

Agenda

10.15 Tuesday 24 January 2023
Audit Scotland, 102 West Port and
Microsoft TEAMS



1. Private meeting of members
2. Welcome and apologies
3. Declarations of interest
4. Items to be taken in private

Standing items

- | | |
|---|-----------------|
| 5. Chair's report - verbal update | For information |
| 6. Accountable Officer's report - verbal update | For information |
| 7. Accounts Commission Chair's report - verbal update | For information |
| 8. Review of draft minutes: <ul style="list-style-type: none">• Board meeting: 23 November 2022 | For approval |
| 9. Review of action tracker | For assurance |
| 10. Health, Safety and Wellbeing – verbal update | For information |

Strategic Priorities

- | | |
|-------------------------------------|---------------|
| 11. Strategic Improvement Programme | For assurance |
|-------------------------------------|---------------|

Business planning, performance and governance

- | | |
|--------------------------------|---------------|
| 12. Audit quality arrangements | For approval |
| 13. Audit Delivery - update | For assurance |

Conclusion

- | | |
|------------------------|----------------|
| 14. Any other business | For discussion |
| 15. Review of meeting | For discussion |

16. Date of next meeting: 4 April 2023

For information

Items to be taken in private

17. 2022/23 Spring Budget Revision and 2023/24 Budget proposal - SCPA Report – Verbal Update

For discussion

[Item to be taken in private to support the effective conduct of business and commercial sensitivity]

18. Ethical Standards Policy

For approval

[Item to be taken in private to support the effective conduct of business, intended for future publication]

19. Estate Strategy update

For discussion

[Item to be taken in private to support the effective conduct of business and commercial sensitivity]

20. Our purpose workstream: Update on Public Audit in Scotland and the new Audit Scotland corporate plan

For approval

[Item to be taken in private to support the effective conduct of business, intended for future publication]

Minutes Board



Wednesday 23 November 2022, 10.00am
Audit Scotland, 102 West Port and Microsoft Teams

Present:

Alan Alexander (Chair)
Stephen Boyle
Colin Crosby
Jackie Mann
William Moyes

Apologies:

There were no apologies.

In attendance:

Vicki Bibby, Chief Operating Officer
Martin Walker, Director of Corporate Support
Gayle Fitzpatrick, Corporate Governance Manager
Ian Metcalfe, Corporate Performance Officer
Stuart Dennis, Corporate Finance Manager
Susan Burgess, Assistant HR Manager
Michelle Borland, Business Manager, Performance Audit and Best Value
Karen Fitzsimons, Consultant, Business Jigsaw
Carolyn McLeod, Audit Director, Performance Audit and Best Value
Rebecca Seidel, Senior Manager, Performance Audit and Best Value
Elaine Boyd, Associate Director, Audit Quality and Appointments
Owen Smith, Senior Manager, Audit Quality and Appointments
John Gilchrist, Manager, Audit Quality and Appointments

1. Private meeting of Board members

The Board met privately and there were no matters arising.

2. Welcome and apologies

Vicki Bibby, Chief Operating Officer, and Martin Walker, Director of Corporate Support, joined the meeting.

The Chair welcomed attendees to the meeting.

3. Declarations of interest

There were no declarations of interest noted.

4. Items to be taken in private

The Chair invited members to agree that items 18, 19, 20, 21 and 22 of the agenda be considered in private for the reasons stated on the agenda. The members agreed.

5. Chair's report – verbal update

The Chair highlighted his attendance as an observer at Vicki Bibby's successful keynote session.

The Chair advised of regular meetings with Stephen Boyle, Auditor General for Scotland and Accountable Officer, William Moyes, the Chair of the Accounts Commission, and Martin Walker, Director of Corporate Support on various operational matters, including more recent introductory meetings with Vicki Bibby, Chief Operating Officer, John Cornett, Executive Director of Audit Services and Kenny Oliver, Executive Director of Innovation and Quality.

The Chair invited members to note an update on his involvement for the appointment of the Wales Audit Office Chair and Non-Executive Board Members.

The Chair advised of regular informal meetings with other Non-Executive Board members.

In addition, the Chair advised of his virtual attendance at the Audit Committee and Remuneration Committee meetings on 9 November 2022.

Following discussion, the Board welcomed the update.

6. Accountable Officer's report – verbal update

Stephen Boyle invited the Board to note some of his engagements had been covered under the Chair's report, as well as regular engagement with the Chair, the Chair of the Accounts Commission, and monthly Joint Work Programme meetings.

Stephen invited members to note that the Audit Scotland proposed pay award was accepted and would be reflected in the November pay run for staff. Thanks were given to Martin Walker, Vicki Bibby and PCS for their ongoing engagement throughout the process.

Stephen advised members of Kenny McFall's passing after a short illness – Stephen and many colleagues will be attending the service later today.

Stephen highlighted Elaine Boyd's accolade, named as one of the UK's top 100 most influential people with disabilities. Elaine plays a prominent role in disability rights and the role in the workplace of people with disabilities and wanted to record his formal congratulations.

Stephen highlighted his attendance at Vicki Bibby's keynote and also Kenny Oliver's keynote event focussing on the role of the Innovation and Quality business group.

Stephen invited members to note the publication of a number of reports recently, including the joint briefing with the Accounts Commission on Tackling Child Poverty in Scotland. Audit Scotland colleagues and Andrew Burns (Accounts Commission) briefed the Scottish Parliament's Public Audit Committee and subsequently held a RoundTable event with representatives looking to eradicate child poverty and identifying the steps that need to be

taken. Last week the briefing on Scotland's public finances: challenges and risks was published.

In relation to Parliamentary engagement, Stephen invited members to note that he had met Sarah Boyack MSP in relation to her interest in wellbeing and sustainability and Graham Simpson MSP relating to South Lanarkshire College. Audit Scotland and the Accounts Commission (Christine Lester) briefed a joint session of the Criminal Justice, Social Justice and Social Security and Health, Social Care and Sport Committee regarding drug and alcohol misuse. Stephen also attended the Public Audit Committee session where the First Minister gave evidence on the Ferries report.

In relation to external engagement, Stephen advised members of his introductory meetings with the Chief Executive of the Scottish Human Rights Commission and the new Auditor General for Northern Ireland who will join the other UK and Ireland Auditors General at the biannual meeting on Friday 2 December hosted by Audit Scotland.

Stephen noted ongoing engagement with the Scottish Government's Permanent Secretary and that he had an introductory meeting with Louise McDonald, interim Director-General Economy.

Stephen also highlighted the informal gathering arranged on 5 December 2022 in West Port for a Public Audit Committee 'Meet and greet' session – an opportunity for colleagues to engage with members of PAC.

Following discussion, the Board welcomed the update.

7. Accounts Commission Chair's report – verbal update

William Moyes invited the Board to note some progress has been made in relation to the website and branding but there's more to be done around support from the Communications Team.

William noted the Partnership Working Framework is making good progress and will follow up with Martin Walker around financial planning and reporting.

William invited members to note that Ben Macpherson, Minister for Social Security and Local Government, was joining the December Accounts Commission meeting.

William advised members that Helena Gray, Controller of Audit, was joining in January 2022 and the four new Commission members had started. The next recruitment in early 2023 would be for three Commission members and a deputy – current appointments expire end August/early September 2023.

Action ASB180: *William Moyes and Martin Walker to discuss financial planning and reporting. (December 2023)*

Following discussion, the Board welcomed the update.

8. Review of minutes

Remuneration and Human Resources Committee meeting: 11 May 2022

The Board noted the minutes of the Remuneration and Human Resources Committee meeting of 11 May 2022, copies of which had been previously circulated.

The Board noted the minutes were an accurate record of the meeting.

Audit Committee meeting: 7 September 2022

The Board noted the minutes of the Audit Committee meeting of 7 September 2022, copies of which had been previously circulated.

The Board noted the minutes were an accurate record of the meeting.

Board meeting: 28 September 2022

The Board noted the minutes of the Board meeting of 28 September 2022, copies of which had been previously circulated.

The Board noted the minutes were an accurate record of the meeting.

The following action points were noted:

- Item 7 – action is still pending; Martin Walker and William Moyes will follow up
- Item 11 – New Audit Appointments lessons learned exercise had been circulated to Board members and action was complete.
- Item 11 – update on Innovation and Quality will be presented to the January Board meeting.
- Item 13 – Estates Strategy will be presented to the January Board meeting
- Item 22 – confirmed nothing required circulation, item is on the agenda today.

Remuneration and Human Resources Committee meeting: 28 September 2022

The Board noted the minutes of the Remuneration and Human Resources Committee meeting of 11 May 2022, copies of which had been previously circulated.

The Board noted the minutes were an accurate record of the meeting, having been approved at Audit Committee on 9 November 2022 and that the proposed pay award had been accepted.

9. Review of action tracker

The Board noted the updates provided on the action tracker and agreed no further updates were required at the meeting.

Martin Walker invited the Board to note action ASB171 has been updated to meet the Board's needs.

Martin Walker invited the Board to note action ASB175: colleagues are expecting the consultant's report to be received in December and an update report will be presented to the January 2023 Board meeting with the final report presented to the March 2023 Board meeting for decision.

The Board noted the updated action tracker.

10. Covid-19 – verbal update

Martin Walker provided a verbal update on matters related to Covid-19, noting three colleagues had posted absence due to Covid-19 – an increase on recent weeks and months.

In relation to the external operating environment, the number of people testing positive has reduced to 1 in 55 – the same in Wales and Northern Ireland and higher in England. Last week, 47 deaths were reported due to Covid-19 – an increase from recent numbers.

Vicki Bibby invited the Board to consider widening the standing item on Covid-19 to an item on Health, Safety and Wellbeing relating to staff.

Following discussion, the Board noted the update.

Action ASB181: *Standing item to change from Covid-19 to Health, Safety and Wellbeing from January 2023 Board meeting onwards (January 2023).*

11. Q2 Performance Report

Gayle Fitzpatrick, Corporate Governance Manager and Ian Metcalfe, Corporate Performance Officer joined the meeting.

Gayle Fitzpatrick introduced the Q2 Performance report, copies of which had been previously circulated.

Members welcomed the change to reporting with recommendations at the beginning of the report for clarity.

Martin invited the Board to note and approve the steps set out in paragraphs 3 to 7 to improve performance reporting to the Board for Q3 and Q4 and then further changes would be made to align reporting with the new Corporate Plan.

Martin also invited the Board to review the performance in Q2 set out in paragraphs 8 to 22; the position summary in appendix 1 and the detail with actions, as appropriate, in appendix 2.

The Board were invited to note the performance in relation to audit delivery and agree that a detailed report on mitigating action is brought back to the January Board meeting as set out in paragraph 18.

Martin advised the Board of the reasons for the delays in audit delivery and highlighted the key messaging has been that quality is the top priority.

During discussion, members noted that work is progressing around metrics and productivity in relation to performance reporting and agreed to explore options for a separate Board session in January 2023 outwith the Board meeting.

During discussion, the Board noted that work is ongoing in relation to performance reporting and presentation and will incorporate Accounts Commission requirements within this.

During discussion, members noted that Vicki is working with colleagues in relation to the wider work on quality and how audits are delivered, ensuring audited bodies are clear on Audit Scotland's expectations for delivery.

Action 182: *William Moyes, Vicki Bibby, Martin Walker and Gayle Fitzpatrick to meet and discuss presentation requirements for the Accounts Commission performance reporting. (January 2023)*

Action 183: *Executive Team to explore options to extend the Board session on 23 January 2023 to discuss performance reporting further (December 2022).*

Gayle Fitzpatrick and Ian Metcalfe left the meeting.

12. Q2 Financial performance report

Stuart Dennis, Corporate Finance Manager joined the meeting.

Stuart Dennis introduced the Q2 Financial performance report, copies of which had been previously circulated.

Stuart invited the Board to note the financial results for the six months to 30 September 2022, as reviewed by the Audit Committee on 9 November 2022.

During discussion, the Board noted the key financial risks highlighted in paragraph 9 at Appendix 1 and Stuart highlighted the increase in the maintenance costs for the West Port office as an example of current financial challenges.

The Board noted that work is ongoing to highlight the income generated on behalf of AGS and separate out the costs for the Accounts Commission in this report.

Following discussion, the Board welcomed the update.

Stuart Dennis left the meeting.

13. Corporate Governance Documents

Gayle Fitzpatrick, Corporate Governance Manager and Ian Metcalfe, Corporate Performance Officer re-joined the meeting.

Gayle Fitzpatrick introduced Corporate Governance Documents, copies of which had been previously circulated.

The Board was invited to approve the proposed changes to the Standing Orders, the Financial Regulations and the Staff code of conduct.

Following discussion, the Board approved the proposed amendments to the Corporate Governance Documents.

Action ASB184: *The Standing Orders, Financial Regulations and Staff code of conduct were approved for the year.*

Gayle Fitzpatrick and Ian Metcalfe left the meeting.

14. Bullying and Harassment policy report

Susan Burgess, Assistant HR Manager joined the meeting.

Susan Burgess introduced the Bullying and Harassment policy report, copies of which had been previously circulated.

The Board was invited to approve the Bullying and Harassment policy report.

During discussion, the Board was invited to note that further wording will be added to include sexual harassment as a distinction from the definition of harassment due to protected characteristics.

Following discussion, it was agreed to seek legal advice in relation to wording around an untrue complaint and potential disciplinary action.

Action 185: *Susan Burgess will circulate wording for inclusion in the policy in relation to sexual harassment (December 2023).*

Action 186: *Susan Burgess will seek legal advice on identified wording and respond to the Board to seek final approval via correspondence or at the January Board meeting (January 2023).*

Susan Burgess left the meeting

15. Any other business

There was no other business for discussion.

16. Review of meeting

The members welcomed the quality, content and comprehensive nature of the reports in supporting helpful and detailed discussion.

The Chair thanked everyone for their contributions.

17. Date of next meeting: 24 January 2023

The members noted the next meeting of the Audit Scotland Board is scheduled for 24 January 2023.

Items taken in private

18. Our purpose workstream: Update on Public Audit in Scotland and new Audit Scotland corporate plan

Michelle Borland, Business Manager, Performance Audit and Best Value and Karen Fitzsimons, Business Jigsaw joined the meeting.

Vicki Bibby introduced Our purpose workstream: Update on Public Audit in Scotland and new Audit Scotland corporate plan, copies of which had been previously circulated.

The Board was invited to engage in a discussion with the Business Jigsaw team about the vision and outcomes for Public Audit in Scotland.

During discussion, the Board noted staff consultations will commence in January 2023 and external consultation thereafter.

Following discussion, the Board noted the paper presented was much clearer and the change in timetable was more realistic.

Michelle Borland and Karen Fitzsimons left the meeting.

19. SCPA budget proposal 2023/24 report

Stuart Dennis, Corporate Finance Manager, re-joined the meeting.

Stuart Dennis introduced the SCPA budget proposal 2023/24 report, copies of which had been previously circulated.

Stuart invited the Board to discuss, review and provide comment on the draft 2023/24 Budget Proposal, approve the proposed 2022/23 audit fee by sector, discuss the implications of a flat cash settlement and agree amendments prior to submitting to SCPA.

During discussion, the Board noted the Scottish Government is due to publish its budget on 15 December 2022 with the SCPA meeting confirmed on 14 December 2022.

Stuart invited the Board to note the proposed budget increase for 2023/24 compared with the 2022/23 approved budget with explanation at paragraph 19, the fee increase at paragraph 21 and risks are responses at paragraphs 25 to 29.

During discussion, the Board noted the fee increase for 2022/23 audits by sector.

Following discussion, the Board approved the submission of the budget to the SCPA and will share the Q&A for the preparatory SCPA session with all Board members.

**Action ASB187: The 2023/24 Budget proposal to be submitted to the SCPA.
(December 2022)**

Stephen Boyle left the meeting.

20. Spring Budget Revision 2022/23

Stuart Dennis introduced the Spring Budget Revision 2022/23, copies of which had been previously circulated.

Stuart invited the Board approve the request to the SCPA for a 2022/23 Spring Budget Revision of £5.2 million non-cash AME funding in order to meet additional IAS 19 pension charges.

Following discussion, the Board approved the submission of the request to the SCPA for a 2022/23 Spring Budget Revision of £5.2 million non-cash AME funding in order to meet additional IAS 19 pension charges.

Action 188: The 2022/23 Spring Budget revision proposal to be submitted to the SCPA. (December 2022)

Stuart Dennis left the meeting.

21. Environment, Sustainability and Biodiversity Annual Report 2021/22

Carolyn McLeod, Audit Director, Performance Audit and Best Value and Chair of the Green Future Team, Rebecca Seidel and Ian Metcalfe joined the meeting.

Carolyn McLeod introduced the Environment, Sustainability and Biodiversity Annual Report 2021/22, copies of which had been previously circulated.

Carolyn invited the Board to note the report which gives an update on progress to reach carbon targets and it will become more challenging to reduce emissions in future as we move to more hybrid than home based working. The Green Futures Team is considering offsetting once Scottish Government guidance on the use of offsetting is updated.

The Board was invited to consider and approve the Environment, Sustainability and Biodiversity Annual Report 2021-22 for publication on our website and as the basis of our response to SSN.

Following discussion, the Board approved the Environment, Sustainability and Biodiversity Annual Report 2021-22 for publication on our website and as the basis of our response to SSN.

Action 189: The Environment, Sustainability and Biodiversity Annual Report 2021/22 will be published on Audit Scotland's website. (November 2022)

Carolyn McLeod, Rebecca Seidel and Ian Metcalfe left the meeting.

22. Procuring External Quality Assurance 2022-28 report

Elaine Boyd, Director, Audit Quality and Appointments, Owen Smith, Senior Manager, Audit Quality and Appointments and John Gilchrist, Manager, Audit Quality and Appointments joined the meeting.

The Chair noted his congratulations to Elaine on being named as one of Britain's most influential people with disabilities in the 2022 Shaw Trust Disability Power 100 list.

Elaine Boyd introduced the Procuring External Quality Assurance 2022-28 report, copies of which had been previously circulated.

The Board was invited to note the results of the tender and approve awarding the contract to ICEAW.

Elaine invited to noted that the quality of the bid was very high and benchmarked at market rate therefore Audit Quality and Appointments (AQA) recommend the bid.

During discussion, the Board suggested that AQA consider deploying internal audit arrangements to independently audit and assess performance the performance of ICEAW.

AQA speak to internal audit (review AQA) and will be carefully looking at what's delivered as part of the contract arrangements. This form of oversight might be integrated with AQA auditing.

Following discussion, the Board approved awarding the contract for external quality assurance 2022-28 to ICEAW.

Action 190: The Board approved awarding the contract for external quality assurance 2022-28 to ICEAW. (November 2023)

Action 191: Audit Quality and Appointments to consider internal audit arrangements of ICEAW. (January 2023)

Elaine Boyd, Owen Smith and John Gilchrist left the meeting.

REF	FORUM	Agenda Item No	Item Title	Action Description	Meeting Date	Due Date	Responsible	Assigned to	Complete/Ongoing	Reported Yes/No	Progress Notes
ASB165	Board	11	Mainstreaming equality and equality outcomes: Interim progress report	Further Board session on HRBA to be arranged.	17/05/2022	TBC	Carolyn McLeod	Carolyn McLeod	Ongoing		Short life working group considering next steps for work on HRBA is meeting on 24 November. At that meeting, consideration will be given to the most appropriate timing for a further session with Board members.
ASB171	Board	9	Review of action tracker	Relating to action update against ASB167, agreed the International Manager examine any work undertaken on evaluation processes in relation to international work by other audit agencies.	28/09/2022	Nov-22	Martin Walker	Mark MacPherson	Ongoing	Yes	Feedback from other agencies indicates that they do not undertake any specific evaluation activity as international work, like in AS, is largely based on 121 engagement, conferences and sharing approaches. Historically, we have deployed a member of staff (part-time) to coordinate international activity. That post is currently vacant and the AD with oversight of International is currently considering how best we manage international activity going forward and will consider the scope for a proportionate approach to evaluation. 11/1 - Further paper to ET in February 2023
ASB172	Board	11	Strategic Improvement Programme update	Martin Walker and Vicki Bibby and Stephen to consider timings for an item on the audit profession and to include an update on Innovation & Quality in relation to the SIP review.	28/09/2022	Jan-23	Martin Walker	Kenny Oliver	Ongoing		Kenny Oliver will bring a paper on both subjects to the Board meeting on 24 January 2023
ASB173	Board	11	Strategic Improvement Programme update	Martin Walker agreed to liaise with the Audit Quality and Appointments (AQA) team for timescales on the New Audit Appointments lessons learned exercise being presented to the Board	28/09/2022	Oct-22	Martin Walker	Martin Walker	Complete		Circulated to the Board by correspondence 10 November 2022.
ASB174	Board	12	Q1 Corporate performance report	Gayle Fitzpatrick and Ian Metcalfe agreed to present proposals on revised corporate performance reporting in November with a view to a more detailed report in January 2023	28/09/2022	Nov-22	Martin Walker	Gayle Fitzpatrick	Ongoing		Update included in Q2 performance report which is on the agenda for 24 Janaury meeting of the Board.
ASB175	Board	13	Q1 Financial performance report	Estate strategy update report to be presented to the November Board	28/09/2022	Nov-22	Martin Walker	Stuart Dennis	Ongoing		Estate Strategy to be included in SIP update - on January Board agenda.
ASB176	Board	14	Annual review of corporate governance policies	Gayle Fitzpatrick and Ian Metcalfe agreed to check legislation in relation to paragraph 18 and delete paragraph 21 accordingly, sharing with the Board for approval by correspondence with updated tracked changes for reference.	28/09/2022	Oct-22	Martin Walker	Gayle Fitzpatrick	Ongoing		Updates to the Standing Orders and Financial Regulations on the agenda for 24 January meeting of the Board.
ASB177	Board	21	HSE Stress survey results and action plan	Executive Team to consider more regular surveys to inform trends and further data for future comparisons	28/09/2022	Jun-23	Martin Walker	Martin Walker	Ongoing		Martin to meet Simon (Comms) and Gordon (L&D) soon to discuss the range of survey activity (Best Co, Pulse, HSE etc)
ASB178	Board	23	2023/24 Budget proposal	The Board agreed that it might be prudent to issue a joint letter from the Auditor General and Chair of the Accounts Commission to bodies regarding the fee increase, particularly those affecting small organisations	28/09/2022	Oct-22	Martin Walker	Stuart Dennis	Complete		High level letter issued by AGS and AC Chair on 17/10/2022. Detailed individual letter issued to all audited bodies on 16/12/22.
ASB179	Board	23	2023/24 Budget proposal	Stuart Dennis will look at options in relation to phasing the fee increase and report back to the November Board with recommendations.	28/09/2022	Nov-22	Martin Walker	Stuart Dennis	Complete		This is incorporated within the 23/24 budget proposal at Novemeber meeting of the Board.

Strategic Improvement Programme update

Executive Director Innovation and Quality
and Director of Corporate Support

Purpose

1. This report provides the Board with an update on the Strategic Improvement Programme, a review of progress in 2022 and how the programme will be taken forward in 2023 and beyond.

Recommendations

2. The Board is invited to:
 - note the progress update on the Strategic Improvement Programme over the course of 2022
 - note the planned review and refocussing of the SIP in the context of the development of the new Corporate Plan over the period January to March, with update reports being submitted to the Executive Team and Board in March and April 2023 respectively.

Background

3. The Audit Scotland Board approved the [Strategic Improvement Programme](#) (SIP) at its meeting on 25 November 2021. The key objectives of the SIP were to:
 - Drive our organisational transformation and improvement.
 - Provide a bridge between the 'recovery phase' in response to the pandemic and our new longer-term operating model.
 - Assure and inspire our colleagues.
 - Ensure we deliver on our core commitments on audit (quality, focus, methodology and value added).
 - Ensure we deliver on our commitments on how we run the organisation – being people focussed by prioritising the health, safety, wellbeing and development of our people, and by being innovative and efficient.
4. Improvement projects in the SIP are structured under three main workstreams which are aligned to our strategic objectives.
 - Our purpose
 - What we do (delivering world class public audit)
 - How we work (being a world class organisation)
5. The full programme is attached Appendix 1 for completeness.

Summary of progress in 2022

6. Over the course of 2022 we made good progress over all on what is an extensive improvement programme. The key milestones/ progress is summarised in the sections below.

Our purpose

7. The [Interim Corporate Plan 2022/23](#) was agreed by the Board at its meeting on 1 June and work is well under way for the refresh of **Public Audit in Scotland, the new Corporate Plan and the Partnership Working Framework**. This includes extensive internal and external engagement on our vision, our mission and our values.
8. We have supported the **Accounts Commission's change programme**, including developments on, resource control and transparency, relationships with audit partners (including the PWF) and relationship with other stakeholders (including engagement with Parliament, the Scottish Government, Councils and other stakeholders). We have also supported the development around Accounts Commission support (where additional resources were incorporated into the 2023/24 budget proposal), audit quality, communications (where the Commission agreed its communications and engagement strategy at its meeting on 11 August 2022) and the dynamic work programme (where the Commission considered the latest work programme update and plans for a strategic review at its meeting on 8 December 2022).
9. We implemented the International Standard on Quality Management (**ISQM1**) in accordance with the 15 December 2022 deadline. This international [standard](#) covers an audit firm's responsibilities to design, implement and operate a system of quality management for audits or reviews of financial statements, or other assurance or related services engagements.

What we do

10. During 2022 we completed the **audit procurement** process and supported the Auditor General and the Accounts Commission in making the **audit appointments** for the period 2022-2027.
11. We have also changed the approach to reviewing and refreshing the **dynamic work programme** to ensure it focussing on the most important issues and is responsive to the rapidly changing operating environment. In December the Auditor General and the Accounts Commission considered the approach to a strategic review of the programme in addition to the regular quarterly update,
12. 2022 saw the completion of the cycle of **Best Value** (BV) audits and the Accounts Commission approved the new approach to auditing BV and the future schedule of BV work
13. We have continued to implement our **Digital audit strategy** – including the development of the new IT audit approach under the revised ISA 315, collaboration with Northern Ireland and Wales audit agencies and the ongoing roll out of the ASC digital audit tool.
14. Over the course of the year we have developed our approach to **Auditing climate change**. The approach has been incorporated into the audit planning guidance and BV thematic guidance for the 2022/23 audits and we are establishing internal and external climate change steering groups to ensure the work in this area is progressed. The auditing climate change team presented updates to the Board, Accounts Commission and SCPA during August and our [auditing climate strategy](#) was published on 9 December 2022.

15. We have implemented the **audit quality** action plan and secured a new external quality review provider.
16. During 2022 we initiated a new project on **Impact and Insights**. The project includes three strands: horizon scanning, stakeholder engagement and impact monitoring, evaluation and reporting. It aims to help us use existing processes and information in a more systematic way and develop new ways to support us to respond with agility to what's coming in the future and improve the information we have to inform decision making. It will also support continuous improvement and innovation in our audit approach and help us promote the value of public audit. Over the course of the year we have shared the proposed new impact monitoring, evaluation and reporting framework with the Auditor General for Scotland and with the Accounts Commission as part of the dynamic work programme updates.

How we work

17. At its meeting on 9 November the Remuneration and Human Resources Committee considered an [update report](#) on the People Strategy. This provided an update on progress on a number of components which will be consolidated into a new people strategy alongside the development of the new Corporate Plan. The main components are, candidate attraction, recruitment and selection, workforce capacity and deployment, learning and skills development (including the professional trainee scheme), diversity, equality and inclusion, our culture and our values and communications and engagement (including forums and surveys).
18. During 2022 we completed Phase 3 of the **building capacity** project. The first phase of the project focussed on core audit capacity and the second phase focussed on specialist and support functions. Phase 3 of the project saw the introduction of the new Executive Team structure (where the recruitment was concluded in August) and the creation of the Innovation and Quality Group. (The latter is covered in more detail below). Phase 4 of the project is well under way with ongoing recruitment campaigns for key roles below Executive Team level in the new structure.
19. We have progressed our **One Organisation working** project. Following the completion of the review and design phase the Executive approved the resulting action plan at its meeting on 14 June and project has now moved into the implementation phase.
20. The first phase of the **Developing Hybrid Working** (DHW) project was completed in May. This focussed on delivering a covid secure working environment and saw phased access to the Audit Scotland Offices and other workplaces, including on site work and meetings. For the second phase we established three workstream groups and work is under way covering, people and policies, workplaces and technology and communications. We are benchmarking with the other audit agencies in the UK and Ireland and other organisations on many aspects of this project.
21. The **Estates Strategy** project has now been integrated into the DHW project as the requirements we will have in terms of workspaces is driven by our current and future working arrangements. We have secured external expertise to support this project. The first phase focussed on office location, market availability, cost and an initial options appraisal. Based on that work we engaged office design consultants to do further research, engage with colleagues and develop more detailed design options. These will be presented to the Board at its meeting on 4 April 2023.
22. In February 2022 we went live with our new **Business Management System** – this covers payroll and human resources and interfaces with the Finance system. We will be introducing

additional functionality during 2023 including a new integrated recruitment and selection module.

23. We have made good progress under our **Learning and Development** strategy. In August we published the [Review of 2021/22 and strategy for 2022/23](#). This provided a summary of the L&D activity carried out in 2021/22 and provided the plan for the remainder 2022/23. On 28 September the Board considered the [review](#) of the professional trainee scheme and agreed the proposals for the delivery and development of the scheme in the years to come.
24. In September we launched the new Learning Management System (LMS), this is a secure cloud hosted system which provides access to a wide range of learning resources and learning records for all colleagues. The new LMS went live on 15 September and features over 200 learning events in the first phase and will be regularly updated with new learning content to support colleagues in creating bespoke learning plans to develop knowledge, skills and long-term career aspirations. The system integrates with iTrent, our HR & Payroll system, provides access to learning anywhere and anytime and learning records for both the individual learner and managers on both the LMS and iTrent.
25. We are committed to **diversity, equality and inclusion** in both our audit work and as an organisation. Our Interim [Equalities Outcomes Report](#) was published in April 2022 and the Remco considered our [Diversity and Equality Strategy](#) and [Action Plan](#) at its meeting on 11 May. We published the [Annual Diversity and Equalities Report](#) on 29 September and the RemCo considered an [update report](#) at its meeting on 9 November. Over the course of the year the Executive Team has considered a number of equality impact assessments including ones on hybrid working, the new audit appointments and the dynamic work programme.
26. The Board discussed the **Medium-Term Financial Plan** (MTFP) at various points over the year, including at its strategic session on 18 August and it was also the focus of some discussion with the SCPA at its Business Planning Day on 31 August. The MTFP was further considered by the Board at its meeting on 28 September as part of the 2023/24 budget development process.
27. **Digital Services Strategy** – The Digital Services team continue to focus on mitigating the cyber security threats and our digital transformation to hybrid working. We will be introducing mandatory regular cyber security training and a cyber incident response plan early in the new year. All colleagues are now fully equipped for hybrid working with the mobile phone replacement project now fully complete and we will be introducing connectivity and meeting room improvements to our offices. We successfully achieved ISO recertification in August and cyber security has been the subject of discussion with the Audit Committee, the Board and the SCPA over recent months. The Digital Services Team is now up to establishment with appointments to the two vacant posts.
28. We have continued to review and update our approach to supporting the **environment, sustainability and biodiversity**, primarily through our Green Future Group. The Board considered the [annual report](#) on this area at its meeting on 23 November and the report was published on our website on 25 November.
29. Progress on the SIP continues to be made against a backdrop of change both within and outside the organisation. The effects of the Covid-19 pandemic impacts on how we work and has shaped some aspects of the improvement programme and its delivery. During this time, we have also had significant change in terms of the strategic leadership of the organisation and will review the focus and content of the programme to reflect this and the

strategic emphasis and priorities of the Auditor General for Scotland and the Accounts Commission.

30. There has been slippage in some projects in the programme due to capacity challenges and/ or the reframing of some project objectives.
31. A significant number of projects are now complete and/ or have been mainstreamed into business as usual. These are highlighted in the appendix and include:
 - The Code of Audit Practice
 - Audit procurement and appointments
 - The review of dynamic work programme
 - The Audit Quality Action Plan
 - BV auditing methodology for councils and IJBs
 - Building capacity
 - Covid secure workplaces
 - Digital Services Strategy
 - Business Management System
 - Colleague engagement
 - ISQM1 implementation

Review and delivery of the SIP in 2023 and beyond

Innovation and quality

32. In January 2022 the Board approved the new Executive Team structure. This included the creation of the new Innovation and Quality (I&Q) business group, and the role of Executive Director of I&Q.
33. I&Qs mission statement is 'We innovate and support to elevate our people, our organisation and public audit, to improve quality and grow our reputation.' Achieving this will require an organisational culture that is agile, connected, and ambitious and which builds on the strong foundations in place.
34. The structure of I&Q has been designed around five complementary functions:
 - Quality – To provide a constructive quality monitoring process across each business group, with a focus on the nature and extent of quality improvement activities; addressing changes to auditing and control standards; and influencing the quality culture within the organisation.
 - Professional Support – To provide technical and professional expertise across each business group. The Professional Support team already undertakes a significant amount of activity, and this provides an excellent platform to build on, and to work more closely across I&Q functions, including Learning and Development.




- Learning and Development – To deliver professional learning, where there will be a closer working relationship with other functions within I&Q, and a reimagining of the approach taken to Learning and Development across the organisation, including consideration of the different mediums that can be used.
 - Digital Audit and Data Analytics – Where we will continually enhance methodologies and best practice across all business groups through the effective use of new technologies and approaches. In addition to building on the EWP work already undertaken, there will be a focus on the options available regarding audit automation, data analytics, and other digital audit solutions.
 - Organisational Improvement – Where I&Q will be leading organisational transformation. In addition to leading on the SIP and strategic planning, there will be a focus on identifying areas for development and improvement in the way our organisation operates and our procedures and working practices.
- 35.** There is significant activity planned across the I&Q functions and we have identified the following priorities to ensure we can start to make progress with our mission to support and develop our people and organisation. The initial priorities are:
- Exploring new methodologies and technologies, including analytics and Electronic Working Papers (EWP)
 - Enhancing our internal quality review activities
 - Implementing developments to technical support and reassessing each business group's needs
 - Addressing the resource and knowledge challenge regarding IT audit and ITGC specialists, and related training across the organisation
 - Progressing the Strategic Improvement Programme
 - Evaluating the Learning and Development offerings and platform
 - Working with the climate change team in assessing our approach to climate change audit, including training; the impact on audit risk assessment and challenging managements approach; and leading on the impact of climate change across the organisation.
 - Broadening our horizons through greater engagement with firms; other UK and overseas agencies; and with oversight and standard-setting bodies and actioning the commitments made by firms in the appointment process, including access to specialist expertise; understanding their approach to audit automation; and experience in digital audit and data analytics.
- 36.** The Executive Director took up post on 13 June 2022; and the Director of Innovation and Transformation was appointed in December 2022.
- 37.** A recruitment and selection process is currently under way for the posts of Director of Quality and Support and three other leadership posts in I&Q, the Head of Digital Audit, Head of Quality and Head of Organisational Improvement. The recruitment processes for the Head of Professional Support and the Head of Learning and Development will commence in Q1 2023.

- 38.** During the transition and recruitment phase I&Q has continued to conduct work in priority areas, including, but not limited to, technical and professional support; quality monitoring activities; training; development of digital audit techniques and tools; and specialist IT audit support. We have also commenced parts of the change programme to deliver the audit approach and training updates following significant changes to audit and control standards, made updates to the nature and extent of cold, and targeted, reviews, further developed the 'Asc' data analytics tools, worked closely with the climate change team, and identified key priorities for I&Q in 2023.

Review and management of the SIP

- 39.** At its meeting on 20 September 2022 the SIP Board discussed the SIP in the context of the new Executive Team structure, the introduction of the Innovation and Quality Group and the corporate planning process. It was agreed that all of these provided a timely opportunity to review the SIP. Specifically, it was agreed that there was a need to take stock of what is 'mainstreamed', what is an improvement project, what are the clear priorities and what the timescales for delivery are.
- 40.** With the I&Q team up and running from 2023, the review will take place over the period January to March with an update report coming to Executive Team in March on the proposed next steps. It is intended that an update report will come to the Board at its April meeting.
- 41.** Specifically, the review will consider:
- Prioritisation criteria for projects, in the context of the Auditor General for Scotland, the Accounts Commission and organisational priorities.
 - How and when projects are mainstreamed, where the development phase transitions to 'business as usual'.
 - Redefining ongoing priorities and specific improvement projects in line with the new Corporate Plan and organisational improvement activity in I&Q.
 - Consolidating and streamlining the programme and its constituent projects.
 - Revising the reporting arrangements to improve the reporting on the programme. This will include being clear about delivery objectives, deadlines and milestones, project accountability and reporting to staff, management and the Board.
- 42.** As management of the SIP is currently being transitioned from the Corporate Services Group to the Innovation and Quality the governance and reporting arrangements will also be reviewed with specific recommendations flowing from the review.

SIP Project summary

 What we do	 How we work	 Our purpose
<ul style="list-style-type: none"> • Dynamic work programme (mainstreamed) • Code of Audit Practice (complete) • New audit appointments (complete) • Audit quality action plan (mainstreamed) • Audit approach (including financial audit approach, BV in LG and IJBs (complete), less complex bodies, following the pandemic pound and auditing climate change) • Digital Auditing • Electronic working papers • Diversity & equality • Parliamentary engagement • Impact and Insights 	<ul style="list-style-type: none"> • People strategy (inc workforce plan and learning and development offer) • Building capacity (phase 3 complete & phase 4 mainstreamed) • One organisational working • Medium term financial strategy (including fees and funding) • Developing Hybrid Working • Our workplaces - Covid-secure (complete) and longer- term office strategy) • Digital services strategy (mainstreamed) • Business Management System - phase 1 HR & Payroll (complete), phase 2 - recruitment (mainstreamed) • Green futures • Shaping our future, colleague engagement - Audit Scotland 2021 (complete), Audit Scotland 2022 (complete) 	<ul style="list-style-type: none"> • Public audit in Scotland • Partnership Framework • Corporate Plan • Business Plans (2022 complete) • Accounts Commission Change Programme • ISQM – ISQM1 (implemented)

Purpose

1. This paper sets out the following:
 - Provides a draft document that outlines the audit quality arrangements within Audit Scotland.
 - Provides a general update on the Innovation & Quality (I&Q) business group, and the proposed activities of the Quality function.

Recommendations

2. The Board is invited to:
 - Approve the substance of the quality arrangements document (provided at Appendix 1). Following this, the document will be made public on the Audit Scotland website, and provided to the PAC for reference.
 - Note the general update on I&Q and proposed quality-related activities.

Background

3. Following the establishment of I&Q in 2022, and the ongoing increased focus on audit quality, it is important to provide clarity over the arrangements and responsibilities relating to quality activities. Further, in separate discussions with members of the Board and PAC, there were requests to provide such clarity.
4. As I&Q progresses with recruitment of leadership roles and setting priorities, it is important to provide status updates and, in the context of quality, highlight the activities that will be of focus in the coming period.

Quality arrangements

5. Appendix 1 is a copy of the draft quality arrangements document. This explains the arrangements in Audit Scotland for providing assurance on the delivery of high-quality audit work for financial statement audits, national performance audits, and other outputs, carried out by ASG and PABV.
6. The document covers the characteristics of good audit quality; an overview of quality arrangements and the role of each business group; internal and external oversight; the Audit Quality Committee; the Audit Quality Framework and the three levels of quality assurance; current reporting; and key differences to the private sector.
7. It is anticipated that the document can be read in full, or certain sections can be extracted for relevance in other documentation. The document will also be made available on the Audit Scotland website, and we are considering whether to do this within the Transparency Report, or as a separate HTML document.

Innovation and Quality

8. The establishment of I&Q comes at a challenging time in the profession, but also at a time with exciting opportunities to reflect on the way audit work is conducted, to address the challenges the profession is facing, including the increased focus on quality, the resource constraints, and the revolution in the volume and use of data.
9. The SIP update presented elsewhere in this Board meeting contains a detailed update on the I&Q structure and recruitment; mission statement; functions; and planned activities.
10. The Quality function within I&Q will have the following core activities, some of which build on, and enhance, existing activities:
 - Internal quality reviews for ASG and PABV, including cold, hot, themed and inflight reviews.
 - Manage the process of Engagement Quality Reviews (EQRs); independent and second opinions; root cause analysis work; and development of quality action plans.
 - Quality monitoring activities, including consideration of compliance with control standards (including ISQM 1 and 2).
11. It is also anticipated that as part of enhancing quality monitoring activities, the Quality function will focus on the following:
 - Review and redevelop the approach and documentation of EQRs, including the training of reviewers.
 - Consider the existing hot review criteria.
 - Consider the impact and approach taken in the event that teams or individuals have consistent poor-quality outcomes.
 - Review the identification of PIE engagements and the approach taken to such engagements.
 - Consider more impactful methods of communicating quality review findings, and positive best practice.
12. The work of other functions within I&Q has a primary focus on quality, being the updates to the audit approach and development of guidance (Professional Support); training of all staff (L&D); and the development and utilisation of new technologies, including audit automation (Digital Audit).

Conclusion

13. The draft quality arrangements document provides a summary of the Audit Scotland arrangements and will be a useful reference source to provide clarity over responsibilities.
14. The development of I&Q is picking up pace and has set objectives to undertake enhanced quality monitoring activities to influence the delivery of high-quality audit work.

Audit Quality in Audit Scotland

Commitment to quality

DRAFT



Prepared by Audit Scotland
January 2023

Contents

Introduction	3
Overview of quality arrangements	7
Level 1: Training and guidance	11
Level 2: Internal quality reviews and monitoring	14
Level 3: Independent quality monitoring	18
Appendix 1: Glossary of terms	20
Appendix 2: Quality arrangements in the private sector	23

Introduction

Purpose of report

- 1. This report explains the arrangements in Audit Scotland for providing assurance on the delivery of high-quality annual audits and performance audits of public bodies in Scotland. It has a particular focus on the role played by Audit Scotland’s Innovation and Quality (I&Q) business group.
- 2. Appendix 1 explains some key auditing terms used in this report.

High-quality public audits in Scotland

- 3. An external audit provides independent assurance to third parties regarding a specified subject matter. Independent external audit is an essential feature of the public sector. It supports scrutiny of how public money is raised and spent, and the outcomes achieved.
- 4. The public audit model in Scotland is different to the audit of private sector entities. Some key differences are as follows:

Responsibility for auditor appointments	<p>The Auditor General for Scotland (Auditor General) and the Accounts Commission for Scotland (the Commission) are responsible for appointing auditors to conduct the annual audits of public bodies under their respective remits.</p> <p>This contrasts with the private sector where companies appoint their own auditors.</p>
Auditors	<p>Staff in Audit Scotland’s Audit Services business group (ASG) are appointed to carry out around two thirds of the annual audits.</p> <p>The remaining annual audits are carried out by accountancy firms appointed following a rigorous procurement process (the firms).</p> <p>Performance audits are carried out by Audit Scotland’s Performance Audit and Best Value business group (PABV).</p>
Role of Audit Scotland	<p>Audit Scotland is a statutory body which provides services to the Auditor General and Commission in respect of appointing auditors and supporting them once they are appointed.</p> <p>The Audit Quality and Appointments (AQA) team within Audit Scotland operate independently to arrange for the appointment of auditors, produce the Code of Audit Practice and provide objective assurance on audit quality.</p> <p>I&Q is a business group established in 2022 to support all auditors in the delivery of high-quality audits.</p>

Aspect	Public audit model
Audit scope	<p>At the core of the annual audit is the financial audit of a public body's annual accounts. This involves appointed auditors examining the reported financial transactions and balances of each body in accordance with the applicable financial reporting framework. The scope of this aspect of the audit is broadly the same as in the private sector.</p> <p>However, the Code of Audit Practice approved by the Auditor General and the Commission requires the scope of annual audits to be wider than the accounts and to include conclusions on aspects of public bodies' arrangements, for example, relating to financial sustainability and governance. In local government, the annual audit also includes the audit of Best Value.</p> <p>Performance audits focus on improving the economy, efficiency and effectiveness of public services. Performance audit work may focus on a particular sector or consider broader cross-cutting arrangements. The Auditor General and the Accounts Commission use feedback from stakeholder engagement and consultation to inform the themes and proposed topics for performance audit work.</p>

5. The following framework provides the foundation for how auditors conduct audit work:

- Audits of the annual accounts are required to be carried out by ASG and the firms in accordance with international standards on auditing in the UK (ISAs (UK)). These are the same ISAs as apply in the private sector.
- Auditors are required to carry out the wider scope work in accordance with the requirements of the Code of Audit Practice and supplementary guidance from Audit Scotland.
- Performance audits are carried out by PABV in accordance with standards issued by the International Organisation of Supreme Audit Institutions (INTOSAI). The adoption of INTOSAI standards by Audit Scotland in 2019/20 was a first among UK public audit agencies.

6. High-quality audit relies on auditors using their skills, knowledge and experience, while applying integrity, objectivity, and professional scepticism, to enable them to make appropriate judgments that are supported by evidence.

7. Quality is at the core of public audit in Scotland and is the foundation for building consistency and confidence across all audit work. The Auditor General, the Commission, and Audit Scotland are committed to the consistent delivery of high-quality public audits. High-quality audits provide assurance, add value and can support public bodies to achieve their objectives.

8. As commissioners of public audit, the Auditor General and the Commission require all annual audits delivered by appointed auditors, as well as the performance audits carried out on their behalf, to be performed to the highest

quality. They, therefore, require Audit Scotland to provide independent assurance on the quality of these audits.

Definition of audit quality

9. Although there is no single definition of the term ‘audit quality’ that has achieved universal recognition, professional bodies have carried out significant work in the last few years to describe what the term means in practice.

10. The International Auditing and Assurance Standards Board (IAASB) states that: “Audit quality encompasses the key elements that create an environment which maximises the likelihood that quality audits are performed on a consistent basis”.

11. The IAASB has also set out the key attributes of a high-quality audit:

Attributes of high quality audit

A high-quality audit is likely to have been achieved by an audit team that:

- exhibited appropriate values, ethics and attitudes;
- was sufficiently knowledgeable, skilled and experienced, and had sufficient time allocated to perform the audit work;
- applied rigorous audit processes and quality control procedures that complied with law, regulation and applicable standards;
- provided useful and timely reports; and
- interacted appropriately with relevant stakeholders.

12. The Financial Reporting Council (FRC) issues the ISAs (UK) and is responsible for monitoring audit quality in the private sector (see Appendix 2 for more information).

13. The FRC also issues influential reports, for example setting out their views on what makes a good audit and thematic reviews on particular aspects of audit. The FRC defines high-quality audits as those that:

- comply with the **spirit and the letter** of professional standards;
- are driven by a robust **risk assessment**;
- are supported by rigorous due **process** and **audit evidence**;
- involve the exercise of **professional judgement** and **professional scepticism**;
- **challenge** management effectively; and
- **report** unambiguously the auditor’s conclusions.

14. Audit Scotland pays due regard to this material when developing arrangements for providing the Auditor General and the Commission with robust, objective and independent assurance over the quality of audits delivered.

Levels of assurance on audit quality

15. Audit Scotland's arrangements are based on three levels of assurance in respect of audit quality. These levels are summarised in the following table:

Level	Nature of assurance
First	Appropriately trained and supported individuals and audit teams working within approved audit frameworks and following guidance from I&Q.
Second	Organisation-wide internal quality reviews and monitoring in accordance with audit quality standards managed by I&Q.
Third	Quality reviews and monitoring carried out by AQA independently from auditors.

16. There are arrangements in place at each level to provide assurance on the quality of the audit delivered. The remaining chapters of this report explain the arrangements that comprise each level in more detail.

Overview of quality arrangements

Introduction

17. This chapter provides an overview of audit quality arrangements in Audit Scotland. It briefly explains:

- The roles of the business groups and teams within Audit Scotland.
- The Audit Quality Framework.
- The Audit Quality Committee.
- Quality reporting.
- The importance of organisation culture.

Audit Scotland Business Groups and Teams

18. ASG and PABV as audit providers have primary responsibility for achieving audit quality. The delivery of high-quality audits is therefore a fundamental objective for both business groups. Key to the arrangements is the management team in each group designating a director to act as a lead on audit quality. Quality leads liaise with I&Q on quality matters.

19. AQA and I&Q play key roles in the arrangements for providing assurance on the quality of audits. The following table briefly summarises their distinct roles and is followed by more information on I&Q

Team	Role
AQA	AQA operates at arm's-length from auditors and: <ul style="list-style-type: none">• maintains Audit Scotland's Audit Quality Framework;• arranges for external reviews of audit quality; and• reports their independent views on audit quality directly to the Audit Scotland Board, Auditor General and the Commission.
I&Q	I&Q works collaboratively with ASG and PABV to support them in the delivery of high-quality audits, including conducting internal quality reviews.

20. The I&Q business group was established to drive continuous improvement in audit quality by leading organisational transformation and development to ensure that Audit Scotland's audit work is innovative and at the forefront of the audit profession. I&Q seeks to ensure that Audit Scotland:

- deploys world-class, cutting-edge audit methodologies;
- embed a culture of innovation and continuous improvement;
- develops and retains staff, and attracts high calibre new recruits; and
- innovates to make audit delivery as efficient and impactful as possible, taking full advantage of new technologies.

21. I&Q comprises the following five complementary functions that work in a collaborative manner to achieve the group's objectives:

- **Quality:** Constructive internal quality monitoring activities, including cold and hot file reviews, with a focus on identifying improvement areas and compliance with relevant standards.
- **Professional Support:** Technical and professional support and guidance, including the development of guides, templates and methodology updates, and training material.
- **Learning and Development:** Technical, professional, and personal development training.
- **Digital Audit:** Methodologies and best practice through the effective use of new technologies and approaches, with a focus on audit automation, data analytics, and other digital solutions.
- **Organisational Improvement:** Organisational transformation through the Strategic Improvement Programme, strategic planning, and identifying areas for organisational development and improvement.

22. It is fundamental to auditor independence that auditors fulfil their ethical responsibilities. I&Q also supports Audit Scotland's Ethics Partner to establish policies and procedures for:

- addressing threats to compliance with ethical requirements; and
- reporting any conflicts of interest and responding in a timely manner.

Audit Quality Framework

23. The [Audit Quality Framework](#), approved by the Audit Scotland Board, is central to Audit Scotland's arrangements for audit quality. The framework:

- encompasses a single set of shared quality arrangements that apply to all types of audit work and to all audit providers
- sets out the three levels of assurance on audit quality
- explains the structure and processes in place to assure audit quality and provide the necessary evidence that professional standards have been met.

24. The framework is currently being refreshed by AQA to apply to the new audit appointments though no significant changes are anticipated.

Audit Quality Committee

25. The Audit Quality Committee oversees the quality review programme and provides a forum for discussion on audit quality matters between I&Q, ASG and PABV. The committee:

- comprises the quality leads and other staff from all business groups;
- oversees implementation and maintenance of the internal systems and processes required to deliver the Audit Quality Framework;
- directs and approves the programme of internal quality reviews and monitoring activity undertaken by I&Q;
- considers the results of the internal and external audit quality reviews and the actions required to address any deficiencies;
- monitors the arrangements for ensuring appropriate levels of professional qualifications, staff training and development across Audit Scotland; and
- makes recommendations for improvement in audit quality to ASG and PABV management teams and Audit Scotland's Executive Team.

Quality reporting

26. There are several ways in which quality activities and updates are reported.

27. AQA prepares three audit quality reports per year under the Audit Quality Framework: an interim audit quality report in November; the [quality of public audit in Scotland](#) (QPAS) in June; and a supplementary report, also in June.

28. Reports are provided to the Executive Team; Audit Scotland's Audit Committee and Board; Accounts Commission; and the Audit Quality Committee.

29. Further to this, the following reporting is undertaken:

- Board and Executive Team: quarterly corporate performance report and Professional Support activity report.
- Audit Quality Committee: quarterly reports on ASG and PABV quality findings and updates on the improvement action plan.
- ASGMT and PABVLT: updates every 2-3 months on quality findings and updates on the improvement action plan.
- All staff: quality bulletins every 2-3 months on areas of relevance and focus; annual updates provided at super-team meetings; and annual reporting of quality review outcomes.
- The annual Transparency Report includes the results of quality reviews.

Culture

30. Aside from specific teams and committees, an appropriate organisational culture is a key driver of high-quality audit. Culture can be thought of as a combination of the values, attitudes and behaviours in an organisation and its relations with stakeholders. Essential behaviours and values that merit prominence in the cultural design of an audit organisation are the fundamental principles of integrity, objectivity, independence and professional scepticism.

The Executive Team and Leadership Group have a key role in setting the appropriate 'tone at the top', ensuring that quality is at the forefront of all the work that we do.

31. A key element of each business group is to transform Audit Scotland by developing a culture for the delivery of high-quality auditing driven by clear governance and leadership, which emphasises the importance of quality and the expected values and behaviours of the audit team. I&Q plays a key role in identifying elements of good practice that can be applied to enhance the Audit Scotland culture, and works with each business group to implement them.

32. One element of a culture that supports high quality audits is encouraging staff to perceive quality reviews in a positive light and welcome them as a vehicle for improvement rather than view them as a burden to be avoided. I&Q's aim is to create:

- an environment of trust, whereby staff are encouraged to openly talk about areas for improvement and learn from them
- a diverse and open culture of challenge and continuous improvement, from across the spectrum including external stakeholders.

Level 1: Training and guidance

Appropriately trained individuals and audit teams working within approved audit frameworks and following guidance from I&Q.

Introduction

33. The objective of the first level of assurance on audit quality is to ensure that:

- individuals in audit teams are trained to have the necessary technical skills and up-to-date knowledge, as well appropriate soft skills so they have the competence and capabilities to consistently perform high-quality audits;
- audit teams adopt appropriate audit methodologies when planning, executing, and reporting on audits; and
- auditors exercise appropriate professional judgment and professional scepticism.

Professional Support

34. The activities of the Professional Support function within I&Q in this regard are summarised in the following table:

Preparation of guidance on the application of auditing and accounting standards to the public sector	<p>The guidance supplements the Code of Audit Practice and is provided to ASG and the firms to:</p> <ul style="list-style-type: none">• inform their judgement• maximise consistency• support the delivery of high-quality audits.
Development of appropriate methodologies for annual audits, national performance audits, and other outputs, carried out by ASG and PABV	<p>It is important ASG and PABV deploy world class audit methodologies as this underpins the delivery of high-quality audits on a consistent basis.</p> <p>A consistent audit methodology supports the audit team in applying the principles and meeting the requirements set out in professional standards. However, this must be done in a way that is efficient and does not detract from critical thinking and professional scepticism.</p>

Activity	Features
Provision of a central technical support 'help-desk' for auditors to consult with on difficult or contentious matters	<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.

Learning and development

35. The Learning and Development section within I&Q, working closely with Professional Support, provides a wide range of training on:

- key elements of the required audit methodology;
- technical skills (including the use of appropriate technological resources); and
- important softer skills (such as critical thinking and handling difficult conversations).

36. Audit Scotland has significantly invested in professional qualifications and training for staff. Professional trainees are provided with an Institute of Chartered Accountants in Scotland (ICAS) training contract upon starting, coupled with valuable on-the-job training and guidance to develop their skills and experience. All qualified staff at Audit Scotland are required to maintain their Continuing Professional Development and take ownership of their own learning and development pathway.

Digital audit and organisational improvement

37. The Digital Audit function within I&Q, working closely with Professional Support, uses specialist expertise to identify, develop and apply the latest technologies to optimise audit efficiency and audit quality.

38. The use of technology is a key element of modern audit methodologies. This increases the efficiency of the audit process and includes audit support tools such as those that electronically analyse source data.

39. The Organisational Improvement function creates a wider environment that supports, promotes and cultivates high-quality audits. The aim is to develop a culture where delivering high-quality audit work is valued and rewarded, and which emphasises the importance of 'doing the right thing' in the public interest.

Audit team review and coaching

40. This first level of assurance also encompasses quality procedures that are performed by each audit team as the audits progress. This includes, for example:

- the work of audit staff being reviewed by more senior audit staff within the team as the audit progresses to confirm that objectives are being met and the work is being performed in accordance with required methodologies; and
- the provision of on-the-job coaching by more senior audit staff to reinforce learning from formal training and support staff in the practical application of the methodologies.

DRAFT

Level 2: Internal quality reviews and monitoring

Organisation-wide internal quality reviews and monitoring in accordance with audit quality standards

Introduction

41. The second level of assurance on audit quality is concerned with organisation-wide internal quality reviews and monitoring in accordance with audit quality standards. Audit Scotland and the firms are responsible for their own arrangements for internal quality reviews and monitoring.

Applicable audit quality standards

42. Until 2021/22 audits, the applicable audit quality standard was International Standard on Quality Control 1 (ISQC1). This set out an audit practice's responsibilities for its system of quality control for audits

43. Two new audit quality standards apply from 2022/23, International Standard on Quality Management (ISQM) 1 and 2, which replace ISQC1.

44. ISQM(UK) 1 requires a system of quality management to be implemented. that provides reasonable assurance that:

- the audit practice and its personnel fulfil their responsibilities and conduct audits in accordance with professional standards and applicable legal and regulatory requirements; and
- audit reports are appropriate.

Types of internal quality reviews

45. The Quality function within I&Q carries out Audit Scotland's internal quality reviews and monitoring activities. The different types of review undertaken are summarised in the following table:

Type	Activity
Retrospective quality reviews of completed audits after the audit report has been issued (cold reviews)	<p>ISQM 1 requires audit practices to design and perform monitoring activities to provide a basis for the identification of deficiencies in the system of quality management.</p> <p>Monitoring activities are required to include the inspection of completed audits, i.e. cold reviews.</p> <p>The I&Q Quality team typically complete a cold review programme from January to March each year.</p> <p>Audits subject to cold reviews are graded (see below for information in grades).</p>
Quality reviews of audits in progress (hot reviews)	The quality findings arising from hot reviews are issued before the date of signing the audit report and therefore directly contribute to the quality of the audit.
Thematic and in-flight reviews	These reviews of both in-progress and completed audits assess particular areas of interest or risk, sometimes over a range of multiple audits.

46. Findings from quality reviews are reported to auditors to share common areas for improvement and good practice more widely. Findings are shared in a number of ways including:

- quality reports issued directly to audit teams subject to review;
- Quality Bulletins distributed routinely to business groups; and
- feedback sessions at audit team meetings.

47. Similar internal reviews are also carried out by each firm.

Grading system for cold reviews

48. The cold reviews use the FRC grading system for all of the audits reviewed:

Grade	Standard	Description
1	Good	<p>No concerns regarding the sufficiency and quality of audit evidence or the appropriateness of significant audit judgments in the areas reviewed.</p> <p>Only limited weaknesses in documentation of audit work, and any concerns in other areas are limited in nature (both individually and collectively).</p>
2	Generally acceptable but a small number of improvements required	<p>Only limited concerns regarding the sufficiency or quality of audit evidence or the appropriateness of significant audit judgments in the areas reviewed; and/or</p> <p>Weaknesses in documentation of audit work are restricted to a small number of areas; and/or</p> <p>Some concerns, assessed as less than significant (individually and collectively) in other areas.</p>
3	Some improvement required	<p>Some concerns, assessed as less than significant, regarding the sufficiency or quality of audit evidence or the appropriateness of significant audit judgments in the areas reviewed; and/or</p> <p>More widespread weaknesses in documentation of audit work; and/or</p> <p>Significant concerns in other areas (individually or collectively).</p>
4	Significant improvements required	<p>Significant concerns regarding the sufficiency or quality of audit evidence or the appropriateness of significant audit judgments in the areas reviewed (not limited to the documentation of the underlying thought processes); and/or</p> <p>Very significant concerns in other areas (individually or collectively).</p>

49. The Audit Quality Framework expects audits to be graded as 1 or 2. The target is for at least 80 per cent of audits to receive that assessment over three years.

Improvement action plans

50. Where an audit is graded as 3 or 4, the auditor is expected to put in place a plan to address the required improvements.

51. ISQM 1 requires a root cause analysis to be conducted of identified quality deficiencies. Root cause analysis identifies the reasons underlying quality deficiencies and focusses improvement action plans on their causes rather than the symptoms.

52. Improvement action plans are prepared alongside the cycle of cold review reporting each spring. The action plans set out:

- the significant quality improvements identified;
- proposed actions;
- the individuals assigned to each action; and
- a planned timeline to implement each action.

53. The Audit Quality Committee oversees and monitors the progress made against improvement action plans by ASG and PABV at quarterly meetings throughout the year.

Engagement quality reviews

54. In addition to the quality arrangements described above, engagement quality reviews form a key part of the system of quality management. The reviews are conducted on or before the date of the report to provide additional audit assurance, and the nature and extent of these reviews are relevant to the engagement or business group.

55. An engagement quality review is an objective evaluation of the significant judgments made by the audit team and the conclusions reached thereon. Audit Scotland and the firms are required to establish policies addressing audits that are required to be subject to engagement quality reviews.

56. ISQM (UK) 2 deals with the appointment and eligibility of the engagement quality reviewer, and the performance and documentation of the engagement quality review. In Audit Scotland, these reviews are completed by experienced, senior staff within ASG and PABV.

Transparency Reports

57. Auditors of Public Interest Entities are required by regulation to prepare a Transparency Report each year setting out certain specified matters, including:

- a description of their governance arrangements;
- information on the system of quality management; and
- the results of their internal quality reviews and monitoring.

58. Audit Scotland and each appointed firm therefore produce and publish an annual Transparency Report.

Level 3: Independent quality monitoring

Quality reviews and monitoring carried out independently from auditors

Introduction

59. The third level of assurance on audit quality is concerned with independent quality monitoring. Independent monitoring offers the highest level of assurance to stakeholders.

60. These procedures are carried out by AQA or an external party appointed by AQA. The procedures are undertaken independently from audit providers though AQA pay regard to the results of internal reviews and monitoring.

External reviews

61. For the five audit years to 2020/21, AQA commissioned ICAS to carry out external quality reviews. The new external quality reviewer from 2021/22 to 2026/27 audits is the Institute of Chartered Accountants in England and Wales.

62. The external reviewer also carries out cold reviews of completed audits and awards them a grade. In order to facilitate comparability with internal monitoring, they also use the FRC scoring system.

63. The external reviewer also completes targeted follow-up reviews to determine the progress on actions recommended in previous years.

Annual audit plans and reports

64. AQA review a sample of annual audit plans and annual audit reports to assess how effectively auditors comply with the requirements of the Code of Audit Practice and supplementary guidance.

Audited bodies' views on audit work

65. AQA arranges for an annual independent stakeholder feedback survey. It surveys key individuals in audited bodies to gather feedback on the financial and performance audits.

Assessment and Reporting

66. AQA uses the results of the external reviews, their own independent checks, and each Transparency Report to form an objective assessment of audit quality.

67. AQA sets out their findings in reports as set out at paragraph 26.

68. QPAS is also made publicly available in June each year.

DRAFT

Appendix 1: Glossary of terms

Term	Explanation
Audit evidence	<p>The information used by auditors in arriving at their conclusions. Audit evidence supports those conclusions and is cumulative in nature. It is primarily obtained from audit procedures performed during the course of the audit. Audit evidence comprises both information that supports and corroborates management's assertions, and any information that contradicts such assertions.</p> <p>Professional standards require audit evidence to be both sufficient and appropriate:</p> <p>(i) Sufficiency is the measure of the quantity of audit evidence. The quantity needed is affected by the auditor's assessment of the risks and also by the quality of such audit evidence.</p> <p>(ii) Appropriateness of audit evidence is the measure of the quality of audit evidence; that is, its relevance and reliability in providing support for the conclusions.</p> <p>Whether sufficient appropriate audit evidence has been obtained to enable the auditor to draw reasonable conclusions is a matter of professional judgment.</p>
Code of Audit Practice	<p>The Code defines the independent audit of public bodies in Scotland. All auditors appointed by the Auditor General and the Commission and working on their behalf are required to comply with the Code. It sits at the centre of the arrangements for public audit in Scotland, and covers the audit of annual accounts, which has a wider scope than the private sector, performance auditing and Best Value auditing.</p> <p>The Code also sets out the high-level arrangements for monitoring audit quality.</p> <p>Supplementary guidance is used to help inform auditors' judgements and promote a consistent approach to changing public service priorities and risks.</p>
Financial Reporting Council	<p>The body responsible in the UK for issuing auditing and ethical standard and other guidance to auditors, and for monitoring audit quality in the private sector.</p> <p>The FRC will be replaced by a new regulator, the Audit, Reporting and Governance Authority (ARGA).</p>

Term	Explanation
Integrity	<p>Being trustworthy, straightforward, honest, fair and candid; complying with the spirit as well as the letter of applicable ethical principles, laws and regulations.</p> <p>Behaving so as to maintain the public's trust in the auditing profession.</p> <p>Respecting confidentiality except where disclosure is in the public interest or is required to adhere to legal and professional responsibilities.</p>
Professional judgment	<p>Professional judgment is the application of relevant training, knowledge and experience in making informed decisions about the courses of action that are appropriate in the circumstances.</p> <p>Professional judgment is essential to the proper conduct of an audit. Interpretation of professional standards and the informed decisions required throughout the audit cannot be made without the application of relevant knowledge and experience.</p> <p>Professional judgment needs to be exercised throughout the audit. The exercise of professional judgment in any particular case is based on the facts and circumstances that are known by the auditor.</p> <p>Consultation on difficult or contentious matters during the course of the audit, both within the audit team and between the audit team and professional support, assists auditors in making informed and reasonable judgments.</p> <p>Judgements need to be appropriately documented. Auditors are required to prepare audit documentation sufficient to enable an experienced auditor, having no previous connection with the audit, to understand the professional judgments made in reaching conclusions on significant matters arising during the audit.</p>
Professional scepticism	<p>Professional scepticism is an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence.</p> <p>Professional scepticism is necessary to the critical assessment of audit evidence. This includes questioning contradictory audit evidence and the reliability of documents and responses to inquiries and other information obtained from staff in audited bodies.</p>
Public Interest Entity	<p>Public interest entities are defined in the Companies Act 2006 as:</p> <ul style="list-style-type: none"> • an issuer whose transferable securities are admitted to trading on a UK regulated market; • a credit institution • a person who would be an insurance undertaking

Term	Explanation
Root cause analysis	Root cause analysis is a technique for identifying the underlying key causes behind quality review findings, whether specific to one audit or organisation-wide, so that appropriate and achievable actions can be taken to prevent recurrence of deficiencies or to promote the recurrence of positive outcomes.

DRAFT

Appendix 2: Quality arrangements in the private sector

1. The auditing profession in the private sector has been under scrutiny due to high profile corporate failures. Various reviews have taken place which culminated in the UK government publishing its report Restoring Trust in Audit and Corporate in May 2022 setting out its plans for action. Plans include:

- replacing the FRC with a more powerful regulator called the Audit, Reporting and Governance Authority (ARGA)
- extending the definition of PIEs to include large private companies
- measures to improve resilience in the audit market for the largest companies. This includes the introduction of a 'managed shared audit' regime which will give 'challenger' firms the opportunity to audit a meaningful proportion of subsidiary audits conducted for FTSE 350 companies.

2. Other challenges in the audit profession include:

- the continuing effect of the pandemic which has had a significant impact on the conduct of audits in the UK and has affected audited entities, the firms as well as the operational activities at the FRC
- increasing evidence that there are recruitment difficulties in the auditing profession due to a shortage of skilled and qualified audit staff. This, together with the perceived unattractiveness of auditing compared to other accounting disciplines, presents a current and future risk to the delivery of high-quality audit.

3. Under current arrangements, the FRC monitor the quality of the audit work of auditors of companies meeting the definition of PIEs. Monitoring of all other Companies Act audits is delegated by the FRC to Recognised Supervisory Bodies.

4. The frequency of FRC inspections varies with larger firms inspected annually while other firms are generally inspected once every three years.

5. FRC activity comprises:

- inspections of a sample of audits and related procedures supporting audit quality at individual firms
- thematic inspections which focus on particular aspects of audit across a sample of audits and firms.

6. FRC reviews of individual audits:

- focus on the appropriateness of key audit judgments and the sufficiency and appropriateness of the audit evidence obtained
- consider firm-wide procedures including an assessment of how the culture within firms impacts on audit quality
- monitor compliance with relevant professional standards
- identify areas where improvements are required to safeguard or enhance audit quality.

7. The FRC agree an action plan with each firm inspected to achieve the improvements needed and assess periodically the adequacy of the progress made by the firm in addressing the findings.

8. The results of recent FRC reviews have highlighted deficiencies relating to lack of professional scepticism by auditors, including failures to sufficiently challenge management's assumptions, as well as evidence of the poor application of professional judgement.

Audit Quality in Audit Scotland

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

www.audit-scotland.gov.uk/accessibility

For the latest news follow us on social media or **subscribe to our email alerts.**



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

Purpose

1. This report sets out the most up to date position on delivery of the 2021/22 audits as requested by the Board on 23 November 2022. The report also provides details of the actions being taken by Audit Services to improve the pace of delivery of 2022/23 audits together with work being undertaken in partnership between Audit Services and other business groups in Audit Scotland to transition back towards pre-Covid timetables.

Recommendations

2. The Board is invited to take assurance:
 - from the updated position of 2021/22 audit delivery (para 7);
 - that the immediate actions by Audit Services for 2022/23 will improve the pace of delivery towards pre-covid timetables (para's 10 to 13); and
 - that the range of actions delivering benefits in the medium term and taken in partnership by Audit Services and other business groups within Audit Scotland will secure the delivery of audits in line with pre-covid timetables (para's 14 to 18).
3. The Board is asked to agree the timescales for achieving improvements in audit delivery (para 9).

Background

4. For the audit year 2021/22 Audit Services set an aspirational target to transition audit timetables back to pre-Covid deadlines. To facilitate this Audit Services Management Team (ASMT) established a prioritised plan, aligned with the statutory deadlines, for the delivery of specific audits in the following order:
 - NHS bodies;
 - Local Government;
 - Central Government and Agencies; and
 - All other bodies.
5. In setting these priorities ASMT recognised the importance of concluding 2021/22 audits in a timely way to facilitate a smooth transition to the new engagements for 2022/23.

Updated position of audit delivery

6. The majority of 2021/22 audits have been delivered within the statutory deadlines with all NHS audits delivered earlier than the prior year, reflecting pre-Covid timetables. However, a number of audits in other sectors have been delivered later than planned for several reasons:

- delays in starting 2021/22 audit work due to the impact of COVID-19;
- significant technical issues in the accounts under audit, for example, accounting for non-current assets not valued in year;
- actions taken to safeguard the quality of the audit work and integrity of the Independent Auditors' Report;
- the impact of resourcing and capacity issues at clients; and
- audited body governance timetables.

7. The latest position showing the delivery of 2021/22 audits by sector and by audit supplier is set out below:

Percentage of 2021/22 audits completed at 10 January 2023

	Audit Services	Azets	Deloitte	EY	GT	KPMG	Mazars
Local Government	89%*	100%	100%	100%	50%	100%	n/a
NHS Bodies	100%	100%	100%	n/a	100%	n/a	n/a
Central Government	96%*	100%	91%	n/a	75%	100%	n/a
Further Education	100%	83%	n/a	88%	n/a	n/a	60%

* Detail is provided on the outstanding Audit Services audits including timelines and remedial action in Appendix 1. A verbal update will be provided to the Board encompassing both Audit Services and Firms audits.

8. In total there are nine Audit Services audits that have not yet been completed. It is anticipated that seven of the audits will be concluded by the middle of February 2023. For the remaining two audits:
- Glasgow City Council is planned to complete by the end of March 2023 pending receipt and audit of further information from the Council to support the carrying value of non-current assets included in the 2021/22 accounts that were not valued in year; and
 - The field work to deliver the audit of West of Scotland Archaeology Service Joint Committee is planned to be completed by the middle of February 2023 but currently there are no scheduled meetings of the Committee where the accounts could be approved. The auditor is working with officers to resolve the matter and agree a date to complete the audit.

Timescales

9. The remainder of this paper focuses specifically on actions being taken by Audit Scotland to improve the timeliness of delivery of audits from 2022/23 onwards. These actions fall into two broad groups:

- Actions already implemented for 2022/23 audits; and
- Actions that deliver benefits in the medium term. These are actions that have a longer lead-in time and therefore will not realise benefits until the delivery of 2023/24 audits at the earliest, and potentially, by exception, beyond that. Actions under this heading include activities to be delivered in partnership between Audit Services, other Business Groups within Audit Scotland, and external partners.

Actions implemented for 2022/23 audits

10. With the start of the new 5-year appointment round Audit Services recognises the need to further improve the timeliness of audit delivery. Year one of this new appointment round presents a number of additional challenges to delivery including, but not limited to:
 - engagement with new clients;
 - profession wide challenges impacting on the cost and delivery of audit across all sectors;
 - revisions to the requirements of ISA315, Identifying and Assessing the Risks of Material Misstatement;
 - new Best Value requirements; and
 - requirements of ISA510, Initial Audit Engagements – Opening Balances
11. To improve the pace of delivery a range of actions have been implemented for the 2022/23 audits. These actions are:
 - Audit Services has returned to a ‘business as usual’ approach in the sequencing of audit delivery and moved away from the prioritisation framework that was put in place for the 2021/22 audits. This enables Audit Services to be more agile in resourcing and responding to changing circumstances with a focus on health bodies, Scottish Government agencies, local authorities involved in year one Best Value work and new group bodies;
 - Expectations around hybrid working have been redefined and reset to recognise the beneficial impact on efficiency by having audit teams back on-site at clients during key periods of the audit year. ASMT consulted with our Audit Services union representatives to ensure agreement with these redefined expectations and the work done here will feed into organisation wide hybrid working discussions to ensure a joined-up approach;
 - The new audit appointment round has been used to re-align the deployment of staff with audits relative to size, complexity, and risk to support the efficient delivery of work;
 - Performance Audit and Best Value (PABV) have provided resources to support the delivery of year one Best Value work in local government and have confirmed that PABV resources will again be available to support the delivery of financial statements audit work over the summer of 2023;

- Our teams have been empowered to act at the local level to reduce the amount of audit work undertaken, remove duplication and take action to reduce inefficiencies. This action will not impact on audit quality;
 - Management information has been improved to provide a better focus on utilisation of staff through productivity, availability and deployment data and is being used to enhance accountability and responsibility for audit delivery;
 - Monthly, formal reporting of audit delivery forecasts to Audit Services Management Team to drive remedial action and inform resourcing decisions;
 - Monthly, formal financial budget monitoring reports at the individual audited body level to Audit Services Management Team to improve accountability and, where necessary, identify additional audit fees;
 - Engagement with the National Audit Office to share learning and knowledge specifically in relation to productivity, resourcing, and costs; and
 - Taking a more clearly defined project management approach to delivering our audits:
 - working with our audited bodies to set expectations for delivery and working methods including the use of working paper schedules/prepared by client lists;
 - being more disciplined in our approach to those audited bodies that are unable to service audits within previously agreed timescales; and
 - clearly articulating expectations and impact in our annual audit plans;
- 12.** It is important to remain cognisant of the additional challenges that the first year of the new audit engagements bring. The next 12 months will be a stepping-stone to improving the timeliness of delivery, and therefore it should be expected that some audits may overrun the target sign-off dates. The extent of overruns has not yet been quantified but will come through the first quarterly delivery forecast due in February 2023.
- 13.** The effectiveness of these actions will be assessed by Audit Services Management Team through the timeliness of delivery as the 2022/23 audits progress. A formal review and evaluation of the impact of the actions will be undertaken by Audit Services Management Team at the conclusion of the 2022/23 audit cycle. This will prepare the ground for the implementation of actions planned for the medium to long term.

Actions that deliver benefits in the medium-term

- 14.** The drive to improve the timeliness of delivery of audits presents the opportunity to reassess more fundamental aspects of the way in which we deliver our work and the tools that are used, or are available for use, in that work. In many ways these opportunities span across both the delivery and quality aspects of our work and for the large part are best delivered through a partnership approach between Audit Services and the other business groups within Audit Scotland.
- 15.** Whilst there are significant challenges within the audit profession, there are opportunities to address these challenges, while ensuring that we are increasing quality and improving the timeliness and efficiencies of the audit process. This can be achieved through the development and increased use of our data analytics tool; the implementation of new

technologies to assist in analysing structured and unstructured data; revisiting and developing our audit approach to ensure our teams are spending the right time in the right places; and ensuring that our staff have the requisite skills to meet the challenges that are coming.

16. The specific actions planned for 2023/24 audits and beyond fall into two broad groups:

- Those which fall within the remit of Audit Services to lead and deliver;
- Those which fall within the remit of other business groups to lead but which will need to be delivered in partnership between business groups.

17. Actions that will realise benefits for 2023/24 and which fall within the remit of Audit Services to lead, and deliver are:

- Embedding the 2022/23 actions outlined above so that they become business as usual;
- Further development of management information to support ownership and accountability through monitoring and reporting of performance and progress;
- 'ISA 315 champions' have been appointed within Audit Services to provide quicker responses to questions regarding the approach to ISA 315. However, it is important to recognise the learning curve involved with this and the full benefit is unlikely to be realised until 2023/24 at the earliest;
- Review of team structures to assess how they support delivery, in particular the agility with which trainees and junior staff are deployed;
- Greater intelligence sharing with partner firms and, where appropriate, greater collaboration to agree and implement consistent approaches to addressing common audit issues; and
- Maximising the opportunities to improve efficiencies within Audit Services as functions and roles transfer to Innovation and Quality

18. Actions led by business groups other than audit services, but will be delivered in partnership with Audit Services are set out below:

Led by Innovation and Quality	Led by Performance Audit and Best Value
Collaboration across Audit Services and Innovation and Quality to reassess the audit approach to ensure that it remains fit for purpose and that it provides sufficient agility to enable local teams to apply a tailored methodology that is proportionate to individual audits and risks. The review will be aligned with work to secure improvements in the electronic working papers system and digital audit including data analytics. It would be ambitious to expect the full benefits of this action to be realised in 2023/24, particularly in relation to the improvements in the	<p>Review the approach, resourcing, and delivery of Best Value work in local authorities after the completion of year one work to identify efficiencies and improvements.</p> <p>Use the One Audit Scotland approach to assess and improve the effectiveness of intelligence sharing and resource deployment across Audit Services and Performance Audit and Best Value.</p>

electronic working papers system. A paper will be brought to a future Board meeting to provide more detail on this specific action.

Reviewing the less-complex audit body approach to consider the criteria for its use, and the ensure that it remains fit for purpose;

Using hot, themed, and targeted reviews, which have the main objective of improving quality, to identify potential inefficiencies in the approach and delivery of audits; and

Increased engagement with firms and other audit agencies to share experience and knowledge of how the profession as a whole is meeting our shared challenges.

Conclusion

19. To conclude, reflecting on Audit Services delivery for 2021/22 and looking forward:

- The majority of audits met the statutory deadlines with all NHS audits delivered earlier than the prior year, reflecting pre-Covid timetables.
- A range of actions have been put in place to ensure Audit Services is better placed to achieve the planned timetables for 2022/23 and beyond.
- The first year of an audit engagement brings additional challenges. It should be expected that while there will be improvements in the timeliness of 2022/23 audits, some will overrun the target sign-off dates.

20. An update against the actions planned to deliver benefits in 2023/24 and beyond will be provided to the August Board meeting.

Appendix 1 Outstanding Audit Services Audits

Audit	Comments
Local Government	
Glasgow City Council	Further work is required by the Council to support the carrying value of non-current assets not valued during the year included in the 2021/22 accounts. The Council anticipates this work will be completed by the end of February 2023. The auditor anticipates being able to undertake the necessary audit procedures on this additional work and to conclude the audit by 31 March 2023.
Clackmannanshire Council	The audit work is complete, and the next meeting scheduled by the Council to approve the accounts is 2 February 2023. However, the Council has indicated that it wants to make changes to its accounts that require input from the Council's valuer. These changes have not yet been actioned and will need to be audited when they are made. Therefore, although the auditor remains hopeful of concluding the audit on or around 2 February there is a risk this might slip to a later date pending resolution of the issue.
Moray IJB	The audit work was completed mid-November 2022 but not in time to meet the scheduled Audit Performance and Risk Committee meeting to approve the accounts. The next meeting of the Committee is scheduled for 26 January 2023. The auditor anticipates being able to conclude the audit on or shortly after this date.
Glasgow City Region Deal Cabinet Joint Committee	Glasgow City Council is the accountable body for the Joint Committee, and it is the same auditor for both bodies. The auditor prioritised the audit of Glasgow City Council. The audit work for the Joint Committee is scheduled to complete by 31 January 2023. The next meeting of the Joint Committee to approve the accounts is 14 February 2023 and the auditor anticipates being able to conclude the audit on or shortly after this date.
Grampian Valuation Joint Board	Further work was required by the Board to support the carrying value of non-current assets disclosed in 2021/22 accounts. This work is now complete, and all audit work is also now complete. The next meeting of the Board to approve the accounts is 27 January 2023. The auditor anticipates being able to conclude the audit on or shortly after this date.
West of Scotland Archaeology Service Joint Committee	Glasgow City Council is the accountable body for the Joint Committee, and it is the same auditor for both bodies. The auditor prioritised the audit of Glasgow City Council. The audit work for the Joint Committee is scheduled to complete by the middle of February 2023. Currently there are no scheduled meetings of the Joint Committee, and the auditor is working with Officers to agree a date to conclude the audit.
East of Scotland European Consortium	Audit work is complete. The next Scrutiny Committee to approve the accounts is scheduled for 8 February 2023. The auditor anticipates being able to conclude the audit on or shortly after this date pending confirmation that the accounts will be presented at the 8 February meeting.
Central Government	
NHS Superannuation Scheme Scotland	Work is largely complete but there are a number of matters still outstanding, and the auditor is yet to receive an updated and revised version of the accounts incorporating audit amendments. The auditor anticipates concluding the audit early in February 2023, but the completion timetable is still being finalised.

**Scottish Teachers'
Superannuation
Scheme**

Work is largely complete but there are a number of matters still outstanding, and the auditor is yet to receive an updated and revised version of the accounts incorporating audit amendments. The auditor anticipates concluding the audit early in February 2023, but the completion timetable is still being finalised.
