

Audit quality

Audit Scotland's transparency
report 2025/26



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Accessibility

You can find out more and read this report using assistive technology on our website www.audit.scot/accessibility.

Key messages

- 1 Audit Scotland's system of quality management is operating in compliance with the International Standard on Quality Management (UK) 1. We have effective arrangements for safeguarding the independence of all staff.
- 2 Audit Scotland recognises the importance of meeting the target audit completion dates set by the Auditor General and Accounts Commission. Audit Scotland completed the audit of 100 (64 per cent) of the 157 sets of 2024/25 annual audits by the target dates:
 - Meeting the target dates is a shared responsibility between auditors and audited bodies.
 - Of the 28 local government bodies that did not meet the target date of 30 September 2025, 26 were completed within three months of that date. A total of 97 per cent of local government audits (72 out of 74) were therefore completed by the end of the 2025 calendar year.
 - Of the 29 central government bodies that did not meet the target date for completing the audit (31 August or 30 October), 25 were completed by the statutory deadline for laying the accounts in Parliament of 31 December 2025. That meant that 95 per cent (78 out of 82) of accounts that require to be laid in Parliament met the statutory date.
 - For NHS and further education bodies, 100 per cent of the 20 audits met the target date for completing the audit (30 June and 31 December respectively).
 - Audit Scotland is planning to meet the target date for 74 per cent of 2025/26 audits, and that number should approach expected performance levels by 2026/27, provided that appropriate and timely support is provided by audited bodies and no significant new obstacles arise.
- 3 Audit Scotland produced 37 performance audit outputs, all in accordance with scheduled dates in the work programme. This ensured that all outputs were delivered on a timely basis.

- 4** We have a target that at least 80 per cent of audits subject to quality review should require no more than limited improvements. For the audits reviewed this year:
 - 80 per cent of internal quality reviews and 67 per cent of external quality reviews of 2024/25 annual audits met the required standard. No audits required significant improvements.
 - 100 per cent of quality reviews of performance audit outputs met the required standard. This continues a strong record of quality results for performance audit.
 - 5** An external follow-up review of an audit requiring significant improvement last year found that the areas requiring improvement had been addressed.
 - 6** Feedback from audit staff in Audit Scotland indicates that the support they receive helps them to deliver high-quality audits.
 - 7** However, only 46 per cent of staff believe they have sufficient time and resources to deliver high-quality audits. Audit Scotland has corporate projects to improve resource management and implement updated audit software which should help to increase this percentage in due course.
 - 8** The results from an independent survey of audited bodies indicates satisfaction with the quality and usefulness of the annual audits and performance audit outputs.
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Introduction

Background

1. Audit Scotland is Scotland's national public audit agency and provides the Auditor General for Scotland and the Accounts Commission with the services they need to carry out their statutory duties.
2. The Auditor General and Accounts Commission appoint Audit Scotland staff to undertake most of the annual audits of public bodies across Scotland. They appoint private audit firms to carry out the remaining annual audits.
3. Audit Scotland delivers the performance audit programmes of the Auditor General and the Commission.

Statutory transparency report requirements

4. Regulation (EU) 537/2014 forms part of UK law and applies to auditors that carry out the statutory audit of any entity that meets the statutory definition of a public interest entity (PIE). [Article 13](#) of the Regulation requires auditors of PIEs to publish on their website an annual transparency report at the latest four months after the end of each financial year.
5. The City of Aberdeen Council has issued index-linked bonds and as such meets the definition of a PIE. The Accounts Commission appointed a member of Audit Scotland staff to be auditor of the council in 2024/25 (the third year of a five-year appointment). Audit Scotland is therefore required to publish a transparency report for each year of the audit appointment.
6. Article 13 also sets out the disclosures which should be included in a transparency report. The disclosures are made throughout this report and are summarised in the [Appendix](#).
7. Beyond meeting the statutory obligation, this transparency report is aimed at providing public bodies in Scotland and other external stakeholders with assurance on the quality of audits delivered by Audit Scotland. It covers 2024/25 annual audits and performance audit outputs issued during the 2025/26 financial year.

International standard on quality management

8. [International standard on quality management \(ISQM\) \(UK\) 1](#) deals with an audit firm's responsibilities to design, implement and operate a system of quality management.

9. ISQM (UK) 1 applies to firms that perform engagements undertaken in compliance with performance standards issued by the Financial Reporting Council (FRC). It therefore applies to Audit Scotland.

Audit Quality Framework

10. Audit Scotland issues an [Audit Quality Framework \(AQF\)](#) which sets out how the Auditor General and the Accounts Commission are provided with quality assurance over the work conducted on their behalf by Audit Scotland and external firms.

11. To ensure objectivity, the AQF is maintained by a standalone team within Audit Scotland (Audit Quality and Appointments) independent from the audit delivery teams.

12. The AQF comprises Audit Quality Indicators (AQIs) that cover:

- compliance with the FRC's Ethical Standard
- performance monitoring and remediation, ie monitoring of audit outputs against target dates
- quality monitoring, including assurance on the system of quality management and the outcome of internal and external quality reviews
- monitoring stakeholder feedback.

13. A separate report from Audit Scotland called Quality of Public Audit in Scotland sets out the AQIs for 2024/25 for Audit Scotland and external firms.

14. This transparency report also reports the AQIs but only in respect of audits carried out by Audit Scotland.

1. Audit Scotland structure and governance

Regulation (EU) 537/2014

15. The transparency report is required to describe the statutory auditor's:
- legal structure and ownership
 - governance structure
 - basis for the remuneration of members of the management body.

Audit Scotland

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

17. [Public audit in Scotland 2023–28](#) sets out the vision, mission and outcomes for public audit that we share with the Auditor General and Commission. We also have a [Corporate Plan](#) on how we attend achieving those outcomes.

Governance

Accountable Officer

18. The Auditor General is the Accountable Officer for Audit Scotland.

19. Accountable Officers are personally responsible to the Scottish Parliament for the propriety and regularity of the public finances for the body for which they are accountable and ensuring that the resources of the body are used economically, efficiently and effectively.

Board

20. The Audit Scotland Board is responsible for the exercise of all functions of Audit Scotland.

21. The board is made up of the Auditor General, the chair of the Accounts Commission and three independent non-executive members appointed by the Scottish Commission for Public Audit (SCPA). The chair of the board and the board's committees are non-executive members.

22. Our board sets and monitors the strategic direction of Audit Scotland, oversees Audit Scotland's work and sets high standards of governance and management. This includes approving the AQF, the QPAS report and this transparency report.

Audit Committee

23. The Audit Committee is a standing committee of the board and oversees the arrangements for corporate governance, internal control, audit quality, risk and financial management and internal and external audit.

24. Responsibilities for audit quality include:

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

Remuneration and Human Resources Committee

25. The Remuneration and Human Resources Committee is also a standing committee. It sets and reviews the salaries of senior staff of Audit Scotland, and the main terms and conditions for all staff. The committee takes advice from external advisors as required.

Executive Team

26. Audit Scotland's Executive Team oversees the day-to-day operations of Audit Scotland's work, with each member taking responsibility for a specific area.

27. During 2025/26, the Executive Team was made up of the Auditor General for Scotland, the Chief Operating Officer, the Controller of Audit and three executive directors.

Business groups

28. Staff in our Audit Services business group (ASG) are appointed to undertake most of the annual audits of public bodies across Scotland.

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

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

31. The Corporate Services Group deliver a range of corporate functions.

Quality and Ethics Committee

32. Audit Scotland has a number of corporate forums that focus on different aspects of Audit Scotland's operations. They comprise representatives from all business groups.

33. The production of this transparency report is the responsibility of the Quality and Ethics Committee (QEC). The QEC's aim is to drive continuous improvement in audit quality and promote high ethical standards. The focus of the QEC's work is to promote compliance with:

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

Basis of remuneration

34. The Auditor General and the chair of the Accounts Commission are not employees of Audit Scotland and are not entitled to any remuneration in respect of their membership of the Audit Scotland Board.

35. The Auditor General is a Crown appointment with the salary determined by the Scottish Parliamentary Corporate Body. The chair of the Accounts Commission is appointed by Scottish ministers, who also set the remuneration.

36. The annual remuneration for the three independent members of the board is set by the Scottish Commission for Public Audit (SCPA). All independent board member appointments are part-time and non-pensionable.

37. As explained above, Audit Scotland's Remuneration and Human Resources Committee sets the remuneration and terms and conditions of employment of Audit Scotland staff. Levels of remuneration are set at an appropriate level to recruit, retain and motivate able, qualified and high-calibre people within our budget.

2. Independence and ethics

Summary of requirements relevant to independence and ethics

Regulation (EU) 537/2014

38. A statement is required in the transparency report concerning the auditor's independence practices which also confirms that an internal review of independence compliance has been conducted.

39. A description is also required of the statutory auditor's policy concerning the rotation of key audit partners and staff. Article 17(7) of the Regulation requires key audit partners responsible for carrying out a statutory audit to cease participation in the audit within seven years from the date of their appointment.

ISQM (UK) 1

40. All audit staff are required to understand relevant ethical requirements, including those relating to independence, and to fulfil the related responsibilities.

Audit Quality Framework

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

42. To demonstrate compliance with the Ethical Standard:

- Audit Scotland and appointed firms are required to confirm their compliance with the Ethical Standard to AQA.
- AQA monitors the scope and value of any non-audit services (ie, professional services provided to an audited body other than core audit activity) which could compromise the auditor's independence and scrutinises all applications to carry out such work.

How Audit Scotland complies with the requirements

43. The independence of auditors from the public bodies they audit is a fundamental principle of public audit. Audit Scotland considers that auditor independence is paramount and therefore has stringent controls in place to mitigate conflicts of interest that may create actual or perceived threats to our independence.

44. Controls in place at Audit Scotland to protect our independence include those set out in the following table:

Area	Control
Ethical Standard	We comply with the FRC's Ethical Standard and maintain guidance that applies the standard to the specific circumstances of public audit.
Ethics Partner and Deputy	<p>The Executive Director of I&Q is our Ethics Partner, as this position has the necessary seniority, experience, and authority to ensure compliance with the Ethical Standard.</p> <p>Our governance arrangements around ethics also includes the Director of Quality and Support as Deputy Ethics Partner.</p>
Hospitality register	A rigorous process in place for staff to declare hospitality and gifts whether received, declined, or provided. This includes maintaining a register of all such incidents.
Fit and proper declarations	<p>All staff are required to complete a 'Fit and proper' form annually, which are reviewed by the Deputy Ethics Partner. The form confirms compliance with professional standards and discloses any possible conflicts of interest. Potential conflicts are flagged to the Ethics Partner so that any necessary mitigations can then be put in place.</p> <p>The annual review was completed in January 2026. Appropriate mitigations for potential conflicts of interest were put in place.</p>
Ethics training	We have developed training to support staff follow the Ethical Standard. The training is mandatory for all staff every year.
Staff rotation	Audit Scotland employees who are appointed as auditors for annual audits are rotated every five years and are required to ensure that other team members are not involved in an audit for more than six years.
Non-audit services	<p>Audit Scotland auditors are required to obtain permission from the Ethics Partner before committing to any non-audit services. The approval process includes consideration of both the Ethical Standard and the Code of Audit Practice, recognising the wider scope of public sector audit and the consequent increased risk of 'self-review' threats to independence.</p> <p>There were no non-audit services carried out in respect of 2024/25 annual audits.</p>

3. Performance monitoring and remediation

Audit Quality Framework

45. For audits of the annual accounts, there is an AQI that monitors the percentage of annual audit plans and audited annual accounts submitted by the target date specified by the Auditor General or Accounts Commission in guidance from Audit Scotland on planning the annual audit.

46. For performance audit outputs, there is an AQI that monitors the percentage of performance audit outputs published in accordance with Audit Scotland's work programme.

2024/25 annual audits

Annual audit plans

47. The guidance on planning the 2024/25 audits set 31 March 2025 as the target date for submitting annual audit plans for most sectors (30 June 2025 for colleges).

48. A total of 136 (93 per cent) of the 146 audited bodies for which annual audit plans were required met the target date for 2024/25. The following table shows the number and percentage of annual audit plans completed by the target date for each sector:

Sector	Percentage of Annual Audit Plans completed on time 2024/25
Local government	90%
NHS	100%
Central government – agencies	100%
Central government – NDPBs	94%
Further education	100%
Overall	93%

Audited annual accounts

49. The table below shows the target completion dates for the audited annual accounts in each sector set out in the guidance on planning 2024/25 audits, and the number and percentage completed by those dates. The AQF considers the target to be met if the audited annual accounts are submitted by the set completion date or, if not by that date, within 11 months of the submission of the previous year's audited accounts.

Sector	Target date	2024/25 Audited annual accounts	Movement from 2023/24
Local government	30 September 2025	61%	up from 50%
NHS	30 June 2025	100%	no change
Central government – agencies	31 August 2025	44%	down from 60%
Central government – NDPBs	31 October 2025	57%	down from 66%
Further education	31 December 2025	100%	up from 75%
Overall		64%	up from 61%

50. The relevant target date was met for 100 (64 per cent) of the 157 sets of audited annual accounts. Including those bodies which did not meet the target date but submitted the 2024/25 audited accounts a month earlier than the equivalent date for 2023/24 accounts, that percentage rises to 66 per cent. Although delivery performance has not progressed as much as planned, it has remained stable or improved across most sectors.

51. It is important to recognise that the delivery of audits in compliance with International Standards on Auditing (ISAs) is paramount and takes precedence over meeting the target completion date where both requirements cannot be met. Also, in order to provide a wider context, it should be noted that:

- Of the 28 local government bodies that did not meet the target date of 30 September, 26 were completed within three months of that date. A total of 97 per cent of local government audits were therefore completed by 31 December 2025. The remaining two audits were delayed due to a cyber incident.
- Of the 29 central government bodies that did not meet the target date:
 - 13 was the result of a deliberate approach by audit teams to prioritise the completion of other audits. The others were due to

finance staff not being available, the late provision of necessary evidence, and board dates being set after the target date.

- 25 were completed by the statutory deadline for laying the accounts in Parliament of 31 December 2025. That meant that a total of 95 per cent of accounts that require to be laid in Parliament met the statutory date. Three of the four that did not meet the statutory deadline were completed in mid-January.
- Audit Scotland is planning to meet the target date for 74 per cent of 2025/26 audits, and that number should approach expected performance levels by 2026/27, provided that appropriate and timely support is provided by audited bodies and no significant new obstacles arise.

Performance audit outputs

52. There were 37 performance audit outputs in the work programme for the 2025/26 financial year. They comprised full performance audit reports, sector overview reports, Controller of Audit reports on Best Value, statutory reports from the Auditor General and Controller of Audit, and other outputs including briefings and blogs.

53. All 37 outputs were published by the scheduled dates. Delivery of all performance audit outputs to schedule reflects effective planning and programme management.

4. Quality monitoring

Summary of requirements relevant to quality monitoring

Regulation (EU) 537/2014

54. A description is required to be included in the transparency report of the internal quality control system of the statutory auditor (now referred to in ISQM (UK) 1 as the system of quality management) and a statement by the management body on the effectiveness of its functioning.

55. It is also necessary to give an indication of when the last quality assurance review was carried out.

ISQM (UK) 1

56. A system of quality management requires to be designed, implemented and operated which provides reasonable assurance that:

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

57. Individuals require to be assigned ultimate responsibility and accountability for the system of quality management. They are required to evaluate the system at least annually to conclude whether it provides the required assurance.

58. There are also requirements to:

- establish a monitoring and remediation process to provide information on the design, implementation and operation of the system of quality management, and take appropriate actions to respond to identified deficiencies
- evaluate the severity and pervasiveness of identified quality deficiencies by investigating the root cause and evaluating the effect on the system of quality management.

Audit Quality Framework

59. Audit Scotland and appointed firms are required to confirm their compliance with ISQM (UK) 1.

60. The AQF requires two types of quality reviews of audits to be undertaken:

- Independent external reviews of samples of all types of audit work. Audit Scotland commissions the Institute of Chartered Accountants in England and Wales (ICAEW) to undertake these quality reviews.
- Internal quality reviews conducted by specially trained experienced auditors in both the firms and within the Innovation and Quality business group for Audit Scotland audits.

61. As these quality reviews are undertaken after the related audit output has been issued, they are generally referred to as ‘cold’ file reviews. Auditors also carry out reviews before an audit output is issued (generally described as ‘hot’ file reviews) but these do not form part of the AQF.

62. The audit quality reviews evaluate whether annual audits and performance audits comply with the Code of Audit Practice. The Code requires annual audits to comply with the requirements of the relevant ISAs (UK) and statutory responsibilities such as Best Value in local government and regularity in other sectors, and requires performance audits to comply with INTOSAI standards.

63. ‘Cold’ internal and external quality reviews are graded as follows:

Grade	Category	Description
1	Good	No areas for improvement identified.
2	Limited improvements required	One or more areas for improvement of limited significance.
3	Improvements required	One or more key findings requiring more substantive improvements.
4	Significant improvements required	Significant concerns in one or more areas regarding the sufficiency or quality of audit evidence, the appropriateness of key audit judgments or another substantive matter such as auditor independence.

64. Targets in the AQF are as follows:

- A minimum of 80 per cent of internal and external quality reviews should be graded at 1 or 2 (that is, requiring no more than limited improvements).
- No quality reviews should be graded at 4 (that is, no audits should require significant improvements).

System of quality management in Audit Scotland

65. Audit Scotland's Audit Quality Manual sets out our system of quality management using the components of ISQM (UK) 1. This includes arrangements for:

- governance that supports audit quality and ensures compliance with ethical requirements
- performing and resourcing the audits
- robust quality monitoring, including review of completed audit engagements (ie, cold reviews).

66. The quality manual clearly defines what we mean by high-quality audit in a public audit context. This definition is set out in the following table:

Features of high-quality audits	
Audit assurance	Provide stakeholders with a high-level of assurance and support public bodies to achieve their objectives.
Compliance with standards	Compliance with both the spirit and the letter of auditing and ethical standards (including application of independence and objectivity).
Risk assessment and planning	Robust risk assessment, scoping and planning, informed by a thorough understanding of the audited bodies and their environment.
Audit approach and evidence	An effective audit approach with a focus on: <ul style="list-style-type: none"> • gathering sufficient and appropriate audit evidence • rigorous testing and analysis • avoiding conflicts of interest • strong quality management procedures.
Professional judgement and scepticism	Robust professional judgement and scepticism, and challenging audited bodies effectively.
Supervision and review	Effective supervision and review by engagement leads and senior staff to ensure quality of audit work performed.
Timely communication and reporting	Reporting clear, unambiguous and transparent audit findings, opinions, conclusions, and recommendations in a timely way.

67. In Audit Scotland, the Executive Team collectively share ultimate responsibility and accountability for the system of quality management. Our latest internal annual evaluation, overseen by our Quality and Ethics Committee, was undertaken in October 2025. The Executive Team

consider that our system of quality management complies with ISQM (UK) 1.

68. An independent inspection of Audit Scotland's system of quality management by ICAEW is also carried out annually. The latest inspection in March 2026, which assessed our arrangements for 2025, concluded that:

- Audit Scotland has a clear and structured approach to monitoring audit quality and evaluating its system of quality management
- the organisation has a clear commitment to improving audit quality that aligns with expectations of ISQM (UK) 1
- some areas for development were noted for our evaluation process, to strengthen our documentation and procedures for follow-up monitoring of quality issues identified.

69. The I&Q quality team are taking forward the areas for development suggested by this inspection.

Cold reviews

70. Audits are selected for cold quality review based on set criteria. The reviews do not seek to provide a balanced scorecard of the quality of Audit Scotland's audit work. The selection of audits is therefore not made on a statistical basis, and therefore changes from one year to the next cannot, on their own, be relied upon to provide a complete picture of Audit Scotland's performance and are not necessarily indicative of any overall change in audit quality.

71. The grades assigned in cold quality reviews depend on the extent of the quality reviewer's concerns over:

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

72. The grade outcomes for 2024/25 annual audits and performance audit outputs during the 2025/26 financial year are summarised in the following paragraphs. Overall, the results were satisfactory with no systemic weaknesses or significant issues identified

Annual audits – internal reviews

73. The I&Q quality team carried out a programme of cold reviews of the 2024/25 annual audit at five audited bodies. The criteria used to determine the selection are as follows:

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

Grades

74. Four of the five audits reviewed (80 per cent) were graded at 1 or 2 which meets the AQF target. For the third year in a row, no audits were graded at 4 which also meets the AQF target. A summary of the results is set out in the following table:

Results of internal cold quality reviews on 2024/25 annual audits

Grade	2024/25	2023/24	2022/23
1 Good	2	0	2
2 Limited improvements	2	4	3
3 Improvements	1	2	1
4 Significant improvements	0	0	0

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

Strengths and good practice

76. The quality reviews highlighted good practice, including the following examples:

- Audit work on the performance report resulted in several amendments to ensure compliance with applicable requirements.
- The review of indexation applied to non-current assets was thorough in terms of assessing the reasonableness of the indices applied, and the application of the indices to relevant assets. This resulted in a number of misstatements being corrected.

- The review of the Governance Statement was robust and resulted in several amendments.
- The team used an expert to ensure actuarial assumptions and the risk of management bias were appropriately considered.

Areas for improvement

77. The quality reviews identified areas for improvement, including the following examples:

- There were a number of cases where the audit procedures carried out could have been better documented on the audit file. These included testing of income, the appropriateness of certain categories of income, assessment of shared services, the reasonableness of impairment.
- There were also cases where more or better audit procedures could have been carried out on the existence of heritage assets, the accuracy of the source data used to support the pensions valuation, assessing risks related to the body's IT applications and wider IT network, challenging the valuer's assumptions, and the completeness of disclosures on related parties.

Performance audit outputs – internal reviews

78. Two quality reviews of performance audit outputs were carried out between January and March 2026. Selections were based on consideration of engagement leads, profile and complexity of the audit, and follow up of improvement areas raised in prior year quality reviews.

Grades

79. One review was graded at 1 and the other was graded at 2. That exceeds the AQF target of 80 per cent of reviews being graded at 2 or above.

Strengths and good practice

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

- Liaison with data analytics specialists to prepare a response to stakeholder queries on the team's approach to real terms adjustments.
- There was strong evidence of the team scoping the audit effectively.
- The audit team clearly documented its rationale for membership of the peer review group.

Areas for improvement

81. The quality reviews identified areas for further improvement, including the following examples:

- There could have been more engagement with external stakeholders at key stages of the audit.
- Some documentation issues weakened the audit trail.
- There was excessive detail in some meeting notes.

Annual audits – external reviews

82. ICAEW carried out a cold review of the 2024/25 annual audit at six audited bodies and a restricted follow-up review of one annual audit (not graded).

Grades

83. Four of the six annual audits reviewed (67 per cent) were graded at 1 or 2. That meant the AQF target of 80 per cent was not met, although the results are higher than the 50 per cent achieved for the previous two years. However, no audits were graded at 4 which meets the AQF target. A summary of the results is set out in the following table:

Results of external cold reviews

Grade	2024/25	2023/24	2022/23
1 Good	3	2	1
2 Limited improvements	1	1	2
3 Improvements	2	2	3
4 Significant improvements	0	1	0

84. The two grade 3 reviews were due to issues that are specific to these audits: gaining sufficient evidence to support the valuation of a complex financial model and the testing approach used to gain assurance over activity-based expenditure. Apart from these issues, the audits were of good quality. ICAEW did not find any thematic findings from their reviews.

85. ICAEW selected an audit that had been previously reviewed by the I&Q quality team in 2023/24. I&Q had assessed the 2023/24 audit as a grade 2. ICAEW assessed this audit to be a grade 1 and confirmed that the issues noted by I&Q in their 2023/24 review had been fully addressed.

This provides evidence that Audit Scotland's quality monitoring arrangements are working effectively.

86. The results of the eleven internal and external cold reviews of 2024/25 annual audits were generally consistent. In total:

- Eight (73 per cent) were graded at 2 or higher (58 per cent in 2023/24).
- Five (45 per cent) were graded at 1 (17 per cent in 2022/23).
- Three (27 per cent) were graded at 3 (25 per cent in 2023/24). These were driven by findings specific to each audit rather than wider, systemic issues.
- None were graded at 4 (8 per cent 2023/24).

87. Changes to the proportion of audits falling within each grade can reflect a wide range of factors, including the size, complexity and risk of the audits selected for review and the scope of individual reviews. For these reasons, and given the sample sizes involved, the above grades may not be representative of audit quality across Audit Scotland's entire portfolio of annual audits; nor do small year-on-year changes in results necessarily indicate any overall change in audit quality. While a year-on-year comparison may be of interest, caution should be exercised when drawing conclusions.

88. In addition to the graded reviews, ICAEW carried out a restricted follow-up review of the annual audit that received a grade 4 last year. The follow up was not graded but ICAEW found that the areas for improvement had not recurred.

Good practice

89. The ICAEW reviews identified examples of good practice, including the following examples:

- The substantive analytical procedure carried out on payroll costs were effective and demonstrated a good consideration of the reliability of data.
- Effective use of external sources to test completeness of the fixed asset register.
- Good consideration of group accounts boundary and a clear process to identify material group components.

Areas for improvement

90. ICAEW identified areas for further improvement, including the following examples:

- The audit file did not contain sufficient evidence to support the change in accounting treatment of grant in aid from funding to income.
- The audit file contained insufficient evidence in respect of activity-based expenditure streams.
- The audit team did not carry out planned testing on the model used to calculate a loans balance.

Performance audit outputs – external reviews

91. ICAEW carried out a cold review of two performance audit outputs during 2025/26.

Grades

92. One output was graded at 1 and the other graded at 2 (two were graded at 2 last year). This 100 per cent result exceeds the AQF target that 80 per cent of reviews should be graded at 2 or above.

93. All four internal and external cold reviews were graded at 2 or higher meaning only a small number of improvements were required (100 per cent at 2 or higher last year). These results continue a consistently high standard of performance audit quality for the last four years, which provides a strong level of assurance to stakeholders on the quality and robustness of our performance audit work.

Good practice

94. ICAEW identified good practice in both reviews, and highlighted the following examples:

- The risk register was well considered and clearly completed.
- The report was clearly written and understandable.
- The audit file demonstrated a clear understanding of the issues that occurred during the audit and the actions required to address these.

Areas for improvement

95. ICAEW identified only one area for improvement. The audit team's documentation was not sufficiently clear to trace recommendations through their evolution into the final report.

Root cause analysis

Annual audits

96. For a selection of annual audits subject to cold quality reviews, a formal root cause analysis (RCA) exercise was completed by the audit team shortly after the quality reviews were completed. All members of the

audit team contributed to these sessions and the quality team provided support as required.

97. An RCA exercise was carried for the following internal and external reviews:

- All reviews receiving a Grade 1. This because there is benefit in conducting an RCA to understand the drivers which contributed to that grade for wider sharing.
- A sample of the Grade 2 reviews.
- All reviews receiving a Grade 3. To facilitate discussion, a member of the I&Q quality team attended these meetings.

98. The objective of the RCA exercise is to determine the root causes, ie 'why' quality deficiencies, or good practice, have occurred. The output is an RCA summary completed by a senior member of the audit team focusing on the root causes for the significant areas for improvement identified and for areas of good practice.

99. The I&Q quality team collate all RCA summaries to produce an overall RCA report to highlight common, emerging issues, as well as sharing and promoting factors which led to good practice. The RCA report includes proposed improvement actions for key RCA themes. The final RCA report is presented to all Audit Directors in ASG, noting the proposed improvement actions.

Performance audit outputs

100. A post-audit completion review is carried out for performance audit outputs. As that review typically covers the identification of good practice and areas for improvement, a separate formal RCA exercise was not carried out.

Quality Improvement Action Plan

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

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

103. The improvement plan sets out:

- the significant quality deficiencies identified

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

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

Follow up of Grade 3 reviews

105. Procedures are in place to ensure that areas for improvement are appropriately followed up. For the reviews graded at 3:

- The relevant engagement lead is required to prepare an action plan setting out how significant quality findings will be addressed for the audit in the following year/next engagement they lead on. Engagement leads discuss any training needs with their line managers to inform CPD plans.
- The quality team will conduct a restricted quality review for either the same annual audit in the following year, or another subsequent engagement completed by the same engagement lead, to assess and support the implementation of the improvements required.
- Subject to the outcome of the above restricted follow-up review, a further audit completed by the engagement lead may be considered for a full cold quality review in the following programme.
- if there are any systemic or widespread quality issues identified from the cold quality reviews, these matters are considered for a thematic quality review by the I&Q quality team.

106. The I&Q quality team report findings to the QEC after the completion of follow-up quality monitoring activities, and the quality leads in ASG and PABV provide feedback to their respective business groups. Periodic quality bulletins and feedback sessions for audit teams are provided to share emerging issues and promote good practice.

5. Supporting and developing staff

Summary of requirements relevant to supporting and developing staff

Regulation (EU) 537/2014

107. A statement on the policy followed by the statutory auditor concerning the continuing education of statutory auditors referred to in paragraph 11 of Schedule 10 to the Companies Act 2006, ie the body must have rules and practices designed to ensure that persons eligible for appointment as statutory auditors take part in appropriate programmes of continuing education in order to maintain their theoretical knowledge, professional skills and values at a sufficiently high level.

ISQM (UK) 1

108. Staff required to be developed and have the competence and capabilities to:

- consistently perform quality audits, including having relevant knowledge or experience
- perform activities or carry out responsibilities in relation to the system of quality management.

Learning and development in Audit Scotland

109. We recognise the importance of our audit staff being appropriately trained and equipped and having the competence and capability to consistently perform high-quality audits. Staff responsible for our system of quality management also require to have the necessary competence.

110. Competence is the ability of an individual to perform a role and goes beyond knowledge of principles, standards, concepts, facts, and procedures; it is the integration and application of technical competence, professional skills, and professional ethics, values and attitudes. Competence can be developed through a variety of methods, including professional education, continuing professional development, training, work experience or coaching of less experienced engagement team members by more experienced engagement team members.

111. The increasing expectations placed on auditors coupled with a shortage of qualified and skilled staff across the audit profession means it

is crucial that we retain and develop our staff as well as attract and recruit high calibre individuals. This emphasises the need for us to invest in continuous professional, technical and personal learning and development (L&D). This is a key element of our People Strategy.

Learning and Development plan

112. Our learning and development plan provides a wide range of learning opportunities to support the delivery of high-quality audits including:

- technical training courses on subjects such as audit methodologies, financial reporting developments and data analytics
- personal development learning such as managing change, writing in plain language, management essentials, emotional intelligence, mental health learning and recruitment and selection.

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

114. There are learning pathways for each band of staff, giving clarity over professional, mandatory and development training. Individuals access their learning pathway through our corporate Learning Management System.

Professional trainees

115. Every year we contribute to developing the next generation of public sector finance professionals. Audit Scotland runs one of the largest public sector accountancy training schemes in Scotland, 54 colleagues are working towards Institute of Chartered Accountants in Scotland (ICAS) qualifications.

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

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

Supporting audit teams

Support from I&Q

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

Activity	Features
<p>Development of approaches for the annual audits and performance audits</p>	<p>It is important audit staff deploy robust audit approaches performed in the most efficient way as this underpins the delivery of high-quality audits on a consistent basis.</p> <p>I&Q maintains audit guides for the annual audit and performance audit outputs, along with supplementary guidance on areas that arise during the year. These internal guides set out methodologies that assist in the practical application of professional standards.</p> <p>Looking ahead, we are undertaking a key corporate project to modernise and transform our audit approaches so they are clearly defined, risk-based, data driven and delivered through integrated auditing software and tools that automate and standardise processes.</p>
<p>Provision of a central support ‘Helpdesk’ for auditors to consult with on difficult or contentious matters</p>	<p>Consultation helps to improve overall audit quality by:</p> <ul style="list-style-type: none"> • improving the application of professional judgement • assisting the appropriate application of audit methodologies and professional standards • facilitating meaningful discussion and challenge which should result in more robust, defensible and better documented audit evidence.
<p>Preparation of guidance on the application of accounting standards to the public sector</p>	<p>The guidance supplements the Code of Audit Practice and is provided to ASG (and the appointed firms) to:</p> <ul style="list-style-type: none"> • inform their judgement • maximise consistency • support the delivery of high-quality audits.
<p>Application of technology to optimise both audit efficiency and quality</p>	<p>The Digital Audit team within I&Q supports auditing in a digital environment through the use of data analytics and automation tools. The team uses specialist expertise to identify, develop and apply technology to optimise the efficiency and quality of audit work. This includes the development of tools that analyse data to deepen the insights gained.</p>

Feedback from audit teams

119. Audit Scotland carries out a survey every year of colleagues in ASG and PABV to seek views on how well they are supported to deliver high-quality audits. High-quality audits mean compliance with applicable auditing and ethical standards, including being driven by risks, exercising professional scepticism, obtaining sufficient and appropriate evidence, and clear and timely reporting.

120. The response rate for the 2026 survey was 59 per cent.

121. The results of the survey, including supporting comments, will be used to inform the audit support that audit teams receive. Some key results showed:

- 89 per cent reported that the culture of the organisation helps them deliver high-quality audits (slightly higher than last year's 87 per cent).
- 67 per cent reported that guidance notes and standard templates helped them to deliver high-quality audits. That was a decrease from 75 per cent last year. However, the percentage reporting that responses from the Helpdesk had helped them increased to 64 per cent from 57 per cent. Of the 33 per cent of staff who neither agreed nor disagreed, it is likely that many will be of a grade that does not consult with the Helpdesk directly.
- 70 per cent reported that learning and development events were helpful which was a significant increase on last year's 59 per cent
- 65 per cent reported that internal quality reviews help them to deliver high-quality audits (similar to last year). Of the 25 per cent of staff who neither agreed nor disagreed, many may not have experienced a quality review.
- The element of support considered least helpful is the audit software currently used by Audit Scotland: 39 per cent (consistent with last year) disagreed that it helps the delivery of high-quality audits. That is not unexpected and Audit Scotland is progressing a major multi-year corporate project to replace the software.

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

Do you agree or disagree that the following elements help you to deliver high-quality audits?	Strongly agree %	Somewhat agree %	Neither agree not disagree %	Somewhat disagree %	Strongly disagree %
1 The culture in Audit Scotland	37	52	4	6	1
2 The audit approach	30	48	6	14	2
3 The audit software	8	35	18	32	7
4 Digital audit tools	12	47	26	12	3
5 The on-the-job coaching, mentoring and review from team members	28	44	16	10	2
6 Guidance notes and templates	17	50	14	16	3
7 Responses from the support Helpdesk	28	36	33	3	0
8 The learning and development events	16	54	18	10	2
9 The quality reviews	17	48	25	8	2

123. There was also a question asking for views on whether audit teams felt they had enough time and resources to deliver high-quality audits: 46 per cent (slightly higher than last year's 45 per cent) reported that they did have sufficient time and resource. Audit Scotland has corporate projects to improve resource management and implement updated audit software which should help to increase this percentage in due course.

6. Stakeholder perception

Audit Quality Framework

124. Stakeholder feedback provides important information on audit quality as perceived by the recipients of the audit. AQA therefore commissioned an independent stakeholder feedback survey of individuals in audited bodies.

125. Audited bodies were asked to respond to questions using a scale of 1 to 5 where 1 is 'very poor' and 5 is 'very good'. The AQF sets a threshold for this AQI of a mean score of 4.

Annual audits

126. The results for 2024/25 annual audits for ASG exceeded the AQF target and are summarised in the following table:

	2024/25	2023/24
Usefulness of the annual audit	4.4	4.4
Performance of audit team	4.6	4.4
Quality of Annual Audit Report	4.4	4.3

Performance audit outputs

127. The results for performance audit outputs and statutory reports during 2025 met the AQF target and are summarised in the following table:

	2025	2024
Usefulness of output	4.0	3.9
Quality of output	4.1	4.0

Appendix

Article 13 disclosure requirements

Article 13 of Regulation (EU) 537/2014 sets out the disclosures which should be included in a transparency report. The disclosures are made throughout this report and are summarised in the following table:

Provision of Article 13	How Audit Scotland complies
A description of the legal structure and ownership of the statutory auditor, if it is a firm.	Audit Scotland's legal structure is briefly described in chapter 1 . As a public body, the ownership disclosures are not applicable.
Information on the network where the statutory auditor or the audit firm is a member of a network.	Audit Scotland is not part of a network and therefore the disclosure requirements do not apply.
A description of the governance structure of the statutory auditor if it is firm.	Audit Scotland's governance structure is briefly described in chapter 1 .
Information concerning the basis for the remuneration of members of the management body of the statutory auditor.	The basis of remuneration is explained in chapter 1 .
A statement concerning the statutory auditor's independence practices which also confirms that an internal review of independence compliance has been conducted.	<p>Details of our independence procedures for individual members of staff are set out in chapter 2 of this report.</p> <p>A 'fit and proper' review of independence compliance has been conducted.</p>
A description of the internal quality control system of the statutory auditor (now described in standards as the system of quality management) and a statement by the management body on the effectiveness of its functioning.	Audit Scotland's system of quality management is set out chapter 4 of this report. Audit Scotland's Executive Team is satisfied that it is functioning in accordance with the internal standard on quality management.
An indication of when the last quality assurance review was carried out.	Information on quality reviews is set out in chapter 4 of this report.

Provision of Article 13	How Audit Scotland complies
<p>A list of PIEs for which the statutory auditor carried out statutory audits during the preceding financial year.</p>	<p>As explained above, the City of Aberdeen Council is a PIE, and a member of Audit Scotland staff is the appointed auditor.</p> <p>No other PIEs were audited by Audit Scotland in 2024/25.</p>
<p>A statement on the policy followed by the statutory auditor concerning the continuing education of statutory auditors referred to in paragraph 11 of Schedule 10 to the Companies Act 2006</p>	<p>Audit Scotland staff do not undertake any audits under the Companies Act.</p> <p>However, learning and development policies and practices are designed to ensure that all our qualified staff, including those appointed as auditors, maintain their auditing knowledge, professional skills, and values at sufficiently high levels.</p> <p>Information on the support and development provided to Audit Scotland staff is set out at chapter 5.</p>
<p>A description of the statutory auditor's policy concerning the rotation of key audit partners and staff in accordance with Article 17(7) of Regulation (EU) 537/2014.</p>	<p>Our policy for rotating appointed auditors and other audit staff is described in chapter 2 of this report.</p>
<p>Information about the total turnover of the statutory auditor, divided into the following categories:</p>	<p>Audit Scotland audits are funded by fees charged to the audited bodies and by funding from the Scottish Parliament.</p>
<ul style="list-style-type: none"> revenues from the statutory audit of accounts of PIEs and members of groups of undertakings whose parent undertaking is a PIE 	<ul style="list-style-type: none"> 2024/25 PIE audit fee income: £555,570 (2023/24 – £537,000)
<ul style="list-style-type: none"> revenues from the statutory audit of accounts of other entities 	<ul style="list-style-type: none"> 2024/25 other statutory audit fee income: £16.95 million (2023/24 – £16.24 million)
<ul style="list-style-type: none"> revenues from permitted non-audit services to entities that are audited by the statutory auditor 	<ul style="list-style-type: none"> There were no non-audit services in 2024/25 (2023/24: £nil)
<ul style="list-style-type: none"> revenues from non-audit services to other entities. 	<ul style="list-style-type: none"> There were no non-audit services in 2024/25 (2023/24: £nil).

Audit quality

Audit Scotland's transparency report 2025/26



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ISBN 978 1 918486 14 8