

# Audit quality

Audit Scotland's transparency  
report 2023/24



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# Contents

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Key messages	3
Introduction	6
1. Overview of Audit Scotland	8
2. Delivering high-quality audits	10
3. Internal quality reviews	20
4. External independent cold reviews	27
5. Feedback	32
6. Timeliness of audit completion	34
7. Improvement and follow up actions	37
Appendix 1. Examples of impact	41
Appendix 2. Statutory disclosures	50

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## Accessibility

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# Key messages

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- 1** This report is aimed at providing public bodies in Scotland and other external stakeholders with assurance on the quality of work delivered by Audit Scotland on 2022/23 annual audits and performance audit outputs published during the 2023/24 financial year.
- 2** Audit Scotland completed just under a half of 2022/23 annual audits by the target completion dates set by the Auditor General and Accounts Commission (75 of 156 audits); 85 per cent were completed within two months of the target dates. This reflects the need to prioritise the achievement of high quality over meeting target completion dates but also shows steady improvement in timeliness since the delays caused by the pandemic. We will continue to build on this improvement in a sustainable way for the remainder of the current five-year audit appointments.
- 3** During the 2023/24 financial year, eight 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.
- 4** Under new reporting arrangements commencing in October 2023, the Controller of Audit provided a report to the Accounts Commission on the Best Value arrangements at five councils. At least one report on each of the other 27 councils will follow over the current audit appointments.
- 5** Performance audit outputs include performance audit reports, briefing notes, and blogs. For the 20 performance audit outputs during the 2023/24 financial year, Audit Scotland completed 19 (95 per cent) in accordance with planned timescales.
- 6** Audit Scotland's overall system for managing quality at an organisation level, complies with international standards on quality management.
- 7** 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 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.

- 8** 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. Audits are graded on the following four-point scale:
  - grade 1 (good)
  - grade 2 (small number of improvements)
  - grade 3 (some improvements)
  - grade 4 (significant improvements).
- 9** In determining the appropriate grade, quality reviewers consider the:
  - the standard of documentation
  - sufficiency and quality of evidence
  - the appropriateness of significant judgements made by the audit team.
- 10** Audit Scotland's quality team performed cold quality reviews on:
  - six annual audits (two graded at 1, three at grade 2 and one at grade 3)
  - one performance audit report (graded 2)
  - one performance audit briefing (graded 2).
- 11** External cold quality review inspections performed by ICAEW as an independent reviewer were carried out on:
  - six annual audits different to those reviewed internally (one graded at 1, two at grade 2, and three at grade 3)
  - one performance audit report (graded 2)
  - one sectoral overview report (graded 2).
- 12** Across the 16 internal and external cold quality reviews, 19 per cent were graded at 1 (13 per cent, last year) and 57 per cent were graded at 2 (66 per cent, last year). The remaining 25 per cent (21 per cent, last year) were graded at 3. No reviews were graded at 4 for the second year running.

Audit Scotland views the quality grades as a positive outcome in the current challenging conditions.

- 13** In line with quality management standards, a root cause analysis has been carried out by Audit Scotland to identify the reasons underlying areas for improvement identified by the quality reviews. Our Quality Improvement Action Plan has been updated to address the causes identified.
  - 14** The results of a survey of how supported colleagues felt in delivering high-quality audits showed:
    - a small decrease from 91 per cent to 88 per cent in those who said they were encouraged to deliver high-quality audits
    - a decrease from 39 per cent to 34 per cent in those who said they had sufficient time and resource to deliver audits
    - a significant increase from 54 per cent to 62 per cent in the percentage who believed they had received enough learning and support.
  - 15** Feedback from an independent survey of audited bodies indicates satisfaction with the quality and usefulness of the annual audits and performance audit outputs.
  - 16** Our new impact framework monitors and evaluates the impact of our recommendations and the other ways public audit adds value. Some examples are provided at [Appendix 1](#).
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# 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 2022/23 annual audits and performance audit outputs issued during the 2023/24 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.

## Three levels of assurance on audit quality

3. Audit Scotland's [Audit Quality Framework \(2019\)](#) (AQF) establishes the overall framework for annual audits and performance audit outputs.

Central to the AQF are three levels of assurance on audit quality. The following table provides a summary of each level, and information on the activities carried out is provided throughout this report:

### Three levels of assurance on audit quality in Audit Scotland

<b>Level 1</b>	Appropriately trained and supported individuals and audit teams delivering high-quality audits in accordance with professional standards and applicable legal and regulatory requirements
<b>Level 2</b>	Internal quality monitoring and reviews in accordance with quality management standards and guidance
<b>Level 3</b>	External quality reviews and other activity to provide independent assurance

## System of quality management

**4. [International Standard on Quality Management \(ISQM\) \(UK\) 1](#) (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
- audit reports are appropriate.

**5.** 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.

**6.** 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.

**7.** An internal review was carried out in August 2023 to assess Audit Scotland's arrangements for meeting the main quality objectives set out in ISQM (UK) 1. The review concluded that appropriate procedures were in place to address the quality risks set out for each objective. As part of our approach to continuous improvement, we identified a small number of areas for development to enhance our quality arrangements further, which have now been actioned.

**8.** An independent inspection of Audit Scotland's SoQM was carried out by the Institute of Chartered Accountants in England and Wales (ICAEW) in February 2024. That inspection concluded that our SoQM continues to be appropriate for the size and nature of the organisation.

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# 1. Overview of Audit Scotland

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

## Audit Scotland

**9.** 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

**10.** 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.

**11.** In June 2023, we published [Public Audit in Scotland 2023–28](#) to set out our shared vision, mission and outcomes for public audit. We also issued a [Corporate Plan](#) on how we attend achieving those outcomes. More information is provided in our Annual Report and Accounts.

**12.** 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.

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

**14.** 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

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

**16.** 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.

**17.** 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

**18.** Audit Scotland's Quality and Ethics Committee (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.

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# 2. Delivering high-quality audits

## First level of assurance

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

### Introduction

**19.** 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.

**20.** The delivery of high-quality annual audits and performance audit outputs is Audit Scotland's core business. Our audits provide independent assurance, recommend improvements, and support the basis for effective scrutiny.

**21.** Key to the arrangements related to the first level of assurance 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.

**22.** 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

**23.** ASG were responsible for delivering 156 statutory annual audits in 2022/23 which was approximately two-thirds of the audits commissioned by the Auditor General and Accounts Commission.

**24.** The executive director of ASG has overall responsibility 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 a period of (usually) five years. 2022/23 was the first year of a five-year audit appointment period.

**25.** 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:

- 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.
- 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.
- The Code of Audit Practice requires the scope of annual audits to be wider than the financial statements 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.
- In local government, the statutory duty to audit Best Value was integrated with financial statements audits for the first time in 2022/23 (previous Best Value audits were delivered jointly with PABV). Although ASG are supported by PABV specialists in undertaking specific aspects of the Best Value component of the annual audit, Best Value work is now fully integrated with the financial statements audit. The combined financial statements and Best Value audits are therefore now described collectively as the annual audit.

**26.** [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.

**27.** The [outputs](#) from the 2022/23 annual audits were:

- 156 Annual Audit Plans

- 156 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)
- 19 Best Value thematic reports (one for each council).

**28.** Depending on local circumstances, other outputs related to the annual audit may include management reports and certificates for grant claims and other financial returns.

### **Statutory reports on issues arising from annual audits**

**29.** 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.

**30.** Eight [statutory reports](#) highlighting matters arising from the 2021/22 and 2022/23 annual audits were prepared in the 2023/24 financial year. These were on the Water Industry Commissioner, Scottish Canals, NHS Forth Valley, Scottish Government Consolidated Accounts, South Lanarkshire College, the Scottish Prison Service, Renfrewshire Council, and Glasgow City Council.

**31.** 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. This new reporting arrangement commenced in October 2023 and between then and March 2024, the Controller prepared five [reports](#) on selected councils.

### **Performance audit outputs**

**32.** The executive director of PABV is responsible for the quality of performance audit outputs set out in the PABV dynamic work programme. Performance audit outputs comprise performance audit reports, sectoral overview outputs, and other outputs which are designed to communicate our audit findings in a timely relevant and impactful way.

**33.** 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

**34.** [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 issued during the 2023/24 financial year.

**35.** Performance audits have been conducted in accordance with professional standards issued by the International Organisation of Supreme Audit Institutions (INTOSAI) since 2017. These are authoritative international consensus-based guidance on how to deliver high-quality performance audit work.

## Sectoral overview outputs

**36.** Some outputs provide an overview of issues in a particular sector. [Overview reports](#) were issued during 2023/24 on the local government, and health sectors and a briefing paper was issued on [Scotland's colleges](#).

## Other performance audit outputs

**37.** We deploy an increasing range of outputs to communicate our audit findings, 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. Thirteen briefing papers, blogs and supplementary outputs were issued during 2023/24 including:



### Briefing papers that summarise key issues and future considerations

such as [Investing in Scotland's infrastructure](#) and [Scottish Government's workforce challenges](#)



### Blogs that initiate debate and raise awareness

such as [20 years of Best Value auditing in Scotland](#), [Reporting on the vital role of Scotland's housing benefit services](#) and [Tough decisions ahead on climate change](#)



### Supplementary outputs and multi-media electronic resources

such as [e-hubs](#), web-based reports like [Public sector gender pay gap reporting](#) and videos and animations on our [YouTube channel](#)

**38.** INTOSAI standards are applied to the above outputs in a proportionate manner.

## Financially qualified staff

**39.** ASG staff were appropriately qualified to perform 2022/23 annual audits, with 96 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. The remaining four 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.

**40.** 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 2023/24 which supports flexible working across Audit Scotland.

**41.** 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

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

Activity	Features
<b>Development of approaches for the financial statements component of the annual audits and performance audits</b>	<p>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.</p> <p>I&amp;Q produces the Audit Guide for ASG and the Audit Management Framework (AMF) for PABV. These internal guides set out methodologies that assist in the practical application of professional standards.</p> <p>Looking ahead, we launched a key corporate project during 2023 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.</p>
<b>Provision of a central support 'helpdesk' for auditors to consult with on difficult or contentious matters</b>	<p>Consultation helps to improve overall audit quality by:</p> <ul style="list-style-type: none"> <li>• improving the application of professional judgement</li> <li>• assisting the appropriate application of audit methodologies and professional standards</li> <li>• facilitating meaningful discussion and challenge which should result in more robust, defensible and better documented audit evidence.</li> </ul>

Activity	Features
<b>Preparation of guidance on the application of accounting standards to the public sector</b>	<p>The guidance supplements the Code of Audit Practice and is provided to ASG (and the appointed firms) to:</p> <ul style="list-style-type: none"> <li>• inform their judgement</li> <li>• maximise consistency</li> <li>• support the delivery of high-quality audits.</li> </ul>
<b>Application of technology to optimise both audit efficiency and quality</b>	<p>The Digital Audit team within I&amp;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.</p>
<b>Delivery of learning and development</b>	<p>We provide a wide range of learning opportunities to support the delivery of high-quality audits including:</p> <ul style="list-style-type: none"> <li>• technical training courses on subjects such as audit methodologies, financial reporting developments and data analytics</li> <li>• personal development learning such as writing in plain language, management essentials, emotional intelligence, mental health learning and recruitment and selection.</li> </ul>

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

## Audit impact

**44.** During the year, I&Q developed a new framework for capturing, monitoring, evaluation and reporting the impact that our annual audits and performance audit outputs have. Examples of the impact of our audit work are briefly outlined in [Appendix 1](#).

## Developing our people

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

**46.** 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. This is a key element of the People Strategy that we developed in November 2023.

## Learning and Development plan

**47.** We published a Learning and Development plan (L&D plan) in October 2023. 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.

**48.** All planned learning is accessed through our corporate Learning Management System.

**49.** 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.

**50.** The L&D plan also introduced mandatory training in key areas including crucial management skills aligned to organisational values, including identifying and managing challenging behaviours, effectively addressing underperformance, and recognising good performance.

## Delivery of professional learning

**51.** 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 2023 was 18.5 days (2022: 18 days).

**52.** We have learning and development opportunities planned for colleagues for 2024 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

**53.** 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 50 colleagues working towards Institute of Chartered Accountants in Scotland (ICAS) qualifications. In 2023, our trainees passed 152 out of 162 exams (93.8 per cent) on their first sitting, which is an increase on last year's 86 per cent. We work with ICAS to review the syllabus and support for trainees.

**54.** 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.



**55.** 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.

**56.** Underscoring our dedication to impact in this area, our executive director of ASG participated in a roundtable hosted by the Chartered Institute of Public Finance and Accountancy focusing on the skills finance professionals need to shape the future of finance. Engagements such as this, reinforce our commitment to fostering talent and fostering the next generation of financial management professionals.

## Independence and ethics

**57.** 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
<b>Ethical Standard</b>	Adoption of the FRC's Ethical Standard and the preparation of a policy that applies the standard to the specific circumstances of public audit.
<b>Ethics Partner and Deputy</b>	<p>The designation of the Executive Director of I&amp;Q as our Ethics Partner in 2022, as this position has the necessary seniority, experience, and authority to ensure compliance with the Ethical Standard.</p> <p>We also took the opportunity to enhance our governance arrangements during 2023 around ethics by also designating the Director of Quality and Support as Deputy Ethics Partner.</p>
<b>Hospitality register</b>	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.
<b>Fit and proper declarations</b>	The completion of 'Fit and Proper' forms by all staff annually, which are reviewed by the Ethics Partner. The form confirms compliance with professional standards and discloses any possible conflicts of interest so that any necessary mitigations can then be put in place.

Area	Control
<b>Non-audit services</b>	<p>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.</p> <p>There were no non-audit services carried in respect of 2022/23 annual audits.</p>

**58.** Auditor independence was maintained across all aspects of our audit work in 2022/23 annual audits and in the PABV work programme for 2023/24.

### System leader for public audit

**59.** 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
<b>Parliamentary scrutiny</b>	<p>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.</p> <p>Feedback from MSPs on the quality and value of Audit Scotland's work in supporting parliamentary scrutiny continues to be strong.</p>
<b>Professional bodies and institutes</b>	<p>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.</p> <p>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.</p>
<b>Technical and other guidance</b>	<p>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.</p>

Area	Activity
<b>Sharing good practice in financial reporting</b>	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.
<b>Roundtable events</b>	We host roundtable events for deeper discussions on a particular issue. For example, we hosted a roundtable to discuss with stakeholders the valuation of non-current assets in local government.
<b>Sector meetings</b>	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.
<b>Public Audit Forum</b>	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.
<b>Influencing developments in the audit profession</b>	<p>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.</p> <p>We contribute to consultations and discussion papers to ensure that Audit Scotland's distinctive voice is heard.</p>
<b>Scrutiny bodies</b>	<p>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.</p> <p>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.</p>

# 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

**60.** 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.

**61.** The second level of assurance on audit quality described in the AQF is based on having robust internal audit quality monitoring arrangements in place across Audit Scotland. These include:

- the quality team within I&Q performing systematic quality reviews of the financial statements element<sup>1</sup> of annual audits and performance audit outputs
- audit directors in ASG carrying out engagement quality reviews (EQRs).

### Types of internal quality reviews

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

Type	Activity
<b>Quality reviews of a sample of audits in progress (hot reviews)</b>	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.
<b>Quality reviews of a sample of completed audits (cold reviews)</b>	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.

<sup>1</sup> Arrangements for proportionate and informative quality reviews of the Best Value component of the annual audit are being rolled out and the results will be reported in the 2024/25 transparency report.

Type	Activity
<b>Engagement quality reviews</b>	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.
<b>Thematic and in-flight reviews</b>	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.

**63.** 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

**64.** For financial statements audits, the I&Q quality team's programme of hot reviews covered six 2022/23 audits across all sectors and was completed in December 2023.

**65.** 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
Rebuttal of fraud risk in income and expenditure	Risk assessment of financial IT applications under ISA (UK) 315
Audit of leases under the new accounting standard IFRS 16	Consistency between planned and interim controls work
Risk assessment of accounting estimates	Considering shared services and service organisation arrangements
The engagement lead's review of audit work where risks of material misstatement had been identified	Reviewing the work of an expert and source data used for preparing accounting estimates

### Cold reviews

#### Grading methodology

**66.** 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 concerns over:

- documentation of the audit work
- sufficiency and quality of evidence

- appropriateness of significant judgements
- other areas (individually or collectively).

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

### Grades used in cold quality reviews

Grade	Standard	Extent of concerns			
		Documentation weaknesses	Evidence	Significant judgements	Other areas
1	<b>Good</b>	Limited	None	None	Limited
2	<b>Generally acceptable but small number of improvements required</b>	Restricted	Limited	Limited	Some
3	<b>Some improvements required</b>	Widespread	Some	Some	Significant
4	<b>Significant improvements required</b>	-	Significant	Significant	Very significant

### Financial statements audits

68. The I&Q quality team carried out a programme of cold reviews of the 2022/23 financial statements 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

69. Five of the six audits (83 per cent) were graded at 2 or above which maintained last year's overall performance. However, we are pleased to highlight that two audits (33 per cent) were graded at 1 compared with

none last year. In addition, for the second year in a row, no audits were graded at 4. A summary of the results is set out in the following table:

### Results of internal cold quality reviews on 2022/23 annual audits

Grade	2022/23	2021/22
1 Good	2	0
2 Generally acceptable but a small number of improvements required	3	5
3 Some improvements required	1	1
4 Significant improvements required	0	0

**70.** The above scores 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

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

Area	Good practice identified
<b>The Performance Report and Governance Statement</b>	Audit work to review the narrative sections of unaudited annual report and accounts (eg, the Performance Report, Governance Statement) continues to be strong. There were various examples where audit teams had clear impact in improving the quality of the information provided.
<b>IFRS 16 Leases</b>	Audit work to review the new lease accounting treatment under IFRS 16 was a good standard, often involving technical accounting adjustments to the annual report and accounts.
<b>Engagement lead review and supervision</b>	Engagement lead and management supervision and review continues to be clearly evidenced on file to support audit work of critical areas of judgement and risk.

## Areas for improvement

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

Area	Areas for improvement
<b>Risk assessment of IT applications and evaluating the control environment</b>	ISA (UK) 315 Improved documentation required of the risk assessment of financial IT applications and the related evaluation of control activities.
<b>Audit of service organisations ISA (UK) 402</b>	Recommendation on some audit files to fully assess service organisation relationships with audited bodies and to document an understanding of the related controls in place.
<b>Audit of accounting estimates ISA (UK) 540</b>	Improvements were noted when assessing the source data, methodology and key assumptions applied by management experts when forming accounting estimates (eg, asset valuations, provisions, pension estimations).
<b>Other improvement areas</b>	Other key findings were observed on individual audit files, in areas including: <ul style="list-style-type: none"> <li>• clarifying the risk assessment of group components</li> <li>• documenting a clearer approach when using substantive analytical procedures, such as setting expectations and tolerable thresholds</li> <li>• improved documentation of journal entries sampling and risk assessment.</li> </ul>

## Follow up reviews

**73.** One 2022/23 financial statements audit was subject to a restricted follow-up review as a result of being graded 3 for the 2021/22 audit. Very good progress and improvements were reported in the follow up review.

## Performance audit reports and related outputs

**74.** Two quality reviews of performance audit outputs were carried out between January and April 2024 (one performance audit report and one briefing). 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

**75.** Both reviews were graded at 2 (last year one grade 1 and one grade 3).



## Strengths and good practice

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

Area	Good practice identified
<b>Stakeholder engagement</b>	The audit team worked closely and constructively with Scottish Government officials, and engaged with people with lived experience by setting up focus groups to provide context for the audit findings.
<b>Equalities</b>	There is clear evidence of the audit team carefully considering equality issues throughout the audit and in the final report.
<b>Data analytics</b>	The audit team made good use of data analytics.

## Areas for improvement

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

Area	Improvement
<b>Documentation</b>	The explanations for some judgements could have been better documented.
<b>Reporting</b>	The report could have been strengthened in some areas including clearer judgments against each audit objective.

## Sharing findings

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

**79.** 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

**80.** 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.

**81.** 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 2022/23 annual audits.

**82.** 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

## Third level of assurance

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

**83.** 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. External inspections are the third level of assurance on audit quality set out in the AQF. AQA commissioned ICAEW to carry out external cold reviews of a sample of 2021/22 to 2026/27 financial statements audits and performance audit outputs over the equivalent period.

**84.** 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.

### Financial statements audits

**85.** ICAEW carried out a full cold review of the 2022/23 financial statements audit at six audited bodies. They also carried out one restricted follow up review.

### Grades

**86.** Three (50 per cent) of the full cold reviews were graded at 2 or above. The remaining three 2022/23 financial statements audits were graded at 3; as with 2021/22, no audits therefore were graded at 4. A summary of the results is set out in the following table:

### Results of external cold reviews

Grade	2022/23	2021/22
1 Good	1	0
2 Small number of improvements required	2	4
3 Some improvements required	3	1
4 Significant improvements required	0	0

**87.** Across the 12 internal and external cold reviews of 2022/23 financial statements audits, three (25 per cent) were graded at 1 (none in 2021/22), and 67 per cent were graded at 2 or higher (82 per cent for 2021/22). No audits were graded at 4 and no audit reports were inappropriate. 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, there is a significant amount of context to this year's results, including the challenges of the first year of audit appointments, significant changes to our audit approach resulting from revised auditing standards, and the increased quality demands in the audit profession and regulatory setting.

**88.** Notwithstanding the above context, it should be noted that there is one key finding driving ICAEW's grade 3 assessments and that is the extent of procedures they consider necessary to evaluate the appropriateness of an expert valuers' work as audit evidence on non-current assets. ICAEW reported that audit testing required to enable an audit team to place reliance on work conducted by a valuer could be improved. This includes:

- greater testing of the accuracy and reliability of source data used by the valuer
- appropriate evaluation and, where applicable, challenge of the reasonableness of the valuer's assumptions.

**89.** Overall, Audit Scotland therefore views the quality grades as a positive outcome in the current challenging conditions. We have a strong culture of continuous improvement and our remedial actions will reflect ICAEW's key finding described above. However, it is pleasing that ICAEW did not identify any significant recurring matters from previous reviews, and the improvement action is generally isolated to one specific area.

### Good practice

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

Area	Good practice identified
<b>Documentation</b>	<ul style="list-style-type: none"> <li>• Testing the accuracy and reliability of source data used by the valuer.</li> <li>• Thorough prediction of in-year movements on payroll analytical procedures.</li> <li>• Clear consideration of the review approach undertaken by a new engagement lead taking over part way through the audit.</li> <li>• Scoping and understanding of the group.</li> <li>• Audit work on pension scheme disclosures.</li> </ul>
<b>Sampling</b>	<ul style="list-style-type: none"> <li>• The use of a sample approach schedule which aided an understanding of the conclusions set out on the sample justification documents completed as part of the audit work.</li> </ul>

Area	Good practice identified
<b>Consultation</b>	<ul style="list-style-type: none"> <li>Two instances of appropriate, timely and well documented consultation on matters concerning modifications to audit reports.</li> </ul>
<b>Wider scope areas</b>	<ul style="list-style-type: none"> <li>Clearly documented work on cyber security.</li> <li>An appropriate extension to the subsequent events period to reflect the delay between signing the audit opinion and publishing the Annual Audit Report.</li> </ul>

### Areas for improvement

**91.** In addition to the matter described above in respect of asset valuations, ICAEW identified some other isolated or less significant thematic findings, including those set out in the following table:

Subject	Area for improvement
<b>Reliance on predecessor audit procedures</b>	<p>There were instances where audit teams had relied on audit work, carried out by the predecessor auditor, but the review of their working papers could have been improved:</p> <ul style="list-style-type: none"> <li>At three audits, as part of analytical procedures, teams used staff costs in the previous year's financial statements as a starting point, but could have given more consideration as to whether they were sufficiently reliable.</li> <li>At one audit, work on the allocation of housing stock to relevant beacon groups focused on the in-year movements. However, opening balance represented over 98 per cent of the total housing stock.</li> </ul>
<b>Litigation and claims</b>	<p>Written representations from management requested at all six audits did not include litigation and claims required by professional standards.</p>
<b>Planning procedures</b>	<p>The analysis of service income and expenditure at one body included various transport activities. For two of those activities which had no income, the audit team could have better documented their understanding of why that was the case.</p> <p>At one audit, there was no evidence that the audit team (as group auditor) had assessed the appropriateness of the materiality level used by the auditor of one of the group component bodies.</p>

Subject	Area for improvement
<b>Audit evidence</b>	<p>The audit team did not sufficiently challenge management as to whether a significant change in the use of an asset had resulted in the asset being impaired.</p> <p>The audit team relied on fund manager statements to provide assurance over investments but could have given more consideration to the fund managers' role as an organisation that provides services to the body as part of its financial reporting information systems (described as a service organisation in professional standards).</p> <p>At one audit, the team (as group auditor) could have improved their coverage of the procedures performed by the auditor of one of the group component bodies on the risk of management overriding the internal control system.</p> <p>The testing of income at one audit was limited to reasonableness checks and the team could have done more to gain sufficient assurance over the accuracy of the amount.</p> <p>Three items above the threshold set by the auditor for testing were not selected for testing; the justification for their exclusion could have been better explained.</p>

## Follow-up review

**92.** ICAEW carried out one follow-up review on the audit that they had graded 3 in 2021/22. The follow up found that the audit team had generally addressed the previous concerns.

## Performance audit outputs

**93.** ICAEW carried out a cold review of two performance audit outputs during 2023/24 (one performance audit report and one sectoral overview report).

## Grades

**94.** Both reports were graded at 2 (last year one grade 1 and one grade 2).

**95.** All four internal and external cold reviews were graded at 2 meaning only a small number of improvements were required (75 per cent at 2 or higher last year).

## Good practice

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

Area	Good practice identified
<b>Reports</b>	Both reports had examples of structure, wording and linking which enabled their understanding and accessibility.
<b>Evidence</b>	The record of evidence was well documented and clearly referenced.
<b>Quality control</b>	The key decisions and approvals log provided a clear trail of the quality control procedures applied.

## Areas for improvement

97. ICAEW identified areas for further improvement, including those set out in the following table:







Area	Improvement
<b>Documenting fraud and materiality considerations</b>	Audit teams did not sufficiently document their assessment of fraud or consideration of materiality.
<b>Follow-up of recommendations</b>	For the sectoral overview report, there was no documented consideration to following up or commenting on progress made against the recommendations in the previous year's report.
<b>Consistency between evidence logs and reports</b>	Elements of the evidence log for one report could have been more comprehensively documented as some documentation was inconsistent with the report narrative.

## 5. Feedback

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

### Feedback from audit teams

**98.** A survey of colleagues in ASG and PABV sought views on how well they were supported to deliver high-quality audits in 2023. The survey response rate was 55 per cent, a significant increase in engagement compared with last year's 40 per cent. The detailed results and comparison with previous years are shown in the following table:

Audit quality staff survey			
	Percentage of staff who said that they were encouraged to deliver high-quality audit work.	<b>88%</b> (91% in 2022, 96% in 2021, 93% in 2020)	
	Percentage of staff who felt that they had sufficient time and resources to carry out audits in accordance with auditing standards.	<b>34%</b> (39% in 2022, 36% in 2021, 46% in 2020)	
	Percentage of staff who thought that the learning and support received enabled them to deliver audits in accordance with auditing standards.	<b>62%</b> (54% in 2022, 71% in 2021, 70% in 2020)	

**99.** Eighty-eight per cent of staff who responded to the survey felt encouraged to deliver high-quality audit work by their line manager (89 per cent in ASG and 84 per cent in PABV). Although the overall figure is slightly lower than last year it remains high which reflects the continuing commitment of audit teams to high-quality audit and our focus on building a strong quality culture.

**100.** Thirty-four per cent of staff who responded said that they had sufficient time and resources to carry out audits in accordance with professional standards. The percentage was the same in both business groups which shows an increase for ASG (from 26 per cent in 2022) and a decline for PABV (from 72 per cent in 2022). This reflects the continuing



challenges of securing appropriate audit resource and adopting efficient audit methodologies, and we have plans to address these going forward.

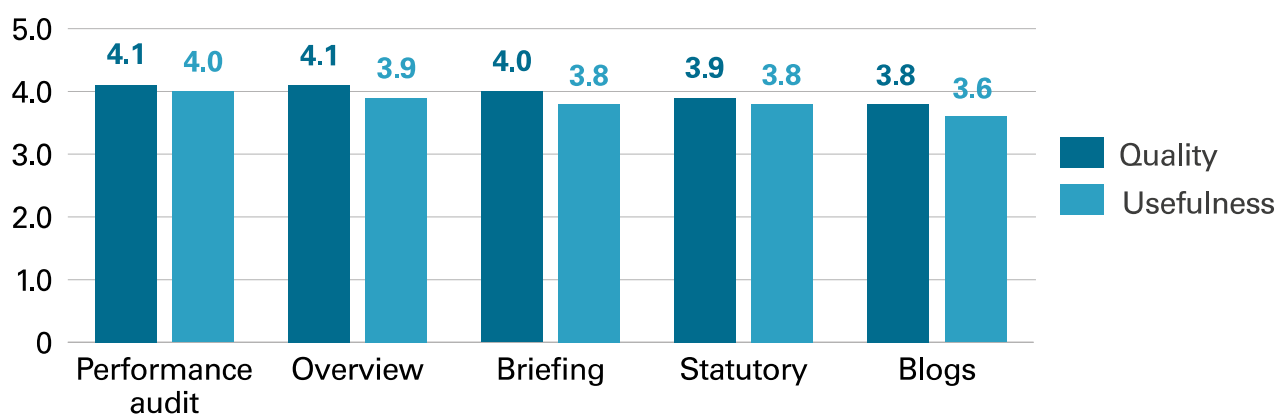
**101.** Sixty-two per cent of staff who responded said the learning and support they received enabled them to deliver audits in accordance with professional standards. That is an overall increase of nine percentage points, which reflects a partial recovery back to the 71 per cent in 2021 after the 17 percentage points drop last year. This may reflect the improvement actions taken during the year that were informed by a root cause analysis of last year's results. We will continue to improve the learning and support provided to audit teams during 2024.

## Feedback from audited bodies

**102.** AQA commission an independent survey of key individuals in audited bodies 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 results for 2022/23 annual audits for ASG were positive and are summarised in the following table.

Grade	2023/24	2022/23
Overall performance of ASG audit teams	4.3	4.4
Usefulness of Annual Audit Reports overall	4.2	4.3
Usefulness of recommendations	4.0	N/A
Sharing good practice	3.3	N/A

**103.** The results for the different types of performance audit outputs and statutory reports during 2023 are set out in the following diagram:



**104.** The results are generally consistent with last year except for performance audit reports which have increased from 3.7 and 3.4 respectively.

## 6. Timeliness of audit completion

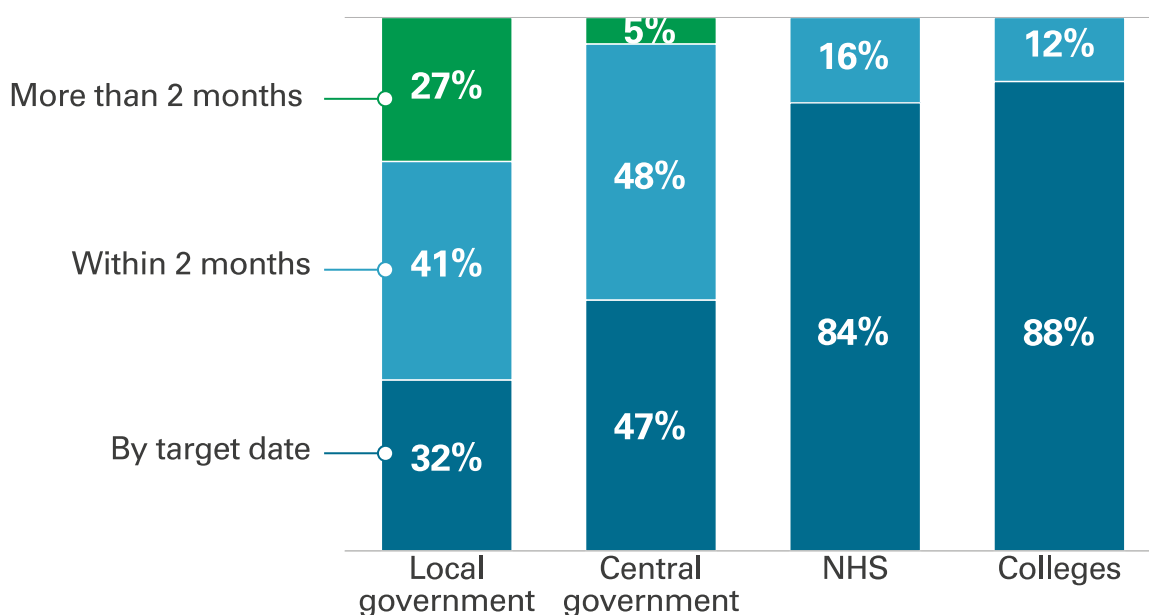
This chapter summarises our performance against audit completion targets

### Annual audits

**105.** 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.

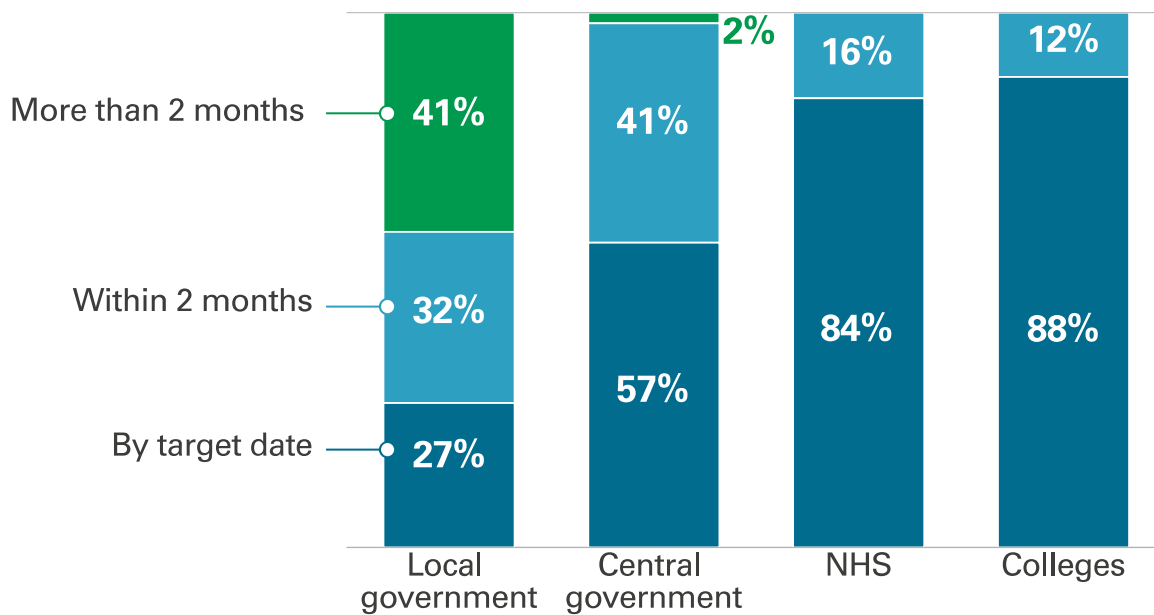
**106.** For 2019/20 and 2020/21 audits, the Auditor General and Accounts Commission agreed to delay their target audit completion dates as a result of the impact of the pandemic on audit delivery. Those target dates began to transition back for 2021/22 audits, and the dates set for 2022/23 audits were the same as those set before the pandemic. However, the Auditor General and Accounts Commission were clear that Audit Scotland should continue to prioritise audit quality over meeting these aspirational dates.

**107.** The following chart shows the percentage of the 156 Independent Auditor's Reports issued by the target date for each sector (30 June for NHS, 30 September for local government, 31 August or 31 October for central government and 31 December for colleges) and within two months of them:



**108.** Across all sectors, 75 of 156 2022/23 annual audits (48 per cent) were completed by the target dates. This is an improvement on 2021/22 audits where 37 of 138 audits (27 per cent) were completed by the same dates (ie, using the same dates set for 2022/23 to improve comparability). Progress was particularly notable for the NHS and further education sectors (ten of twelve, and seven of eight completed by the target dates respectively and all within two months of those dates).

**109.** The following chart shows the percentage of the 135 Annual Audit Reports issued by the target date for each sector and the percentages within two months of that date:



**110.** Delays to the completion of audits were caused by a number of factors including:

- The late completion of some 2021/22 annual audits leading to the later commencement of 2022/23 audits.
- The practical challenges typically experienced in the first year of a new audit appointment term.
- Capacity issues in finance departments meaning that audit evidence was not provided in accordance with agreed timescales.
- A number of challenging and complex issues, particularly in local government.
- Higher than expected levels of audit adjustments.
- Board meetings taking place after the target audit completion date.

**111.** In that context, completing most of 2022/23 annual audits within a couple of months of the target dates is testament to the excellent work

ethic, commitment and professionalism exhibited by audit teams across ASG. The strong progress has been achieved by a range of actions, including the strategic prioritisation of audits. Building on this progress, 2023/24 audits will be prioritised based on, for example:

- maintaining performance for all audits signed off by the target date in 2022/23
- focusing, where appropriate, on those audits that were very close to being delivered by the target date in 2022/23
- prioritising audits where assurances are required to be provided to other auditors, eg pension funds.

**112.** In addition, there have been three key recruitment campaigns to increase ASG's senior auditor, graduate trainee and school leaver numbers, which will help support delivery of audits. Due to recruitment timelines, the full impact of these will only be reflected in the delivery of the 2024/25 audits.

**113.** ASG will remain flexible and, in responding to pressures as they arise, will work closely with audited bodies to reprioritise including by reallocating resources when there are delays in responses from audited bodies due to unexpected complexities.

**114.** Our prioritisation approach is designed to sustain and improve the number of audits completed by the target dates in an incremental and measured way throughout the current audit appointments while balancing quality and staff wellbeing. Using 2022/23 annual audits as the baseline, we plan to improve timeliness in delivery over the remaining current appointments which end in 2026/27.

## Performance audits outputs

**115.** All but one of the 20 of performance audit outputs (95 per cent) were completed to planned timescales during the 2023/24 financial year, up from 92 per cent in the prior year.

**116.** The one exception was the performance audit report on Adult Mental Health Services which was delayed due to significant absences in the audit team.

## Statutory reports

**117.** Of the eight statutory reports issued during the 2023/24 financial year, six (75 per cent) were completed to planned timescales. The reports on South Lanarkshire College and Scottish Canals were delayed due to the later completion of the bodies' 2021/22 audits.

**118.** All five Controller of Audit Reports on Best Value were completed as planned.

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# 7. Improvement and follow-up actions

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

## Root cause analysis

**119.** 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.

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

**121.** Audits were 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 were considered for RCA.
- Grade 3: RCA was conducted for all audits to determine the causes of areas for improvement.

**122.** All members of the audit team contributed to these sessions and a member of the quality team provided support as required, which included attending and facilitating discussions for grade 3 reviews and providing guidance to audit teams.

**123.** The output from the feedback sessions was a brief 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.

**124.** The I&Q quality team collated 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.

**125.** The draft RCA report included proposed improvement actions for key RCA themes. The final RCA report was presented to ASGMT and PABVLT for information, noting the proposed improvement actions.

**126.** RCA was promoted as good practice for all audits subject to quality reviews outwith those selected for formal RCA to apply the principles of improvement and remediation as directed by ISQM (UK) 1.

## Quality Improvement Action Plan

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

**128.** 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.

**129.** 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.

**130.** 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 and Executive Team.

## Follow up of lower graded audits

**131.** The QEC agreed procedures during the year 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)
<p></p> <p><b>A. Engagement lead action plan:</b> 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.</p>	<p></p>
<p></p> <p><b>B. Restricted cold quality review follow up:</b> The I&amp;Q quality team conducts a restricted cold quality review for either the same financial statements audit in the following year, or another subsequent engagement completed by the same engagement lead.</p> <p>These restricted reviews are limited to assessing the actions taken for significant quality findings. They are not graded.</p>	<p></p> <p><b>B. Hot quality review:</b> The I&amp;Q quality team conducts a hot quality review for either the same financial statements audit in the following year, or another subsequent engagement completed by the same engagement lead.</p> <p>The hot review includes follow up of significant quality findings, in addition to reviewing key areas of risk and judgement on the audit file.</p>
	<p></p> <p><b>C. Focused review of the independent auditor's report (for financial statements audits, only where required):</b> 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.</p> <p>This focused IAR review is performed timeously by a senior member of I&amp;Q, with feedback submitted to the engagement lead and Executive Director of Audit Services.</p>
<p></p> <p><b>C. Full cold quality review (optional):</b> 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.</p>	<p></p> <p><b>D. Full cold quality review (optional):</b> 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.</p>

**132.** 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.

**133.** 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

During the year, I&Q developed a new impact monitoring, evaluation and reporting framework

## Early impact of performance audit outputs

**134.** 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 June 2021 and March 2022.

**135.** There has been good progress in following the recommendations in the Auditor General report on new ferries for the Clyde and Hebrides. Progress on a couple of recommendations is set out in the following table:

New vessels for the Clyde and Hebrides (Report)	Published March 2022
Recommendation	Progress since publication
<p>We recommended that Caledonian Maritime Assets Limited (CMAL) should review its contract management arrangements and consider how to encourage shipbuilders to meet its expected quality standards over the duration of new vessel projects.</p>	<p>CMAL has implemented improvements to its procurement processes, including greater clarity around the expectation that no shipbuilding contract can be awarded to a successful bidder unless a full refund guarantee has been provided prior to the contract date.</p>
<p>We recommended that the Scottish Government be clear about the specific outcomes it expects to achieve from investing in private businesses and put appropriate measures in place to assess and report value for money.</p>	<p>Work is continuing to strengthen the strategic approach to, and ongoing management of, financial interventions. The Business Investment Framework has been updated to take account of the lessons learned reviews.</p> <p>During 2022/23, the Strategic Commercial Assets Division was formed to consolidate expertise and knowledge and increase capacity to respond to cases that arise seeking support or intervention from the Scottish Government and provide support across the whole lifecycle.</p>

**136.** We have seen good progress with recommendations around continuous improvement and capturing lessons learned to inform future planning. An example is set out in the following table:

<b>Covid-19: Personal Protective Equipment (Briefing)</b>		<b>Published June 2021</b>
<b>Recommendation</b>	<b>Progress since publication</b>	
We recommended that the Scottish Government should consider the challenges which arose during the pandemic, both at a national and local level, to ensure that lessons are learned for pandemic preparedness in the future.	In the paper ‘Pandemic personal protective equipment (PPE) future supply: lessons learned’ (April 2023), the Scottish Government states that in response to our briefing paper, they ‘worked to identify the successes, challenges and lessons to be learned relating to PPE supply during the COVID-19 pandemic. This work has informed the development and implementation of the future pandemic PPE supply arrangements, in order to secure a resilient and robust supply of PPE for the future.’	

**137.** 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:

<b>NHS in Scotland 2021 (Sectoral Overview)</b>		<b>Published February 2022</b>
<b>Recommendation</b>	<b>Progress since publication</b>	
We recommended that the Scottish Government and NHS boards work with partners in the social care sector to develop a long-term, sustainable solution for reducing delayed discharges from hospital.	<p>The Scottish Government and NHS boards have progressed several measures aimed at reducing delayed discharges, including:</p> <ul style="list-style-type: none"> <li>• measures to increase the number of patients that can be seen remotely, which have been successful in saving hospital bed days</li> <li>• the Scottish Government developing a Delayed Discharge and Hospital Occupancy Plan. The plan is evidence-based and promotes good practice in terms of discharge planning and whole-system working.</li> </ul>	

**138.** There is evidence that our briefing papers have contributed to national discussions around planning and reform. An example is set out in the following table:

<b>Drug and alcohol services: An update (Briefing)</b>	<b>Published March 2022</b>
<b>Recommendation</b>	<b>Progress since publication</b>
<p>We recommended that the Scottish Government:</p> <ul style="list-style-type: none"> <li>• develop an overarching plan showing how the aims and actions of the Rights, Recovery, and Respect strategy, the national mission, and drug deaths taskforce all link together</li> <li>• report annually on progress on these aims and ambitions</li> <li>• set out, in one place, the overall funding for drug and alcohol services and support, with a breakdown of the main funding streams.</li> </ul>	<ul style="list-style-type: none"> <li>• The Scottish Government has published its National Drugs Mission Plan: 2022–2026.</li> <li>• The Scottish Government reports annually on progress on these aims and ambitions through the National Mission on Drugs annual report.</li> <li>• The first annual report summarised total funding and funding sources for drug and alcohol services in 2021/22, as well as analysis of funding channels and more detailed breakdown of funding to third sector core funding recipients.</li> </ul>

## Impact of annual audits

**139.** The impact framework also applies to annual audits, but development is at an earlier stage. We will be able to report more fully in accordance with that framework in next year's report, but the following are examples based on pilot work on 19 annual audits carried out between October 2023 and January 2024:

### Technical support

Detail of impact	Specific examples
<p>Audit teams added value through early engagement around technical accounting issues, including the treatment of leases, grants, employee benefits, IT controls, and asset valuation.</p> <p>Asset valuation was the most common theme, including issues with source data around key assumptions and a lack of management scrutiny.</p> <p>There were also instances of bodies using assumptions not appropriate for a public sector context and valuers using incorrect floor space and understating values.</p>	<ol style="list-style-type: none"> <li><b>1.</b> The audit team discovered that the council's internal and external valuers were using the incorrect basis and criteria for asset valuations. The team supported the council to improve the valuation accuracy and the council responded positively with improved analysis around its valuations.</li> <li><b>2.</b> The audit team discovered a number of accounting issues that had not been identified in previous years. The most significant was around balance transfers between related sets of accounts. The audit team added value by working with the new accountant in the finance team to review complicated ledger postings, better understand the background to an overpayment to HMRC, raise awareness of these issues with the Audit Committee and ultimately ensure the balance transfers were properly disclosed.</li> <li><b>3.</b> The audit team found an issue concerning a potential impairment of assets. The team raised this during audit planning and the body engaged with its valuer and developed an approach to reporting an impairment. This resolved a potentially time-consuming issue before the start of the financial statements audit. The body was also able to use the same valuation process for other assets with identified impairments.</li> </ol>

## Relationships

Detail of impact	Specific examples
<p>Building relationships at the start of the five-year audit appointment is critical to the success of the audit over the duration of the appointment. The following are ways in which teams added value through relationship building:</p> <ul style="list-style-type: none"> <li>• Onsite engagement helps teams understand the body and can help with more efficient, effective and timely delivery of audit work, including early identification of risks and issues.</li> <li>• Early engagement gives teams early insight and understanding so technical issues can be raised and resolved early in the audit process. This leads to higher quality and more compliant reporting and ensures issues are less likely to impact on delivery timelines.</li> <li>• Lessons learned sessions with bodies exploring what worked well about previous audits and what can be improved are well received.</li> <li>• Better relationships improve the ability of audit teams to work with bodies to develop meaningful and impactful recommendations that are more likely to be accepted and delivered.</li> </ul> <p>We often receive positive feedback from bodies on our positive, supportive and collaborative approach. This helps build trust and confidence in our audit work.</p>	<ol style="list-style-type: none"> <li>1. The audit team prioritised significant early engagement with leadership, senior officers and elected members, included effective communication through introductory meetings at the planning stage to identify risks, scope and approach. The team considered what worked well from the previous auditors and what could be improved and used this to inform the audit plan.</li> <li>2. Building relationships with a new engagement lead and a new audit team at the start of the appointment round was a key success this year. The audited body was happy with the transition and this helped build trust and confidence in the audit. Good relationships with the audited body make it more likely that they will accept our recommendations and also help reduce the impact of any obstacles that arise over the course of the audit, for example in this case, delayed sign off of the audit.</li> </ol>

## Sharing insights across public services

Detail of impact	Specific examples
<p>The range of knowledge and experience in our audit teams and their ability to identify and share insights, knowledge and experience from across public audit is a key area of added value.</p>	<ol style="list-style-type: none"> <li>1. The audit team provided additional information, including good practice from another health board, to support annual assessment and then delivered a further presentation to members of the audit committee and board. The range of experience in the team (both with other NHS audits and local government audits) brought significant knowledge and insight to the audit and led to increased interest, trust and confidence from the board in the audit findings.</li> <li>2. The audit team are also involved in the audits of other similar agencies and have added value by bringing the knowledge and expertise gained from this wider involvement, including providing guidance on when agencies can take similar approaches to managing grants, loans and investments within their accounts and when it is more appropriate for them to tailor their approach to their specific circumstances.</li> </ol>

## Capacity

Detail of impact	Specific examples
<p>We strike an important balance between supporting audited bodies when they lack capacity within their finance teams and remaining independent as auditors.</p> <p>We are careful about recognising the resource and capacity gaps within individual bodies, working together to conclude the audit, while not influencing management decisions.</p>	<ol style="list-style-type: none"> <li>1. The audit team highlighted to management at an early stage that the finance team was under-resourced, and that it needed further support to come up with savings proposals. The board recognised the capacity issue and recruited an additional member to the finance team during the audit.</li> <li>2. Personal circumstances meant there were significant gaps in the finance team and this was leading to delivery challenges. The Director of Finance fed back positively to the audit team on the support it provided to conclude the audit. It was clear the audit team's sense of purpose and relationships with the audited body was a key part of this. The Director recognised the lack of capacity and the impact this had, and the finance team has since recruited additional members.</li> </ol>

**140.** In addition to examples identified by the impact framework pilot, the following paragraphs provide further illustrative examples of impact from all 2022/23 annual audits identified by existing ASG systems.

### **Improved financial reporting**

**141.** Improving financial reporting is an area where our 2022/23 annual audits made a major contribution in a number of ways including the following:

- We supported audited bodies in understanding how to apply IFRS 16 Leases, which introduced a new accounting model to improve transparency about lease assets and liabilities. Numerous bodies made material adjustments in their financial statements and our engagement sessions supported governance boards in understanding the financial implications.
- Because of how financial markets are performing, the pension schemes of many audited bodies saw a significant surplus, which represented a new challenge for audited bodies in understanding how best to report a pension asset. Audit teams worked with the bodies to meet the accounting requirements.
- Our audit work uncovered errors that resulted in material correcting adjustments in asset valuations. We recommended that bodies carried out valuation exercises for land and buildings to provide reliable assurances that carrying amounts in the financial statements reflected current value.
- Audit teams also secured greater clarity and accuracy of Fair Pay disclosures in remuneration reports.
- We recommended that audited bodies improve performance reporting within their annual accounts to ensure balance and completeness.

### **Control systems**

**142.** Audit teams made recommendations for audited bodies to:

- improve payroll management processes, training, and the control environment to reduce instances of incorrect payments to employees, which can be challenging and time-consuming for audited bodies to recover
- ensure Scottish Government approval is obtained in advance for expenditure when it exceeds applicable thresholds, including for staff bonus payments
- comply with expenses policies to ensure expense claims are supported by detailed receipts, approved subsistence rates are adhered to, and purchases recognise good public value for money.

## Cyber security

**143.** Audit teams made a significant impact in the management of audited bodies' digital estates, including the following:

- Interrogating general IT controls, and disaster recovery and business continuity plans, including ensuring that audited bodies had routine tests of system back-ups.
- Assisting those charged with governance in attaining thorough assurance regarding timescales, risks, and contingency plans in relation to the implementation of new financial software.
- Identifying and highlighting instances of non-compliance with the Public Sector Cyber Resilience Framework. Several audited bodies were found not to be meeting the requirements of this Framework, which teams noted increases their vulnerability to cyber-attacks.

## Wider scope areas

**144.** Audit teams added value in wider scope audit areas by recommending:

- that audited bodies follow Best Value principles, including encouraging audited bodies to take a systematic approach to self-evaluation to facilitate continuous improvement in services
- improvements in climate change preparedness and the establishment of effective performance measurement area so that national climate change priorities can be accurately tracked
- alignment between workforce planning and service planning to enhance the resilience of public services for the future
- bodies undertake stringent assessments of the level of financial reserves to support resilience, and to meet unforeseen costs and pressures. We placed a greater emphasis on the need for enhanced monitoring and reporting of key financial indicators to support critical decision making and to provide greater openness and transparency
- bodies address areas of recurrent slippage within capital programmes and undertake reviews of project management and budget-setting procedures to improve the management of stakeholder expectations and service delivery
- improvements in performance management frameworks by integrating financial monitoring into broader assessments of overall performance.



## Improving public sector collaboration

**145.** Audit teams responded to a number of opportunities during 2022/23 to improve public sector collaboration:

- Using knowledge and experience of work across the public sector, audit teams provided examples where public bodies could work better with the Scottish Government to remove barriers to progress, clarify risks and uncertainties and further develop business planning processes enabling the bodies to drive improvements in services.
- Audit teams identified instances where processes need to be improved to ensure public sector finances are redeployed effectively when there are in-year overspends and underspends.
- Audited bodies were encouraged to seek clarity about their roles and responsibilities in a wider public sector context to enhance accountability for service delivery.
- In order to break down silos between finance teams, HR teams and estates teams, auditors recommended improvements to internal communication to support collaborative and responsible financial management across an audited body.

# 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
<p>A description of the legal structure and ownership of the statutory auditor, if it is a firm.</p>	<p>Appointed auditors are employees of Audit Scotland which is the statutory public audit body for Scotland.</p>
<p>Where the statutory auditor or the audit firm is a member of a network:</p> <ol style="list-style-type: none"> <li>1. a description of the network and the legal and structural arrangements in the network;</li> <li>2. 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;</li> <li>3. 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</li> <li>4. 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.</li> </ol>	<p>Audit Scotland is not part of a network.</p>
<p>A description of the governance structure of the statutory auditor if it is firm.</p>	<p>Audit Scotland's governance structure is briefly described in chapter 1 and more fully set out in the annual report and accounts.</p>

Provision of Regulation (EU) 537/2014	How Audit Scotland complies with Regulation (EU) 537/2014
<p>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.</p>	<p>Audit Scotland's internal quality control system is set out in chapter 3 of this report. As described, the system is made up of a range of reviews and processes.</p> <p>Based on an ongoing analysis of all aspects of the internal quality control system, the Executive Team is satisfied that it is functioning effectively.</p>
<p>An indication of when the last quality assurance review referred to in Article 26 of Regulation (EU) 537/2014 was carried out.</p>	<p>The results from the most recent reviews (carried out in November 2023 to April 2024) of the performance of our annual audits and performance audit outputs are set out in this report.</p> <p>Audit Scotland appoints an independent third party to carry out a programme of external quality assurance reviews (currently ICAEW).</p>
<p>A list of public interest entities for which the statutory auditor carried out statutory audits during the preceding financial year.</p>	<p>Michael Oliphant, Audit Director, Audit Scotland carried out the audit of a public interest entity (PIE) in 2022/23; Aberdeen City Council. No other Audit Scotland employees carried out the audit of a PIE in 2022/23.</p>
<p>A statement concerning the statutory auditor's independence practices which also confirms that an internal review of independence compliance has been conducted.</p>	<p>Details of our independence procedures for individual members of staff are set out in chapter 2 of this report.</p>
<p>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.</p>	<p>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.</p>
<p>Information concerning the basis for the remuneration of members of the management body of the statutory auditor, where that statutory auditor is a firm.</p>	<p>Information on the remuneration of the Executive and non-Executive Directors of Audit Scotland is provided in our annual report and accounts.</p>

Provision of Regulation (EU) 537/2014	How Audit Scotland complies with Regulation (EU) 537/2014
<p>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.</p>	<p>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.</p>
<p>Where not disclosed in its accounts, information about the total turnover of the statutory auditor, divided into the following categories:</p>	<p>Audit Scotland audits are funded by fees charged to the audited bodies and by funding from the Scottish Parliament. The audited bodies are required to disclose the fee for the audit in all cases. Where there is no cash fee, a 'notional' fee is agreed and disclosed.</p> <p>Details of our finances are included in our annual report and accounts.</p>
<p><b>1.</b> 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;</p>	<ul style="list-style-type: none"> <li>• 2022/23 PIE audit fee income: £507,000 (2021/22 – £670,000).</li> </ul>
<p><b>2.</b> revenues from the statutory audit of accounts of other entities;</p>	<ul style="list-style-type: none"> <li>• 2022/23 other statutory audit fee income: £15.0 million (2021/22 – £12.9 million).</li> </ul>
<p><b>3.</b> revenues from permitted non-audit services to entities that are audited by the statutory auditor; and</p>	<ul style="list-style-type: none"> <li>• There were no non-audit services in 2022/23 (2021/22: £nil).</li> <li>• Revenues permitted from joint agreed audit with NAO in connection with EU agricultural funds work: £485,000 (2021/22 – £550,000).</li> </ul>
<p><b>4.</b> revenues from non-audit services to other entities.</p>	<p>None</p>

# Audit quality

Audit Scotland's transparency report 2023/24



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