

# Draft Code of Audit Practice

2026



 AUDIT SCOTLAND

Prepared by Audit Scotland for  
the Auditor General for Scotland and Accounts Commission for Scotland  
February 2026

# Contents

1. Status, application and principles	<b>3</b>
2. Assurance on the annual accounts	<b>10</b>
3. Assurance on wider scope reporting areas	<b>13</b>
4. Assurance on Best Value arrangements	<b>21</b>
5. Planning audit work and reporting results	<b>25</b>
6. Assurance on specific areas	<b>32</b>
7. Insights, intelligence and other support	<b>34</b>
8. Assurance on smaller bodies	<b>38</b>
9. Performance audits	<b>40</b>
Appendix 1. Supplementary guidance and professional standards	<b>43</b>
Appendix 2. Parties in public audit in Scotland	<b>46</b>
Appendix 3. Statutory responsibilities	<b>50</b>
Glossary	<b>54</b>



## Accessibility

You can find out more and read this report using assistive technology on our website [www.audit.scot/accessibility](http://www.audit.scot/accessibility).

# 1. Status, application and principles

## Purpose of this section

**1.** This section covers the purpose of public audit, the status of the Code of Audit Practice (the Code) and its application, and sets out principles which should underpin the conduct and work of appointed auditors in discharging their responsibilities.

## Purpose of public audit

**2.** Public sector bodies are accountable for their use of public money. Independent external audit of the services delivered by public bodies and the spending they incur in doing so is a necessary safeguard to provide objective assurance to the public and their representatives to support democratic accountability.

**3.** Public audit in Scotland is founded on the statutory responsibilities of the Auditor General, the Accounts Commission, and the auditors they appoint.

**4.** Public sector external auditors examine whether public money is properly accounted for and that resources are used well. As with the audit of the annual accounts in the private sector, public sector external audit involves providing an opinion on the truth and fairness of the annual accounts, but it also covers an audited body's arrangements for ensuring:

- public money is being used in accordance with the law and for approved purposes
- propriety and that public business is being conducted in a way that meets parliamentary and public expectations
- economy, efficiency and effectiveness in its use of resources.

**5.** It is not part of an auditor's functions to question the merits of an audited body's policy, but they examine the arrangements by which policy decisions are reached and consider the effects of legislation and guidance, and the implementation of policy.

**6.** Public audit cannot, however, act as a substitute for audited bodies' own responsibilities. It does not replace the need for an audited body to obtain legal or other professional advice and to put in place effective internal control arrangements, including arrangements for internal audit. It is for audited bodies to ensure that their business is conducted in

accordance with the law and proper standards, and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively.

## Purpose and status of the Code

**7.** This Code describes the purpose and scope of public audit in Scotland. It replaces the Code issued in June 2021 and comes into effect for audits of financial years starting from 2027/28.

**8.** The Code sits at the centre of the arrangements for public audit in Scotland, and it is a condition of their audit appointment that auditors comply with its requirements. The Code:

- sets out the framework for strong and effective public audit which supports accountability and provides independent assurance that public money is spent and reported properly
- applies to all audit work undertaken by appointed auditors and by performance auditors including the audit of the annual accounts, which has a wider scope than the private sector, performance auditing and auditing Best Value arrangements
- reflects the legal requirements for audit, as well the professional standards with which auditors must comply
- sets out the arrangements which promote auditor independence and monitor audit quality.

**9.** Guidance is used to help inform auditors' judgements and promote a consistent approach to changing public service priorities and risks. The types of guidance which supplement this Code are explained in [Appendix 1 \(page 43\)](#).

### Framework for public audit in Scotland



## General principles of public audit

**10.** The Code continues to take a principles-based approach. This allows appointed auditors to adopt a flexible approach that is responsive to sector developments and to the specific circumstances faced by each audited body. The extent and nature of work required to perform a high-quality audit is determined by each appointed auditor in response to local circumstances.



### Public accountability

**11.** Appointed auditors carry out their work on behalf of the public and in the public interest.

**12.** Auditors should, however, be mindful of the unique position they hold, and ensure that they have open and transparent arrangements in place that recognise their responsibilities to both the audited body and also to the public.

### Wider audit scope

**13.** Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector. The wider scope reporting areas specified by the Auditor General broadens the audit of the annual accounts to include consideration of financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes.

**14.** In local government, the scope of the audit includes a statutory responsibility to consider the arrangements to secure Best Value and community planning which is equivalent to the wider scope areas.

### Integrity, objectivity and independence

**15.** Appointed auditors carry out their work with integrity and objectivity to underpin and safeguard their independence at all times. Auditors

also comply with the applicable ethical framework, including any ethical standards set by a relevant regulatory body, along with any additional requirements set out by the auditor's recognised supervisory body, or any other body charged with oversight of the auditor's independence.

**16.** Appointed auditors must be, and should be perceived to be, impartial and independent. This gives stakeholders confidence that auditors will have the willingness to challenge management where appropriate, and conduct a robust audit. Accordingly, auditors do not carry out any other work for an audited body if that work would impair their independence in carrying out any of their responsibilities under this Code or might reasonably be perceived as doing so. Audit Scotland has safeguards in place to consider any non-audit services.

### **Professional judgement**

**17.** Appointed auditors discharge their responsibilities in compliance with the requirements of legislation, this Code and guidance from Audit Scotland, and relevant professional standards.

**18.** The Code cannot direct an auditor to reach a particular conclusion. Auditors use their professional judgement to apply the principles and requirements set out in this Code to the particular circumstances that exist at different audited bodies. Auditors conduct their work economically, efficiently and effectively, and in as timely a way as possible.

**19.** An integrated approach is adopted to work under the Code, where the knowledge gathered, and work carried out in support of each of the auditor's responsibilities, informs the auditor's judgements as a whole.

### **Risk-based and proportionate**

**20.** Audits are fundamentally risk based. This means that they are driven by a robust risk assessment, informed by a thorough understanding of the audited body and its environment. Auditors allocate more time and resources to higher risk areas. This principle is the source of most of the proportionality that is inherent in an audit.

**21.** Audits are designed to meet the auditor's responsibilities set out in this Code tailored to the circumstances in place at the audited body and the audit risks to which they give rise.

**22.** Auditors weigh the significance of issues identified against the amounts involved in relation to the size of the body concerned to determine whether further action is proportionate and in the public interest, having regard to any guidance issued by Audit Scotland.

**23.** Auditors also consider carefully the practical and resource implications for the audited body when framing recommendations arising from their work.

## Professional scepticism

**24.** In carrying out their work, appointed auditors exercise professional scepticism. Professional scepticism is a core part of an auditor's mindset. It is characterised by a willingness to challenge audited bodies, and the experts they use, to look for contradictory as well as corroborative evidence and to critically assess information.

**25.** Auditors obtain and document such information and explanations as they consider necessary to provide sufficient, appropriate evidence in support of their conclusions and opinions.

## Data-driven

**26.** In order to undertake audits efficiently, where possible, appointed auditors adopt a data-driven (or data-enabled) audit that uses advanced data analytics and technology to review, analyse, and test entire datasets instead of samples.

**27.** A data-driven approach allows deeper insights, detects risks and anomalies, improves the accuracy and security of data, ensures compliance with data regulations, and increases audit coverage and efficiency by analysing the whole population of relevant data.

## Appropriate knowledge and skills

**28.** In order to undertake audits effectively, auditors ensure that they have the necessary skills, knowledge and experience to discharge their functions effectively and have arrangements in place to ensure that audit teams have sufficient knowledge of the relevant public sector financial reporting, regulatory and legislative frameworks.

**29.** Skills include, not only the traditional skill sets required of auditors, but also the ability to deliver data-driven audits.

**30.** Auditors ensure that audit teams comply with statutory and other relevant requirements relating to the security, transfer, holding, disclosure and disposal of information, particularly personal information received or obtained during the course of their audit work.

## Audit quality

**31.** The Auditor General and the Accounts Commission require assurance on the quality of public audit in Scotland through comprehensive audit quality arrangements that apply to all audit work and providers.

**32.** Audit Scotland maintains and delivers an Audit Quality Framework through a team which is independent of appointed auditors. The team assesses audit quality and provides assurance through independent reporting to the Auditor General and the Accounts Commission. Results are used to highlight good practice and areas for improvement. This supports continuous improvement in audit quality.

**33.** The Audit Quality Framework includes a programme of independent quality assessments of all the appointed auditors by an independent professional regulatory body. Audited bodies' views on the audit received are also considered on an annual basis. This information is used to assess the delivery of audit work and the extent to which it meets the relevant professional standards.

## Cooperation

**34.** Public bodies increasingly operate, commission and deliver services in a range of partnerships and other forms of joint working or contracts with other public, private or third-sector bodies. In meeting their statutory duties, appointed auditors consider how best to obtain assurance over such arrangements, working effectively with other auditors where appropriate.

**35.** Auditors are mindful of the activities of inspectorates and other scrutiny bodies and take account of them where relevant to prevent duplication and ensure that the demands on audited bodies are managed effectively. In so doing, auditors are informed by the reported results of inspectorates and other scrutiny bodies in relation to corporate or service performance.

**36.** Auditors are not required to carry out procedures to assess the quality of, or re-perform, the work of inspectorates and other scrutiny bodies, except where it would be unreasonable not to do so, for example, to provide assurance in support of the audit opinion on the financial statements.

**37.** In respect of the audited body, auditors:

- adopt a constructive approach to their work
- share and discuss their audit plan at an early stage
- build effective coordination arrangements with internal audit, using the work of internal audit where, in the auditor's judgement and in line with professional standards, this is appropriate.

**38.** Where there is a change in the appointed auditor, auditors also ensure that they cooperate effectively during the handover period, having regard to any guidance issued by Audit Scotland to support the efficient and effective discharge of responsibilities.

**39.** Appointed auditors are required to work collaboratively with Audit Scotland in sharing intelligence and insights. This includes contributing to the performance audit programme of the Auditor General and Accounts Commission, including the production of statutory reports. Where Audit Scotland performance auditors request information from appointed auditors, it is important that such information is provided in a timely manner.

**40.** Cooperation also includes highlighting current issues as well as attending and contributing to periodic meetings with other appointed auditors hosted by Audit Scotland.

## Public reporting

**41.** Appointed auditors report their findings publicly. Auditors report using their professional judgement and applying the following principles:

- Reporting on a timely basis, clearly, concisely and objectively without fear or favour. Timely reporting means:
  - producing audit reports on time, supported by high-quality audit work, to allow audited bodies to comply with the requirements placed on them to publish their audited annual accounts
  - ensuring that when matters of concern arise during the course of the audit, auditors raise them promptly with the body and consider whether the matter needs to be brought to public attention at the appropriate time.
- Using language that readers will understand, reflecting the principle that audit reporting is for the benefit of the public as well as the body being audited.
- Reflecting the wider scope of public audit by covering the range of audit responsibilities under the Code, and being open and transparent about the scope and nature of the work carried out.
- Setting conclusions out clearly, along with the evidence on which those conclusions are based.
- Where there are areas for improvement, explaining the impact they have on the audited body, and the actions the body should take in response in the form of specific and measurable recommendations.

## Responsibilities of audited bodies

**42.** This Code applies to the audit of public bodies which spend public money, including the Scottish Government, central government bodies, the NHS in Scotland, local government bodies and further education colleges.

**43.** The Code cannot place requirements on audited bodies themselves. The successful delivery of an audit under the Code is, however, predicated on the audited body meeting its statutory responsibilities to provide the auditor with the facilities and information the auditor reasonably requires for the purposes of their functions on a timely basis and to an appropriate standard.

**44.** Each section of this Code therefore sets out the responsibilities of audited bodies as required by legislation, other codes, or manuals.

# 2. Assurance on the annual accounts

All audited bodies (partial adaptations for smaller bodies)

## Purpose of this section

**45.** This section of the Code covers the audit of a public body's annual accounts.

**46.** An auditor appointed to a body that meets the definition of a smaller body should refer to [Section 8](#) of the Code on how this section applies to smaller bodies.

## Responsibilities of audited bodies

**47.** Audited bodies must prepare annual accounts comprising financial statements and other related reports. They have responsibility for:

- preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation
- maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support the disclosures in their financial statements and related reports
- assessing the appropriateness of the going concern basis of accounting
- ensuring the regularity of transactions, by putting in place systems of internal control to ensure that the transactions are in accordance with applicable legislation and guidance
- preparing and publishing, along with their financial statements, related reports such as an annual governance statement, management commentary/performance report and a remuneration report in accordance with prescribed requirements
- ensuring that the management commentary/performance report is fair, balanced and understandable while communicating relevant information to users about the body and its financial performance clearly and concisely
- allowing auditors access to accounting records and IT systems in a manner that facilitates the delivery of a data-driven audit.

**48.** The specific responsibilities of different types of audited body regarding the production and reporting of their annual accounts vary depending on relevant legislation and other requirements. However, the publication of the annual accounts is an essential means by which the audited body accounts for its stewardship and use of the public money at its disposal.

**49.** The precise form and content of the audited body's annual accounts, and any additional schedules or returns for consolidation purposes, should reflect the requirements of the applicable financial reporting framework in place for that particular type of audited body and any additional guidance issued in support of that framework.

## Responsibilities of appointed auditors

**50.** Appointed auditors are responsible for performing an audit of the annual accounts prepared by public bodies and expressing an opinion on them.

**51.** Other than for smaller bodies explained in Section 8, the Auditor General and the Accounts Commission require the audit of a body's annual accounts to be carried out in accordance with:

- International Standards on Auditing (ISAs) issued by the Financial Reporting Council (FRC), or successor body
- guidance on the application of the ISAs to public audit provided in the Public Audit Forum's Practice Note 10 Audit of Financial Statements and Regularity of Public Sector Bodies in the United Kingdom
- the Ethical Standard issued by the FRC.

**52.** Appointed auditors consider significant risks of misstatement in the financial statements and related reports within the annual accounts. They use their professional judgement to assess risks within individual audited bodies and design their audit approach in response to those risks. Auditors should pay due regard to any guidance provided by Audit Scotland.

**53.** Auditors are required by ISAs to assess the appropriateness of the going concern basis of accounting. Auditors should pay due regard to the application guidance in Practice Note 10 which advises that in most public bodies, the use of the going concern basis of accounting is straight-forward because the applicable financial reporting frameworks envisage that it will apply where the body's services will continue to be delivered by the public sector.

**54.** For the avoidance of doubt, a conclusion that the going concern basis of accounting is appropriate does not provide any assurance regarding financial sustainability which auditors consider and report on separately as

part of their Best Value and wider scope responsibilities. Auditors should be clear on that when communicating with audited bodies.

**55.** Auditors appointed by the Auditor General have a statutory responsibility to consider the regularity of an audited body's transactions and report an opinion.

**56.** Auditors give their opinions on the various parts of the annual accounts in accordance with the legislative and other requirements in an Independent Auditor's Report. This is described further in [Section 5 \(page 25\)](#).

# 3. Assurance on wider scope reporting areas

All sectors except local government; all bodies except smaller bodies

## Purpose of section

**57.** This section of the Code covers the wider scope of public audit. It sets out the requirements for the provision of assurance on specified reporting areas from auditors appointed by the Auditor General.

**58.** An auditor appointed to a body that meets the definition of a smaller body should apply [Section 8](#) of the Code.

## Responsibilities of applicable audited bodies

**59.** Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

**60.** Those with a management role in an audited body and those charged with governance who have oversight of management make a vital contribution to discharging these responsibilities.

**61.** An Accountable Officer is designated by the Permanent Secretary of the Scottish Government for parts of the Scottish Administration and sponsored bodies. The role of Accountable Officer is a personal responsibility for the propriety and regularity of the public finances for the relevant part of the Scottish Administration or public body and ensuring that resources are used economically, efficiently and effectively. Accountable Officer responsibilities are detailed in the Scottish Public Finance Manual.

**62.** Audited bodies, through the Accountable Officer, are responsible for maintaining:

- strong corporate governance arrangements
- standards of conduct for prevention and detection of fraud and other irregularities
- a financial position that is soundly based
- a robust internal audit function
- arrangements to secure Best Value.

## Corporate governance

**63.** Each audited body is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies should involve those charged with governance (including audit committees or equivalent) in monitoring these arrangements.

## Prevention and detection of fraud and error

**64.** Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.

## Maintaining a sound financial position

**65.** Audited bodies are responsible for putting in place proper arrangements to ensure that their financial position is soundly based having regard to:

- such financial monitoring and reporting arrangements as may be specified
- compliance with any statutory financial requirements and achievement of financial targets
- balances and reserves, including strategies about levels and their future use
- how they plan to deal with uncertainty in the medium and longer term
- the impact of planned future policies and foreseeable developments on their financial position.

## Best Value

**66.** The Scottish Public Finance Manual sets out a specific responsibility for Accountable Officers to ensure that arrangements have been made to secure Best Value, that is, arrangements to secure continuous improvement in the delivery of public services. Accountable Officers are required to ensure accountability and transparency through effective performance reporting for both internal and external stakeholders.

**67.** The Police and Fire Reform (Scotland) Act 2012 also places a statutory duty to make arrangements to secure Best Value in carrying out their functions on the Scottish Police Authority; the Chief Constable of the Police Service of Scotland; and the Scottish Fire and Rescue Service. The Auditor General has the statutory power to initiate examinations into these arrangements.

**68.** Ministerial guidance sets out the duty of Accountable Officers to ensure that arrangements to secure Best Value are in place. The guidance in force at the time of preparing this Code is framed around seven Best Value themes and sets out the evidence that a public body should be able to demonstrate.

### Internal audit

**69.** Audited bodies are required to establish an internal audit function as a support to management in maintaining effective systems of control and performance. The internal audit programme of work is expected to comply with the Public Sector Internal Audit Standards and the requirements set out in the Scottish Public Finance Manual.

## Responsibilities of appointed auditors

### Reporting areas

**70.** Appointed auditors are required by this Code to satisfy themselves that audited bodies have made proper arrangements in four specified reporting areas.

#### Four reporting areas:



Financial management



Financial sustainability



Vision, leadership and governance



Use of resources to improve outcomes

Reporting area	Definition	Key matters to consider
 <p><b>Financial management</b></p>	<p>Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.</p>	<ul style="list-style-type: none"> <li>• Are there suitably qualified and experienced officials leading the body's finance team supported by sufficient financial skills, capacity, and capability in the body?</li> <li>• Does the body have arrangements to ensure systems of internal control are operating effectively?</li> <li>• Can the body demonstrate the effectiveness of the budgetary control system in communicating accurate and timely financial performance?</li> <li>• How accurate is financial forecasting and is it an embedded part of financial management and reporting arrangements?</li> <li>• Does the body have savings plans in place, and are they risk assessed and regularly monitored to ensure savings are being delivered?</li> </ul>
 <p><b>Financial sustainability</b></p>	<p>Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.</p> <p>Note: this is a separate consideration to whether the going concern basis of accounting is appropriate.</p>	<ul style="list-style-type: none"> <li>• How effective are the financial planning systems in identifying and addressing risks to financial sustainability across the medium and longer terms?</li> <li>• How appropriate are the arrangements put in place to address any identified funding gaps?</li> <li>• Are there plans in place to support how efficiency targets are to be met?</li> <li>• Does the body understand the long-term pressures, including demand pressures, and have these been built into plans and strategies?</li> <li>• Are the long-term revenue consequences of borrowing and other forms of financing on affordability clearly set out?</li> <li>• Are investment decisions informed by clear business cases, and is it clear how investments will be funded and how success will be measured?</li> </ul>

Cont.

Reporting area	Definition	Key matters to consider
 <p data-bbox="129 349 355 456"><b>Vision, Leadership and governance</b></p>	<p data-bbox="384 255 730 584">Vision, Leadership and Governance is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.</p>	<ul data-bbox="799 255 1461 1032" style="list-style-type: none"> <li data-bbox="799 255 1461 327">• Does the body have a clear vision and strategy, and do they include a clear set of priorities?</li> <li data-bbox="799 344 1461 452">• Can the body demonstrate that the governance arrangements are appropriate and operating effectively?</li> <li data-bbox="799 470 1461 618">• Is there evidence of effective scrutiny, challenge and transparency on decision making and financial and performance reports at governance committees?</li> <li data-bbox="799 636 1461 743">• Is there a corporate approach to continuous improvement, with regular updating and monitoring of improvement plans?</li> <li data-bbox="799 761 1461 869">• Are appropriate procedures applied consistently to ensure that members and staff comply with relevant codes of conduct and policies?</li> <li data-bbox="799 887 1461 1032">• Do performance reports contain clear objectives, targets, benchmarks, and comparisons, and is there a clear flow from corporate plans?</li> </ul>
 <p data-bbox="129 1149 355 1220"><b>Effective use of resources</b></p>	<p data-bbox="384 1055 767 1570">Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency, and effectiveness through the use of financial and other resources and reporting performance against outcomes.</p>	<ul data-bbox="799 1055 1461 1480" style="list-style-type: none"> <li data-bbox="799 1055 1461 1126">• Can the audited body demonstrate that outcomes are improving?</li> <li data-bbox="799 1144 1461 1216">• Does the audited body provide information about how services are improving?</li> <li data-bbox="799 1234 1461 1305">• Have alternative models of service delivery been considered?</li> <li data-bbox="799 1323 1461 1395">• Is benchmarking carried out to identify areas for improvement?</li> <li data-bbox="799 1413 1461 1485">• Are user needs and views considered in the evaluation of service delivery and quality?</li> </ul>

## Auditor action

**71.** The action that appointed auditors should take in respect of each of the four specified reporting areas is set out below:

Audit stage	Auditor action
<b>Planning/risk assessment</b>	<p>Auditors use guidance from Audit Scotland to identify risks that the audited body has weaknesses in its arrangements in the four specified reporting areas.</p> <p>Auditors should include in their Annual Audit Plans the work they will carry out to consider the risks.</p>
<b>Execution of plan</b>	<p>Auditors focus on any risks included in the Annual Audit Plans to consider whether the body has effective arrangements in the four specified reporting areas.</p>
<b>Reporting</b>	<p>Auditors report a conclusion that gives reasonable assurance on the arrangements in place for each of the four specified reporting areas in the Annual Audit Report each year in accordance with Section 5 of this Code.</p>

**72.** Appointed auditors should, having regard to relevant guidance issued by Audit Scotland on behalf of the Auditor General, undertake sufficient work to be satisfied as to whether, in each auditor's view, the audited body has proper arrangements in place in each specified reporting area.

**73.** The work carried out by auditors should be underpinned by consideration of the arrangements the audited body is expected to have in place. This should be based on the guidance provided to auditors by Audit Scotland that supplements this Code. The guidance may set out areas of focus specified by the Auditor General, where judged necessary.

**74.** Appointed auditors should take into account their knowledge of the relevant sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, are relevant to the auditor's work on the four specified reporting areas. An understanding of the sector includes the relevant regulatory framework in which the audited body operates.

**75.** Auditors' work on arrangements in the four specified reporting areas should be informed by:

- the audited body's governance statement and any additional reporting by the body on the arrangements it has in place to manage risks to the achievement of its responsibilities relevant to the four audit areas
- evidence that the audited body's arrangements were in place during the reporting period

- evidence obtained from the auditor's other work, including previous work on arrangements in the reporting areas, work completed as part of the audit of the annual accounts and the audited body's response to this work
- national or sectoral reporting by Audit Scotland
- the work of inspectorates and other scrutiny bodies, where the scope and results are relevant to auditors' responsibilities. Auditors are not required to quality-assure or re-perform the work of others and may use such work to the extent that, in their judgement, it is appropriate to do so
- any other evidence source that auditors regard as necessary to facilitate the discharge of their responsibilities for the reporting areas.

**76.** Determining how much work to do on the arrangements is a matter of auditor judgement. Auditors should clearly document the work they have undertaken and report each year in accordance with Section 5 of this Code.

**77.** Auditors should keep their risk assessment under continuous review. Where appropriate, auditors should update their work to reflect emerging risks or findings, including risks flagged in guidance issued by Audit Scotland. Auditors should document any changes to their planned work and ensure these are communicated to the audited body.

**78.** In reviewing the audited body's arrangements, it is not part of the responsibilities of auditors to question the merits of the audited body's policy decisions. However, auditors may examine the arrangements by which policy decisions are reached and implemented.

**79.** The work of auditors should be designed to provide reasonable assurance to enable them to report in accordance with Section 5 of this Code on the arrangements the body has in place in the four specified reporting areas for each relevant period.

**80.** As the subject matter of this work is the effectiveness of arrangements, rather than historical financial information, the Auditor General requires the work to be carried out in accordance with the International Standard on Assurance Engagements (ISAE 3000) issued by the FRC (or successor body) rather than ISAs.

**81.** Where auditors identify significant weaknesses in arrangements as part of their consideration of the four specified reporting areas, they should make recommendations in accordance with Section 5 of this Code.

**82.** Auditors may also identify examples of good practice as part of their normal audit work on the specified reporting areas. In making

the assessment of what to share, auditors should bear in mind that good practice:

- may include methods, procedures, or approaches used by audited bodies that auditors consider to be particularly effective, efficient, and beneficial
- goes beyond basic requirements or standard procedures, and results in a higher level of quality, performance, or outcomes
- is different to 'best practice' which represents the most effective or efficient approach among all known options.

## Best Value

**83.** For central government and NHS bodies, auditors should consider the arrangements put in place by Accountable Officers to meet their Best Value duty. In practice, auditors' work on the four specified reporting areas is used as a basis to also reach a conclusion on the Best Value arrangements. Each reporting area is aligned with a related Best Value theme in the version of the Ministerial guidance in force at the time of preparing this Code. This alignment is set out in the following table (any changes to the themes over the period covered by the Code will be reflected in supplementary guidance):

Reporting area	Related Best Value theme
<b>Financial sustainability</b>	<ul style="list-style-type: none"> <li>• Financial management and planning sub-section (within the Effective use of resources theme)</li> </ul>
<b>Financial management</b>	<ul style="list-style-type: none"> <li>• Financial management and planning sub-section (within the Effective use of resources theme)</li> <li>• Performance management</li> </ul>
<b>Vision, leadership and governance</b>	<ul style="list-style-type: none"> <li>• Vision and leadership</li> <li>• Governance and accountability</li> <li>• Partnerships and collaborative working</li> <li>• Sustainable development</li> <li>• Fairness and equality</li> </ul>
<b>Use of resources</b>	<ul style="list-style-type: none"> <li>• Effective use of resources (excluding the Financial management and planning sub-section)</li> </ul>

**84.** Auditors report a conclusion in the Annual Audit Report each year in accordance with Section 5 of this Code that gives reasonable assurance on the arrangements in place to secure Best Value.

**85.** Determining whether work is required in addition to that needed to conclude on the four specified reporting areas is a matter of auditor judgement. Auditors should clearly document any additional work they have undertaken.

# 4. Assurance on Best Value arrangements

## Local government

### Purpose of section

**86.** This section of the Code covers the assurance from auditors appointed by the Accounts Commission on a local government body's arrangements to secure Best Value.

**87.** An auditor appointed to a body that meets the definition of a smaller body should refer to [Section 8](#) of the Code on how this section applies to smaller bodies.

### Responsibilities of local government bodies

**88.** Local government bodies have a duty under the Local Government in Scotland Act 2003 to make arrangements to secure Best Value. Best Value is defined in the Act as continuous improvement in the performance of the body's functions.

**89.** The Scottish Government's statutory guidance on Best Value currently in force requires bodies to demonstrate that they are delivering Best Value in respect of seven themes.

#### Best value themes:

- 1 Vision and leadership**
- 2 Governance and accountability**
- 3 Effective use of resources**
- 4 Partnership and collaborative working**
- 5 Working with communities**
- 6 Sustainability**
- 7 Fairness and equality**

## Responsibilities of appointed auditors

**90.** Appointed auditors are required by legislation to satisfy themselves that local government bodies have made proper arrangements for securing Best Value.

**91.** The action that appointed auditors should take is set out below:

Audit stage	Auditor action
<b>Planning/risk assessment</b>	Auditors use the statutory guidance to identify risks that the audited body has weaknesses in its Best Value arrangements. Auditors should include in their Annual Audit Plans the work they will carry out to consider the risks.
<b>Execution of plan</b>	Auditors focus on any risks included in the Annual Audit Plans to consider whether the body has effective arrangements for Securing Best value.
<b>Reporting</b>	Auditors report a conclusion that gives reasonable assurance on the arrangements in place for securing Best Value in the Annual Audit Report each year in accordance with Section 5 of this Code.

**92.** Appointed auditors should, having regard to relevant guidance issued by the Audit Scotland on behalf of the Accounts Commission, undertake sufficient work to be satisfied as to whether, in each auditor's view, the local government body has proper arrangements in place that support the achievement of Best Value as defined in the statutory guidance.

**93.** In carrying out this work, auditors are not required to satisfy themselves that the local government body has achieved Best Value during the reporting period.

**94.** The work carried out by auditors should be underpinned by consideration of what arrangements the local government body is expected to have in place. This should be based on the statutory guidance that local government bodies are required to comply with during the reporting period, together with any guidance provided by Audit Scotland that supplements this Code. The guidance may set out areas of focus specified by the Accounts Commission, where judged necessary.

**95.** Auditors should take into account their knowledge of the local government sector as a whole, and the audited body specifically, to identify any risks that, in each auditor's judgement, are relevant to the Best Value arrangements. An understanding of the sector includes the relevant regulatory framework in which the audited body operates.

**96.** Auditors' work on Best Value arrangements should be informed by:

- self-assessment undertaken by the body on the arrangements it has in place to manage risks to the achievement of Best Value

- evidence that the audited body's arrangements were in place during the reporting period
- evidence obtained from the auditor's other work, including previous work on Best Value arrangements, work completed as part of the audit of the annual accounts and the audited body's response to this work
- the work of inspectorates and other scrutiny bodies, where the scope and results are relevant to the auditor's Best Value responsibilities. Auditors are not required to quality-assure or re-perform the work of others and may use such work to the extent that, in their judgement, it is appropriate to do so
- any other evidence source that auditors regard as necessary to facilitate the performance of their statutory duties.

**97.** Determining how much work to do on arrangements to secure Best Value is a matter of auditor judgement. Auditors should clearly document the work they have undertaken and report each year in accordance with Section 5 of this Code.

**98.** Auditors should keep their risk assessment under continuous review. Where appropriate, auditors should update their work to reflect emerging risks or findings. Auditors should document any changes to their planned work and ensure these are communicated with the audited body.

**99.** In reviewing the audited body's Best Value arrangements, it is not part of the responsibilities of auditors to question the merits of the audited body's policy decisions. However, auditors may examine the arrangements by which policy decisions are reached and implemented.

**100.** The work of auditors should be designed to provide reasonable assurance to enable them to report a conclusion in accordance with Section 5 of this Code on the arrangements the body has in place to secure Best Value for the relevant period.

**101.** Auditors are additionally required, as part of their work on Best Value arrangements, to report discrete conclusions on the financial sustainability and financial management elements of the overall arrangements. In the version of the statutory guidance in force at the time of preparing this Code, these areas are covered under the heading of financial management and planning within the effective use of resources theme.

**102.** As the subject matter of this work is the effectiveness of arrangements, rather than historical financial information, the Accounts Commission requires the work to be carried out in accordance with ISAE 3000 issued by the FRC (or successor body) rather than ISAs.

**103.** Where auditors identify significant weaknesses in the Best Value arrangements of a body, they should make recommendations in accordance with Section 5 of this Code.

**104.** Auditors may also identify examples of good practice as part of their audit work on Best Value arrangements. In making the assessment of what to share, auditors should bear in mind that good practice:

- may include methods, procedures, or approaches used by audited bodies that auditors consider to be particularly effective, efficient, and beneficial
- goes beyond basic requirements or standard procedures, and results in a higher level of quality, performance, or outcomes
- is different to 'best practice' which represents the most effective or efficient approach among all known options.

## **Responsibilities of Audit Scotland**

**105.** Audit Scotland provides appointed auditors with guidance on behalf of the Accounts Commission to support them in discharging their Best Value responsibilities.

**106.** A central team in Audit Scotland carries out more detailed work on a sample of councils focusing on different themes specified by the Accounts Commission each year.

## **Responsibilities of the Controller of Audit**

**107.** The Controller of Audit reports to the Commission under Section 102 of the Local Government (Scotland) Act 1973 on how local government bodies perform their duties relating to Best Value. The Controller adopts a risk-based approach to decide which bodies to report upon, and bases each report on the work carried out by appointed auditors and the central Audit Scotland team.

# 5. Planning audit work and reporting results

## All audited bodies

### Purpose of section

**108.** This section of the Code covers the requirements for how appointed auditors should plan their audits and report the results.

**109.** An auditor appointed to a body that meets the definition of a smaller body should refer to [Section 8](#) of the Code on how this section applies to smaller bodies.

### Audit outputs

**110.** Auditors should produce the following outputs annually for those charged with governance at each audited body:

- Annual Audit Plan
- Independent Auditor's Report
- Annual Audit Report.

**111.** Annual reporting of the audit provides transparency. The above outputs are published on Audit Scotland's website and should be prepared in accordance with the objectives for public reporting set out in Section 1 of this Code.

**112.** Other specific outputs are covered in Section 6 of this Code. Auditors may also produce reports to the management of an audited body, as required and where relevant.

### Annual Audit Plan

#### Purpose of output

**113.** The Annual Audit Plan should contain an overview of the planned scope and timing of the audit of the annual accounts, specified reporting areas where applicable, and Best Value to be carried out in accordance with applicable professional standards, this Code, and guidance from Audit Scotland.

#### Addressees

**114.** The Annual Audit Plan should be addressed to the audited body.

## Content

**115.** Appointed auditors should prepare their Annual Audit Plans in accordance with guidance from Audit Scotland, but in summary plans should generally include the components set out in the following table:

Required component	Explanation
<b>Name of engagement lead</b>	The engagement lead is the public sector equivalent of engagement partner and is: <ul style="list-style-type: none"> <li>• the individual in Audit Scotland appointed as auditor</li> <li>• the partner or other individual in the firm who is responsible for delivery of the audit on behalf of the firm.</li> </ul>
<b>Planned work</b>	This should set out the work planned to meet the auditor's responsibilities in accordance with guidance from Audit Scotland.
<b>Work to address risks</b>	Where significant risks to the annual accounts or arrangements for the specified reporting areas or Best Value are identified, auditors should indicate the audit work planned to address them.
<b>Outputs</b>	A complete list of outputs planned to be produced by auditors.
<b>Responsibilities</b>	The respective responsibilities of the audited body and auditor.
<b>Independence</b>	Confirmation of the independence of the auditor.
<b>Materiality</b>	An explanation of the concept of materiality and the materiality thresholds applied.
<b>Smaller bodies</b>	Where applicable, an explanation that the audited body is a smaller body for the purposes of the assurance framework.
<b>Agreed fee for the audit</b>	Confirmation of the fee agreed with the audited body for the audit. Where the agreed fee is higher than the amount expected by Audit Scotland, an explanation of why that is the case.

## Independent Auditor's Report

### Purpose of output

**116.** The Independent Auditor's Report sets out the auditor's opinions on the financial statements and other reports within an audited body's annual accounts, and conclusions on related matters.

**117.** It is incorporated within the audited body's published annual accounts.

### Addressees

**118.** The Independent Auditor's Report is addressed to the audited body and (as appropriate) the Auditor General and the Scottish Parliament or the Accounts Commission; and any other relevant addressees as specified by the Auditor General or Accounts Commission.

**119.** Except where signed by the Auditor General, the Independent Auditor's Report is signed with the name of the engagement lead for each audit.

## Content

**120.** The Auditor General and the Accounts Commission specify the form of the Independent Auditors Report in guidance provided by Audit Scotland, based on the applicable financial reporting framework within which public bodies operate and following consultation with auditors.

**121.** The specified form of the Independent Auditor's Report complies with ISA (UK) 700. This includes the reporting of key audit matters required by ISA (UK) 701 for any audited body that meets the definition of public interest entity or reports compliance with the UK Corporate Governance Code. This Code extends the application of ISA (UK) 701 to all other audited bodies but, as explained below, reporting is in the Annual Audit Report.

## Opinions and conclusions

**122.** The Independent Auditor's Report is addressed to the audited body and (as appropriate) the Auditor General and the Scottish Parliament or the Accounts Commission; and any other relevant addressees as specified by the Auditor General or Accounts Commission. Except where signed by the Auditor General, the Independent Auditor's Report is signed with the name of the engagement lead for each audit.

**123.** The Independent Auditor's Report sets out the auditor's opinions on the financial statements and other reports within an audited body's annual accounts. It is incorporated within the audited body's published annual accounts. The required opinions and conclusions that should be expressed in the Independent Auditor's Report are summarised in the following table:

Opinion or conclusion	Explanation
Opinion on the audited body's financial statements	This opinion is on whether the financial statements: <ul style="list-style-type: none"> <li>• give a true and fair view of the financial position of the audited body and its expenditure and income for the period in question</li> <li>• have been prepared properly in accordance with the relevant financial reporting framework as set out in legislation, applicable accounting standards or other direction.</li> </ul>
Opinion on the audited part of remuneration report	This opinion is on whether the audited part of the remuneration report has been properly prepared in accordance with the applicable reporting framework.

Cont.

Opinion or conclusion	Explanation
<b>Opinion on management commentary/performance report and governance statement</b>	<p>This opinion is on whether the management commentary/performance report and governance statement (or equivalent statements):</p> <ul style="list-style-type: none"> <li>• are consistent with the financial statements</li> <li>• have been prepared properly in accordance with the relevant financial reporting framework.</li> </ul>
<b>Opinion on regularity</b>	<p>This opinion is on whether, in all material respects, the expenditure and income recorded in the financial statements is in accordance with legislation and applicable guidance.</p> <p>This applies to auditors appointed by the Auditor General.</p>
<b>Conclusion on the going concern basis of accounting</b>	<p>This conclusion is on whether:</p> <ul style="list-style-type: none"> <li>• the going concern basis of accounting is appropriate</li> <li>• any material uncertainties have been disclosed that may cast significant doubt on the body's ability to adopt the going concern basis of accounting.</li> </ul>
<b>Conclusions reported by exception</b>	<p>These conclusions are reported in cases where:</p> <ul style="list-style-type: none"> <li>• adequate accounting records have not been kept</li> <li>• the financial statements are not in agreement with the accounting records</li> <li>• information required by the auditor has not been provided by the audited body.</li> </ul>

## Annual Audit Report

### Purpose of output

**124.** The Annual Audit Report is issued by appointed auditors at the conclusion of each year's audit.

### Addressees

**125.** The Annual Audit Report is addressed to the audited body and the Auditor General, or the Controller of Audit, and other recipients specified in guidance from Audit Scotland.

### Content

**126.** The content of the Annual Audit Report includes:

- For auditors appointed by the Auditor General, conclusions and recommendations on the effectiveness of the arrangements in place in the four reporting areas specified in Section 3 of this Code and the arrangements for Best Value based on the work that they have done.

- For auditors appointed by the Accounts Commission, conclusions and recommendations on the effectiveness of the arrangements in place for Best Value overall and for the financial sustainability and financial management elements of the arrangements. Auditors also report a conclusion on each council's arrangements for statutory performance information explained in Section 6.
- For all audited bodies, significant matters arising from the audit of annual accounts in accordance with ISA requirements for reporting to those charged with governance.

## Conclusions

**127.** Auditors appointed by the Auditor General should, based on their risk-based consideration:

- clearly state a conclusion, for each of the four specified reporting areas, as to whether there are proper arrangements in place
- clearly state a conclusion for Best Value, as to whether there are proper arrangements in place.

**128.** If auditors identify significant weaknesses in arrangements, the stated conclusion should be qualified and a recommendation to address the weakness should be reported.

**129.** Auditors appointed by the Accounts Commission should clearly state a conclusion as to whether, based on their risk-based consideration:

- the arrangements for Best Value are in accordance with the statutory guidance
- there are proper arrangements for financial sustainability and for financial management.

**130.** If auditors identify significant non-compliance with the guidance, the conclusion should be qualified and a recommendation to address the non-compliance should be reported.

**131.** Auditors should include in their Annual Audit Report a clear narrative that explains their findings and judgements in respect of the effectiveness of the arrangements that audited bodies have in place. Simply providing a factual description of the arrangements in place at an audited body, without clearly setting out judgements on those arrangements, would not be sufficient to meet this responsibility.

## Significance

**132.** Appointed auditors should use their judgement to ensure any weaknesses, cases of non-compliance, or other matters reported are significant:

- The concept of 'significance' applies to the appointed auditor's consideration of the arrangements in the four specified reporting areas and Best Value.
- A matter is significant if, in each auditor's professional view, it is reasonable to conclude that the matter would be of importance to the Auditor General, Commission, Controller of Audit, or those charged with governance at an audited body.
- Significance has both qualitative and quantitative aspects.

### Recommendations and good practice

**133.** Where appointed auditors identify weaknesses or cases of non-compliance in arrangements that they judge to be significant, they should make recommendations setting out:

- their judgement on the nature of the weakness they have identified
- the evidence on which their view is based
- the impact on the body
- the action the body needs to take to address the weakness
- the timescales for taking the action.

**134.** Auditors should follow up the implementation of recommendations in accordance with any guidance from Audit Scotland.

**135.** Auditors may also share examples of good practice identified as part of their normal audit work. Audit Scotland may include the good practice examples that are reported in outputs to disseminate more widely.

**136.** In making recommendations, and sharing good practice, auditors should avoid any perception that they have any role in the decision-making arrangements of the audited body.

**137.** Audit Scotland's impact monitoring and evaluation framework gathers evidence and reports on the impact of Public Audit in Scotland, including progress against outcomes. This includes evaluating evidence from all auditors on their impact, including progress of recommendations as reported in the Annual Audit Report, highlights of good practice, and reporting of any local improvements due to audit work.

### Key audit, planning and scoping matters from the audit of the annual accounts

**138.** ISA(UK) 701 requires the auditors of listed companies, public interest entities, and entities which have adopted the UK Corporate Governance Code to communicate key audit matters in the Independent Auditors Report. That requirement has been extended to apply to all audited bodies covered by this Code, but the key matters should be communicated in the Annual Audit Report. In summary, auditors should:

- determine the matters communicated to those charged with governance that were of most significance in the audit of the accounts (that is, key audit matters)
- describe each key audit matter in a separate section of the Annual Audit Report (or the Independent Auditor's Report for bodies where the ISA requirement directly applies) including a reference to the related disclosures, if any, in the financial statements
- explain why the matter was considered to be of most significance in the audit and how it was addressed in the audit, including significant judgments made by the audit team with respect to the matter.

**139.** Annual Audit Reports are also required to include the following planning and scoping matters:

- the materiality threshold for the financial statements as a whole and performance materiality, and an explanation of the significant judgments in determining these amounts
- an overview of the scope of the audit, including an explanation of how it addressed each of the significant risks of material misstatement and how it was influenced by the auditor's application of materiality.

# 6. Assurance on specific areas

## All audited bodies

### Purpose of section

**140.** This section of the Code covers additional specific areas on which appointed auditors are required to provide assurance or report findings.

### Claims and returns

#### Responsibilities of audited bodies

**141.** Councils are required to submit claims and returns to central government bodies. These include claims for housing benefit subsidy and returns for non-domestic rates.

**142.** Audited bodies may also be required to provide information in consolidation schedules. These include returns to assist with the production of whole of government accounts (WGA).

**143.** Some audited bodies prepare annual reports that contain financial information derived from, but separate to, their annual accounts.

#### Responsibilities of appointed auditors

**144.** Appointed auditors are required to provide assurance, or report findings, in respect of specified claims and returns.

**145.** Auditors should follow guidance in this regard provided by Audit Scotland.

### Public rights of inspection and objection

#### Responsibilities of audited bodies

**146.** Local government bodies have the statutory responsibility to make arrangements for public inspection and objection to their unaudited annual accounts.

**147.** The arrangements should reflect the right that members of the public have to:

- inspect a local government body's accounts, books and records and take copies

- lodge with the appointed auditor a written objection to the accounts.

### **Responsibilities of appointed auditors**

**148.** If requested by an objector, the local government body or any officer of the body who may be concerned, the appointed auditor should give the relevant party an opportunity to appear before, and be heard by, the appointed auditor with respect to the objection.

**149.** Appointed auditors should have regard to guidance issued by Audit Scotland when dealing with objections to the accounts of a local government body.

## **Statutory Performance Information**

### **Responsibilities of the Accounts Commission**

**150.** The Accounts Commission issues a Statutory Performance Information (SPI) Direction to councils which sets out certain performance information that they are required to publish.

### **Responsibilities of audited bodies**

**151.** Councils are required to publish the specified information in accordance with the SPI Direction.

### **Responsibilities of appointed auditors**

**152.** Auditors are required to satisfy themselves that the council has made proper arrangements for preparing and publishing statutory performance information.

**153.** Auditors should report the following in their Annual Audit Report:

- A conclusion on each council's arrangements for preparing and publishing the statutory performance information.
- Any instances where the arrangements or reporting are not in accordance with the Direction.
- Areas where the arrangements require to be improved.

# 7. Insights, intelligence and other support

## All audited bodies

### Purpose of section

**154.** This section of the Code covers specific areas where appointed auditors are required to provide insights, intelligence and other support.

### Statutory reports

#### Responsibilities of Auditor General and Controller of Audit

**155.** Section 22 of the Public Finance and Accountability (Scotland) Act 2000 gives the Auditor General the power to prepare a report on matters arising from the audit of the accounts of a public body for which the Auditor General appoints the external auditor (including the Scottish Government, NHS bodies, colleges and non-departmental public bodies).

**156.** The Controller of Audit has a power, or may be required by the Accounts Commission to, prepare a report on matters arising from the audit of a local government body under Section 102 of the Local Government (Scotland) Act 1973. The Commission provides a response to each report.

**157.** Reports made under these powers are known as statutory reports. The Auditor General or Controller of Audit decides who is best placed to lead the preparation of the statutory report.

#### Responsibilities of appointed auditors

**158.** Appointed auditors should alert Audit Scotland of any significant matters arising during the annual audit which may result in a statutory report. This brings the matter to the attention to the Auditor General or the Controller of Audit, as appropriate, who then decides whether a statutory report should be prepared.

**159.** It is the responsibility of the appointed auditor to advise the audited body that a statutory report is to be prepared. Appointed auditors either lead or support the preparation of statutory reports, and should do so in compliance with guidance from Audit Scotland.

## Issues of concern about an audited body

### Members of the public

**160.** Members of the public can contact Audit Scotland where they have concerns about a public body that falls under the remit of the Auditor General or the Accounts Commission. An issue of concern includes weak financial management or a breakdown in governance arrangements at an audited body. The issue should be raised with the body in the first instance.

### Responsibilities of Audit Scotland

**161.** Audit Scotland manages correspondence it receives from a member of the public on an audited body relating to issues of concern. Audit Scotland shares relevant correspondence with the appointed auditor of the body to ensure they are aware of the issues of concern that have been raised.

**162.** The key factor in determining whether Audit Scotland treats a matter as an issue of concern is the relevance to the Auditor General or the Accounts Commission's role and functions. Audit Scotland make this judgement using their professional and technical knowledge. The cost of carrying out such work is also a consideration to ensure resources are used efficiently.

**163.** If the matter does not fall within the remit of the Auditor General or the Commission, it may be redirected to a more appropriate body.

### Responsibilities of appointed auditors

**164.** Appointed auditors should promptly consider any correspondence shared with them. Auditors may be required to carry out preliminary enquiries and then decide, in conjunction with Audit Scotland, the appropriate action to take.

**165.** Where a case requires work additional to that expected under the audit appointment, Audit Scotland may commission the necessary work from the relevant auditor.

## Information returns

### Responsibilities of Audit Scotland

**166.** Audit Scotland requires appointed auditors to complete information returns during the audit appointment. These returns are used for several purposes including benchmarking, risk assessment, and performance audit work and programme development.

**167.** Audit Scotland will ensure the requests are made at an appropriate time in the audit process.

### Responsibilities of appointed auditors

**168.** Auditors should complete information returns with due care and attention and in accordance with requested timescales.

## Duty of care

### Responsibilities of audited bodies

**169.** Audited bodies are responsible for ensuring their reporting and wider regulatory responsibilities are met and that there is appropriate liaison with the appointed auditor about timing of regulatory announcements.

**170.** This does not alter the auditor's duty of care or powers to report in public.

### Responsibilities of appointed auditors

**171.** While the results of audits will be made available to the public, the appointed auditors' duty of care in respect of the audit of the bodies covered by the Code formally extends only to:

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

**172.** Appointed auditors do not undertake to have responsibilities to members, directors, accountable officers, managers or the Scottish ministers in their individual capacities, or to third parties.

## Requests from audited bodies for auditors' views

### Responsibilities of audited bodies

**173.** Audited bodies may seek appointed auditors' views on the regularity, accounting treatment or performance management implications of transactions, or proposed courses of action, before embarking upon them.

**174.** Audited bodies are responsible for deciding whether to embark on transactions or courses of action. Responses made by auditors should not be taken by audited bodies as suggesting that proposed transactions or courses of action will be exempt from challenge in future, whether by auditors or others entitled to object to them.

### Responsibilities of appointed auditors

**175.** When their views are sought by audited bodies, appointed auditors should bear in mind that they:

- must not allow their independence to be compromised in any way by involvement in audited bodies' decision-making
- must comply with ethical standards
- are not financial or legal advisers to audited bodies
- must not act in a way that might compromise their ability to report on a matter, or to exercise the powers conferred by statute on them, the Auditor General, the Controller of Audit, the Accounts Commission or Audit Scotland.

## Whistleblowing

**176.** The Auditor General, the Accounts Commission, Audit Scotland and appointed auditors are prescribed persons under the Public Interest Disclosure Act. These prescribed persons consider any relevant concerns from whistleblowers and investigate further where appropriate.

## Data matching

### Responsibilities of Audit Scotland

**177.** Audit Scotland may conduct data matching to compare information within and between public bodies to identify potential fraudulent transactions, claims or errors.

**178.** To this end, Audit Scotland coordinates the National Fraud Initiative in Scotland which is a data matching exercise. Audit Scotland and appointed auditors share information on identified frauds and Audit Scotland provides guidance to support appointed auditors in considering fraud risks.

# 8. Assurance on smaller bodies

All smaller bodies for the audit of the accounts; all smaller bodies (except local government) for reporting areas; all smaller local government bodies for Best Value

## Purpose of section

**179.** This section of the Code sets out an assurance framework and definition for smaller bodies.

## Rationale for a smaller body regime

**180.** A key principle of public audit is proportionality. The Auditor General and Accounts Commission are clear that benefit derived from the independent assurance provided by external audit must be greater than the cost of delivering the audit. However, the Auditor General and Commission recognise that may not be the case for bodies with relatively low expenditure.

**181.** The assurance framework for smaller bodies set out in this Code is intended to provide a proportionate level of assurance.

## Definition of smaller body

**182.** Smaller bodies are defined for the audit of the annual accounts and reporting on specified reporting areas using an expenditure threshold set by the Auditor General and the Accounts Commission. However, the Auditor General and the Commission have discretion to decide that any public body under the threshold should not be treated as a smaller body. Bodies will remain classified as a smaller body throughout the audit appointment other than in exceptional circumstances.

**183.** For reporting on Best Value in local government, bodies other than councils and integration joint boards are treated as quasi smaller bodies.

## Audit of the annual accounts

**184.** An audit in accordance with the ISAs is not required for the smaller audited bodies.

**185.** Auditors should pay due regard to guidance on the audit of smaller bodies issued by Audit Scotland on behalf of the Auditor General and

Accounts Commission. This guidance is based on International Standard on Review Engagements (ISRE) 2400 issued by the International Auditing and Assurance Standards Board (IAASB) rather than ISAs as that standard is considered to provide a proportionate level of assurance for smaller bodies.

**186.** Where auditors are required to give an opinion on the regularity of the transactions of a smaller body, reasonable assurance is required.

## Specified reporting areas

**187.** Auditors appointed by the Auditor General to audit smaller bodies are required to consider and report conclusions on all four reporting areas specified in Section 3 of this Code:

- There are no adaptations to the requirements for financial sustainability set out in Section 3.
- For the other three specified reporting areas, auditors are required to provide limited assurance on the arrangements in place.
- Auditors are required to provide limited assurance on the arrangements in place to secure Best Value.

**188.** Auditors should pay due regard to guidance on the audit of smaller bodies issued by Audit Scotland on behalf of the Auditor General.

## Best Value in local government

**189.** Auditors appointed by the Accounts Commission to audit quasi smaller bodies:

- are required to consider how the body demonstrates that it is meeting its Best Value responsibilities
- should not apply the requirements set out in Section 4 in respect of considering the Best Value themes
- are required to report conclusions that give limited assurance that proper arrangements for Best Value, financial sustainability and financial management are in place
- should pay due regard to guidance on the audit of smaller bodies issued by Audit Scotland on behalf of the Accounts Commission.

# 9. Performance audits

## Purpose of section

**190.** This section of the Code covers the responsibilities of the Auditor General, the Accounts Commission, performance auditors, and appointed auditors for performance audits undertaken by Audit Scotland.

## Responsibilities of the Auditor General and the Accounts Commission

**191.** The Auditor General has statutory powers to initiate examinations into the economy, efficiency and effectiveness of certain bodies or office-holders.

**192.** The Accounts Commission has statutory powers to undertake studies into, and publish recommendations made on, improving economy, efficiency and effectiveness in the provision of services by local government bodies and Best Value.

**193.** This Code describes the examinations and studies referred to in the legislation collectively as performance audits.

**194.** The Auditor General and the Accounts Commission decide the audit work that Audit Scotland performance auditors will undertake on their behalf. They:

- consider factors such as public interest, materiality, the scale of the issues and the risks involved, whether the work would be timely, proportionate and be beneficial
- use feedback from stakeholder engagement and consultation, which includes the Scottish Parliament, the Scottish Government and local government, to inform the themes and proposed topics for performance audit work.

## Responsibilities of Audit Scotland performance auditors

**195.** The performance audit programme of the Auditor General and Accounts Commission is delivered by performance auditors in Audit Scotland. Performance auditors deliver the programme in accordance with Performance Audit Standards issued by the International Organisation of Supreme Audit Institutions (INTOSAI).

**196.** Performance audit work may focus on a particular audited body or sector, or consider broader cross-cutting arrangements to track spending and performance across the whole system of public service delivery. The sectoral outputs may take the form of overview reports on sectors or types of bodies. The outputs use information from the audited accounts and Annual Audit Reports.

**197.** Performance auditors in Audit Scotland:

- work efficiently to maximise use of resources, minimise duplication of work and demands on audited bodies by, for example, sharing relevant information internally within Audit Scotland and with appointed auditors that could have a bearing or significance on other audit work
- undertake sufficient relevant collection of evidence to enable reliable conclusions to be drawn
- review whether audited bodies have properly considered significant relevant matters that have been identified previously by inspectorates and other scrutiny bodies, and whether recommended actions have been implemented
- produce outputs that are accessible and written in plain language, are open about the scope and limits of the work, and refer to examples of notable improvement and good practice, as appropriate
- provide audited bodies and relevant third parties with fair opportunity to comment, particularly to answer any criticism and to comment on the factual accuracy of the findings
- make recommendations for improvement, where relevant, which are useful, specific and practicable, in the public interest, and take account of the expected costs and challenges of implementation.

**198.** After reporting findings and recommendations, performance auditors:

- request a response from relevant parties to those findings and recommendations, and consider whether they are satisfied that findings and recommendations have been properly considered
- monitor actions taken in response to the recommendations
- comment, as necessary and appropriate, on progress in implementing recommendations, including in respect of those that have not been properly considered or acted upon.

## Responsibilities of appointed auditors

**199.** Appointed auditors support the performance audit programme by providing information and data to, and sharing insights with, Audit Scotland performance auditors.

**200.** This includes appointed auditors completing information returns provided by performance auditors. The Auditor General and Commission expect appointed auditors to:

- complete the information returns taking due care and attention
- agree factual information with the audited body
- submit the completed information returns to Audit Scotland in accordance with specified timescales
- promptly follow up any reasonable requests for further information or clarifications.

**201.** Appointed auditors also have a key role in following up at individual audited bodies the implementation of recommendations made in performance audit outputs.

# Appendix 1. Supplementary guidance and professional standards

## Purpose of appendix

**202.** This appendix explains the guidance issued by Audit Scotland that supplements the Code and sets out the appropriate professional standards for each element of public audit in Scotland.

## Responsibilities of Audit Scotland

**203.** Audit Scotland issues guidance on behalf of the Auditor General and the Accounts Commission which supplements this Code. The guidance includes

- detailed requirements with which the auditor must comply in discharging their responsibilities under the Code (mandatory guidance)
- material which is intended to inform, rather than direct, auditors to support a shared understanding of the application of the Code (advisory guidance).

**204.** Guidance issued by Audit Scotland may be updated during the appointment period to reflect new or emerging risks and changes in professional requirements.

**205.** Appointed auditors and other interested parties are consulted on the content of guidance issued by Audit Scotland in order to achieve a wide understanding of the issues and risks facing audited bodies and the practicalities and costs of implementing the proposed audit response.

## Status of supplementary guidance

**206.** Guidance from Audit Scotland that supplements this Code explicitly states whether it is mandatory or advisory. The status of each type of guidance, and a non-exhaustive list of examples, is set out in the following table [\(page 44\)](#):

Type	Status	Examples
<b>Mandatory guidance</b>	Guidance with which auditors are required to comply in performing the responsibilities set out in the Code.	<ul style="list-style-type: none"> <li>• Guidance on planning annual audits.</li> <li>• Guidance on Independent Auditors Reports.</li> </ul>
<b>Advisory guidance</b>	<p>Guidance with which auditors are expected to pay due regard, but may be able to legitimately justify not applying depending on circumstances, ie an 'apply or explain' basis.</p> <p>If they decide not to apply it, auditors should clearly document their reasons.</p>	<ul style="list-style-type: none"> <li>• Guidance to inform auditors' judgement on the annual accounts.</li> <li>• Guidance on applying the Code's requirements on wider scope reporting areas and Best Value.</li> <li>• Guidance on reviewing the annual accounts of smaller bodies.</li> <li>• Responses from consulting with Audit Scotland on technical accounting matters.</li> </ul>

## Professional standards

**207.** The Ethical Standard and Quality management standards issued by the FRC (or successor body) apply to all audits. The following professional standards should apply to each element of the annual audit and to performance audits:

Element of audit	Applicable professional standard
<b>Audit of the annual accounts (except smaller bodies)</b>	<p>International Standards on Auditing applicable in the UK issued by the FRC (or successor body)</p> <p>Any international standards issued by the International Auditing and Assurance Standards Board (IAASB) specified in guidance from Audit Scotland which may include ISA 810 on summary financial statements</p> <p>Practice Note 10 Audit of Financial Statements and Regularity of Public Sector Bodies in the United Kingdom issued by Public Audit Forum</p>
<b>Audit of the annual accounts (smaller bodies)</b>	ISRE 2400 Engagements to Review Historical Financial Statements issued by the IAASB
<b>Wider scope reporting areas</b>	ISAE (UK) 3000 International Standard on Assurance Engagements issued by the FRC
<b>Best Value arrangements</b>	ISAE (UK) 3000
<b>Claims and returns</b>	ISRS 4400 Agreed Upon Procedures Engagements issued by the IAASB
<b>Performance audits</b>	Performance Audit Standards issued by INTOSAI

## Responsibilities of appointed auditors

**208.** Appointed auditors are required to:

- follow the appropriate professional standard
- contribute as required to consultations on the content of guidance issued by Audit Scotland
- comply with mandatory guidance
- apply advisory guidance or justify why not applying it was appropriate in the circumstances.

# Appendix 2. Parties in public audit in Scotland

## Purpose of appendix

**209.** This appendix explains the main parties involved in public audit in Scotland.



### Auditor General for Scotland

responsibilities under the Scotland Act 1998 and the Public Finance and Accountability (Scotland) Act 2000



### Accounts Commission for Scotland

responsibilities under the Local Government (Scotland) Act 1973



### Audit Scotland

established under the Public Finance and Accountability (Scotland) Act 2000 to support close working between the Auditor General and Accounts Commission

## The Auditor General for Scotland

**210.** The Auditor General is an independent Crown appointment, made on the recommendation of the Scottish Parliament under the Scotland Act 1998. The Auditor General is independent and not subject to the control of any member of the Scottish Government or the Parliament.

**211.** The Auditor General is responsible under the Public Finance and Accountability (Scotland) Act 2000 for appointing independent auditors to audit the accounts of most public bodies in Scotland, except for the local government sector.

**212.** The following bodies are within the audit remit of the Auditor General:

- the Scottish Government, its executive agencies and its non-ministerial departments
- Scottish Parliamentary Corporate Body and Commissioners and ombudsman

- non-departmental public bodies
- National Health Service bodies
- further education colleges
- some public corporations.

**213.** Audited accounts and reports by the Auditor General are sent to Scottish ministers to be laid before the Scottish Parliament.

**214.** The Auditor General may initiate examinations into the economy, efficiency and effectiveness with which relevant public bodies have used resources in discharging their functions, and Best Value.

## The Accounts Commission for Scotland

**215.** The Accounts Commission is an independent public body. Its members are appointed by Scottish ministers to hold local government to account. The Accounts Commission was established under the Local Government (Scotland) Act 1973. The following bodies are within the remit of the Accounts Commission:

- councils
- Integration Joint Boards
- local government committees, pension funds, joint committees and joint boards
- trustees for charities, foundations, mortification or other purpose where a council or some of its members are the sole trustees
- Transport Partnerships created under the Transport (Scotland) Act 2005.

**216.** The Accounts Commission has five principal responsibilities:

- Securing the external audit of local government bodies' accounts and the audit of Best Value and community planning.
- Considering reports made by the Controller of Audit; making recommendations to Scottish ministers and to local government bodies; and advising Scottish ministers on matters relating to the accounting of local government.
- Carrying out or promoting national performance audit work to improve economy, efficiency and effectiveness, improving financial or other management and in relation to Best Value.
- Issuing a Statutory Direction to local government bodies which sets out certain performance information that they are required to publish.
- Coordinating the scrutiny of local government in Scotland.

**217.** The Accounts Commission has the power to make findings and reports, to make recommendations to Scottish ministers and local government bodies, and to hold public hearings. In specific circumstances involving illegal expenditure or financial loss, the Accounts Commission may impose sanctions including censure, suspension or disqualification of councillors from office.

## Controller of Audit

**218.** Under the Local Government (Scotland) Act 1973, the Accounts Commission appoints a Controller of Audit to consider the results of the audit of accounts and Best Value. The Controller of Audit makes reports to the Accounts Commission on matters arising from the accounts and on Best Value and acts independently of the Accounts Commission when reporting to it.

## Audit Scotland

**219.** Audit Scotland is a statutory body established under the Public Finance and Accountability (Scotland) Act 2000. It is Scotland's national public sector audit agency which provides the Auditor General and the Accounts Commission with the services they need to carry out their duties.

**220.** Audit Scotland is governed by a board consisting of a non-executive board chair and two non-executive members (all appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament), the Auditor General and the chair of the Accounts Commission. The Auditor General is designated Audit Scotland's Accountable Officer and is responsible for the financial arrangements of Audit Scotland.

**221.** Audit Scotland aims to ensure that public audit in Scotland:

- is delivered to the highest professional, technical and ethical standards
- makes a positive difference to how public money is spent, Best Value and the outcomes that people experience
- provides insights into what works and what needs to improve
- offers foresight on future risks and opportunities for improvement.

**222.** Audit Scotland supports the Auditor General and the Accounts Commission in the independent appointment of auditors, delivers the respective performance audit and Best Value work programmes of the Auditor General and the Accounts Commission and undertakes many of the annual financial audits of public bodies across Scotland's public sector.

**223.** Audit Scotland also has a key leadership role in ensuring that public audit in Scotland is independent, objective, politically neutral and adds value. It does this through coordinating and supporting the delivery of high-quality public audit in Scotland in consultation with key stakeholders. It provides technical audit support and works with professional regulators, audit and accountancy bodies and firms, to promote and strengthen public audit and improve financial and performance reporting by public bodies. This includes preparing guidance on technical auditing and accounting issues and on planning, conducting and reporting the audit.

## **Auditors appointed by the Auditor General and the Accounts Commission**

**224.** Auditors appointed by the Auditor General and the Accounts Commission undertake the audit of accounts, wider scope reporting areas and Best Value.

**225.** Once appointed, auditors act independently in carrying out their responsibilities and in exercising professional judgement.

**226.** The appointed auditor reports to the audited body and others on the results of audit work.

**227.** Appointed auditor responsibilities are derived from statute, relevant professional standards, other professional requirements and best practice, this Code and guidance from Audit Scotland.

**228.** Weaknesses or risks, including fraud and other irregularities, identified by auditors are only those which come to their attention during their normal audit work in accordance with the Code and may not be all that exist.

# Appendix 3. Statutory responsibilities

## Purpose of schedule

**229.** This Schedule of the Code sets out the statutory responsibilities of the Auditor General, Accounts Commission, Controller of Audit and appointed auditors.

## Auditor General legislation

Responsibility	Reference in Public Finance and Accountability (Scotland) Act 2000
<p>This section and Section 22 apply to any account which is, required to be audited by the Auditor General.</p> <p>It is for the Auditor General personally to decide who is to audit the account.</p> <p>The account is to be audited by the Auditor General, or a qualified person appearing to the Auditor General to be suitable for appointment.</p>	<p><b>Section 21</b></p>
<p>Appointed auditors' reports must set out their findings on:</p> <ul style="list-style-type: none"> <li>• whether the expenditure and receipts shown in the accounts were incurred or applied in accordance with:               <ul style="list-style-type: none"> <li>– any enactment by virtue of which the expenditure was incurred or the income received</li> <li>– the Budget Act(s) for the financial year</li> <li>– Sections 4 to 7 (relating to the Scottish Consolidated Fund)</li> </ul> </li> <li>• where sums have been paid out of the Fund for the purpose of meeting such expenditure, whether the sums were applied in accordance with Section 65 of the Scotland Act 1998</li> <li>• whether the expenditure and receipts shown in the accounts were incurred or applied in accordance with any applicable guidance issued by the Scottish ministers</li> <li>• whether the accounts comply with any applicable direction by virtue of any enactment.</li> </ul>	<p><b>Section 22(1)</b></p>
<p>Appointed auditors must send the accounts to the Auditor General who may prepare a statutory report on the accounts under Section 22 of the 2000 Act.</p>	<p><b>Section 22(3)</b></p>

Cont.

Responsibility	Reference in Public Finance and Accountability (Scotland) Act 2000
The Auditor General may initiate examinations into the economy, efficiency and effectiveness with which bodies and officeholders have used their resources in discharging their functions.	<b>Section 23(1)</b>
The range of bodies where an examination under Section 23(1) may be carried out includes all those required to be audited by the Auditor General and any other body specified by the Scottish ministers.	<b>Section 23(2) to (5)</b>
It is for the Auditor General personally to initiate an examination under this section and to decide who is to carry out the examination.	<b>Section 23(8)</b>
The examiner is not entitled to question the merits of the policy objectives of the body, but may consider the appropriateness of any criteria used by the body to assess use of resources.	<b>Section 23(9)</b>
The auditor or examiner has the right of access to documents and information which they may reasonably require to enable them to discharge their responsibilities. Auditors and examiners may also require from any person holding, or accountable for, any such document any assistance, information or explanation which they reasonably think necessary.	<b>Section 24</b>

## Accounts Commission audits

Responsibility	Reference in Local Government (Scotland) Act 1973
The accounts of every local authority requires to be audited by a professional accountant, who is either a member of the staff of Audit Scotland or is an approved auditor appointed by the Commission.	<b>Section 96(4)</b>
<p>In auditing the accounts, appointed auditors are required to satisfy themselves that:</p> <ul style="list-style-type: none"> <li>• the accounts have been prepared in accordance with all applicable statutory requirements</li> <li>• proper accounting practices have been observed in the preparation of the accounts</li> <li>• the body has made proper arrangements for securing Best Value and is complying with its community planning duties</li> <li>• councils have made arrangements for collecting, recording and publishing prescribed performance information</li> <li>• hear any objection to the financial statements lodged by an interested person.</li> </ul>	<b>Section 99</b>

Cont.

<b>Responsibility</b>	<b>Reference in Local Government (Scotland) Act 1973</b>
<p>An auditor has a right of access at all reasonable times to all such documents relating to the accounts of a local government body necessary to examine for the purpose of auditing those accounts.</p> <p>Auditors are entitled to require from any officer of that body or any other person holding or accountable for any such document such information and explanation as they think necessary.</p>	<b>Section 100</b>
<p>Where any person objects to the accounts of a local government body, the auditor is required, if so requested by that person or the members or officers of the body, to afford the opportunity of appearing before and being heard by the auditor.</p>	<b>Section 101(1) to (3)</b>
<p>Within fourteen days of the completion of the audit, auditors are required to place on the audited accounts a certificate, in such form as the Commission may direct, to the effect that the accounts have been audited in accordance with the provisions of the Act.</p>	<b>Section 101(4)</b>
<p>The Controller of Audit may, and if required by the Accounts Commission must, submit reports to the Commission about:</p> <ul style="list-style-type: none"> <li>• the audited accounts of local government bodies</li> <li>• any matters arising that the Controller of Audit considers should be considered by the body or brought to the attention of the public</li> <li>• the performance of a local government body of their duties relating to Best Value and community planning.</li> </ul>	<b>Section 102(1)</b>
<p>The Controller of Audit may make a special report to the Accounts Commission where the Controller is of the opinion that:</p> <ul style="list-style-type: none"> <li>• an item of account is contrary to law</li> <li>• there has been a failure to bring into account a sum which ought to have been brought into account</li> <li>• a loss has been incurred or deficiency caused by the negligence or misconduct of a person, or by the failure of a body to carry out a statutory duty</li> <li>• a sum has been credited or debited to the wrong account.</li> </ul>	<b>Section 102(3)</b>
<p>The Accounts Commission may direct the Controller of Audit to carry out further investigations, hold a public hearing or state its findings.</p>	<b>Section 103B</b>
<p>The Accounts Commission has powers to undertake or promote comparative and other studies designed to enable it to make and publish recommendations for:</p> <ul style="list-style-type: none"> <li>• the securing by local government bodies of Best Value</li> <li>• improving economy, efficiency and effectiveness in the provision of services by local government bodies</li> <li>• improving the financial or other management of local government bodies.</li> </ul>	<b>Section 97A</b>

<b>Responsibility</b>	<b>Reference in Local Government (Scotland) Act 1973</b>
<p>Section 97B of the Local Government (Scotland) Act 1973 covers the requirement of bodies and individuals to provide information and documents to the Accounts Commission, including in relation to the Commission's powers under Section 97A of the Act.</p>	<p><b>Section 97B</b></p>
<p>The Accounts Commission, at the request of the Secretary of State, can conduct studies designed to improve economy, efficiency, effectiveness and quality of performance in the discharge by local authorities of functions relating to the administration of housing benefit.</p>	<p><b>Section 105A</b></p>

# Glossary

Term	Definition
<b>Accountable Officer</b>	Accountable Officers have personal responsibility for the propriety and regularity of the finances of the part of the Scottish Administration or public body for which they are answerable to Parliament, and for ensuring the economic, efficient, and effective use of resources. Accountable Officer responsibilities are set out in the Public Finance and Accountability (Scotland) Act 2000 and detailed in the Scottish Public Finance Manual.
<b>Annual accounts (or accounts)</b>	The suite of financial statements and related reports that must be prepared and published by an audited body and subjected to audit or review.
<b>Auditing (assurance) standards</b>	Standards, issued by the relevant regulatory body, which auditors are required to comply with when conducting an audit.
<b>Appointed auditor (or auditor)</b>	External auditors of public bodies appointed by the Accounts Commission under Section 97 of the Local Government (Scotland) Act 1973 or the Auditor General under Section 21 of the Public Finance and Accountability (Scotland) Act 2000. These include appointed auditors in Audit Scotland and appointed accountancy or audit firms.
<b>Audit Quality Framework</b>	The framework sets out the arrangements for assessing the quality of work delivered by appointed auditors. The framework is maintained and delivered independently of appointed auditors by Audit Scotland.
<b>Audited body</b>	A body (or account) for which the Auditor General or the Accounts Commission is responsible for appointing an auditor, comprising the members of the body (for example, elected members of a local government body or executive and non-executive directors of NHS bodies), an Accountable Officer, management and other officers, as appropriate.
<b>Annual Audit Report</b>	<p>A report issued by appointed auditors at the conclusion of the year's audit setting out:</p> <ul style="list-style-type: none"> <li>• significant matters arising from the audit of annual accounts</li> <li>• conclusions on the wider scope reporting areas and arrangements for securing Best Value.</li> </ul> <p>See also <a href="#">Independent Auditor's Report</a>.</p>
<b>Assurance framework for smaller bodies</b>	Adaptations to the standard audit model are permitted for bodies that meet the definition of 'smaller body' specified by the Auditor General and Accounts Commission.

Cont.

Term	Definition
<b>Best Value</b>	The specific responsibility on local government bodies and the Accountable Officer of other public bodies to make arrangements to secure continuous improvement in the delivery of public services.
<b>Code (the)</b>	The Code of Audit Practice prepared by Audit Scotland and issued on behalf of the Auditor General and the Accounts Commission. Appointed auditors are required to comply with the Code's requirements and guidance that supplements the Code that is described as mandatory.
<b>Controller of Audit</b>	The officer appointed by the Accounts Commission to report to them on matters arising from the audit of the accounts and the audit of Best Value.
<b>Engagement Lead</b>	The person with primary responsibility for delivering the annual audit or performance audit. The engagement lead on an annual audit is the appointed auditor where it is carried out by Audit Scotland or the individual signing on behalf of an appointed firm.
<b>Ethical Standard</b>	Standard of ethical conduct issued by the Financial Reporting Council intended to maintain integrity, independence and objectivity that appointed auditors are required to comply with when conducting their work.
<b>Financial Reporting Council</b>	<p>The Financial Reporting Council (FRC) is responsible in the UK for issuing auditing, ethical and quality management standards to financial auditors.</p> <p>References to FRC in the Code should be read to apply to any successor body as appropriate.</p>
<b>Financial Reporting Framework</b>	A financial reporting framework is a set of rules, standards, and guidelines that set out how audited bodies prepare, measure, and present their annual accounts ensuring transparency, consistency, and comparability for users.
<b>Financial statements</b>	Statements that audited bodies are required to prepare setting out what they spend and receive and what they own and owe. They are a key element of the annual accounts.
<b>Financial sustainability</b>	Looking forward to the medium and longer term to consider whether an audited body is planning effectively to continue to deliver its services or the way in which they should be delivered.
<b>Firms</b>	The private sector bodies appointed by the Auditor General or the Accounts Commission to deliver audits under the Code. They may accountancy or audit firms.
<b>Good practice</b>	<p>Methods, procedures, or approaches used by audited bodies that auditors consider to be particularly effective, efficient, and beneficial, and that go beyond basic requirements or standard procedures, and results in a higher level of quality, performance, or outcomes.</p> <p>It is different to 'best practice' which represents the most effective or efficient approach among all known options.</p>

Term	Definition
<b>(Annual) Governance Statement</b>	Audited bodies are required to prepare a governance statement alongside their financial statements. It brings together in one place an audited body's disclosures about its governance framework, including risk management and internal control, and how this has operated during the year.
<b>Guidance</b>	Guidance (both mandatory or advisory) issued by Audit Scotland on behalf of the Auditor General and the Accounts Commission which supplements this Code.
<b>Independent Auditor's Report</b>	This report sets out in accordance with ISA (UK) 700 the auditor's opinions on the financial statements and other reports within an audited body's annual accounts.  See also <a href="#">Annual Audit Report</a> .
<b>International Standards on Auditing</b>	Standards issued by the FRC that apply to the audit of the annual accounts that is intended to give reasonable assurance.
<b>International Standard on Review Engagements 2400</b>	Standard issued by the IAASB that applies to a review of the annual accounts that is intended to give limited assurance.
<b>International Standard on Assurance Engagements (UK) 3000</b>	Standard issued by the FRC that applies to engagements where the subject matter is not historical financial information.
<b>Local government bodies</b>	Councils, joint boards, committees, pension funds, integration joint boards and other bodies established under the Local Government (Scotland) Act 1973, as amended.
<b>Pay due regard to</b>	The Code requires appointed auditors to 'pay due regard to' some guidance provided by Audit Scotland on behalf of the Auditor General and Accounts Commission. This means that appointed auditors must take into account the guidance, and if they decide not to follow it, they must give clear (in the sense of objective, proper, and legitimate) reasons within audit documentation as to why they have not followed the guidance.
<b>Performance Audit Standard</b>	The authoritative international standard on public sector performance auditing issued by the International Organisation of Supreme Audit Institutions.
<b>Regularity</b>	This is the collective term for the statutory responsibility of auditors appointed by the Auditor General to report whether expenditure and income have been incurred or applied in accordance with applicable legislation or guidance issued by the Scottish ministers.
<b>Should</b>	Appointed auditors' compliance with the Code is mandatory. The use of 'should' highlights a specific requirement placed on the auditor within the Code (and mandatory supporting guidance).

Cont.

Term	Definition
<b>Significance</b>	The concept of 'significance' applies to the appointed auditor's consideration of the wider scope reporting areas and Best Value that are not addressed by the assessment of materiality for the audit of the annual accounts. A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of importance to the Auditor General, Accounts Commission, Controller of Audit, or those charged with governance at the audited body. Significance has both qualitative and quantitative aspects.
<b>Smaller body</b>	Adaptations to the standard audit model are permitted for bodies that meet the definition of 'smaller body' specified by the Auditor General and Accounts Commission. The key condition is met for a body in a financial year if the higher of the body's gross expenditure for the year does not exceed a level specified in guidance from Audit Scotland.
<b>Those charged with governance</b>	The persons with responsibility for overseeing the strategic direction of the audited body and obligations related to its accountability, including overseeing the financial reporting process.
<b>Whole of Government Accounts</b>	The Whole of Government Accounts are the consolidated financial statements for the whole of the UK public sector, showing what the UK Government spends and receives, and what it owns and owes.
<b>Wider scope</b>	This describes the concept that the audit of a public body has a scope that is wider than in the private sector.
<b>Wider scope reporting areas</b>	Auditors appointed by the Auditor General are required by this Code to report conclusions on whether audited bodies have made proper arrangements in the four reporting areas of financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes.

# Draft Code of Audit Practice

2026



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN

Phone: 0131 625 1500

[www.audit.scot](http://www.audit.scot)