
Quality report

2011/12

Report on the quality arrangements
in Audit Scotland for the year
ending 31 March 2012

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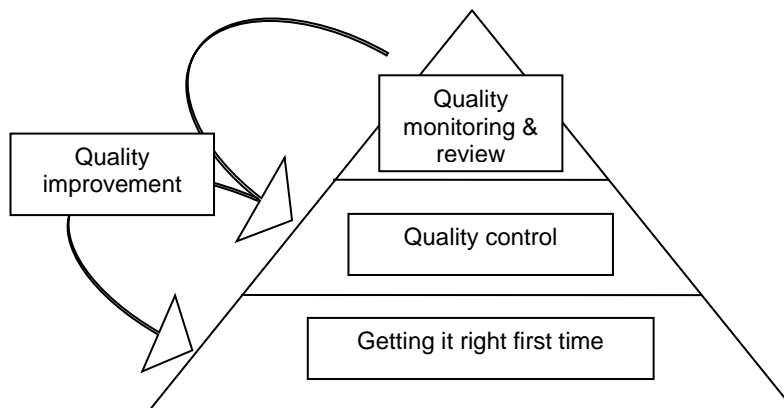
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Introduction

1. On behalf of the Auditor General for Scotland and the Accounts Commission, Audit Scotland carries out financial and performance audits on various aspects of how public bodies work. The Auditor General and Accounts Commission also appoint external auditors from private firms of auditors, primarily for financial audit work.
2. Audit Scotland's corporate quality framework was updated in 2012 following the publication of Audit Scotland's Corporate Plan 2012-15 and includes a requirement for an annual report. This is the third such report produced under the framework. The report summarises the arrangements in place for maintaining a high quality of work, both by Audit Scotland and the appointed firms, for the services provided to the Auditor General and the Accounts Commission.
3. This report is prepared for Audit Scotland's Audit Committee as part of their overall assurance on internal controls and for the Accounts Commission and Auditor General to provide assurance to them as commissioners of audit work.
4. The Auditor General oversees the audits of most public bodies in Scotland (except local authorities). He can also decide to carry out performance audits of particular organisations, sectors or issues. The Accounts Commission arranges the audits of councils and police and fire and rescue boards and is responsible for the Best Value audit of local authorities. It also carries out performance audits.
5. The work undertaken covers over 200 organisations including:
 - 73 central government bodies (Scottish Government, non-departmental public bodies and others)
 - 23 NHS bodies
 - 32 councils
 - 8 local government pension funds
 - 45 joint boards and committees (including police and fire and rescue services)
 - 37 further education colleges
 - Scottish Water.
6. Appointed auditors (including staff of Audit Scotland) are required to follow Audit Scotland's Code of Audit Practice. The Code explains how auditors should carry out their functions under the Public Finance and Accountability (Scotland) Act 2000 or the Local Government (Scotland) Act 1973. A revised Code was approved in March 2011 to apply to the new round of audit appointments for 2011/12 to 2015/16.
7. Audit Scotland's Audit Strategy group is responsible for maintaining the corporate quality framework, oversight of the arrangements in place across Audit Scotland and preparing this report.

Quality Arrangements

8. The Audit Scotland corporate quality framework was updated and approved in April 2012. It sets out the high level principles that Audit Scotland adopts in carrying out its work for the Auditor General and the Accounts Commission, including the production of an annual quality report. The principles within the framework apply equally to all of our work and all of our staff although the way in which they are implemented in practice will vary between Business Groups and according to the type of work being undertaken.
9. The framework and this report are part of the arrangements in place for ensuring the overall quality of our work, including that carried out by the firms. Other arrangements include those in place for the development of the Performance Audit Programme and for measuring the impact of our work.
10. The principles of the quality framework can be expressed diagrammatically as:



11. The primary aim of our quality arrangements is to ensure that we get it right first time as often as possible. Quality control covers the routine processes designed to check, during the course of a project, that we are getting it right whereas Quality monitoring and review provides post project appraisal of quality. Feedback from each part of the arrangements is essential to provide continuous improvements in the quality of our work.
12. Business Groups are responsible for establishing the quality arrangements for their activities including the processes for getting it right first time, quality control and quality monitoring and review. Key documents are available to staff on the Audit Scotland intranet (ishare). A brief description of the arrangements in place in each group is set out below.

Audit Services Group

13. Audit Services Group (ASG) has had a quality framework in place since 2005, which reflects the corporate quality framework. ASG's framework covers financial audit, ethical and quality standards as required by the Auditing Practices Board. The foundation of ASG's quality framework is the ASG Audit Guide, which incorporates the application of professional auditing, quality and ethical standards together with the Code of Audit Practice, into an audit methodology which is used across all audits in ASG.
14. The Professional Standards Group (PSG), which consists of staff members from across ASG and reports directly to ASG's Management Team, oversees the development of the Audit Guide and the integration of new standards into ASG's audit approach.
15. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances. As part of the system of quality control, ISQC1 states that an engagement quality control review, known in ASG as a *Peer Review*, should be performed for all audits meeting certain criteria. ASG Management Team has set out the criteria, which include among other things the size of fee, risk, and previous or anticipated qualified opinions on the financial statements.
16. Peer reviews involve discussion with the appointed auditors, a review of the financial statements and supporting information, and consideration of whether the proposed opinion is appropriate. ASG Management Team nominate peer reviewers from the assistant directors group to carry out the reviews – peer reviewers have no involvement with the audit in the current or recent financial years, in line with ASG's rotation policy.
17. The Quality Monitoring Team, which is led by experienced senior staff, work closely with the PSG. Each year the team undertakes 'hot' and 'cold' reviews of audits. Hot reviews are carried out during the live audit process, focusing on judgements and risks and ensuring that audits are carried out in accordance with ASG's audit guidance. Cold reviews are undertaken after the completion of the audit and cover the same issues, in addition to which they look more broadly at the wider conduct of the audit including the impact on the public body. These reviews enable the team to report on areas for improvement, training needs and good practice.
18. A programme of external monitoring is also in place, which includes cold reviews of audits, as well as considering compliance with quality control standards.

19. The work of the PSG and Quality Monitoring Team, along with findings from external monitoring, feeds into the annual learning and development plan which incorporates mandatory annual practitioner updates for all ASG staff. These annual sessions provide training on changes to the Audit Guide and developments in auditing and professional standards.

Developments

20. ASG launched a refreshed Audit Guide in December 2011 as part of its annual audit update training session to all staff. The refreshed Audit Guide includes more detail on the approach to auditing small bodies, and the integration of information management into the audit approach. The audit guide is supported by a number of guidance notes on specific issues such as audit testing guidance.
21. New arrangements for independent review were put in place during the year with the Institute of Chartered Accountants of Scotland (ICAS), covering a four year period, and a programme of external reviews was completed in February 2012.
22. The Quality Monitoring Team are developing the cold review programme for 2012/13 and as part of this process are engaging with the Welsh Audit Office around reciprocal cold review arrangements.
23. An updated ISQC1 arrangements questionnaire, describing the quality control and quality monitoring arrangements in place within ASG, was completed and submitted to Audit Strategy, in support of their quality appraisal process.
24. A report on the first full year of implementation of the electronic working paper system, MK Insight, was prepared by the Business Improvement Unit in February 2012. Following this, a short life working group was established. The group, consisting of members from the Business Improvement Unit, the Professional Standards Group and the Quality Monitoring team has developed a short training session for rollout to staff. This will help further improve the quality and consistency of audits delivered by ASG.
25. ASG refreshed the lead role of the Quality Monitoring Team (QMT), during the year as well as the membership of the Professional Standards Group. This provides development opportunities for staff and widens the skill base.

Appointed firms

26. All audit firms (and ASG) were required to complete a detailed questionnaire setting out how their quality arrangements comply with International Standard on Quality Control 1 (ISQC1) in 2011/12. This exercise will take place once for each five year audit cycle and following any merger of firms, with any significant changes notified to Audit Strategy.
27. Firms (and ASG) are required to submit details of their own internal quality monitoring activity for the audits that they carry out under their appointment by the Auditor General for Scotland and the Accounts Commission.
28. Firms are appointed to audits by the Auditor General or the Accounts Commission. Firms must declare to Audit Strategy that they consider any non-audit work to be permissible under Ethical Standards. Audit Strategy reviews such assertions, and permits non-audit work only where it is convinced that such work is consistent with Ethical Standards. This contributes to the independence and Ethical conduct of audits.
29. The firms involved in auditing bodies under appointment from the Auditor General and the Accounts Commission in 2011/12 are:
 - PricewaterhouseCoopers LLP
 - KPMG LLP
 - Scott-Moncrieff
 - Henderson Loggie
 - Grant Thornton UK LLP
 - BDO LLP
 - Wylie & Bisset LLP
 - RSM Tenon Audit Ltd
 - Deloitte LLP.
30. The year 2011/12 covers two audit years – the final year of the 2006/07 – 2010/11 appointment round, and the first year of the 2011/12 – 2015/16 appointment round. This means that this report covers the work of Deloitte LLP as a new entrant to the public audit regime in Scotland, and BDO LLP and RSM Tenon Audit Ltd in their final year of appointments which have not been renewed.

Performance Audit Group

31. Performance Audit Group (PAG) seeks to ensure the quality of its work through three primary documents: Performance Audit Standards, the Project Management Framework, and the Performance Audit Manual. These support and complement each other, together providing a quality assurance framework for performance audit work in PAG. They are supported by further specific guidance, all of which are under regular review.
32. The Performance Audit Standards, which broadly comply with INTOSAI standards and guidance for performance auditing¹, set out the expectations for all PAG projects and provide a summary of good practice for specific project stages (eg writing and delivering reports). The performance audit standards include a specific standard on quality assurance.
33. The Project Management Framework (PMF) is designed to support consistent standards of project management in PAG. It outlines the key stages of a performance audit and includes a number of actions and outputs that provide quality assurance. One of the requirements is for each project team to carry out internal peer reviews at two key stages of the audit process. These peer reviews provide an opportunity for robust challenge by other managers (who are not involved in the audit), and reviews are undertaken of both the project brief and the draft report of each audit. Each project team also carries out a post-project review for all audits, with the Assistant Director and Director, where they discuss the key project stages with a view to identifying potential good practice and/or lessons.
34. The Performance Audit Manual sets out the basic principles for performance audit work (eg what is a value for money audit), and provides practical guidance and support for implementing key stages of the Project Management Framework.
35. In addition to these core tools, PAG also operates two further processes to support the effective application of guidance and to support continuous improvement. Firstly, in 2010/11, PAG appointed external experts to review the questionnaires that it sometimes uses to gather information (from audited bodies, representative groups or members of the public). The experts have been asked to review the first six questionnaires issued after the introduction of new guidance. The experts have reviewed three questionnaires so far – information about the findings from these reviews can be found later in this report. Secondly, PAG hold regular ‘reviews of project reviews’, where issues identified in recent post-project reviews (see paragraph 33 above) are discussed by the group, along with potential improvements and/or solutions.

¹ INTOSAI – The International Organization of Supreme Audit Institutions

36. PAG continued with arrangements established last year, for the National Audit Office (NAO), Wales Audit Office (WAO) and Northern Ireland Audit Office (NIAO) to carry out reviews of its published audit reports (cold reviews). PAG reviews reports from each of the partner audit agencies as part of the reciprocal arrangements.

Developments

37. PAG introduced a Performance Audit Improvement and Development function (PAID) in April 2010. The function is overseen by a designated portfolio manager. PAID is responsible for coordinating PAG's quality and process improvement activity. During 2011/12, the PAID function led or coordinated work on a number of projects relating to quality improvement. The most significant projects were:

- 'Lean' training and review – PAG appointed external experts to deliver introductory training in the application of lean management techniques, and to facilitate a review of its PMF (see paragraph 33, above).² The purpose of the review was to identify where there may be scope for improvements in the process used by PAG to carry out its performance audits. The review took place in January-February 2012 and PAG has identified a number of areas where there is likely to be scope for improvement. The work to implement solutions to the problems and streamline the process will carry on throughout the remainder of 2012 and into 2013.
- Data and statistical analysis – PAG has sought to further develop and embed its tools and guidance for conducting data and statistical analysis. Awareness training for all staff took place in February 2012, and an internal review of PAG's current use of such analysis will lead to revised guidance for staff,
- Financial and economic analysis – PAG sought to enhance its guidance on financial and economic analysis, appointing two existing members of the group with relevant skills and experience to develop internal guidance and to deliver awareness-raising seminars.
- Benchmarking – building on the external peer review arrangements (paragraph 36), PAG has begun work with the other UK audit agencies to develop benchmarking data. The initial work is looking at costs and processes, and will include comparisons of quality assurance processes.

² Lean management is the name commonly given to a set of management tools and practices generally used to strip inefficiency and waste out of business processes. Although it has its origins in the manufacturing industry (in the motor industry in particular), its use has become common in the public sector in recent years.

Best Value and Scrutiny Improvement Group

38. Best Value and Scrutiny Improvement Group (BVSIG) work is managed under a Best Value Quality Framework. The framework covers the Shared Risk Assessment (SRA) process and the Best Value (BV) audit work of councils and joint police boards and forces and fire and rescue boards and services. It is supported by guidance on the SRA and audit work and a range of other tools, including BV toolkits. These toolkits provide guidance and direction for staff carrying out BV audit work. The toolkits are also available on the Audit Scotland website to ensure openness and transparency and help support improvement activity within audited bodies.
39. The SRA results in a rolling three-year Assurance and Improvement Plan (AIP) for each council. The AIP is a jointly authored document based on the work of senior officers from a range of audit and inspection agencies including Audit Scotland, HMIE (now Education Scotland), the Care Inspectorate, SHR and the appointed auditors. A group of senior officers from the audit and inspection agencies carry out a 'pre screening review' on each AIP and refer selected cases to a Quality and Consistency Review Panel (QCRP). The QCRP includes senior officers from the audit and inspection agencies and local government.
40. All BV reports are also subject to QCRPs at the scoping stage. The QCRPs consist of three or more senior officers independent of the BV audit team, and they review the logic and scope of the proposed BV audit work.
41. The BV audit work is subject to quality assurance by internal and external peer reviewers. The external peers are selected on the basis of the issues identified in the risk assessment and are drawn from a 'peer pool' of senior local government elected members and officers. Draft BV audit reports are reviewed by a QCRP which carries out an objective evaluation of the significant judgements being made by the audit team, and ensure that the overall assessments are consistent across BV audit work.
42. The audit teams carry out a 'lessons learned review' following the audit work to identify potential improvements to the audit process for future work. These are discussed at BVSIG Group meetings. Members of the Accounts Commission meet with representatives of councils and joint police and fire boards and forces two to three months after the publication of the audit reports. This provides another opportunity for any 'lessons learned' to inform future audit work.

Developments

43. In April 2011 the Accounts Commission agreed the audit approach for carrying out BV audit work in Fire and Rescue Services. This approach includes a QA framework which mirrors the one used for BV audits of councils and police boards and forces by using peer input to the audit work, peer review and

a QCRP. Peer input to the audit work was carried out by senior fire officers from services other than the one being audited and by experienced external consultants from the Audit Commission. The QCRPs for each audit involved peer review from Performance Audit Group and by the Scottish Fire and Rescue Advisory Board (SFRAU).

44. During 2010 the BVSJ Group set up a development project to review and consolidate the quality assurance processes which cover the wide range of work carried out by the group, including the core audit work outlined above and the thematic 'How Councils Work' reports and reports made under Section 102 of the Local Government (Scotland) Act 1973, into an overarching framework. The review has been completed and the findings have been consolidated into the BVSJ Quality Assurance Framework.
45. During 2011 the Cabinet Secretary for Finance, Employment and Sustainable Growth invited the Accounts Commission to lead the development of an audit approach to assess the effectiveness of community planning partnerships and the extent to which partnerships are delivering positive outcomes for their communities. A key strand of this development work will be the establishment of robust quality assurance arrangements to support the new audit process.

Audit Strategy Group

46. Audit Strategy carries out a quality appraisal function for all financial audits carried out under appointment from the Auditor General for Scotland and the Accounts Commission, covering the work of both the firms and Audit Services Group.
47. The principal objectives of the quality appraisal work are to:
 - provide assurance to the Auditor General and the Accounts Commission on the quality of audit work undertaken
 - promote improvements and good practices in auditing.
48. The approach recognises the recent developments in professional standards and professional regulation. This means that Audit Strategy can rely on work undertaken by auditors and their regulators, supported by surveys of audited bodies' views of the services that they receive, reviews of a sample of audit reports and monitoring of outputs against plans.
49. Monitoring of work by Audit Strategy consists of a number of inter-related activities, each carried out at varying frequencies depending on their purpose:
 - review of the auditor's own quality control and monitoring arrangements in line with ISQC1
 - review of public Audit Inspection Unit (AIU) reports (or equivalent)

- review of audit outputs
- service quality surveys
- output monitoring
- oversight of acceptance of non-audit work
- responding proportionately to complaints about auditors
- considering the impact of conflicting audit judgements between auditors
- independent reviews of audits by Audit Strategy.

Each of these activities is expanded upon in the “Results of Quality Control Activity” section below.

50. None of the measures in place provide absolute assurance for any of the elements of the quality appraisal framework. However, absolute assurance cannot be gained, nor is it an aim of the framework to do so.

Developments

51. The Audit Strategy quality appraisal framework was approved in May 2012 following the update of the corporate quality framework. This and the publication and dissemination of the corporate quality framework will further embed the quality processes throughout the organisation.
52. A new corporate quality group was established in 2011, with representatives from each business group. This group, chaired by the Assistant Auditor General, is responsible for co-ordinating and sharing best practice in quality monitoring work. It will support the maintenance of the corporate quality framework, the preparation of the annual quality report, and each individual business groups' quality control and monitoring procedures.
53. During 2012 the audit quality survey will be reviewed and updated in time for the first survey under the new appointment round. The methodology for reviewing audit outputs will also be updated to be able to provide better feedback to auditors.

Corporate Services Group

54. All areas of Corporate Services are subject to internal audit as part of a programme of audit approved by the board. Actions for improvement are recommended by the auditors and these are tracked to ensure completion.
55. Benchmarking has been used in corporate services since 2007/08. The performance indicators used for benchmarking are based on the sets published in the UK Audit Agencies report “Value for Money

in public sector corporate services". In addition since 2007/08, Audit Scotland has taken part in the Scottish Government benchmarking for Central Government and NDPB's.

Finance

56. The work of the finance team is subject to external audit, which ensures the accounts comply with accounting standards. The finance team makes the payroll payments, and there is segregation of duties between the finance Payroll practitioner and HR.

Information systems

57. The Information Technology Infrastructure Library (ITIL) methodology is used in the operation of the IT department. This provides a framework for resolution of incidents and dealing with problems, change and software releases. Using ITIL compliant software allows ISG to ensure we meet our service level commitments and can report on our performance in meeting our service level agreements.
58. Projects are managed using the Prince or Agile project frameworks; these frameworks ensure that the projects are managed according to best practice.

Communications

59. A style guide ensures that all reports that are published follow Audit Scotland's brand style. Established procedures cover all aspects of the Desk Top Publication and production processes. Internal guides set out media processes, with media and parliament monitoring taking place.

Human Resources

60. Audit Scotland has job descriptions for each role within the organisation. There is a competence based framework which defines level of performance within each role. An annual Performance and Appraisal is carried out for each member of staff to ensure that objectives are achieved and that competencies are met.

Developments

61. The ISO27001 information security standard for managing information security is currently being implemented across Audit Scotland.

Results of Quality Control Activity

Audit Services Group

External Independent Assessment

62. ICAS carried out a review of the quality control policies and procedures in place within ASG, with a focus on compliance with ISQC1. In addition, it undertook cold reviews on a sample of six audits, to assess the quality of audit work and compliance with the ISAs and APB Ethical Standards, and a review of financial statement disclosures of the audited entities sampled.
63. The review concluded that files were of a good standard, on balance there was a good level of compliance with Auditing Standards, and audit opinions were considered to be adequately supported, subject to a small number of matters noted. The quality control arrangements in place, in conjunction with the Audit Guide and the Code of Conduct, were considered generally effective and appropriate for the organisation. A small number of matters were noted, and ASG Management Team have considered these and agreed actions to address the issues. The results of the review and areas for improvement have also been communicated to all managers in ASG.

Internal Quality Monitoring Reviews

64. In addition to the ICAS cold reviews, the QMT carried out a further three cold reviews. The team concluded that all three audits were carried out in compliance with ASG's Audit Guidance. The QMT notified audit teams and agreed action plans where documentation or audit approach could be strengthened.
65. All ASG managers had been subject to some form of quality review in the previous three year quality monitoring cycle. As part of the 2010/11 hot review programme, managers were asked to complete a self assessment of progress in implementing actions identified during hot reviews undertaken between 2007 and 2010. The Quality Monitoring team then undertook some testing and validation of a selection of returns, focusing on the most significant areas for improvement.
66. Overall, the reviews provided assurance that improvements are being made in the planning and risk assessment audit processes.
67. A small number of themes from these reviews have been identified and shared with ASG Management Team. These themes were similar to points noted in the ICAS review, including scope for improving the completeness and timeliness of file documentation. The themes identified this year will be fed into the Professional Standards Group for inclusion in the mandatory annual audit update.

Peer Reviews

68. Eight 2010/11 audits met the criteria for a peer review. In each case, the peer reviews were completed in a timely manner and confirmed that the audit opinions were appropriate.

Performance Audit Group

69. Partner audit agencies completed three reviews of 2011/12 reports in the year. The findings were positive, noting in particular the findings, conclusions and robustness of the reports. The feedback also highlighted that the absence of robust performance data in some public services made it difficult for PAG to form firm conclusions on the performance of policies and services.
70. PAG held two reviews of project reviews (see paragraph 35), in May 2011 and in February 2012. These covered ten audits completed in 2011. Some themes to emerge were already known, and some new themes were identified. In all cases, a number of solutions were proposed and discussed. PAG intends to focus its next review on issues raised during the first review (in February 2011), to establish whether any of the same issues remain.
71. The three external reviews of questionnaires conducted in the period (see paragraph 35) led to improvements in the final questionnaire design and/or approach. In two of the three cases, the teams used telephone interviews rather than issuing a paper or electronic questionnaire. In the other, a shorter questionnaire was issued. In all cases, the audit teams reported that responses had been secured more easily and more complete. PAG will review its guidance to embed the findings from these reviews.
72. PAG introduced new guidance for drafting recommendations in early 2011, and reviewed recommendations in its most recent reports in February 2012, to assess whether the guidance had been effective in delivering better recommendations. PAG found that there was evidence of improvement, and that most recommendations accorded with the principles set out in the guidance. However, there remains scope for further improvement and PAG is working to implement solutions.

Best Value and Scrutiny Improvement Group

73. The review of quality assurance arrangements for the main 'product streams' in BVSI has consolidated the QA arrangements in the group.
74. The existing QA arrangements for BV audits in councils and police were refined to support the delivery of the audits of the eight fire and rescue services during 2011/12. The lessons learned

reviews which are carried out at the end of each piece of audit work are made accessible in a central location for reference and are discussed at BVSI group meetings to inform future audit work.

75. During 2011/12 members of the Accounts Commission met with representatives of seven audited bodies following the publication of audit reports. A further seven meetings are scheduled for April and May 2012. The meetings focus on key audit findings, the audited bodies' response to those issues and feedback from the audited bodies on the audit process. Feedback from the audited bodies has been positive and constructive.

Audit Strategy Group

Appointed Auditor's own ISQC1 quality control and monitoring arrangements

76. The 2011/12 audit year is the first under the new appointments. To coincide with the new appointments, and to reflect the recent amendment of ISQC1, newly completed questionnaires were obtained from all the appointed firms and Audit Services Group. Following a thorough review of the questionnaires, letters were issued to all firms and ASG setting out our conclusion, and sharing examples of good practice that were identified. The overall conclusion is that all audit providers have strong arrangements in place to ensure compliance with ISQC1.
77. In the course of the year, Audit Strategy received copies of all the quality control reports carried out on public sector audits from all audit providers covering their 2009/10 work. The equivalent ASG report covers the 2010/11 audits and is reported at paragraph 64 to 66).
78. All the reports continue to show that firms carry out quality control work in line with international standards on auditing and International Standard on Quality Control 1 (ISQC1). Findings show that the quality of work is high and Audit Strategy can continue to rely upon it.

Review of public Audit Inspection Unit (AIU) reports

79. The AIU published public reports on firms within its scope in summer 2011. These covered KPMG, Deloitte, PricewaterhouseCoopers, Grant Thornton and BDO. In addition a report covering firms auditing ten or fewer entities within the scope of the AIU was prepared. This included in its coverage RSM Tenon and Scott-Moncrieff (as part of Moore Stephens). This means that the AIU work provides assurance over seven of the nine firms in our regime (see paragraph 29). Audit Strategy has reviewed each of the public reports. Given that firms have broadly consistent methodologies and procedures across all of their audit work, Audit Strategy can take some assurance for the purpose of its work. The reports review firm-wide systems and processes for ensuring audit quality, and review a sample of their audits of public interest entities.

80. Each of the firms in our regime achieved satisfactory results from the AIU reports.

Review of audit outputs

81. A sample of annual audit reports was reviewed by Audit Strategy for their compliance with the Code of Audit Practice, and as an assessment of the quality of reporting to each of the audit bodies. For the 2010/11 audits, one report from each audit provider for each sector they worked in was reviewed.

82. The key findings from the product read exercise were that some reports were very well written and none were considered to be fundamentally unsatisfactory or inadequate. There was a wide variety of approaches taken suggesting that there are differing views on what is required of an audit report. The quality group is considering whether further guidance should be given to auditors. Quality surveys also show that audited bodies are mostly satisfied with the annual report they receive. Overall, the findings show that despite the differences of approach, reporting was satisfactory.

Audit service quality surveys

83. Audit Service Quality Surveys were carried out in line with our programme covering the local government and central government sectors for the 2010/11 audits.

84. The key indicators are:

- what audited bodies thought of the quality of service provided by the auditors
- whether the audit had made, or will make, a difference to them in the four areas defined in our corporate impact framework.

A summary of the responses received is shown in the table below:

	% positive responses	
	LG	CG
Overall quality of service	100	97
Area of impact of audit		
Assurance and accountability	100	91
Planning and management	100	94
Economy and efficiency	94	88
Effectiveness and quality of services delivered by audited bodies	88	85

85. Comments made by audited bodies about the impact of the audit were mostly related to the provision of assurance, and improvements to internal controls. Positive feedback related mostly to professionalism and good working relationships, good communication, and planning.

86. Suggested improvements were very varied, with no single issue being raised with any frequency. However, around half of the survey respondents did not identify any areas for improvement.
87. Copies of all completed questionnaires are sent to the relevant auditors. Where bodies' responses indicate scope for improvement, auditors are directed to consider if there is action that they could take to prevent a recurrence of the situation.

Output monitoring

88. The following table sets out the key outputs from each sector for the audits of the 2010/11 financial statements:

	Local Govt	Health	Central Govt	FE
Audit opinion on time	30 September 11 88/88 (100%)	30 June 11 23/23 (100%)	31 October 11 69/73 (95%)	31 December 11 36/37 (97%)
Annual Audit report on time	31 October 11 85/88 (97%)	31 July 11 20/23 (87%)	30 November 11 66/73 (90%)	31 December 11 36/37 (97%)
Accounts sent for laying on time	N/A	31 December 11 23/23 (100%)	31 December 11 73/73 (100%)	30 April 12 37/37 (100%)

89. The delays in submitting annual audit reports in LG were due to the firm that lost work in the 2011/12-2015/16 tender losing staff. Permission for the delays was sought and agreed. The delays in submitting annual audit reports in Health were only very slight, and were due to events outside the control of the auditors. The delays in CG varied and included technical accounting issues, but none of the delays prevented the accounts being laid on time. The Delays in FE related to a going concern issue that could not be resolved within the reporting deadline set by Audit Scotland but could be, and was, by the statutory deadline for laying the accounts.
90. In all cases, final payment of fees took place when all audit work had been completed, and auditors have made commitments to meet the deadlines next year.

Oversight of acceptance of non-audit work

91. Throughout the year firms have obtained approval for any non-audit work, for example providing tax advice about the treatment of a seconded member of staff from overseas in a body that the firm is appointed to audit. All applications were assessed against the Ethical Standards in force prior to approval. Based on the non-audit work approved during 2010/11, and because of the independent appointment of auditors, we are able to obtain assurance over the independence of auditors.

Respond proportionately to complaints about auditors

92. There have been no complaints by audited bodies about the quality of work undertaken by auditors this year. This is an important element of our overall assurance on the quality of auditors' work.

Consideration of conflicting audit judgements between auditors

93. There have been no significant conflicting judgements between auditors this year. In the course of the year, there have been regular sectoral meetings and technical forums involving auditors from each of the four sectors, where emerging or contentious technical issues were discussed.

Independent reviews of audits by Audit Strategy

94. Following a section 22 report on the fraud at National Libraries Scotland, Audit Strategy carried out an independent review of the external audit files for the relevant years. The review led to the identification of a small number of issues which are being addressed alongside the findings from other monitoring activities. Monitoring of the quality of audit provision during 2010/11 has not highlighted any other audits needing an independent review by Audit Strategy.

Conclusion

95. Overall, on the basis of the arrangements in place and activity for the year, it is reasonable to conclude that Audit Scotland and the private firms continue to provide the Auditor General and the Accounts Commission with high quality work.
96. In particular, the quality appraisal work carried out by Audit Strategy on the work of the firms and ASG has confirmed that each auditor:
- understands and complies with the ethical standards in force during the course of the audit and is independent of the audited body
 - has the required professional competence to carry out the audit in accordance with relevant standards
 - operates in a regulatory environment that actively oversees auditors.
97. The report shows that arrangements across ASG, PAG and BVSIG are continuing to develop, with significant effort on obtaining regular external, independent appraisal of audit work.

Glossary

AIP – Assurance and Improvement Plan, a jointly authored, three year rolling plan covering scrutiny work planned for a council.

AIU – The Audit Inspection Unit (AIU), part of the Professional Oversight Board, itself a part of the Financial Reporting Council, is responsible for the monitoring of the audits of all listed and other major public interest entities.

ASG – Audit Services Group, part of Audit Scotland with responsibility for carrying out financial audits of all public bodies audited by Audit Scotland.

BV – A duty of audited bodies or accountable officers. It is defined in statute for local authorities as continuous improvement in the performance of functions. In securing Best Value local authorities are required to balance issues of quality and cost, have regard to efficiency, effectiveness, economy and the need to meet equal opportunity requirements, and contribute to the achievement of sustainable development.

BV audit – The audit of Best Value and Community Planning.

BVSI – Best Value and Scrutiny Improvement Group, part of Audit Scotland with responsibility for Best Value, scrutiny co-ordination, and overview reports across all sectors.

Ethical Standards – Ethical Standards are set by the Auditing Practice Board and apply in the audit of financial statements. They are a set of basic principles and essential procedures together with related guidance in the form of explanatory and other material covering the integrity, objectivity and independence for auditors.

INTOSAI – The International Organisation of Supreme Audit Institutions operates as an umbrella organisation for the external government audit community.

ISA – International Standards on Auditing are professional standards for the performance of financial audit of financial information. These standards are issued by International Federation of Accountants (IFAC) through the International Auditing and Assurance Standards Board (IAASB), and approved in the UK by the Auditing Practice Board.

ISQC1 – International Standard on Quality Control 1 is the professional standard for quality control. This standard is issued by International Federation of Accountants (IFAC) through the International Auditing and Assurance Standards Board (IAASB), and approved in the UK by the Auditing Practice Board.

NAO – The National Audit Office is responsible for auditing the accounts of all Westminster led government departments and a wide range of other public sector bodies, and has statutory authority to report to Parliament on the economy, efficiency and effectiveness with which departments and other bodies have used their resources.

NIAO – The Northern Ireland Audit Office is responsible for auditing central government and local government in Northern Ireland. It also carries out value for money audits, reporting to the Northern Ireland Assembly.

PAG – Performance Audit Group, part of Audit Scotland with responsibility for carrying out performance audits across the public sector.

PMF – The Project Management Framework, PAG's guide to support consistent standards of project management.

PSG – Professional Standards Group, part of Audit Services Group responsible for overseeing the development of the Audit Guide and the integration of new standards into ASG's audit approach.

SRA – Shared Risk Assessment, a process involving a joint approach using key information about a body to plan scrutiny activity that is proportionate and based on risk. SRA is undertaken by a joint scrutiny network of senior officers from a range of audit and inspection agencies including Audit Scotland, HMIE (now Education Scotland), The Care Inspectorate, SHR and the appointed auditors, and leads to the preparation of an assurance and improvement plan, part of which may be the conduct of a Best Value audit

WAO – Wales Audit Office, either directly audits Welsh public bodies, such as the Welsh Assembly Government and the NHS or, as in the case of local government, appoints auditors to do so.

Quality report

2011/12

Report on the quality arrangements
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Audit Scotland
110 George Street
Edinburgh EH2 4LH
T: 0845 146 1010
E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk

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