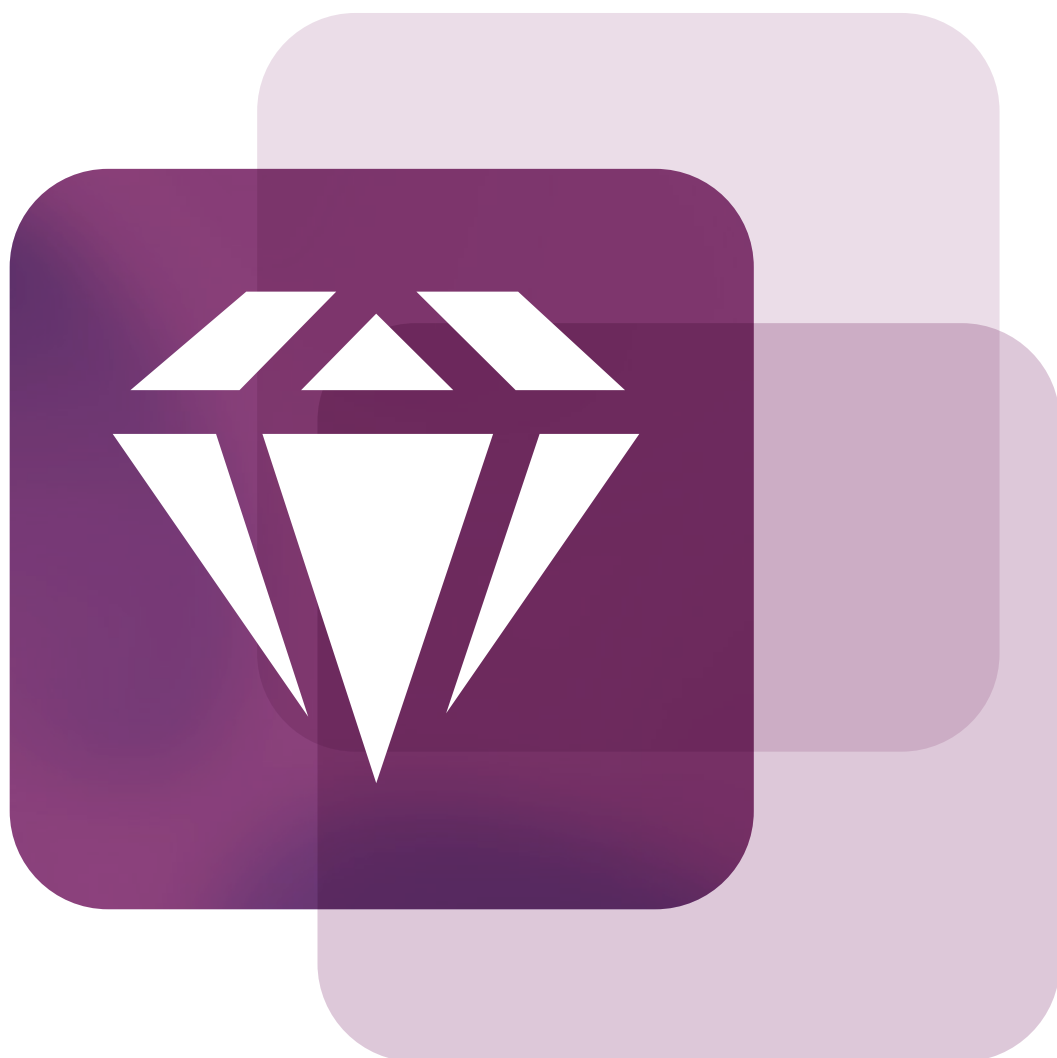


Quality of public audit in Scotland

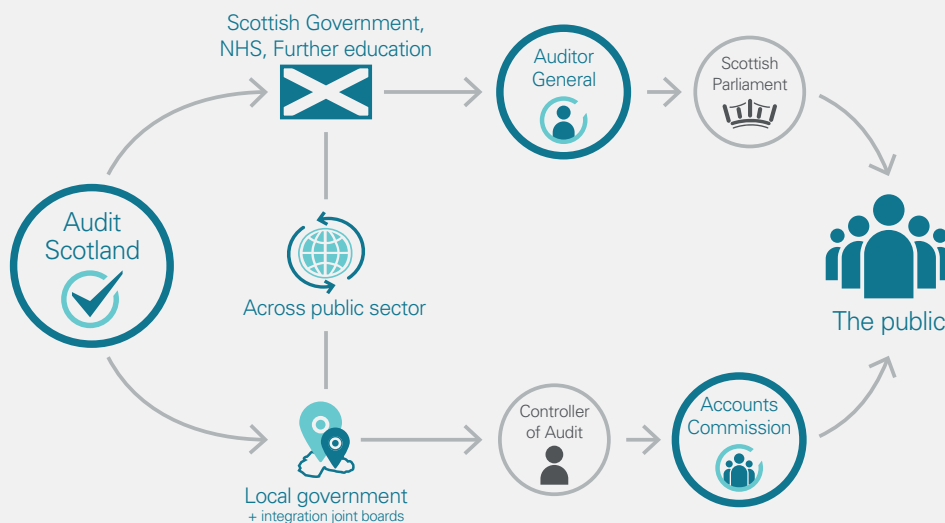
Annual report 2020/21



Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- **Audit Scotland** is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.
- The **Auditor General** is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The **Accounts Commission** is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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Key messages

Environment

- 1.** The global pandemic has changed and challenged most aspects of our lives. Public bodies have been at the forefront of managing the effects of the Covid-19 pandemic. Public bodies have focused on supporting those most affected. Many bodies had new obstacles to overcome as they prepared financial statements and responded to auditors.
- 2.** The Scottish Government delayed the accounting and auditing deadlines for NHS and local government bodies to help accommodate these competing pressures. The Auditor General for Scotland and Accounts Commission revised their work programme and prepared Covid-19 specific briefing papers to support public bodies and auditors to respond to the pandemic.
- 3.** Much of the audit work covered by this report was completed during the pandemic restrictions. The Auditor General for Scotland and Accounts Commission recognised that the safety and wellbeing of audit staff and staff in public bodies was paramount and that auditors would need to take a pragmatic and flexible approach to their work in 2020/21. They were clear that audit quality should not be compromised.

Audit Quality Framework

- 4.** **The application of the Audit Quality Framework (AQF) continues to identify improvement areas and good practice in audit quality.** Across the range of evidence used to assess audit quality the conclusion is that the quality of audit work is good in Performance audit and Best Value audit and accountancy firms, with improvement required and planned in Audit Scotland's Audit Services Group where the financial audit quality results do not meet the expected standards.

Areas of Good Practice

- 5. ICAS have reviewed compliance with International Standard on Quality Control 1 for all auditors and did not note any issues or matters for further consideration.** This provides assurance that each firm's quality control procedures meet the expected standard.
- 6. All 2019/20 annual audit opinions were signed off by 9 March 2021.** This is a notable achievement in challenging circumstances for both public bodies in terms of preparing good-quality financial statements for audit and for auditors undertaking their audit work in a virtual environment. All audit staff involved adapted to remote working and the new environment quickly and positively. Auditors delivered 83 per cent of audit opinions on time and 86 per cent of Performance and Best Value audits in the planned quarter.
- 7. Two financial audits reviewed were awarded the highest scores available by the Institute of Chartered Accountants of Scotland (ICAS) with no areas for improvement identified** (one audit for EY and KPMG). This is the first time that these scores have been awarded by ICAS in this review cycle. This was achieved despite the pressures faced during the pandemic.
- 8. All of the Performance audit and Best Value audits reviewed achieved expected quality standards with limited concerns identified.** 2019/20 was the first audit year that the Performance audit methodology was aligned to comply with the International Organisation of Supreme Audit Institutions (INTOSAI) standards. Compliance with INTOSAI standards for Performance audits is a first among UK public audit agencies.

9. All audit providers have confirmed that there continued to be a strong culture of support for performing high-quality audit during the pandemic.

10. Stakeholder feedback shows further improvement in the level of satisfaction with external audit services provided, the usefulness of the annual audit report and shows that audit work has had impact. This improvement confirms that public bodies and auditors worked well together during Covid-19 restrictions.

Areas for improvement

11. There were some areas for improvement in audit quality identified from 2019/20 audits.

12. Seven of the eleven (64 per cent) 2019/20 Audit Services Group financial audits reviewed did not meet the expected standard. Audit Services Group has prepared an improvement plan to address the issues raised. This includes investment and improvement activity.

13. For two audits, auditors need to investigate the risk of material misstatement in the financial statements and ensure that any such misstatement is resolved appropriately. Audit Scotland's Professional Support team is reviewing these areas and will prepare a report on their conclusions.

14. An area that continues to be an issue for most audit providers is on audit staff views of having sufficient time and resources to deliver high quality audit. There is some evidence that the plans put in place by audit providers in response to this issue have improved staff views in the last year, but more time is needed to see if they are effective.

Audit quality and appointments team action

15. AQA will review delivery of the Audit Services Group improvement plan and provide updates on progress as part of the Audit Quality Framework reporting arrangements.

Introduction

16. The [Audit Quality Framework](#) (AQF) describes Audit Scotland's approach to achieving world-class public audit quality across all audit work and providers and the key roles involved. The Audit Quality and Appointments (AQA) team prepares this report on behalf of Audit Scotland. AQA provides assurance on audit quality, including compliance with the [Ethical Standard](#), to the Auditor General for Scotland and the Accounts Commission. AQA does not conduct audit work and is independent from auditors.

17. This report summarises the detailed assessment of audit quality carried out on audit work delivered by Audit Scotland and the appointed firms on behalf of the Auditor General for Scotland and the Accounts Commission in 2019/20. The report provides evidence that auditors have designed and implemented audit quality arrangements to assure the quality of their audit work. The report also highlights areas for further improvement.

18. AQA will continue to develop its activities to provide the Auditor General for Scotland and Accounts Commission with assurance about audit quality. The Audit Quality Framework will be updated in Autumn 2021 to take account of the findings from the last two years of its application and to reflect on the developments in the wider audit environment. Further developments planned over the following years include:

- how to bring even more transparency to audit quality and reporting
- how quality reviews of individual auditors are reported.

Public audit in Scotland

19. The public audit model in Scotland is fundamentally different to the private sector audit regime. The Auditor General for Scotland and the Accounts Commission set out the principles and themes of public audit in Scotland and how it fits with and responds to the public policy environment in Scotland in [Public audit in Scotland](#).

20. The audit profession remains under scrutiny after high-profile corporate collapses in the private sector. The [Brydon review](#), alongside the [Kingman review](#), the [Competition and Markets Authority market study](#) of the audit services market and the Business, Energy and Industrial Strategy Committee's report on [the Future of Audit](#) all placed a strong focus on the need for independence of auditors from the bodies they audit.

21. Public audit in Scotland is well placed to meet the challenges arising from the reviews of the auditing profession. It already operates many of the proposed features to reduce threats to auditor independence including:

- independent appointment of auditors by the Auditor General for Scotland and Accounts Commission
- rotation of auditors every five years (current appointments extended to six years due to Covid-19)
- independent fee-setting arrangements and limits on non-audit services
- a comprehensive Audit Quality Framework.

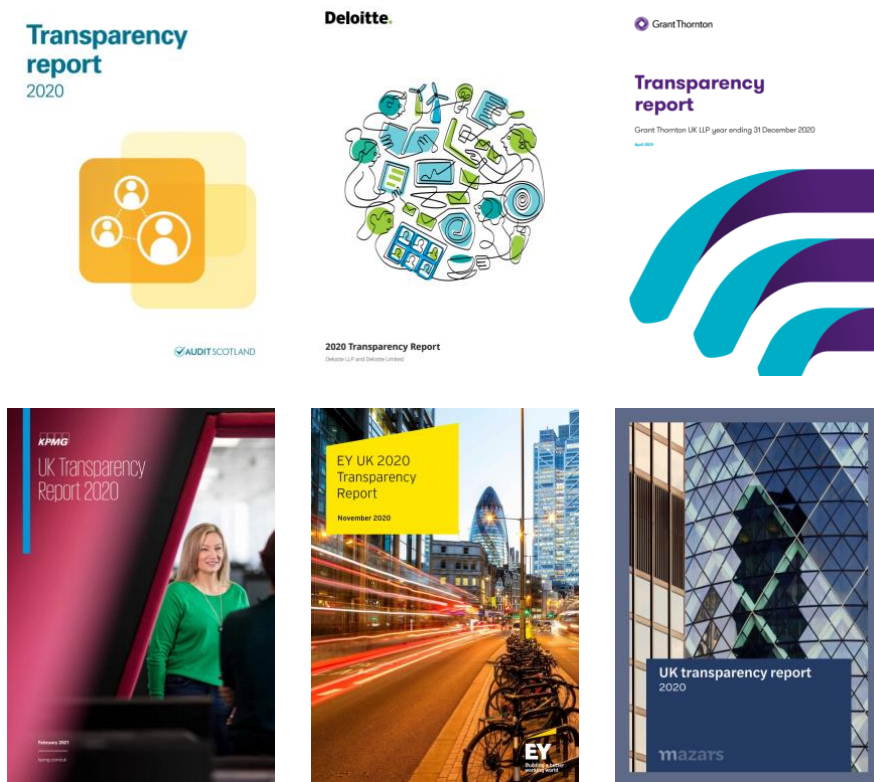
Audit Quality and Appointments

The team responsible for this report consisted of Owen Smith and John Gilchrist under the direction of Elaine Boyd.

Audit Scotland and appointed firms

22. Public audit is carried out by Audit Scotland auditors and appointed firms who are subject to a rigorous and open procurement process. Approximately two-thirds of financial and Best Value audit work is carried out by Audit Scotland auditors with the remaining third conducted by appointed firms. The firms appointed are Azets, Deloitte, EY, Grant Thornton, KPMG and Mazars. Performance audit work is carried out by Audit Scotland auditors.

23. Each appointed firm has its own arrangements for ensuring audit quality for financial audits. Appointed auditor Transparency reports have been reviewed and show compliance with [International Standard on Quality Control 1](#). Transparency reports are included below for information about their audit quality arrangements.



Note: Azets are not required to produce a Transparency report under regulations but are making plans to produce one.

Inputs

24. This section of the report shows how the inputs to an audit provide evidence that the arrangements put in place by auditors are contributing to the delivery of audit quality.

Ethics

25. All auditors confirmed to their audited bodies and to AQA that they do not have any conflicts of interest. Cold reviews by internal teams and ICAS confirmed that all audits complied with the Ethical Standard to avoid any actual or perceived conflicts of interest.

Non-audit services

26. Auditors may undertake some non-audit services for the bodies they audit. The Auditor General for Scotland and Accounts Commission have explained what non-audit work is permissible and how it should be approved in a [policy statement](#).

27. Auditors carried out permitted non-audit services to a value of £32k representing 0.1 per cent of total fees during the 2019/20 audits (£95k representing 0.5 per cent of total fees during 2018/19 audits) without compromising their independence. The number and value of non-audit services being carried out by auditors has been steadily declining over the last four years.

28. AQA only approved work that clearly complied with the Ethical Standard and the [Code of audit practice](#) (Code). Auditors confirmed that they did not carry out any non-audit services without the prior approval of AQA.

Auditors carried out permitted non-audit services to a value of £32k (0.1% of total fees) during the 2019/20 audits

Knowledge, experience and time

29. People are the most important assets in an audit. Having the right staff, allocating the right time to audits and providing the right training and knowledge are critical to delivering high-quality audit work.

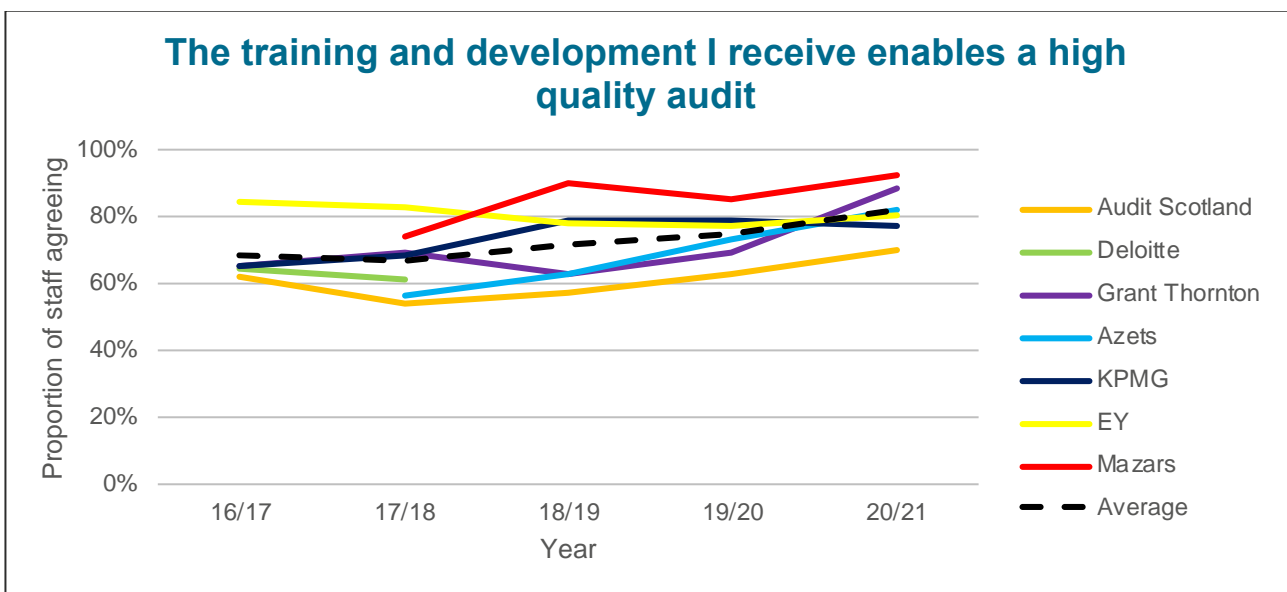
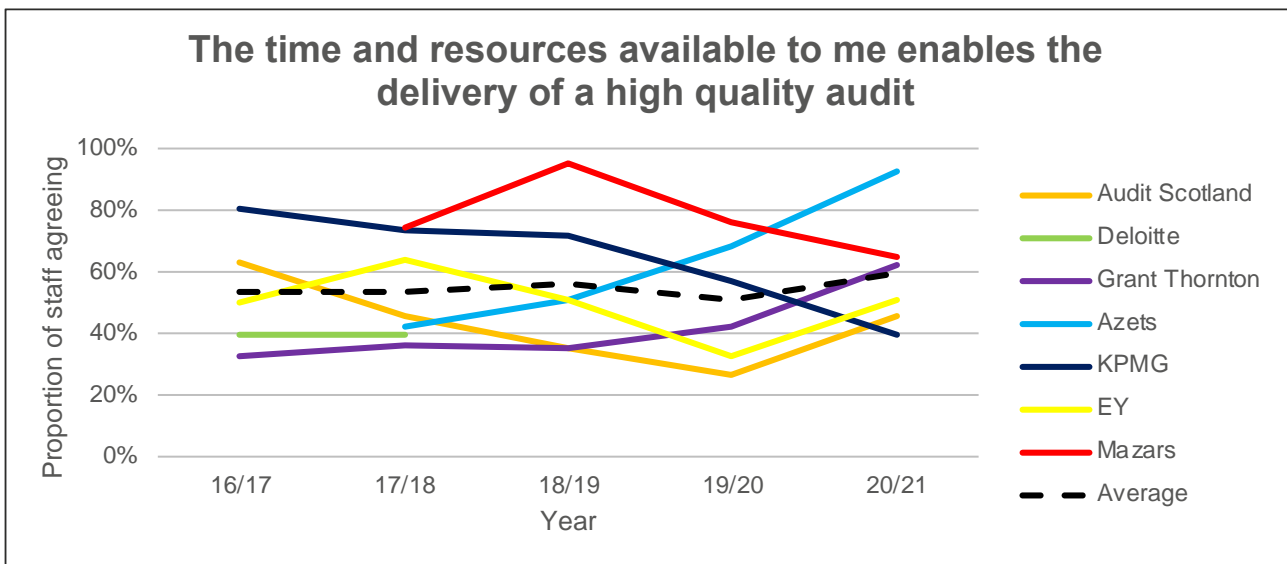
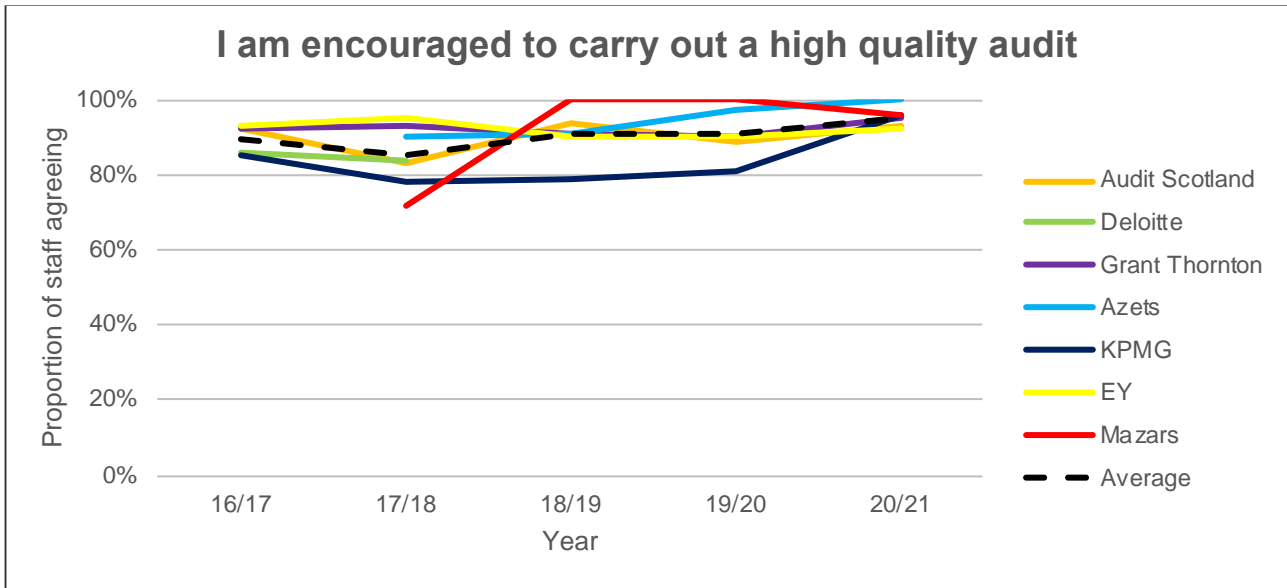
30. Audit Scotland and appointed firms conduct regular surveys to provide an insight into staff views on how well they are supported to provide high-quality audit work. The information presented by the appointed firms is representative of the public sector audit work carried out in Scotland. This information enables monitoring of trends over time and allows auditors to take account of the findings in developing their human resources strategies.

31. The results show that across all auditors, staff experience a strong culture of support to perform high-quality audits. This level has been maintained since a slight decline in 2017/18. Auditors continue to remain positive about the adequacy of training that they receive.

There is a strong culture of support for performing high-quality audit across all auditors.

32. There is an improving position this year for most audit providers but there are still significant levels of concern among staff that the time and resources available to deliver a high-quality audit are not sufficient. Efforts by auditors to address this have not yet resulted in improved perception among staff in all firms, although there is consistent improvement in the last two years at Grant Thornton and Azets. One firm reported that there remains a perception that the workload requires long hours and, while messaging around not working long hours or at weekends is being heard, more action is needed to make this a possibility, eg extending deadlines or providing larger teams. All other indicators show that staff continue to deliver high-quality audit work despite this concern.

There is significant concern that the time and resources available to deliver a high-quality audit are not sufficient.



Notes:

1. Azets (previously known as Scott-Moncrieff) and Mazars did not provide details in 16/17. Mazars provided national data for 17/18 and local data since.
2. Deloitte changed their method of obtaining staff views with a smaller quarterly survey. This did not happen during 2019/20 due to the need to prioritise the changes around risks and audit approach and staff views on these due to Covid-19.

Qualifications

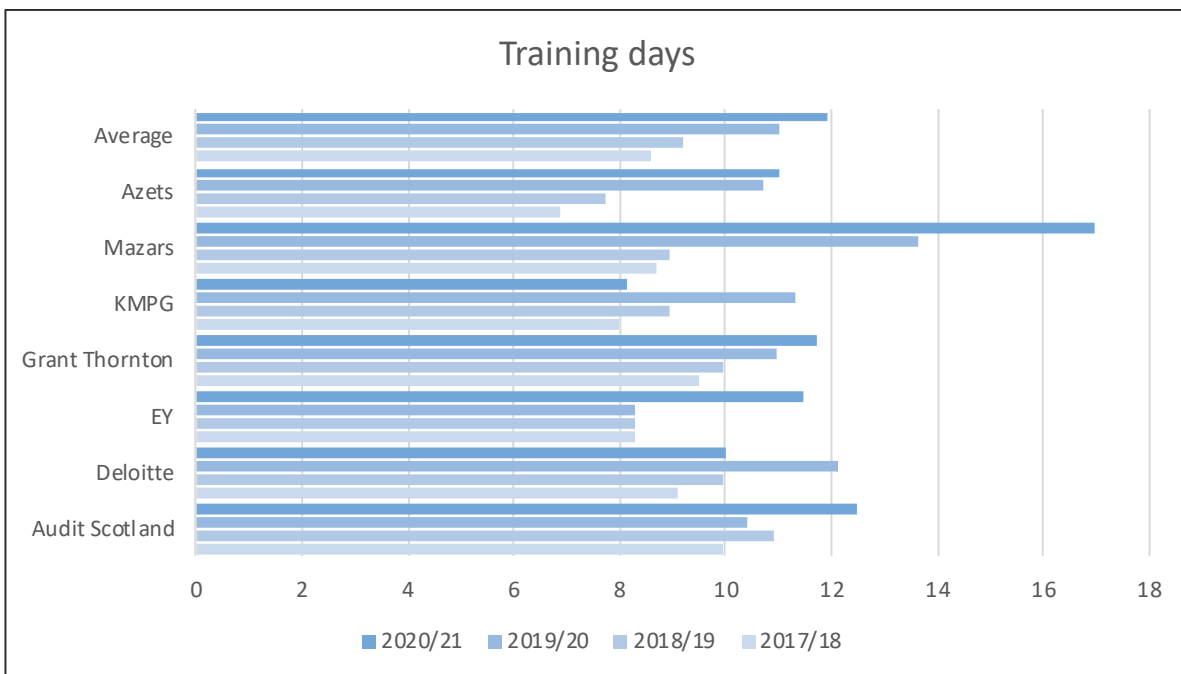
33. Audit work is carried out by appropriately trained and qualified individuals. The firms have 100 per cent of their staff either qualified or in training. Ninety-seven per cent of Audit Scotland staff working in financial audit are either CCAB (Consultative Committee of Accountancy Bodies) or Chartered Institute of Management Accountants qualified or in training for a CCAB qualification. A further three per cent have other qualifications in areas such as accounting or IT.

Audit work is carried out by appropriately trained and qualified individuals.

34. Staff in the Performance Audit and Best Value group (PABV) have a variety of audit and research-related qualifications, all of which go towards supporting the delivery of high-quality audit work. 15 per cent (22 per cent in 2018/19) of staff within PABV are either CCAB qualified or in training for a CCAB qualification, which supports Audit Scotland’s flexible ‘one organisation’ working. PABV staff also have several relevant post graduate qualifications in support of their work.

Training

35. All auditors recognise the importance of training their staff. The average number of days that staff receive in a year are shown in the table below. This figure excludes trainees.



Note: Azets’ total excludes wider Continuous Professional Development undertaken by staff.

36. The amount of time spent on staff training varies between auditors. This variation arises from the different ways in which training is organised and recorded. Nevertheless, the data shows that considerable investment is being made in staff training with an overall average of 12 days per member of staff (11 days in 2019/20).

Considerable investment is being made in staff training with an overall average of 12 days per member of staff.

37. The professional institutes, of which all qualified auditors are members, have Continuous Professional Development requirements which they monitor. This provides further assurance that auditors are undertaking adequate training to maintain their professional competence.

Audit process and quality control arrangements

Organisation-wide audit quality arrangements

38. Audit Scotland and the appointed firms are responsible for their own organisation-wide arrangements for quality control in accordance with International Standard on Quality Control 1 (ISQC1), which deals with a firm’s responsibilities for

its system of quality control for audits and reviews of financial statements, and other assurance and related services engagements and professional guidance. These arrangements focus on making continuous improvements to audit work by implementing a cycle of reviews, understanding why errors are made and sharing good practice.

39. All auditors are complying with ISQC (UK) 1. The ICAS programme of inspections includes reviewing compliance with ISQC (UK) 1, and related operational procedures, including each firm's internal audit manual and quality control procedures. ICAS has now reviewed all auditors and did not note any issues or matters for further consideration.

All auditors are
complying with
ISQC (UK) 1.

40. 2019/20 was the first audit year that the Performance audit methodology was aligned to comply with the INTOSAI standards. This move to using INTOSAI standards was made in response to initial audit quality findings identified under the AQF. Compliance with INTOSAI standards for Performance audits is a first among UK public audit agencies. The ICAS and internal cold reviews this year assessed audit quality against compliance with INTOSAI standards.

Outputs

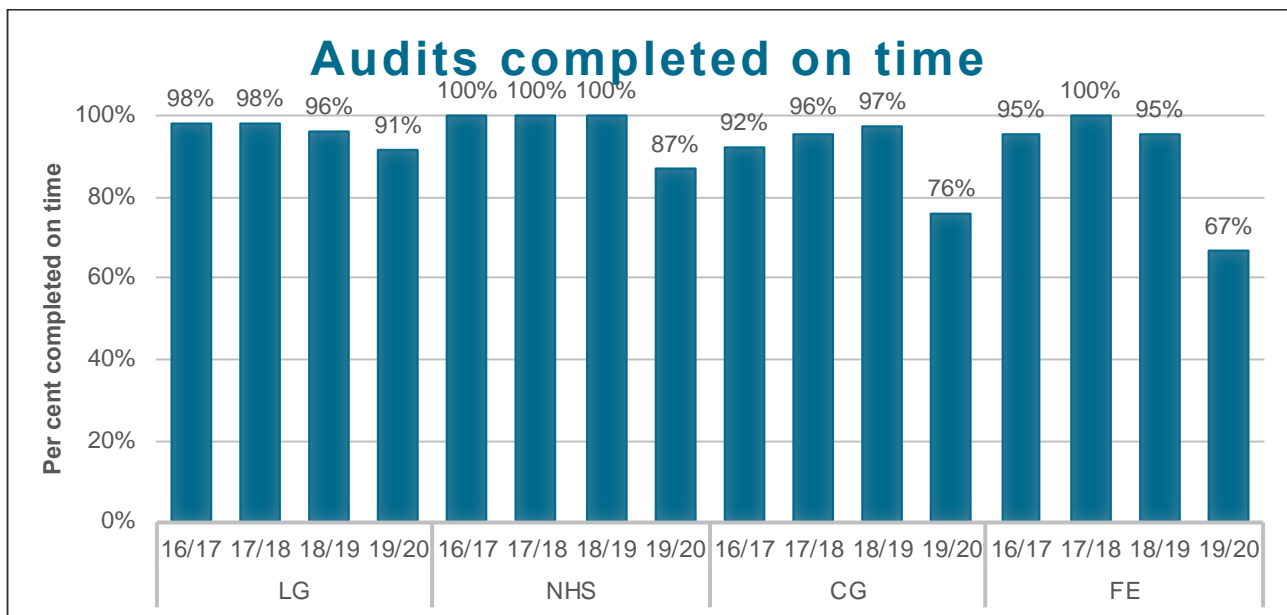
Reporting

Timeliness of financial audit work on 2019/20 accounts

41. Audit Scotland sets targets for auditors to ensure that their financial audits are completed in a timely manner. Audit Scotland expects auditors to do all they can to meet the targets but recognises that in some circumstances, events beyond their control can cause the targets to be missed. Due to Covid-19, extended audit sign-off timetables were agreed for NHS and local government bodies in 2019/20. These were:

- NHS – 30 September 2020, a three-month extension
- Local government – 30 November 2020, a two-month extension.

42. Auditors' performance in meeting the targets for 2019/20 audits and the previous three years is shown in the graph below.



43. Auditors completed 83 per cent of their audits on time. Compared to the previous year's delivery performance it is clear Covid-19 has had an impact on the ability of auditors to meet audit completion target dates. All 2019/20 audit opinions were signed off by 9 March 2021 and all NHS, central government and further education audited accounts were laid in the Scottish Parliament by their respective statutory deadlines. The most common reasons for missing target dates were:

- Late receipt of unaudited accounts.
- Delays in some local government and NHS audits resulted in reprioritising of audit work and resources with delays to commencement and completion of some central government audits.
- The necessary rescheduling of audited body committee timetables resulting in sign off being delayed beyond target dates.

Auditors completed 83 per cent of their audits on time.

- Difficulties with IT systems and staff at audited bodies being able to work remotely and prepare suitable draft financial statements (further education was particularly affected).
- Additional post balance sheet work required to be completed by the auditor.

44. The impact of Covid-19 on the preparation of financial statements and audit is expected to continue in 2020/21, as this period spans the full financial year of Covid-19 restrictions.

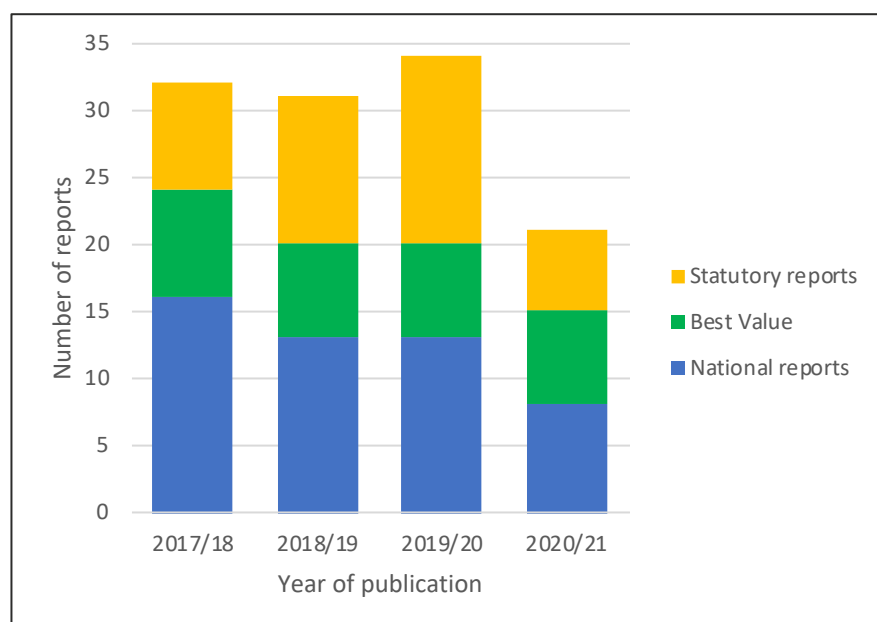
Modification of audit opinions

45. Modified audit opinions are issued where an auditor concludes that the accounts contain material misstatements, where significant expenditure has been incurred in breach of rules, or where reporting requirements have not been met.

46. Except for two audits, auditors did not modify their audit opinions on the accounts being true and fair in 2019/20 (none in 2018/19). One auditor qualified their opinion on the regularity of expenditure as some overpaid expenditure was not incurred in accordance with statute. Another auditor, due to Covid-19 restrictions, qualified their opinion as they were unable to attend counting of material inventories or satisfy their existence and condition remotely. There were two instances where the auditor reported by exception (five in 2018/19). Auditors reported that local government significant trading operations failed to achieve the statutory objective to break even over a three-year period in four cases.

Publication of Performance audit and other reports

47. The Auditor General for Scotland and Accounts Commission each have five-year rolling work programmes that cover a range of public sector bodies and services. Several planned outputs were reprioritised to enable the publication of Covid-19 briefing papers to support public bodies and auditors during the pandemic.







48. Audit Scotland published 86 per cent of national Performance audits, Best Value reports and statutory reports in the planned quarter during 2020/21 (88 per cent 2019/20).

Quality monitoring

Cold reviews

49. This section summarises the results of independent and internal cold reviews, using the Financial Reporting Council grading system for all audit work. ICAS carried out the independent cold reviews and senior and appropriately experienced colleagues who have not been involved in the audits carried out the internal cold reviews.

No	Icon	Label	Financial Reporting Council descriptor
1		Good	No areas for improvement that warrant inclusion in the quality assurance report.
2a		Limited improvements required	Limited concerns in a small number of areas identified. In such circumstances the auditor would adjust the audit approach in subsequent years' audits to address the issues raised.
2b		Improvements required	A number of matters are reported but these are assessed as neither individually nor collectively significant. In such circumstances it is expected that the auditor would consider whether any remedial action is required in respect of the audit inspected and to amend procedures for subsequent audits.
3		Significant improvements required	<p>The reviewer has significant concerns in relation to the sufficiency or quality of evidence, or the appropriateness of key judgements, or the implications of other matters that are considered to be individually or collectively significant.</p> <p>In such circumstances some remedial action may be requested to address the issues identified and to confirm that the audit opinion remained appropriate.</p>

Source: Financial Reporting Council

50. The Audit Quality Framework expects audits to be assessed as good (1) or limited improvements required (2a) with no concerns about the audit opinion. Auditors are expected to address any findings, but where an audit is assessed as improvements required (2b) or significant improvements required (3) or with concerns about the audit opinion, the auditor is expected to put in place a plan to address the required improvements.

51. Reviewers consider whether any improvements required are specific to the audit or applicable to the firm's procedures. Findings that relate to a firm's procedures apply equally to all sectors.

52. The cumulative reporting is important as it increases the sample size over the timeframe of the Audit Quality Framework and provides a better evidence base for conclusions to be made on the overall quality of auditors' work.

53. The Audit Quality Framework established targets in 2019. The target for the percentage of cold reviews showing good compliance with auditing standards (1 and 2a) was set at 80 per cent cumulative over 3 years.

Type of review	Auditor General	Accounts Commission	Aggregate 3-year cumulative at target	Previous year's 3-year cumulative at target ¹
Independent financial audit	46%	60%	52%	61%
Independent performance and Best Value audits	50%	57%	63%	38%
Internal financial audits	79%	88%	82%	82%
Internal performance and Best Value audits	100%	0%	75%	50%

Notes:

1. The changes to the numbers of audits falling within each grading from year to year reflect a wide range of factors, which may include the size, complexity and risk of the individual audits selected for review and the scope of the individual reviews. For these reasons changes in the cold review results from one year to the next are not necessarily indicative of any overall change in audit quality and need to be considered in the context of other information available.

Independent external reviews

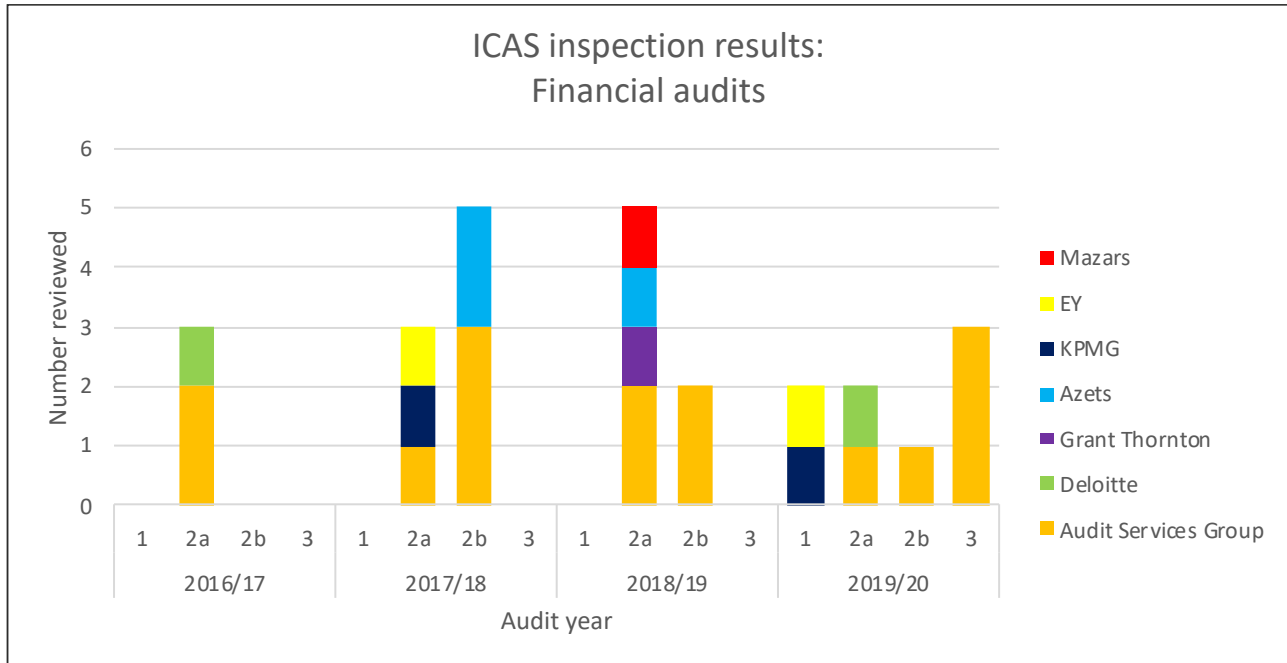
54. Independent external assurance offers the highest level of assurance to stakeholders. ICAS has reviewed all six appointed firms, all audit directors in Audit Scotland responsible for annual audits, and all audit directors leading on performance audit and Best Value assurance reports over the last three years.

55. Independent external reviews have continued during Covid-19. In 2020, we reported that ICAS had reviewed all appointed audit firms and lead audit directors' in Audit Scotland. A second round of reviews commenced in 2021 for the current appointment period which was due to end in 2021 but has now been extended to 2022 to reflect the impact of Covid-19.

56. A review of the ICAS contract has been conducted and the option to extend the contract into 2022 has been exercised to reflect the extension of the audit appointment period.

Independent external assurance offers the highest level of assurance to stakeholders.

Financial audit results



57. ICAS assessed 50 per cent of financial audits reviews this year as no or limited improvements required (1 or 2a) (71 per cent of 2018/19 financial audits). ICAS assessed 52 per cent of financial audits as limited improvements required over the last three years.

Audit Services Group

58. ICAS graded three Audit Services Group financial audits as significant improvements required (3), one with improvement required (2b) and another with limited improvements required (2a). The main reason for the improvements required (gradings 3 and 2b) were due to insufficient evidence being obtained over material transactions and balances including significant audit risk areas.

59. ICAS also identified the following two points that had wider application to Audit Services Group financial audits:

- inconsistent application of the data analytics tool to assist in the testing of journal entries and to select audit sample sizes and,
- inconsistent documented evidence of Engagement Lead review and supervision of some areas of audit work.

60. Three of the files reviewed (two with a score of 3 and one with a 2b) were prepared using an in house data analytics methodology (GLiQ) which was introduced in 2018/19 and has been applied to 25 of the 125 2019/20 financial audits undertaken by Audit Services Group. ICAS have recommended that Audit Services Group consider whether journals testing and sampling weaknesses are widespread across the engagement portfolio or if they are restricted to those using the GLiQ methodology.

61. ICAS recommend that the application of ISA (UK) 402: Use of a Service Organisation and ISA (UK) 600: Groups are reviewed.

62. ICAS raised potential risks of material misstatement in two of Audit Services Group's audits and have recommended that these issues are reviewed and resolved appropriately. Audit Scotland's Professional Support team is reviewing these areas and will prepare a report on their conclusions. This report will be shared with ICAS to enable them to review the findings and resulting action.

63. The Audit Services Group financial audit quality results have declined and do not meet the expected level of audit quality. ICAS have recommended that a root cause analysis report is prepared by Audit Services Group to identify the reasons and associated improvement actions required to drive an improvement in audit quality scores in future years. A plan should be developed as a matter of urgency by Audit Services Group to address the weaknesses identified by ICAS. Action taken will be followed up by both AQA and ICAS in the coming year.

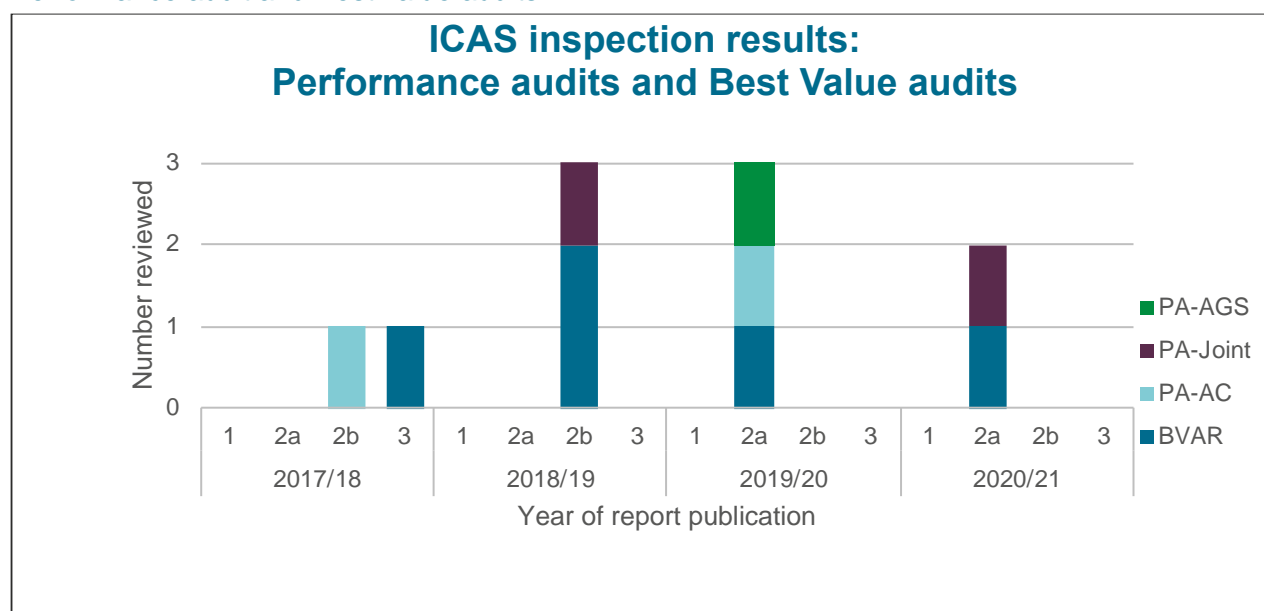
Private audit firms

64. For the first time ICAS awarded a 1 grading (good) to two financial audits reviewed. These audits were carried out by EY and KPMG. There were no concerns raised over the sufficiency of audit evidence in these audits and only two issues were raised around documentation of the KPMG audit.

65. The Deloitte file reviewed resulted in a 2a grading (limited improvement required) and only limited concerns over the appropriateness of significant audit judgements were identified.

66. The results of reviews for private firms is continuously improving with the highest scores available being awarded to two providers.

Performance audit and Best value audits



Performance audit

67. ICAS assessed the Performance audit reviewed as being of a 2a standard, with only limited improvements required (three at limited improvement in 2019/20). The area of focus for further improvement relates to documentation of audit evidence and review.

68. The approach and methodology for conducting Performance audits has been transformed over the last three years. This has resulted in significant improvements which are reflected in the positive scores awarded.

Best Value assurance report

69. Like the Performance audit reviewed the BVAR was assessed by ICAS as being of a 2a standard (2a in 2019/20). The areas for future improvement identified in the Performance audit review around documentation also applied to the BVAR review.

70. This is the first time that ICAS have conducted a Best Value review where the audit work was completed jointly by Performance audit staff in Audit Scotland and an appointed private firm which in this case was Deloitte.

71. The results are encouraging for the Performance and BVAR audit's reviewed and, provide assurance that the quality of Performance audit work is high and improving.

72. ICAS provided the following comments on the audits that they reviewed:



ICAS conducted a review of a sample of financial statement audits; one performance audit; and one BVAR engagement.

With regards the financial statement audits, whilst there is evidence that some prior year findings and recommendations have been addressed, the majority of engagements reviewed in the current year have identified a reduction in the standard of audit work, and the necessary level of audit quality has not been consistently achieved.

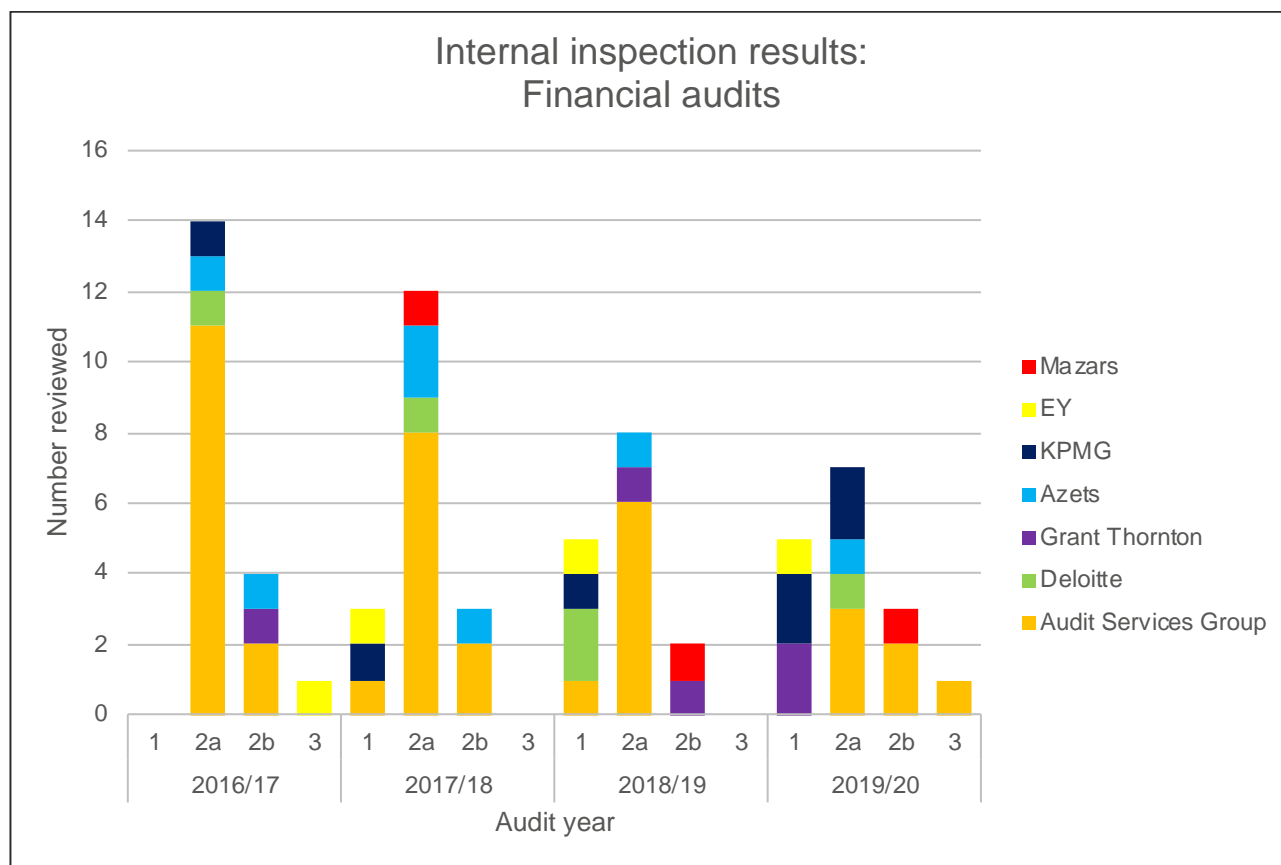
The reduction in quality is primarily related to issues specific to the engagements reviewed, including areas where the extent of audit evidence obtained could have been significantly improved. In addition, there are some areas that have been highlighted as being common across a number of the engagements, including the inconsistent application of a data analytics tool to assist in the testing of journal entries and to select audit sample sizes; and documented evidence of Engagement Lead review and supervision of some areas of the audit work.

ICAS has recommended a range of actions that Audit Scotland may wish to consider taking to address the areas identified, including undertaking a root cause analysis of the common findings and any internal or external factors that have potentially impacted on the number and nature of these.

With regards the performance audit and BVAR engagements reviewed, it is noted that there has been significant and continuous improvement in the last two years. While there are residual challenges in documenting audit work and the review process, a large number of positive points were identified.

Internal reviews conducted by Audit Scotland and appointed firms

73. Auditors reviewed 16 audits representing seven per cent of 2019/20 audits (same number as in 2018/19). Each appointed firm is required under their appointment to conduct at least one internal review each year. Each audit director in Audit Scotland was reviewed at least once in the last three years.



74. Reviewers assessed 82 per cent of 2019/20 financial audits as good or limited improvements required (1 or 2a, 87 per cent of 2018/19 financial audits). Reviewers assessed 82 per cent of the internal financial audits as good or limited improvements required over the last three years.

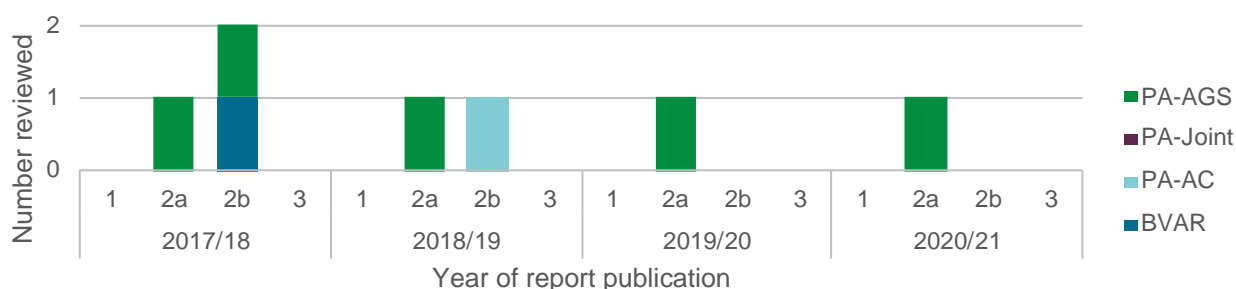
75. ASG internal reviews also concluded that half of the audits reviewed did not meet the expected standard (2b or 3). The nature of the findings was similar to ICAS.

76. Internal reviews carried out by audit firms met the required standard except for Mazars where their one internal review was graded a 2b.

Internal reviews of Performance audits and Best Value assurance reports

77. Auditors carried out one internal cold review of a Performance audit, covering three per cent of Performance audits and Best Value assurance reports published in 2019/20 (six per cent in 2018/19).

Internal inspection results: Performance audits and Best Value assurance reports



78. PABV's most recent cold review is consistent with the conclusions of ICAS in highlighting a good level of compliance with the Audit Management Framework. Reviewers assessed 75 per cent of the internal Performance audits and Best Value assurance reports as limited improvements required over the last three years.

PABV's most recent cold review is consistent with the conclusions of ICAS.

Hot reviews

79. The results of hot reviews carried out by audit providers gives further evidence of audit quality. These hot reviews are designed to meet the scope of Engagement Quality Control Reviews as set out in [International Standard on Quality Control 1](#). Most auditors carried out hot reviews which all confirmed that the correct opinions on financial statements were being given. However, ICAS recommended that for Audit Services Group they extend the independent hot file review and peer review processes to cover a wider range of audit engagements; and to cover the subsequent year engagements where a poorer file grade has been assigned.

External and internal reviews and investigations

80. No appointed firms were subject to external investigations, eg by regulators, in relation to their Scottish public sector work. No Audit Scotland work or staff were subject to any external investigations.

81. No complaints relating to audit quality were received by AQA in 2019/20.

Improvement feedback for auditors

82. Auditors received detailed reports on each audit reviewed and are putting arrangements in place to address the findings from cold reviews. AQA will monitor how well the new arrangements improve audit quality.

Annual audit reports

83. AQA reviewed a sample of annual audit reports to assess how effectively auditors were complying with the Code. The review found that there is a good level of compliance with the Code on auditor reporting. There was clear evidence of auditors reviewing their 2019/20 audit plans and risks in light of Covid-19 implications and undertaking additional audit work to obtain sufficient audit evidence to come to their conclusions.

There is a good level of compliance with the Code on auditor reporting.

84. The review identified that some auditors need to be clearer when reporting in their Annual Audit Reports on their annual conclusion on the effectiveness of arrangements in councils for preparing Statutory Performance Indicators and how they have assessed performance against the Accounts Commission Strategic Audit Priorities for the year. The Best Value conclusion should be separately reported in annual audit reports and not replace the Value for Money audit dimension. One integration joint board's report did not provide a conclusion on arrangements to secure Best Value.

Impact

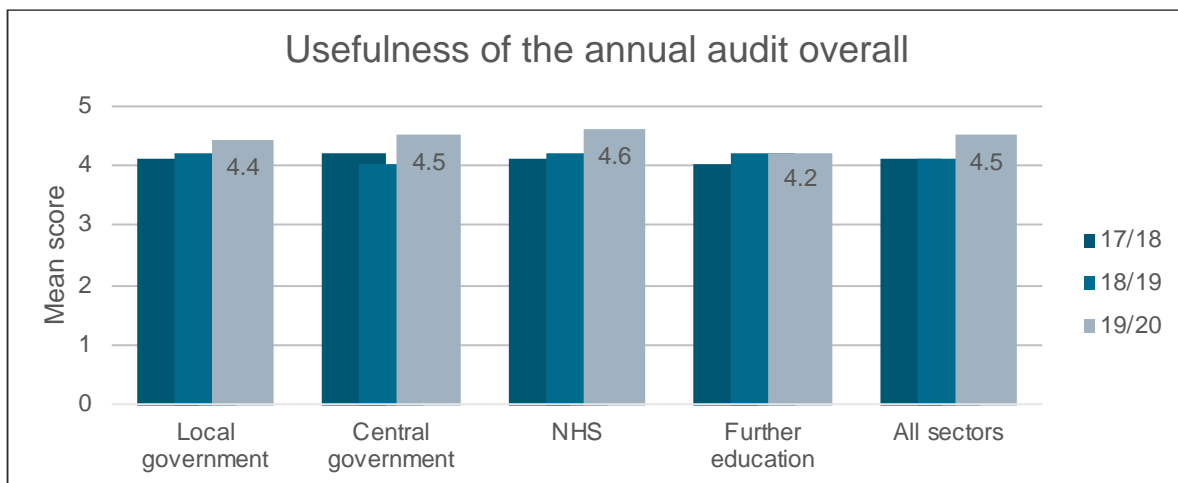
Audited bodies' views on audit work

85. In 2020, AQA commissioned an independent customer feedback survey from The Diffley Partnership. It surveyed 549 individuals (222 in 2019/20) in audited bodies to gather feedback on the 2019/20 financial audits, Performance audits, overview reports and Best Value assurance reports published in the past year. It received 213 responses (35 per cent, 35 per cent 2018/19). Audit committee chairs and chief executives were included for all sectors this year, resulting in an increase in the population. Audited bodies were asked to respond to questions using a scale of 1 to 5 where 1 is 'very poor' and 5 is 'very good'.

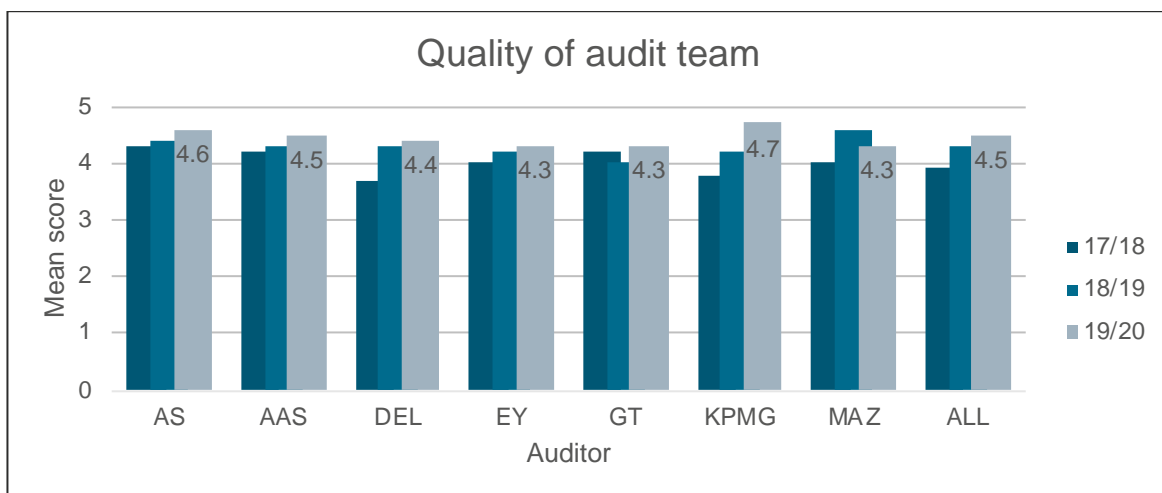
86. The survey was tailored to take account of the impact of Covid-19 restrictions on the annual audit. The number of questions was also reduced this year to minimise the burden that answering the questionnaire placed on audited bodies during Covid-19. Some questions from previous years were aggregated into a single question and new questions were added about remote auditing.

Financial audit

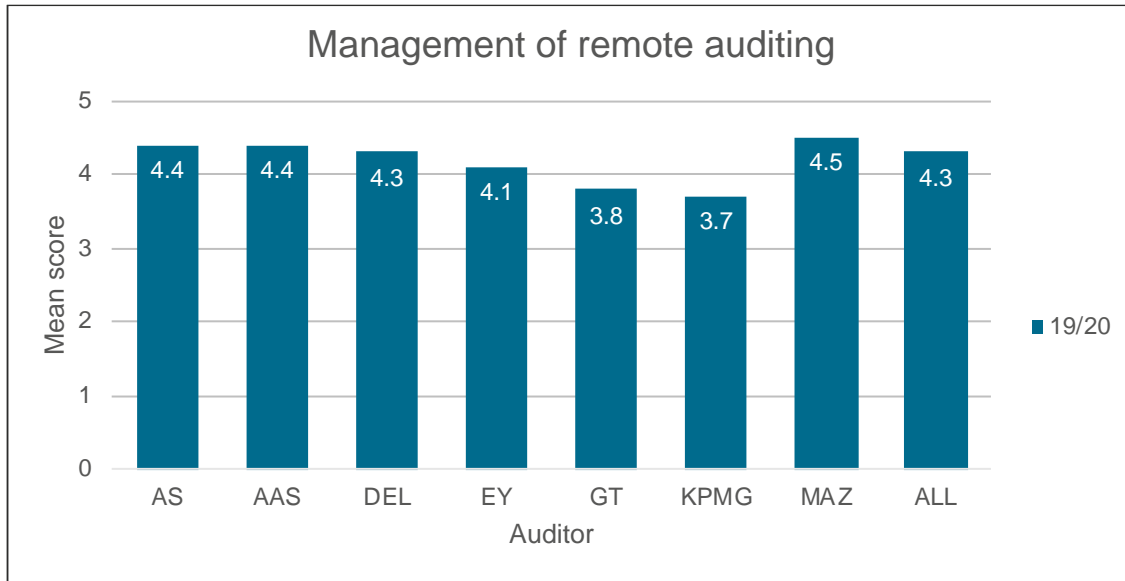
87. The high-level conclusions on the usefulness of the annual audit are very positive, with stakeholders' perception of the usefulness of the audit improving or staying steady in all sectors on last year.



88. The coronavirus pandemic has led to significant changes as auditors have conducted audits remotely. Despite these changes, the performance of the annual audit team continued to score highly. The vast majority (91 per cent) believe the annual audit team performed fairly or very well, which is an increase from previous years, and all auditors performed well.



89. The changes in the way the annual audit was conducted led to no or very little face-to-face contact between auditors and the bodies which they audited this year. Two thirds of auditors (66 per cent) were able to manage the audit remotely very well this year. Overall, the mean scores of all auditors are very high, considering the challenges which have been faced this year.

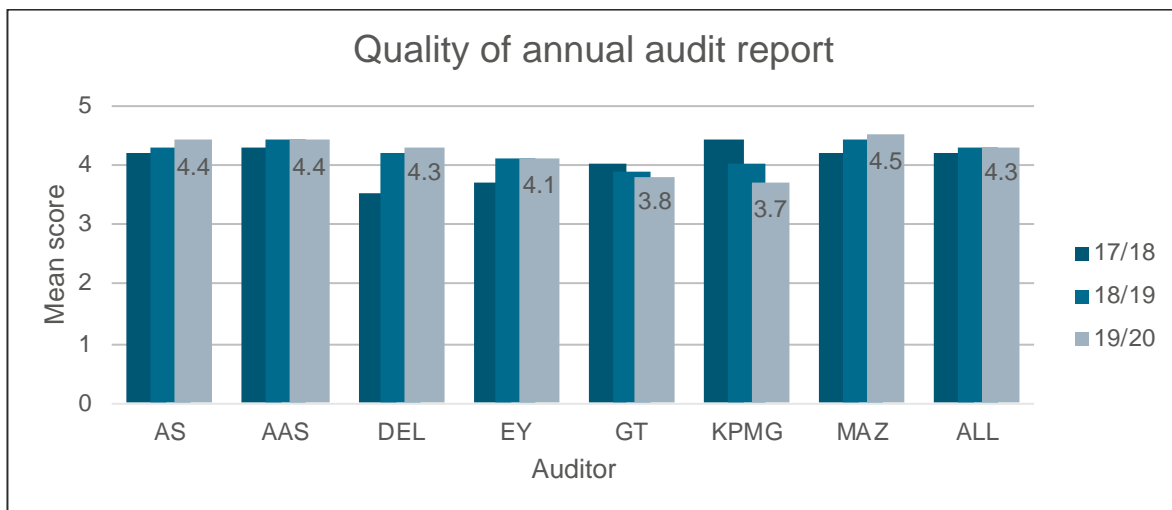


“The portal made tracking and managing information requests and communicating with audit team really easy given we were working remotely.”
Local government

“Signing annual report and accounts process remotely worked well.”
Central government

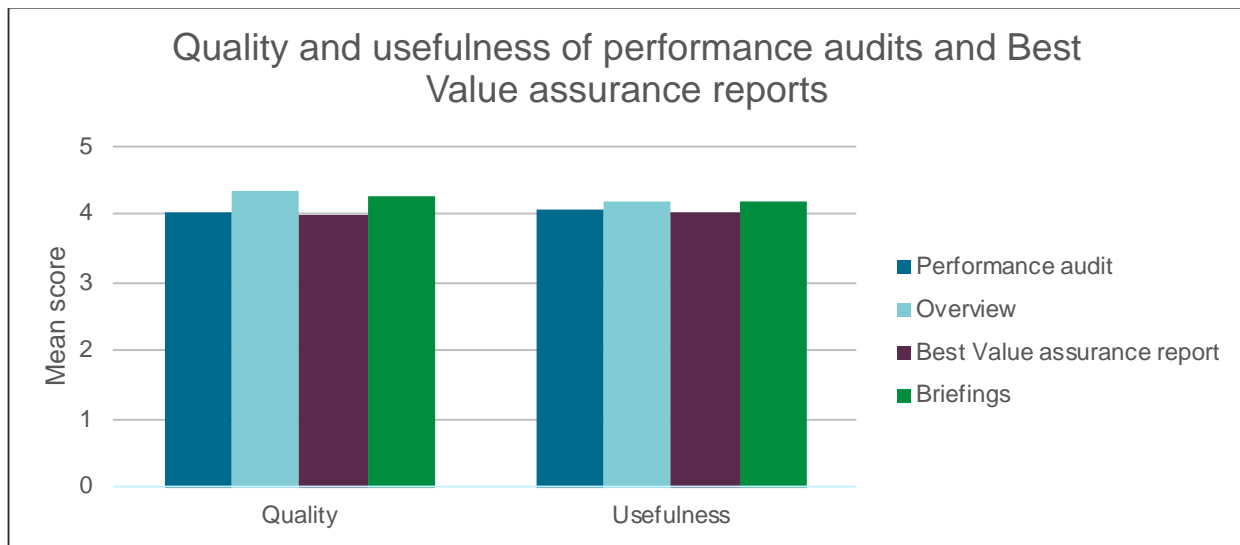
“The audit team was well set up with technology. The auditor accessed our finance systems remotely and were able to carry out testing with minimal impact on our finance team.”
Central government

90. Perceptions of the annual audit report remain broadly positive, with almost all (87 per cent) stakeholders finding the annual audit report fairly or very useful, which is a slight increase from last year (81 per cent).



Performance audit and Best Value assurance reports

91. Audited bodies expressed positive views on the quality and usefulness of Performance audits, overview reports, Best Value assurance reports and briefings. Perceptions of all reports increased slightly on the previous year.



92. Respondents were given the opportunity to add comments for each report. These were consistent with the scores. Respondents commented positively on the new briefing documents about Covid-19, praising their clarity and conciseness.

Areas for improvement and future focus

93. The evidence base under the AQF continues to grow and comprises an assessment of compliance with the highest professional standards and the achievement of impact and other qualitative measures.

94. Auditors have made improvements since the 2019/20 Quality of public audit in Scotland:

- EY and KPMG, achieved an ICAS assessment of no areas for improvement required.
- Performance audit reports are now carried out to comply with the INTOSAI auditing standards for Performance audits.
- The quality of documentation improved, especially in Performance audits and Best Value assurance reports.
- All auditors are now reporting on how they plan to add value through their audit work.

95. Work carried out under the AQF has highlighted areas where further improvements are needed to support the Auditor General for Scotland and Accounts Commission's drive towards world-class public audit. AQA will monitor improvement areas identified this year. The evidence will be used in discussion with relevant audit providers to focus on areas for improvement including:

- For two audits, auditors need to investigate the risk of material misstatement in the financial statements (consolidation of a group entity) and (valuation of property), and ensure that any such misstatement is resolved appropriately.
- A continued focus on the application of sampling methodology in Audit Services Group. This will include the application of the data analytics tool being piloted to assist in the testing of journal entries and to select audit sample sizes. The approach to sampling is an issue that has been raised previously by AQA with ASG over the past two years.
- Ensuring that the extent of audit evidence obtained is significantly improved and that there is documented evidence of Engagement Lead review and supervision of audit work.
- Extending the mandatory training for all ASG audit staff to cover:
 - professional scepticism and critically assessing audit evidence obtained in material areas
 - audit sampling and journals testing
 - the audit of payroll, including consideration of all related financial statement assertions
 - the application of ISA (UK) 402: Use of a Service Organisation

- the application of ISA (UK) 600: Groups.
- Further work to consider the actions necessary to address staff views on the time and resources available to deliver high quality audit.
- Ensure that a conclusion on the arrangements for publishing Statutory Performance Indicators in a council is included in annual audit reports.
- Strengthening the reporting of audit work against the wider audit scope as required by the Code.

96. AQA will update the AQF and review audit quality indicators in 2021. Further development is planned over the following years to include:










- how to bring more transparency to audit and reporting
- how quality reviews of individual auditors are reported.






97. The experience of the Covid-19 pandemic on 2019/20 audits contributed to auditors not meeting deadlines. The FRC has [highlighted](#) that the current situation should not undermine the delivery of high-quality audits. Auditors should continue to comply fully with required standards. In the current circumstances, additional time may be required to complete audits and it is important that this is taken, even at the risk of delaying reporting.

98. Auditors' access to evidence in support of their 2020/21 audits may continue to be limited in some cases due to ongoing Covid-19 restrictions.

Appendix

Key performance indicators

KPI	Target	Actual	Conclusion
Value of non-audit services carried out during the audit year. (paragraphs 26–28)	Steady or declining value	£32k representing 0.1 per cent of total fees during the 2019/20 audits (£91k representing 0.4 per cent of total fees during 2018/19 audits)	 Target met
Percentage of audit providers confirming compliance with ethical guidance. (paragraph 25)	100%	100%	 Target met
Percentage of audit staff with appropriate qualifications and in training. (paragraphs 33–34)	100%	100%	 Target met
Number of training and development days delivered per member of staff. (paragraphs 35–37)	Steady or increasing	12 (11 2018/19)	 Target met
Percentage of cold reviews showing good compliance with auditing standards. (paragraphs 49–78)	80% Cumulative over 3 years	ICAS financial audits: 52% Internal financial audits: 82% ICAS PABV audits: 63% Internal PABV audits: 75%	 Target not met
Percentage of audits completed on time. (paragraphs 41–44)	95%	83%	 Target not met
Percentage of audits with material prior period adjustments due to error. (n/a)	Less than 10%	7%	 Target met
Percentage of Performance Audit and Best Value assurance reports published in the planned quarter. (paragraphs 47–48)	90%	86%	 Target not met
Perception of the usefulness of the audit overall (paragraphs 85–92)	4/5	4.4/5	 Target met

KPI	Target	Actual	Conclusion
Perception of the appropriateness of coverage of (not asked in 2020/21 due to shortening of survey)			
i. Governance and accountability	4.0	n/a	Target not met
ii. Financial management	4.0	n/a	
iii. Financial sustainability	4.0	n/a	
iv. Value for money	4.0	n/a	
v. Best Value (LG only).	4.0	3.8	
(paragraphs 85–92)			
Perception of the quality of:			
i. Overview reports	4.0	4.3	Target met
ii. Performance audits	4.0	4.0	
iii. BVARs	4.0	4.0	
Perception of the impact of:			
i. Overview reports	4.0	4.2	Target met
ii. Performance audits	4.0	4.1	
iii. BVARs	4.0	4.0	
(paragraphs 85–92)			
Number of complaints on audit quality upheld	0	0	
(paragraph 81)			
Staff survey results on:	Steady or increasing		
a) I am encouraged to carry out a high-quality audit		95% (91% 2019/20)	Target met
b) The time and resources available to me enables the delivery of a high-quality audit		59% (48% 2019/20)	
c) The training and development I receive enables a high-quality audit.		82% (71% 2019/20)	
(paragraphs 29–32)			

Quality of public audit in Scotland

Annual report 2020/21

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