ambitions, audit teams considered the management of audited bodies' digital estates. Audit teams:

- shared intelligence with those charged with governance to improve their learning of key digital security issues and by encouraging public bodies to consider their own business continuity, and how this connects with the business continuity of those who supply digital services
- encouraged public bodies to ensure that the progress, impacts and benefits arising from digital transformation, including those related to workforce, citizens and financial benefits, were regularly communicated to those charged with digital governance, to provide opportunities for scrutiny, wider perspectives and, where necessary, intervention
- challenged public bodies to align their digital strategies with their wider corporate objectives to ensure they delivered good value for money.

Best Value
Examples of recommendations made by audit teams in 2023/24 audits
In local government, the statutory duty to consider Best Value arrangements is undertaken as part of the annual audit. In 2023/24, audit teams delivered on best value audit commitments and advocated Best Value principles more widely. Thematic Best Value work on workforce planning was reported in local audit reports for all councils. Audit teams made recommendations relevant across the suite of Best Value principles, including on the importance of consulting with the communities served by audited bodies and demonstrating how feedback is being listened to through publishing the outcome of consultation exercises.

Appendix 2. Statutory disclosures

Compliance with statutory requirements

The following table sets out Audit Scotland compliance with disclosures required by Article 13 of Regulation (EU) 537/2014 as it forms part of the UK law, by virtue of section 3 of the European Union (Withdrawal) Act 2018, and as amended by the Statutory Auditors and Third Country Auditors (Amendment) (EU Exit) Regulations 2019/177.

Provision of Regulation (EU) 537/2014	How Audit Scotland complies with Regulation (EU) 537/2014
A description of the legal structure and ownership of the statutory auditor, if it is a firm.	Appointed auditors are employees of Audit Scotland which is the statutory public audit body for Scotland.
Where the statutory auditor or the audit firm is a member of a network: **i.** a description of the network and the legal and structural arrangements in the network; **ii.** the name of each member of the network that is eligible for appointment as a statutory auditor, or is eligible for appointment as an auditor in an EEA State or in Gibraltar; **iii.** for each of the members of the network identified under paragraph (ii), the countries in which they are eligible for appointment as auditors or in which they have a registered office, central administration, or a principal place of business; and **iv.** the total turnover of the members of the network identified under paragraph (ii) resulting from statutory audit work or equivalent work in the EEA States or Gibraltar.	Audit Scotland is not part of a network.
A description of the governance structure of the statutory auditor if it is firm.	Audit Scotland's governance structure is briefly described in chapter 1 and more fully set out in the annual report and accounts.

Provision of Regulation (EU) 537/2014	How Audit Scotland complies with Regulation (EU) 537/2014
A description of the internal quality control system of the statutory auditor and a statement by the management body on the effectiveness of its functioning.	Audit Scotland's internal quality control system is set out chapter 3 of this report. As described, the system is made up of a range of reviews and processes. Based on an ongoing analysis of all aspects of the internal quality control system, the Executive Team is satisfied that it is functioning effectively.
An indication of when the last quality assurance review referred to in Article 26 of Regulation (EU) 537/2014 was carried out.	The results from the most recent reviews (carried out in November 2024 to March 2025) of the performance of our annual audits and performance audit outputs are set out in this report. Audit Scotland appoints an independent third party to carry out a programme of external quality assurance reviews (currently ICAEW).
A list of public interest entities for which the statutory auditor carried out statutory audits during the preceding financial year.	Michael Oliphant, Audit Director, Audit Scotland carried out the audit of a public interest entity (PIE) in 2023/24; Aberdeen City Council. No other Audit Scotland employees carried out the audit of a PIE in 2023/24.
A statement concerning the statutory auditor's independence practices which also confirms that an internal review of independence compliance has been conducted.	Details of our independence procedures for individual members of staff are set out in chapter 2 of this report.
A statement on the policy followed by the statutory auditor concerning the continuing education of statutory auditors referred to in paragraph 11 of Schedule 10 to the Companies Act 2006.	Audit Scotland staff do not undertake any audits under the Companies Act. However, policies and practices are designed to ensure that our staff maintain their auditing knowledge, professional skills, and values at levels appropriate to support our focus on audit quality.
Information concerning the basis for the remuneration of members of the management body of the statutory auditor, where that statutory auditor is a firm.	Information on the remuneration of the Executive and non-Executive Directors of Audit Scotland is provided in our annual report and accounts.

Provision of Regulation (EU) 537/2014	How Audit Scotland complies with Regulation (EU) 537/2014
A description of the statutory auditor's policy concerning the rotation of key audit partners and staff in accordance with Article 17(7) of Regulation (EU) 537/2014.	Audit Scotland employees who are appointed as auditors for annual audits are rotated every five years and are required to ensure that other team members are not involved in an audit for more than six years.
Where not disclosed in its accounts, information about the total turnover of the statutory auditor, divided into the following categories:	Audit Scotland audits are funded by fees charged to the audited bodies and by funding from the Scottish Parliament. Where there is no cash fee, a 'notional' fee is agreed and disclosed. Details of our finances are included in our annual report and accounts.
i. revenues from the statutory audit of accounts of public-interest entities and members of groups of undertakings whose parent undertaking is a public-interest entity	• 2023/24 PIE audit fee income: £537,000 (2022/23 – £507,000).
ii. revenues from the statutory audit of accounts of other entities	• 2023/24 other statutory audit fee income: £16.24 million (2022/23 – £15.09 million).
iii. revenues from permitted non-audit services to entities that are audited by the statutory auditor: and	• There were no non-audit services in 2023/24 (2022/23 – £nil). • Revenues permitted from joint agreed audit with NAO in connection with EU agricultural funds work: £120,000 (2022/23 – £485,000).
iv. revenues from non-audit services to other entities	None.

Audit quality

Audit Scotland's transparency report 2024/25

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