

Audit Quality Framework

2024



ACCOUNTS COMMISSION 

AUDITOR GENERAL 

Prepared by Audit Quality and Appointments

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1. Introduction

What is the Audit Quality Framework?

1. The Auditor General for Scotland (the Auditor General) and the Accounts Commission for Scotland (Accounts Commission) are together responsible for appointing auditors to conduct the audits of bodies under their respective remits. Public audit in Scotland is based upon a mixed-market approach to audit appointments, appointing as auditors, employees of Audit Scotland and accountancy firms. Audit appointments are for five years, based on rotation principles set out in the Ethical Standard. Performance audit work is undertaken by Audit Scotland staff as directed by the Auditor General and the Accounts Commission.
2. This Audit Quality Framework (AQF) describes the overall approach to achieving high quality public audit by all auditors and providers. The AQF is the framework used to provide the Auditor General and the Accounts Commission with robust, objective, and independent quality assurance, over the work conducted on their behalf by Audit Scotland and external firms. This work includes delivering the respective performance audit and Best Value work programmes and the annual audits of public bodies across Scotland's public sector.
3. The AQF complements [Public Audit in Scotland \(PAIS\)](#), the [Corporate Plan 2023-28](#), and the [Code of Audit Practice 2021 \(the Code\)](#). These documents require auditors to comply with the highest professional standards.

Why is the Audit Quality Framework important to the delivery of public audit in Scotland?

4. High-quality public audit provides the public, decision-makers, and politicians, with the assurance and information they need, and it helps Scotland's Parliament hold public bodies to account. This is more important than ever when public services face rising demand and tightening budgets.
5. Audit quality is at the core of public audit in Scotland and is the foundation for building consistency and confidence across all audit work. The AQF helps drive the vision for PAIS that 'Public money is well spent to meet the needs of Scotland's people'.
6. The AQF explains to stakeholders the important role that audit quality plays in providing assurance on the use of public money. It helps to demonstrate the impact of audit quality arrangements on continuously

improving auditor performance and underpinning stakeholder confidence. The AQF encompasses a single set of shared quality arrangements that apply equally to all audit work in the Scottish public sector.

7. It recognises the fundamental importance of audit quality for both the Auditor General and the Accounts Commission, and the need to provide regular assurances to them through comprehensive reporting on audit quality, auditor performance and areas for improvement.

8. For auditors, the AQF explains the structure and processes in place to assess audit quality and provides the necessary evidence that professional standards of quality have been achieved.

How have we revised the Audit Quality Framework?

9. This revised AQF aims to build upon elements of the previous AQF, whilst making some changes which are designed to make the AQF even more useful for stakeholders. This AQF has been prepared in consultation with the Auditor General, the Accounts Commission, Audit Scotland staff and external firms. We also researched the audit quality arrangements of other UK and international public audit to ensure we were following best practice. We plan to review the AQF again before the start of the next five-year audit cycle to reflect the new Code of Audit Practice and procurement documentation.

10. The key changes to the AQF are to have Audit Quality Indicators (AQIs) that have a greater focus on external and internal quality reviews, and delivery of audit outputs against due dates. In addition, the three lines of assurance model has been removed and replaced with Financial Reporting Council (FRC) headings, where appropriate, to group audit quality AQIs. The 'Independence' and 'Stakeholder perception' headings have been retained given their importance to public audit in Scotland. The revised AQIs are listed in the Appendix to this AQF.

11. Where required the Audit Quality and Appointments team (AQA) will make and follow up recommendations for improvement, with the ultimate responsibility for implementing these improvements the responsibility of auditors.

2. Audit Quality Framework

What do we mean by high-quality public audits in Scotland?

12. Audit quality is not clearly defined in professional auditing standards. Therefore, the outcomes from all audit quality reviews, along with other indicators are considered when assessing audit quality.

13. The FRC defines high quality audits as those that:

- provide stakeholders with a high-level of assurance that financial statements give a true and fair view
- comply both with the spirit and the letter of auditing and ethical standards and applicable legal and regulatory requirements
- are driven by a robust risk assessment, informed by a thorough understanding of the entity and its environment
- are supported by rigorous due process and audit evidence, avoid conflicts of interest, have strong audit quality processes, and involve the robust exercise of judgement and professional scepticism
- challenge management effectively and obtain sufficient audit evidence for the conclusions reached
- report unambiguously the auditor's conclusion on the financial statements.

14. Although, the FRC definition is focussed on commercial audit, the principles apply equally to all public audit work in Scotland.

15. All public audit work in Scotland should comply with the Code. The Code applies to all audit work undertaken on behalf of the Auditor General and the Accounts Commission. It is a condition of their audit appointment that auditors comply with the Code and follow supplementary guidance including guidance on planning annual audits and preparing Independent Auditors Reports.

16. In addition to the Code, all public audit work in Scotland should comply with the International Standards on Auditing (UK) (ISAs) and FRC's Practice Note 10 (Audit of Financial Statements and Regularity of Public Bodies in the United Kingdom).

17. All performance audit work must be in line with relevant INTOSAI¹ standards and guidelines for performance auditing, with due regard to guidance issued on the application of the Code to performance audit work.

18. As set out in International Auditing and Assurance Standards Board (IAASB) [Framework for Audit Quality](#) 'Audit quality encompasses the key elements that create an environment which maximises the likelihood that quality audits are performed on a consistent basis.' The IAASB further explains: 'A quality audit is likely to have been achieved by an audit team that:

- exhibited appropriate values, ethics, and attitudes
- provided useful and timely reports
- applied rigorous audit processes and quality control procedures that complied with law, regulation, and applicable standards
- interacted appropriately with relevant stakeholders.'

19. The AQF considers key elements of the IAASB's Framework, together with the [International Standard of Quality Management 1 \(ISQM1\)](#). ISQM1 deals with an auditing firm's responsibilities to design, implement and operate a system of quality management for audits. ISQM1 emphasises that the public interest is best served by auditors that consistently perform audits to a high level of quality.

20. All audit providers are expected to have rigorous audit quality processes in place. All audit providers are responsible for establishing their own audit processes and quality control procedures in accordance with their professional requirements. The arrangements must ensure compliance with ISQM1.

What are the key principles that underpin the Audit Quality Framework?

21. The key principles from the FRC and IAASB's audit quality guidance are embedded within the AQF by ensuring that the AQF:

- applies to all audit work and all audit providers
- uses AQIs and set targets which are used as thresholds to prompt further investigation, which is based upon empirical evidence

¹ These are standards that apply to performance audit work issued by the International Organisation of Supreme Audit Institutions.

- the results are publicly reported every year in the annual [Quality of Public Audit in Scotland \(QPAS\)](#) report
- where appropriate, QPAS will include recommendations for further improving audit quality
- an interim report is reported to the Auditor General for Scotland and the Accounts Commission in November.

How will the Audit Quality Framework measure audit quality?

22. The AQF will measure audit quality in five ways:

- compliance with ethical standards
- monitoring of audit outputs against target dates
- compliance with relevant quality standards
- external and internal quality reviews
- monitoring stakeholder surveys.

23. AQIs and the targets are not the final determination of audit quality. Instead, AQIs are indicators, and the targets are thresholds, which may prompt further investigation. These investigations, informed by their context, will inform AQA's conclusions on audit quality.

Compliance with ethical standards

24. All auditors must comply with the FRC's Ethical Standard and the Code to avoid any actual or perceived conflicts of interest.

25. To demonstrate compliance with the Ethical Standard:

- Audit Scotland and appointed firms are required to confirm their compliance with the Ethical Standard in their annual quality report submitted to AQA as part of their professional and contractual requirements.
- AQA monitors the scope and value of any Non-Audit Services (NAS)² which could compromise the auditor's independence and scrutinises all applications to carry out NAS.

² NAS are engagements in which auditors provide professional services to an audited entity other than the audit of financial statements of the audited entity.

Monitoring of audit outputs against deadlines

26. For audits of the annual accounts AQA monitors the following:

- percentage of audits meeting key planning milestones by the target date i.e., annual audit plan is submitted by target date per annual Guidance on planning the annual audit
- percentage of audits completed, i.e., audited annual accounts of each audited body, incorporating the signed Independent Auditor's Reports are submitted by target date per annual Guidance on planning the annual audit.

27. For PABV audit outputs AQA monitors the percentage of performance audit outputs published as planned per Audit Scotland's work programme. Due to the nature of performance audit outputs and availability of information before publication, some outputs may overrun. AQA will monitor these overruns to identify areas for improvement for future audits.

28. Annual audit plans document how auditors intend to meet their responsibilities for the delivery of a high-quality audit. Meeting planning milestones indicates that an audit has been properly planned before the fieldwork is commenced.

29. Delivery of audits within the target dates set out in the annual planning guidance is an important measure of compliance with audit appointment terms. AQA will report the reasons for audits that miss key planning and completion target dates, along with the actions being taken by auditors to improve audit delivery.

Compliance with relevant quality standards

30. As set out in ISQM 1, the individual(s) assigned ultimate responsibility and accountability for the system of quality management, on behalf of auditors, evaluates the system of quality management and concludes whether the system of quality management provides individuals with reasonable assurance that the following objectives are being achieved:

- auditors and personnel fulfil their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and
- engagement reports³ issued by auditors are appropriate in the circumstances.

³ This includes Independent Auditors' Reports, Annual Audit Reports and Performance Audit outputs.

31. Audit Scotland and appointed firms will be required to confirm their compliance with ISQM 1 in their annual quality report submitted to AQA as part of their professional and contractual requirements.

External and internal audit quality reviews

32. Audit quality reviews provide the strongest evidence to provide assurances over the quality of audit work. It is also the best way to make recommendations for improving the audit in the future.

33. Under this AQF two types of quality reviews of audits will be undertaken:

- Independent external reviews of samples of all types of audit work across all audit work. Audit Scotland commissions an independent body to undertake these quality reviews.
- Internal quality reviews conducted by specially trained experienced auditors in both the firms and within the Innovation and Quality Team for Audit Scotland audits.

34. The audit quality reviews measure that annual financial and performance audits comply with the Code. The Code requires annual financial audits to comply with the requirements of the relevant ISAs (UK) and statutory responsibilities such as Best Value in local government and regularity in central government, NHS and further education, and requires performance audits to comply with INTOSAI standards. The reviews also consider other requirements of the Code such as Practice Note 10 and other relevant guidance.

35. AQA collates and reports on results of all quality reviews. The results of these reviews are used to ensure that lessons are learned by auditors and used to continuously improve processes and methodologies.

36. The FRC file-grading system is applied to the assessment of audit quality. The single grading regime aids consistency and comparability across all audit work commissioned by the Auditor General and the Accounts Commission. Quality reviews will be graded as follows:

Category	Description
Good (1)	Review identified no areas for improvement of sufficient significance to include in report.
Limited improvements required (2)	Review identified one or more areas for improvement of limited significance.
Improvements required (3)	Review identified one or more key findings requiring more substantive improvements.

Significant improvements required (4)	Review identified significant concerns in one or more areas regarding the sufficiency or quality of audit evidence, the appropriateness of key audit judgments or another substantive matter such as auditor independence.
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37. AQA provides an overview of the results from the reviews to the Auditor General, the Accounts Commission and reports in public, together with associated targets and AQIs which set performance in the context of previous years.

38. Auditors are supported in learning from the results of the quality review procedures. The findings from external quality reviews are discussed with auditors to identify and support improvement where necessary.

39. Root cause analysis and action plans should be developed by auditors to include improvement areas identified. AQA will monitor how well the action plans are delivered as part of their regular meetings with auditors.

Monitoring stakeholder surveys

40. Stakeholder feedback provides important information on audit quality as perceived by the recipients of the audit. Each year AQA conducts or commissions an independent stakeholder feedback survey. Individuals in audited bodies are surveyed to gather feedback on annual financial audits and performance audit outputs published in the year.

41. Audited bodies are asked to respond to questions using a scale of 1 to 5 where 1 is 'very poor' and 5 is 'very good'. Questions about annual financial audit are based on various aspects of the audit. Questions about Performance audit outputs are based on the INTOSAI standards. The INTOSAI standards require auditors to provide audit reports which are comprehensive, convincing, timely, reader friendly and balanced. Furthermore, the INTOSAI standards require auditors to make constructive recommendations that are likely to contribute significantly to addressing the weaknesses or problems identified by the audit.

42. AQA analyses responses by using the mean score. This is the average of respondents' views on a question within a particular category, either by sector or auditor. AQA sets a threshold for this AQI. Where scores fall below this threshold, AQA investigates the reasons and, if necessary, discusses these with the auditor to ensure action is taken to improve performance.

Other measures of audit quality

43. In addition to the five areas noted at paragraph 22, which are measured and reported as 12 AQIs, AQA will also conduct regular reviews of audit outputs.

44. High-quality audit outputs provide assurance to stakeholders on the subject matter of the audit and add value by making recommendations for improvement, identifying risks to service performance, increasing insight, and facilitating foresight.

45. AQA reviews audit outputs to assess their quality and to monitor timeliness, scope, compliance with the Code requirements, compliance with Guidance on planning the annual audit, compliance with ISAs (UK) and clarity of recommendations.

46. AQA will also monitor Prior Period Errors (PPEs). Accounting standards describe PPEs as omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, available reliable information.

47. Where PPEs are identified, audited bodies should correct material PPEs retrospectively by restating the comparative amounts for the prior period(s) presented in which the error occurred.

48. Where appropriate, AQA will undertake further analysis on PPEs to identify any implications relating to audit quality.

3. Roles and Responsibilities

Who is responsible for ensuring high quality public audit work in Scotland?

49. Providing high quality public audits is the responsibility for everyone involved in public sector audit in Scotland.

Auditor General and Accounts Commission

50. The Auditor General and the Accounts Commission are responsible for appointing auditors to conduct the annual financial audits of bodies under their respective remits following a rigorous procurement process that is independent of the individual audited bodies. The Auditor General and the Accounts Commission also publish performance audits in their own names: they approve the scope of the work, and the final reports based on the work carried out by Audit Scotland.

51. The quality of audit work undertaken on behalf of and for the Auditor General and the Accounts Commission is of fundamental importance to their roles. The Auditor General and the Accounts Commission approve the AQF.

52. As commissioners of audit work, the Auditor General and the Accounts Commission obtain assurance from the independent AQA team that the work of Audit Scotland staff and firms of auditors is of appropriate quality.

53. The Auditor General and the Accounts Commission receive biannual reports on audit quality from AQA. Reporting under the AQF helps to inform the Auditor General in his role as accountable officer for Audit Scotland's annual report and accounts. The Accounts Commission uses these to inform its public reporting to its stakeholders on quality through the Accounts Commission's annual report.

Audit Scotland Board

54. The Code explains that Audit Scotland is responsible for providing support to the Auditor General and the Accounts Commission. This includes monitoring and reporting on audit quality and auditor performance through a robust quality appraisal system. The Audit Scotland Board (the Board) has overall responsibility for the strategic direction of the organisation and for approving significant policies.

55. The governance role exercised by the Board over the AQF provides assurance to the Auditor General and the Accounts Commission, as

commissioners of audits, on the quality of work carried out by Audit Scotland staff and firms of auditors.

Audit Quality and Appointments

56. AQA provides assurance on audit quality and does not engage in any audit work. AQA is independent from auditors undertaking audits and supports the implementation of this AQF across all audit work and providers. The team is led by a director who reports directly to the Chief Operating Officer to maintain independence and compliance with professional ethics. The responsibilities of this team include:

- advising the Auditor General and Accounts Commission on audit appointments, procuring audit services and contract management
- conducting thematic reviews and reviewing auditor outputs to contribute to quality assessments
- ensuring non audit services work is appropriate and compliant with the [FRC's Ethical Standard](#)
- liaising with auditors
- maintaining the AQF
- maintaining the AQIs for quality including specifying the range of AQIs required
- managing and reporting on the independent external reviews
- managing stakeholder feedback and reporting results
- overseeing programme of external quality control and monitoring results of reviews undertaken in line with ISQM1 by both Audit Scotland auditors and appointed firms
- preparing the audit quality reporting to Audit Scotland's Executive Team, Audit Committee and the Board, the Auditor General, Accounts Commission and the public.

Innovation and Quality team

57. Audit Scotland's Innovation and Quality business group (I&Q) is led by an Executive Director. It provides a centre of excellence for support arrangements for auditors covering all sectors, providers, and products. I&Q's responsibilities include:

- delivering an annual programme of guidance and other outputs for all providers of the annual audit, including the appointed firms, which supplements the Code
- providing a helpdesk on complex technical accounting matters

- supporting Audit Scotland's role as system leader for public audit in Scotland, including memberships of external groups and boards and responding to external consultations
- maintaining and enhancing an online repository of technical reference material.

Auditors (financial and performance)

58. Auditors are directly responsible for leading the day-to-day delivery of audit work and have key responsibility for the quality of their audit work. In addition, they work within a clear organisational structure and set of arrangements for quality control and assurance.

59. Auditors are responsible for implementing their own audit quality arrangements in compliance with relevant professional quality standards and their professional regulator's requirements, and for publishing annual Transparency Reports where required to.

60. Auditors must produce an annual quality report on their work completed in the year and submit this to AQA for review. These reports are used to obtain AQI information and inform the overall levels of assurances provided on audit quality.

61. Audit Scotland and the firms collaborate to coordinate coverage of the wider scope audit responsibilities as outlined in the Code. Audit firms are required to engage with Audit Scotland in regular dialogue through meetings and organised events to share current issues and good practice.

Appendix

AQI	Service Area	AQI description	Target	Guidance
1	Independence (Paragraphs 24 to 25)	Percentage of audit providers confirming compliance with ethical requirements.	100%	100% compliance indicates that no breaches of ethical requirements have been identified and reported.
2	Performance monitoring and remediation (Paragraphs 26 to 29)	Percentage of audits meeting key planning milestones by the target date i.e., annual audit plan is submitted by target date per annual Guidance on planning the annual audit.	On time or improving ¹	Details of key planning milestones are set out in Guidance on planning the annual audit.
3	Performance monitoring and remediation (Paragraphs 26 to 29)	Percentage of audits completed, i.e., audited annual accounts of each audited body, incorporating the signed Independent Auditor's Reports are submitted by the target completion date per annual Guidance on planning the annual audit.	On time or improving ¹	Details relating to completion dates are set out in Guidance on planning the annual audit.
4	Performance monitoring and remediation (Paragraphs 26 to 29)	Percentage of performance audit outputs published as planned per Audit Scotland's work programme.	90%	Where overruns happen, this can identify areas for improvement for future audits.
5	Quality Monitoring (Paragraphs 30 to 31)	Percentage of audit providers confirming compliance with ISQM 1 system of quality	100%	ISQM 1 requires that the system of quality management is evaluated at least annually.

AQI	Service Area	AQI description	Target	Guidance
		management requirements.		
6	Quality Monitoring (Paragraphs 32 to 39)	Percentage of external quality reviews requiring no more than limited improvements. (Grade 1 & 2)	80% annual	Good (1): Review identified no areas for improvement of sufficient significance to include in report. Limited improvements required (2): Review identified one or more areas for improvement of limited significance.
7	Quality Monitoring (Paragraphs 32 to 39)	Percentage of internal quality reviews requiring no more than limited improvements. (Grade 1 & 2)	80% annual	Good (1): Review identified no areas for improvement of sufficient significance to include in report. Limited improvements required (2): Review identified one or more areas for improvement of limited significance.
8	Quality Monitoring (Paragraphs 32 to 39)	Percentage of external quality reviews requiring significant improvements. (Grade 4)	0% annual	Significant improvements required (4): Review identified significant concerns in one or more areas regarding the sufficiency or quality of audit evidence, the appropriateness of key audit judgements or another substantive matter such as auditor independence.
9	Quality Monitoring (Paragraphs 32 to 39)	Percentage of internal quality reviews requiring significant improvements. (Grade 4)	0% annual	Significant improvements required (4): Review identified significant concerns in one or more areas regarding the sufficiency or quality of audit evidence, the appropriateness of key audit judgements or another substantive matter such as auditor independence.
10	Stakeholder Perception (Paragraphs 40 to 42)	a) Perception of the usefulness of the annual audit overall b) Perception of the appropriateness of	4/5 ²	Undertaken by independent body. We aim for auditors to receive a mean score of 4.0 which equates to 'good.' Where scores fall below this level,

AQI	Service Area	AQI description	Target	Guidance
		coverage of wider scope c) Perception of the appropriateness of coverage of best value (LG only)		we investigate the reasons and, if necessary, discuss these with the auditor to ensure action is taken to improve performance.
11	Stakeholder Perception (Paragraphs 40 to 42)	Perception of the quality of: a) Overview reports b) Performance audits	4/5 ²	Undertaken by independent body. We aim for auditors to receive a mean score of 4.0 which equates to 'good.' Where scores fall below this level, we investigate the reasons and, if necessary, discuss these with the auditor to ensure action is taken to improve performance.
12	Stakeholder Perception (Paragraphs 40 to 42)	Perception of the usefulness of: a) Overview reports b) Performance audits	4/5 ²	Undertaken by independent body. We aim for auditors to receive a mean score of 4.0 which equates to 'good.' Where scores fall below this level, we investigate the reasons and, if necessary, discuss these with the auditor to ensure action is taken to improve performance.

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

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

We will analyse the above indicators by audit and output where appropriate.

Audit Quality Framework

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
Phone: 0131 625 1500 Email: info@audit.scot
www.audit.scot