

Code of Audit Practice

2021



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Foreword

This Code of Audit Practice (the Code) defines the independent audit of public bodies in Scotland. All auditors appointed by the Auditor General and the Accounts Commission and working on their behalf are required to comply with the Code.

Independent external audit is an essential feature of the public sector. It supports democratic scrutiny of how public money is raised and spent, and the outcomes achieved.

Auditors are independent of the bodies they audit and report their findings in public. In that way, auditors provide independent assurance and promote improvement.

Public bodies are responsible for safeguarding public finances, protecting against fraud and other irregularities, making the best use of their resources and ensuring good governance and delivering Best Value. Auditors identify appropriate evidence, make judgements, and report their conclusions on how public bodies have discharged those responsibilities.

Auditors assess the delivery of policies but not the merits of policy. Other scrutiny in the public sector involves regulators, who monitor business activities to ensure they are fair and effective; and inspectors, who assess compliance with regulations and service-specific professional standards.

More widely, the auditing profession is under scrutiny. Corporate failures have led commercial audit to be challenged. Recommendations to strengthen independence and quality are coming to the fore and debate on the scope and expectations of audit is ongoing. The Scottish public audit model already contains many safeguards of the independence, robustness and integrity of audit. This new Code has been developed with the implications of the review of the wider auditing profession in mind and to maintain confidence in the audit of public bodies in Scotland.

Scotland's public services are facing unprecedented challenges as a consequence of Covid-19. The pandemic has affected every aspect of our society, and has had a disproportionate impact on the black, Asian and minority ethnic community, women, young people, low earners, the disabled, and part-time workers. Recovery and renewal of services present opportunities and risks, against an existing backdrop of tight budgets and increasing demand for services. There is a consensus across the public sector that Covid-19 recovery planning needs to deliver a fairer, more just and equal society, with better

outcomes for Scotland's people, and that delivering that ambition will require a scale of leadership. Improving economic performance and addressing complex, long-term challenges such as inequality and climate change require concerted action and innovative solutions. This is leading to a debate about how public services should evolve in response to these challenges which has implications for how public audit in Scotland might be delivered in future.

The Code provides a framework for effective public audit over a period of significant change and uncertainty which includes strong safeguards of independence, objectivity and audit quality. Through this, the Auditor General and the Accounts Commission work with Audit Scotland to deliver audits that provide the people of Scotland with independent assurance on the use of public money and help public bodies improve services.



Stephen Boyle
Auditor General for Scotland



Elma Murray
Accounts Commission for
Scotland Interim Chair

1. Purpose of the Code

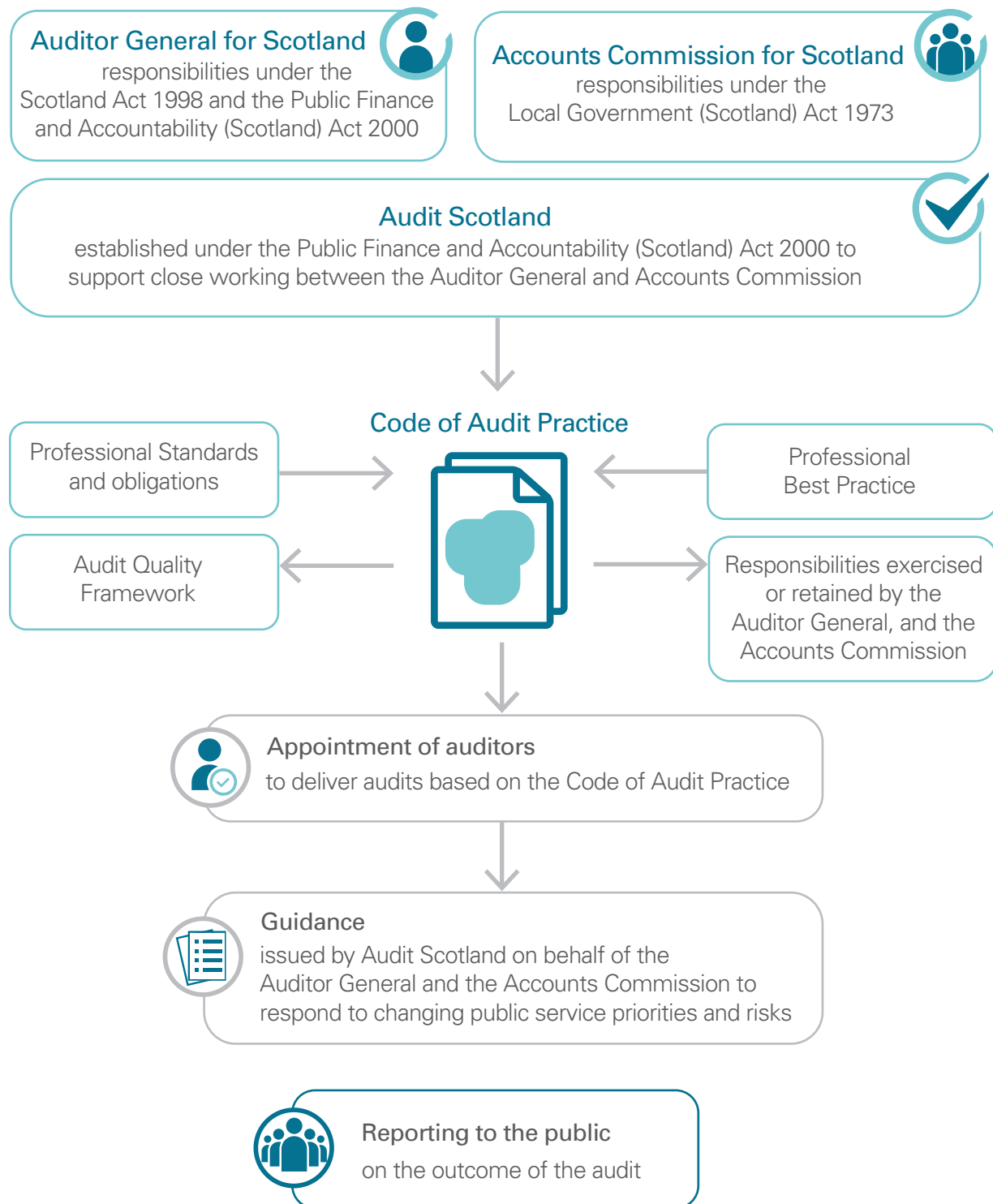
1. This Code of Audit Practice (the Code) describes the high-level, principles-based purpose and scope of public audit in Scotland. It replaces the Code issued in June 2016 and comes into effect for audits of financial years starting on or after 1 April 2022. The Code applies to the audit of over 200 public bodies which spend public money, including the Scottish Government, central government bodies, the NHS in Scotland, local government bodies and further education colleges.

2. Public audit in Scotland is founded on the statutory responsibilities of the Auditor General for Scotland and the Accounts Commission for Scotland, and the auditors they appoint. They work closely in the public interest to create strong and effective public audit which supports accountability and provides independent assurance that public money is spent and reported properly.

3. The Code sits at the centre of the arrangements for public audit in Scotland ([see illustration, page 6](#)). The Code reflects the legal requirements for audit. It also reflects the professional and ethical standards with which auditors must comply. It covers the audit of accounts, which has a wider scope than the private sector, performance auditing and Best Value auditing. The Code also sets out the arrangements which promote auditor independence and the arrangements for monitoring audit quality.

4. The Code applies to all audit work undertaken on behalf of, or as a result of being appointed by, the Auditor General and the Accounts Commission. It is a condition of their audit appointment that auditors comply with the Code and follow guidance that supplements the Code. Guidance is used to help inform auditors' judgements and promote a consistent approach to changing public service priorities and risks. The types of guidance which supplement this Code are explained in [Appendix 6 \(page 41\)](#).

The Code of Audit Practice sits at the centre of the arrangements for public audit in Scotland



Source: Audit Scotland

2. Responsibility for public audit in Scotland

5. Under legislation, the Auditor General and the Accounts Commission are responsible for securing the independent audit of the accounts and performance of public sector bodies in Scotland. The Auditor General and the Accounts Commission have prepared this joint Code to maximise the effectiveness and value of public audit work in Scotland by having a consistent approach and the ability to look at issues across organisational and sectoral boundaries. This is increasingly important as public bodies move towards greater levels of partnership working and integrated service delivery.

The Auditor General for Scotland

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

7. The Auditor General is responsible under the Public Finance and Accountability (Scotland) Act 2000 for appointing independent auditors to audit the accounts of most public bodies in Scotland, except for the local government sector, and for reporting on their financial health and performance. The following bodies are within the audit remit of the Auditor General:

- the Scottish Government, its executive agencies and its non-ministerial departments
- Scottish Parliamentary Corporate Body and Commissioners and ombudsman
- non-departmental public bodies
- National Health Service bodies
- further education colleges
- some public corporations.

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

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

The Accounts Commission for Scotland

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

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

11. The Accounts Commission has five principal responsibilities:

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

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

Controller of Audit

13. Under statute, the Accounts Commission appoints a Controller of Audit to consider the results of the audit of accounts, including the wider-scope responsibilities and Best Value auditing. The Controller of Audit makes reports to the Accounts Commission on matters arising from the accounts and on Best Value and acts independently of the Accounts Commission when reporting to it.

Audit Scotland

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

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

16. Audit Scotland aims to ensure that public audit in Scotland:

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

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

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

Responsibilities of audited bodies

19. Audited bodies are responsible for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective governance of their activities. Audited bodies are responsible for maintaining:

- strong corporate governance arrangements
- a financial position that is soundly based
- preparing accounts for audit, comprising financial statements and related reports
- sound systems of internal control
- standards of conduct for prevention and detection of fraud and other irregularities
- internal audit.

20. Those with a management role in an audited body and those charged with governance who have oversight of management make a vital contribution to sound stewardship of public resources and, as required, to secure Best Value. This is achieved through compliance with their statutory duties and responsibilities and by putting in place effective arrangements in areas described in more detail in [Appendix 1 \(page 28\)](#).

Responsibilities of appointed auditors

21. Auditors appointed by the Auditor General and the Accounts Commission undertake the audit of accounts including the wider-scope responsibilities and, where appropriate, Best Value. Once appointed, auditors act independently in carrying out their responsibilities and in exercising professional judgement. The appointed auditor reports to the audited body and others on the results of audit work.

22. Appointed auditor responsibilities are derived from statute, International Standards on Auditing (UK) and the Ethical Standard for auditors, other professional requirements and best practice, the Code and guidance from Audit Scotland. More detail on the auditor's responsibilities for auditing accounts and their wider-scope responsibilities are set out in [Appendix 2 \(page 32\)](#).

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

3. Principles and scope of public audit

24. The Code recognises the public's high expectations of audit which supports accountability for the use of public funds. Independent audit helps maintain public confidence in the stewardship of public funds and the delivery of public services.

25. The principles which underpin public audit in Scotland are shared by the public audit agencies involved in public audit in the UK. These principles are:

- the independent appointment of auditors
- the wider scope of public audit
- transparent public reporting of audit findings and recommendations
- relevant to changing public service delivery models, priorities and risks.

26. At the core of public audit is the annual audit of accounts, which is based on an examination of reported financial transactions, in accordance with relevant legislation, the applicable accounting framework and other reporting requirements.

27. Recognising that public money is involved, the Auditor General and the Accounts Commission require the scope of public audit to be wider than the private sector audit requirements. The Code requires conclusions on aspects of public bodies' arrangements and performance, for example, conclusions relating to financial sustainability and governance.

28. Local Government auditors have a statutory duty to consider whether the local government body has made proper arrangements for Best Value and community planning. The Accounts Commission requires the wider-scope work to reflect that responsibility as set out in the Code.

29. The Code is designed to ensure that public audit adds value by providing independent conclusions which help the public assess whether public bodies use their resources in the public interest.

30. To add value through audit work, auditors must demonstrate that they understand the environment in which public bodies operate. Audit work must be tailored to the circumstances of the audited body and the audit risks identified and be proportionate.

31. Audit is not a substitute for the audited body's responsibility for putting in place appropriate arrangements for the proper conduct of its functions and for ensuring that public money is safeguarded, properly accounted for, and used effectively.

Independent appointment of auditors

32. It is a fundamental principle of public audit in Scotland that auditors are independent, and are seen to be independent, of the bodies they audit.

33. The Auditor General or the Accounts Commission appoint the auditors and only the Auditor General or the Accounts Commission can dismiss an auditor or change an audit appointment. It is a unique feature and strength of public sector audit that auditors are appointed independently of the bodies they audit. This is an important safeguard that helps ensure that auditors are free from any potential or perceived conflict of interest or other pressure that may compromise their judgement and reporting.

34. All auditors involved in audit work for the Auditor General and the Accounts Commission are required to comply with the recognised Ethical Standard for auditors and relevant professional guidance.

35. The provision of non-audit services by appointed auditors could compromise an auditor's actual or perceived independence. The Auditor General and the Accounts Commission require that any proposed non-audit service is considered in advance of the work starting. The approval process for non-audit services includes the application of the Ethical Standard and is monitored and reported through the audit quality arrangements ([paragraphs 46–48](#)).

36. Audit appointments are made for a period of five years (with the option to extend for up to a further two years). This is the maximum period that any individual auditor can retain responsibility for delivering the audit. Public audit in Scotland supports a mixed-market approach to audit appointments, appointing as auditors, employees of Audit Scotland and accountancy firms, where this facilitates a flexible and sustainable supply of cost-effective, high-quality audits. The mixed audit delivery model brings together a wealth of specialist experience, strengthening Audit Scotland's ability to work with UK and Scottish professional regulators and others to promote and strengthen public audit.

Wider scope of public audit

37. Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector. The wider-scope audit specified by the Code broadens the audit of the accounts to include consideration of additional aspects or risks in areas of financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes. In local government, public audit includes the audit of arrangements for, and performance of, the audited body's duties for Best Value and community planning.

Fraud and other irregularities

38. In the public sector there are specific fraud risks, including those relating to tax receipts, welfare benefits, grants and other claims made by individuals and organisations. The audited body is responsible for implementing effective systems of internal control, including internal audit, which safeguard public assets and prevent and detect fraud, error and irregularities, bribery and corruption.

39. Auditors assess the specific risk of material misstatement, whether caused by fraud or error, as part of the audit of the accounts. Auditors also report on the adequacy of the audited body's arrangements for preventing and detecting fraud or other irregularities as part of the wider-scope audit.

40. Audit Scotland may conduct data matching to compare information within and between public bodies to identify potential fraudulent transactions, claims or errors. To this end, Audit Scotland coordinates the National Fraud Initiative in Scotland which is a data matching exercise. Audit Scotland and appointed auditors share information on identified frauds and Audit Scotland provides guidance to support appointed auditors in considering fraud risks.

Public reporting of findings and recommendations

41. Audit findings are supported by evidence and explanations which provide the basis for clear judgements and conclusions on how well the audited body has discharged its responsibilities. Auditors make appropriate and proportionate recommendations for improvement in response to the risks identified and the conclusions and judgements reached, based on the matters arising from the audit.

42. Auditors use their judgement when deciding how and when to report their findings and apply the following principles to maximise public accountability and transparency:

- Being open and transparent about the scope and nature of the work carried out and the conclusions reached.
- Timely reporting so that when matters arise, they can be considered and acted on promptly and brought to the attention of the audited body and the public.
- Reporting in public, using the most appropriate form of reporting to ensure the information is accessible.
- Using clear and concise language which audited bodies and the public can understand.
- Reflecting wider-scope conclusions, including in relation to Best Value where appropriate, as specified in the Code.

- Setting out clearly to whom the report is addressed and who is responsible for taking action in response to findings.
- Making recommendations that:
 - are useful, specific and practicable
 - are proportionate and focused on the public interest
 - include management responses and actions taken or proposed, including target dates and responsibility for action
 - are followed up at appropriate intervals to assess progress.

43. The Code recognises that public bodies may operate and deliver services through partnerships, arm’s-length external organisations (ALEOs) or other forms of joint working with other public, private or third-sector bodies. Auditors in the public sector have a right to information held by audited bodies, group entities and others to ensure that they are able to follow, review and assess how public money is spent and to report in the public interest. This is often referred to as 'following the public pound'.


Response to changes in public service delivery models, priorities and risks

44. As public service priorities and delivery models change in response to social and environmental challenges or legislative requirements, public audit will develop and respond so that it remains relevant. Being responsive to changing environments and emerging risks helps ensure audit continues to be a credible and relevant source of independent insight to those holding public bodies to account, the public and other stakeholders.

45. The Code sets out the high-level principles-based approach to the audit of public bodies in Scotland over the audit appointment period. The guidance which supplements the Code is updated during the appointment period to, respond to changes in public service delivery priorities and to allow for inclusion of emerging risks or new professional requirements which affect public audit.

Audit quality

46. The Auditor General and the Accounts Commission require assurance on the quality of public audit in Scotland through comprehensive audit quality arrangements that apply to all audit work and providers, including auditors employed by Audit Scotland and the accountancy firms. The audit quality arrangements recognise the importance of audit quality to the Auditor General and the Accounts Commission and provide regular reporting on audit quality and auditor performance. Audit quality findings are used to inform annual reports prepared by the Accounts Commission and Audit Scotland.

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

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

4. The integrated approach to public audit

49. The integrated approach to public audit involves planning, delivering and reporting audit responsibilities under the Code on an annual basis. The audit of the accounts is at the centre of public audit. The audit of accounts provides the foundation for audit work necessary to support the conclusions on wider-scope audit, including where relevant, Best Value. The integrated approach also informs other audit work and outputs.

50. Audit planning responds to changes in audit risk and audit findings, as well as the context in which audited bodies are operating and their risks. Where significant risks to the audit of the accounts, including wider-scope responsibilities, are identified at the planning stage, auditors set out the work planned to address these risks in the annual audit plan.

51. The annual audit plan documents how auditors intend to meet their responsibilities. The plan is communicated to the audited body. Appointed auditors coordinate their audit with internal audit and, where appropriate, with relevant scrutiny bodies, to ensure that the annual audit plan is joined-up, effective and proportionate.

52. Audit planning takes account of other requirements including the performance reporting activities of the Auditor General and the Accounts Commission. Auditors share intelligence with Audit Scotland on significant risks arising at the bodies which they audit throughout the year so that risks which may require audit and reporting are identified early.

53. Auditors engage with the Auditor General and the Controller of Audit, as appropriate, to ensure that significant risks are highlighted and addressed. Auditors take the lead in the Shared Risk Assessment (SRA) process in councils. This involves coordinating scrutiny activity with relevant scrutiny partners on behalf of the Accounts Commission.

54. The requirements of the Auditor General and the Accounts Commission on aspects of the wider-scope audit and Best Value are set out in guidance on planning the annual audits that supplements the Code. This guidance is informed by matters of risk and assurance arising out of the audits.

The annual audit

55. The annual audit comprises the audit of the financial statements and other reports within the annual accounts and the wider-scope audit responsibilities. The Auditor General and the Accounts Commission require the annual audit to be carried out in accordance with International Standards on Auditing (UK) (the ISAs), guidance on the application of the ISAs to public audit provided in the Public Audit Forum's Practice Note 10 Audit of Financial Statements and Regularity of Public Sector Bodies in the United Kingdom and with the Ethical Standard. For a Less Complex Body as defined in the Code, a limited audit approach may be applied.

56. Appointed auditors consider significant risks of misstatement in the financial statements and related reports within the annual accounts. They use their professional judgement to assess risks within individual audited bodies and design their audit approach in response to those risks. Auditors also consider the arrangements for, and in some cases the performance of, an audited body's statutory Best Value duties and obligations for community planning as part of their proportionate and risk based wider-scope work.

57. Auditors give their opinion on the various parts of the annual accounts in accordance with the legislative requirements, as set out in [Appendix 2 \(page 32\)](#). The Auditor General and the Accounts Commission specify the form of opinions auditors provide, based on the accounting and legal framework within which public bodies operate and following discussions with auditors. This includes opinions on the financial statements, part of the remuneration report, annual governance statement, and the management commentary (or equivalent) in the annual accounts where required.

Wider-scope and Best Value auditing

58. Auditors consider the significant audit risks in areas defined in the Code as the wider-scope audit. Auditors consider these additional requirements when:

- identifying significant audit risks at the planning stage
- reporting the work done to form conclusions on those risks
- making recommendations for improvement and, where appropriate, setting out conclusions on the audited body's performance.

59. For local government bodies, the Accounts Commission's approach to Best Value auditing requires auditors to assess and report on audited bodies' performance in meeting their Best Value and community planning duties. Auditors use a risk-based approach and integrate that assessment with the annual audit. Auditors:

- consider, within the wider-scope areas set out in [paragraphs 62–70](#), the Best Value statutory guidance ([Appendix 1, page 28](#)), and include the risks they identify in their annual audit plan and report their conclusions

- report progress against findings and recommendations on previous reports on Best Value and subsequent annual audit reports
- report on any Best Value or related themes prescribed by the Accounts Commission in annual planning guidance.

60. For central government and NHS bodies, auditors consider the arrangements put in place by Accountable Officers to meet their Best Value obligations as part of the proportionate and risk-based wider-scope audit work.

61. The wider-scope audit requires consideration of financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes.

Financial management

62. Financial management means having sound budgetary processes. Audited bodies require the ability to understand the financial environment and whether internal controls are operating effectively.

63. Auditors consider whether the body has effective arrangements to secure sound financial management. This includes the strength of the financial management culture, accountability and arrangements to prevent and detect fraud, error and other irregularities, bribery and corruption.

Financial sustainability

64. Financial sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs. Auditors consider the extent to which audited bodies have shown regard to financial sustainability.

65. Auditors look ahead to the medium term (two to five years) and longer term (over five years) to consider whether the body is planning effectively so that it can continue to deliver services.

66. The audit of the financial statements includes consideration of the concept of going concern. Going concern is a relatively short-term concept looking forward 12 to 18 months from the end of the financial year as it relates to the basis for the preparation of the financial statements. Under the Code, the consideration of financial sustainability is wider than the going concern concept.

Vision, leadership and governance

67. Audited bodies must have a clear vision and strategy, and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.

68. Auditors consider the clarity of plans to implement the vision, strategy and priorities adopted by the leaders of the audited body. Auditors also consider the effectiveness of governance arrangements for delivery, which includes openness and transparency of decision-making; robustness of scrutiny and shared working arrangements; and reporting of decisions and outcomes, and financial and performance information.

Use of resources to improve outcomes

69. Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency and effectiveness through the use of financial and other resources, and reporting performance against outcomes.

70. Auditors consider the clarity of the arrangements in place to ensure that resources are deployed to improve strategic outcomes, meet the needs of service users taking account of equalities, and deliver continuous improvements in priority services.

Reporting the annual audit

71. Auditors produce the following outputs annually for each audit appointment:

- annual audit plan
- independent auditor's report
- annual audit report.

72. Annual reporting of the audit provides transparency on the outcome of the audit. Audit plans and reports are published on Audit Scotland's website and in accordance with the objectives for public reporting set out in [paragraphs 41–43](#) of the Code.

Annual audit plan

73. The annual audit plan contains an overview of the planned scope and timing of the audit of the accounts and the wider-scope audit to be carried out in accordance with ISAs, the Code, and guidance from Audit Scotland. It identifies the audit work that is planned to meet the audit of the accounts and wider-scope requirements, reflecting the respective responsibilities of audited bodies and appointed auditors.

74. The plan specifies the audit risks identified by the auditor as significant risks and refers to the concept of materiality. The annual audit plan includes the name of the appointment lead and the fee for the audit and confirms the independence of the auditor. Plans are reviewed throughout the audit and the audit approach is updated as necessary.

Independent auditor's report

75. The independent auditor's report sets out the auditor's opinion on the financial statements and other related reports and is added to the audited body's published statements. The format of the opinion is specified in guidance prepared by Audit Scotland.

76. The independent auditor's report is addressed to the audited body and; the Auditor General and the Scottish Parliament or; the Accounts Commission; and any other relevant addressees as specified by the Auditor General or Accounts Commission. The independent auditor's report is signed with the name of the appointment lead.

Annual audit report

77. The annual audit report is a separate report issued by auditors at the conclusion of the year's audit. It includes the information to be reported to the audited body and the Auditor General, or the Controller of Audit; and other specified recipients, as appropriate. It includes:

- significant matters arising from the audit of financial statements and related reports
- conclusions on the wider-scope audit and Best Value.

78. Auditors provide clear judgements and conclusions on the effectiveness and appropriateness of the arrangements in place based on the work that they have done. If there are significant risks, appointed auditors make recommendations for improvement. Annual audit reports include conclusions which are retrospective in nature, comment on progress in implementing previous recommendations and on forward plans within aspects of the wider-scope requirements.

79. Auditors include in their annual audit report a clear narrative that explains what the auditor found and the auditor's judgement in respect of the effectiveness and appropriateness of the arrangements that audited bodies have in place regarding the wider-scope audit. Describing the arrangements in place at an audited body would not be sufficient to meet this responsibility.

80. The requirement for auditors to communicate key audit matters, which apply to listed companies and entities which have adopted the UK Corporate Governance Code in the private sector, applies to annual audit reports prepared under the Code.

Other outputs

81. Other outputs may be required in accordance with guidance produced by Audit Scotland. These other outputs comprise:

- Certification of grant claims prepared by audited bodies.

- Assurance statements for whole of government account returns or other consolidation schedules.
- Reports on summary financial information.

82. Auditors may also produce reports to the audited body, as required and where relevant.

Less complex public bodies

83. The Auditor General or the Accounts Commission may permit an alternative audit approach where an audited body is less complex owing to its size and its limited financial activity. The Auditor General and the Accounts Commission specify in guidance the criteria used to identify a less complex body.

84. A full ISA compliant audit is required at a less complex body unless the Auditor General or Accounts Commission specify an alternative approach as proper practice.

85. The audit of the wider-scope and Best Value in an audited body which meets the definition of a less complex body under the Code may be limited to:

- a review of the Annual Governance Statement
- concluding on the financial sustainability of the body and the services that it delivers over the medium to longer term and; for local government bodies, reporting on the arrangements for securing Best Value.

86. Auditors are required to consider whether there are any audit risks or particular risks to the entity or public interest matters which would make it inappropriate to consider it a less complex body. The auditor will explain the reasons for the audit approach in the annual audit plan and how that aligns with the principles agreed with the Auditor General and the Accounts Commission and published as guidance under the Code.

Best Value reporting

87. The Accounts Commission's approach to Best Value involves reporting on individual local government bodies and thematically across the local government sector through performance reports:

- As part of their integrated wider-scope annual audit work appointed auditors use a risk based approach to assess and report whether the audited body has made proper arrangements for securing Best Value and is complying with its community planning duties, including reporting progress against previous Best Value findings and recommendations ([paragraph 59](#)).

- The Accounts Commission also requires the Controller of Audit to report to the Accounts Commission on each council or Integration Joint Board (IJB) at least once over the five-year audit appointment on the body's performance on its Best Value duty. This enables the Accounts Commission to make findings for improvement where appropriate.
- The Accounts Commission reports nationally on thematic aspects of local government bodies' approaches to, and performance in, meeting their Best Value and community planning duties. Local government appointed auditors report locally on any such Best Value thematic work prescribed by the Accounts Commission.

Performance audit work

88. The Auditor General has powers under Section 23 of the Public Finance and Accountability (Scotland) Act 2000 to initiate examinations into the economy, efficiency and effectiveness of certain bodies or office-holders. The Accounts Commission has powers under Section 97A of the Local Government (Scotland) Act 1973 to undertake studies into, and publish recommendations made on, improving economy, efficiency and effectiveness in the provision of services by local government bodies and Best Value.

89. The Auditor General and the Accounts Commission consider a range of factors when deciding what performance audit work to undertake including the public interest, the amount of money, resources or the scale of the issues and the risks involved, the timeliness of the work and the potential for findings to have wider applicability. Auditors support the Auditor General and Accounts Commission by providing information on risks and other data from their audits.

90. Performance audit work may focus on a particular audited body, a sector (eg, NHS, local government, colleges), or consider broader cross-cutting arrangements to track spending and performance across the whole system of public service delivery. The work often focuses on how different public bodies are working together to improve outcomes and make best use of public resources. The work is produced either by the Auditor General or the Accounts Commission, or jointly. The approach enables the Auditor General and the Accounts Commission to assess how effectively public policy is implemented. The work can also result in other public outputs as part of the work programme, such as public briefings.

91. The Auditor General and the Accounts Commission use feedback from stakeholder engagement and consultation, which includes the Scottish Parliament, the Scottish Government and local government, to inform the themes and proposed topics for performance audit work. The Auditor General is required to take into account any proposals made by the Scottish Parliament when deciding whether to carry out any performance audit work, and the Accounts Commission is required to consult with stakeholders before undertaking any of its performance audit work.

92. Auditors undertake performance audit work in line with relevant INTOSAI standards and guidelines for performance auditing, with due regard to guidance issued on the application of the Code to performance audit work.

Statutory reports on issues arising from the audit

93. Section 22 of the Public Finance and Accountability (Scotland) Act 2000 gives the Auditor General the power to prepare a report on matters arising from the audit of the accounts of a public body for which the Auditor General appoints the external auditor (including the Scottish Government, NHS bodies, colleges and non-departmental public bodies). A summary of these provisions is at [Appendix 3 \(page 34\)](#).

94. The Controller of Audit has a power or may be required by the Accounts Commission to prepare a report on matters arising from the audit of a local government body under Section 102 of the Local Government (Scotland) Act 1973. A summary of these provisions is at [Appendix 4 \(page 36\)](#).

95. Reports made under these powers are known as statutory reports.

Arrangements for statutory reporting

96. During the annual audit, the auditor draws any significant issues arising to the attention of the audited body concerned and to the Auditor General or the Controller of Audit, as appropriate. The auditor also comments on significant issues in the annual audit report. Working in close consultation with the auditor, the Auditor General or the Controller of Audit decides whether a statutory report should be prepared.

97. The auditor works with the Auditor General or the Controller of Audit in preparing the statutory report. The auditor must comply with any guidance issued on the application of the Code to statutory reporting. For Section 22 reports, the Auditor General sends the audited accounts and the Section 22 report to Scottish ministers who arrange for them to be laid before the Scottish Parliament. For Section 102 reports, the Controller of Audit submits the report to the Accounts Commission for its consideration and application of powers described in [paragraph 12](#).


Reporting to the Scottish Parliament or the Accounts Commission

98. The Auditor General has a key role in supporting parliamentary scrutiny of the financial health and performance of the Scottish Government and other government bodies including the NHS and Further Education colleges. Following publication of a Section 22 or 23 report, the Auditor General briefs the Scottish Parliament's Public Audit Committee on the report's findings. Auditors assist the Auditor General when briefing the Scottish Parliament.

99. The Controller of Audit acts independently of the Accounts Commission when preparing Section 102 reports. The Controller of Audit submits a Section 102 report to the Accounts Commission and briefs the Commission on its contents. Auditors assist the Controller of Audit in briefing the Accounts Commission on the content of statutory reports which they have been involved in preparing.

5. Auditors' additional responsibilities or activities

Correspondence – issues of concern

100. All correspondence relating to [issues of concern](#)  is directed to and managed by Audit Scotland in the first instance. In investigating issues of concern, Audit Scotland will have regard to relevant policies for investigating complaints. Auditors support this process.

101. Individuals or organisations contact Audit Scotland where they have concerns about an issue within a public body that falls under the remit of the Auditor General or the Accounts Commission. An issue of concern may be where someone believes that there is a breakdown in financial management or governance, or that there have been irregular transactions.

102. The key factor in determining whether Audit Scotland examines an issue is the relevance of the issue to the Auditor General or the Accounts Commission's role and functions. Audit Scotland and appointed auditors make this judgement using their professional and technical knowledge. They will also take into consideration the costs of carrying out such work to ensure that they use resources efficiently.

103. If the issue of concern does not fall within Audit Scotland's remit it may be redirected to a more appropriate body.

Information returns

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

Public rights of inspection and objection

105. Auditors are required to make arrangements for public inspection and objection to the accounts of local government bodies under Section 101 of the Local Government (Scotland) Act 1973 as set out in [Appendix 5 \(page 40\)](#).

Responsibilities to third parties

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

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

107. Auditors will be mindful of audited bodies' responsibilities and wider regulatory requirements. Audited bodies are responsible for ensuring these responsibilities are met and that there is appropriate liaison with the appointed auditor about timing of regulatory announcements. This does not alter the auditor's duty of care or powers to report in public.

108. Although reports may be addressed to members or managers, they are prepared solely for the use of the bodies referred to above. Appointed auditors do not undertake to have responsibilities to members, directors, accountable officers, managers or the Scottish ministers in their individual capacities, or to third parties.

Requests for auditors' views

109. Audited bodies often seek appointed auditors' views on the regularity, accounting treatment or performance management implications of transactions, or proposed courses of action, before embarking upon them. Appointed auditors are as helpful as possible, but bear in mind that:

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

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

Statutory Performance Information

111. The Accounts Commission issue a Statutory Direction to local government bodies which sets out certain performance information that they are required to publish. Local government auditors are required to satisfy themselves that the council has made proper arrangements for preparing and publishing statutory performance information. Auditors report their findings and conclusions from this work in the Annual Audit Report.

Whistleblowing

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

Appendix 1. Summary of audited bodies' responsibilities

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

Corporate governance

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

Financial statements and related reports

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

- preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation
- maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support their accounts and related reports disclosures
- ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority
- preparing and publishing, along with their financial statements, related reports such as an annual governance statement, management commentary (or equivalent) and a remuneration report in accordance with prescribed requirements

- ensuring that the management commentary (or equivalent) is fair, balanced and understandable.

It is the responsibility of management of an audited body, with the oversight of those charged with governance, to communicate relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework. The relevant information should be communicated clearly and concisely.

Audited bodies are responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at their disposal. They are also responsible for establishing effective and appropriate internal audit and risk-management functions.

Standards of conduct for prevention and detection of fraud and error

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

Maintaining a sound financial position

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

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

Responsibilities for Best Value, community planning and performance

Local government bodies have a duty to make arrangements to secure Best Value. Best Value is defined as continuous improvement in the performance of the body's functions. In securing Best Value, the local government body is required to maintain an appropriate balance among:

- the quality of its performance of its functions
- the cost to the body of that performance
- the cost to persons of any service provided by it for them on a wholly or partly rechargeable basis.

In maintaining that balance, the local government body shall have regard to:

- efficiency
- effectiveness
- economy
- the need to meet the equal opportunity requirements.

The local government body shall discharge its duties under this section in a way which contributes to the achievement of sustainable development.

In measuring the improvement of the performance of a local government body's functions for the purposes of this section, regard shall be had to the extent to which the outcomes of that performance have improved.

The Scottish Government's Statutory Guidance on Best Value (2020) requires bodies to demonstrate that they are delivering Best Value in respect of seven themes:

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

The Community Empowerment (Scotland) Act 2015 is designed to help empower community bodies through the ownership or control of land and buildings, and by strengthening their voices in decisions about public services.

Specified audited bodies are required to prepare and publish performance information in accordance with Directions issued by the Accounts Commission.

For other sectors, the Scottish Public Finance Manual sets out that accountable officers appointed by the Principal Accountable Officer for the Scottish Administration have a specific responsibility to ensure that arrangements have been made to secure Best Value. Accountable Officers are required to ensure accountability and transparency through effective performance reporting for both internal and external stakeholders.

The Police and Fire Reform (Scotland) Act 2012 also places a statutory duty to make arrangements to secure Best Value in carrying out their functions on the Scottish Police Authority; the Chief Constable of the Police Service of Scotland; and the Scottish Fire and Rescue Service.

Internal audit

Public sector bodies are required to establish an internal audit function as a support to management in maintaining effective systems of control and performance. With the exception of less complex public bodies the internal audit programme of work is expected to comply with the Public Sector Internal Audit Standards and, other than local government, requirements set out in the Scottish Public Finance Manual.

Internal audit and external audit have differing roles and responsibilities. External auditors may seek to rely on the work of internal audit as appropriate.

Appendix 2. Appointed auditors' statutory duties and reporting

For bodies within the Auditor General's remit

Appointed auditors' statutory duties are derived from appointment by the Auditor General under the Public Finance and Accountability (Scotland) Act 2000. Appointed auditors' reports (ie, the independent auditor's report in relation to the accounts) must set out the auditor's findings on:

- whether the expenditure and receipts shown in the accounts were incurred or applied in accordance with:
 - any enactment by virtue of which the expenditure was incurred or the income received
 - the Budget Act(s) for the financial year, or any part of the financial year, to which the accounts relate
 - Sections 4-7 of the 2000 Act, relating to the Scottish Consolidated Fund (the Fund)
- where sums have been paid out of the Fund for the purpose of meeting such expenditure, whether the sums were applied in accordance with Section 65 of the Scotland Act 1998
- whether the expenditure and receipts shown in the accounts were incurred or applied in accordance with any applicable guidance (whether as to propriety or otherwise) issued by the Scottish ministers
- whether the accounts comply with any applicable direction by virtue of any enactment.

Appointed auditors must send the accounts, including the independent auditor's report, to the Auditor General who may prepare a statutory report on the accounts under Section 22 of the 2000 Act. Further details on Section 22 reporting are summarised in [Appendix 3 \(page 34\)](#).

For bodies within the Accounts Commission's remit

Appointed auditors' statutory duties for local government bodies are contained within Part VII of the Local Government (Scotland) Act 1973, as amended. These are to:

- audit the accounts and place a certificate (i.e. an independent auditor's report) on the accounts stating that the audit has been conducted in accordance with Part VII of the Act
- satisfy themselves, by examination of the accounts and otherwise, that:
 - the accounts have been prepared in accordance with all applicable statutory requirements
 - proper accounting practices have been observed in the preparation of the accounts
 - the body has made proper arrangements for securing Best Value and is complying with its community planning duties
 - where relevant the body has made adequate arrangements for collecting, recording and publishing prescribed performance information
- hear any objection to the financial statements lodged by an interested person, summarised in [Appendix 5 \(page 40\)](#).

Appointed auditors should also be familiar with the statutory reporting responsibilities in section 102 of the Local Government (Scotland) Act 1973, summarised in [Appendix 4 \(page 36\)](#) including those relating to the audit of the accounts of a local government body.

Appendix 3. Audit reporting and access under the Public Finance and Accountability (Scotland) Act 2000

Section 22 reports – matters arising from the audit

Under Section 22, the Auditor General can prepare a report on matters arising from the audit of the accounts of a public body for which the Auditor General is responsible for auditing. This type of report is known as a Section 22 report.

Reporting under Section 22 enables the Auditor General to bring to the attention of the Scottish Parliament and the public, matters of public interest arising from the audit of the wide range of public bodies for which the Auditor General has audit responsibility. These matters are generally focused on specific issues or concerns that have been raised by the appointed auditor and highlighted in their annual audit report on an audited body. The Auditor General may also decide to prepare a Section 22 report so that progress with issues raised in a previous Section 22 report can be publicly reported.

The issues highlighted in Section 22 reports can vary and the Auditor General considers a range of factors when deciding whether to prepare a Section 22 report including:

- the auditor's opinion on the financial statements and related report, eg the auditor may have highlighted particular issues by modifying their opinion on the financial statements or adding an 'emphasis of matter' paragraph
- materiality, ie the significance of the issue in terms of its value or its impact

- relevance, eg whether the issue is relevant elsewhere within the audited body or across public bodies, whether the issue is of future relevance in that other public bodies may have similar problems or may pursue a similar course of action
- timing, eg how long it has been since the matter arose or whether the issue is a continuing concern
- reporting, eg whether the issue has been reported in public before
- public interest.

Section 23 reports – economy, efficiency and effectiveness

Under this section of the Act, the Auditor General may initiate examinations into the economy, efficiency and effectiveness with which bodies and office-holders have used their resources in discharging their functions.

The range of bodies where the Auditor General can carry out such examinations includes all those where they have responsibility for the annual audit but can also include bodies or office holders, specified in an order, where in a financial year:

- more than a quarter of the income was received from public funds or
- the amount of the income received from public funds exceeded £500,000.

In determining whether an examination under this section is to be carried out, the Auditor General must consider any proposals made by the Parliament. It is for the Auditor General personally to initiate an examination under this section and to decide who is to carry out the examination.

Access to documents and information

Section 24 of the Act covers an auditor's right of access to documents under Sections 21 and 22, or an examiner's rights under Section 23. The auditor or examiner has the necessary right of access to documents and information which they may reasonably require to enable them to discharge their responsibilities.

Auditors and examiners may also require from any person holding, or accountable for, any such document any assistance, information or explanation which they reasonably think necessary.

Appendix 4. Audit reporting and access under the Local Government (Scotland) Act 1973

Section 102 reports – matters arising from the audit

Section 102(1)

Under Section 102(1) of the Local Government (Scotland) Act 1973 the Controller of Audit may, and if required by the Accounts Commission must, submit reports to the Commission about:

- the accounts of local government bodies
- any matters arising from the accounts or auditing of local government bodies that the Controller of Audit considers should be considered by the body or brought to the attention of the public
- the performance of a local government body of their duties relating to Best Value and community planning.

Section 102(2) requires any report under Section 102(1) to be copied to any local government body named in the report and to any other persons named or referred to in the report. with an opportunity provided to make representations to the Controller of Audit on the proposed report and on any of the matters dealt with in it.

Section 102(3)

Having considered any matter arising out of the auditing of the accounts of a local government body and having made such enquiries as the Controller sees fit, in certain circumstances the Controller of Audit may, under Section 102(3), make a special report to the Accounts Commission. A report may be made where the Controller of Audit is of the opinion that:

- an item of account is contrary to law
- there has been a failure on someone's part to bring into account a sum which ought to have been brought into account
- a loss has been incurred or deficiency caused by the negligence or misconduct of a person, or by the failure of a body to carry out a duty imposed on them by any enactment
- a sum which ought to have been credited or debited to one account of a body has been credited or debited to another account and the body has not taken, or is not taking, steps to remedy the matter.

Immediate notification of a significant matter to the Controller of Audit by the appointed auditor should normally be followed by the submission of a detailed report.

Section 102(3A) requires the special report is copied to the local government body and any persons named or referred to in the report with an opportunity provided to make representations to the Controller of Audit on the proposed report and on any of the matters dealt with in it.

The Accounts Commission considers reports by the Controller of Audit and agrees next steps, in accordance with the actions available to it under the legislation. This may include, for example, the Commission directing the Controller of Audit to carry out further investigations, holding a public hearing or stating its findings.

The issues highlighted in Section 102 reports can vary and a range of factors are considered when deciding whether to prepare a Section 102 report, including:

- the auditor's opinions on the financial statements and related reports, eg the auditor may have highlighted particular issues by modifying their opinion on the financial statements or adding an 'emphasis of matter' paragraph
- the auditor may have formed an adverse conclusion or made significant recommendations in respect of a body's compliance with the duty comply with Best Value and community planning responsibilities

- materiality, ie the significance of the issue in terms of its value or its impact
- relevance, eg whether the issue is relevant elsewhere within the public body or across public bodies, whether the issue is of future relevance in that other public bodies may have similar problems or may pursue a similar course of action
- timing, eg how long it has been since the matter arose or whether the issue is a continuing concern
- reporting, eg whether the issue has been reported in public before
- public interest.

Section 97A – reports on improving economy etc. in services

The Accounts Commission has powers under Section 97A of the Local Government (Scotland) Act 1973 to undertake or promote comparative and other studies designed to enable it to make and publish recommendations for:

- the securing by local government bodies of Best Value
- improving economy, efficiency and effectiveness in the provision of services by local government bodies
- improving the financial or other management of local government bodies.

Section 100 – access to documents and information

Section 100 of the Local Government (Scotland) Act 1973 covers an auditor's right of access to documents in the local government sector. An auditor has a right of access at all reasonable times to all such documents relating to the accounts of a local government body that they judge necessary to examine for the purpose of auditing those accounts. Auditors are entitled to require from any officer of that body or any other person holding or accountable for any such document such information and explanation as they think necessary.

Section 97B of the Local Government (Scotland) Act 1973 covers the requirement of bodies and individuals to provide information and documents to the Accounts Commission, including in relation to the Commission's powers under Section 97A of the Act.

Section 105A – studies of benefits administration requested by the Secretary of State

Under section 105A of the Local Government (Scotland) Act 1973, the Accounts Commission, at the request of the Secretary of State, can conduct studies designed to improve economy, efficiency, effectiveness and quality of performance in the discharge by local authorities of functions relating to the administration of housing benefit. Since 2008, following a request from the Department of Work and Pensions, the Accounts Commission has fulfilled its responsibility for reporting on the performance of housing benefit services in Scotland through a programme of audit work (including risk assessments, focused audits and thematic reporting) conducted by Audit Scotland.

Appendix 5. Public rights of inspection and objection under Section 101 of the Local Government (Scotland) Act 1973

The wider public interest to the audit of public money is explained throughout the Code.

For the audit of the financial statements of local government bodies, appointed auditors are required to have regard to the right of citizens under Section 101 to:

- inspect a local government body's accounts, books and records and take copies or extracts thereof
- lodge with the auditor a written objection to those accounts, together with a statement of the grounds thereof
- appear before, and be heard by, the auditor with respect to that objection.

Written objections require to be lodged directly with the local auditor. Appointed auditors advise the Controller of Audit promptly of any objections or submissions received directly. If requested by the objector, the local government body or any officer of the body who may be concerned, the appointed auditor must give the relevant party an opportunity to appear before, and be heard by, the appointed auditor with respect to the objection.

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

Appendix 6. Status of guidance which supplements the Code

Guidance issued by Audit Scotland on behalf of the Auditor General and the Accounts Commission which supplements the Code includes detailed requirements with which the auditor must comply in discharging their responsibilities under the Code, through to material which is intended to inform, rather than direct auditors, to support a shared understanding of the application of the Code.

Guidance issued by Audit Scotland may be updated during the appointment period to reflect new or emerging risks and changes in professional requirements. Appointed auditors and other interested parties are consulted on the content of guidance issued by Audit Scotland where compliance is required in order to achieve a wide understanding of the issues and risks facing audited bodies and the practicalities and costs of implementing the proposed audit response.

Guidance with which auditors are required to comply in performing the responsibilities set out in the Code comprises:

- quality control standards, the Ethical Standard and ISAs (UK) issued by the Financial Reporting Council (or successor body) from the date they become effective (auditors may choose to adopt early where permitted by the FRC)
- guidance from Audit Scotland which supplements the Code and explicitly states that compliance is required. This comprises guidance on planning annual audits and guidance on the Independent Auditors Reports.

Guidance with which auditors are expected to pay due regard, ie an 'apply or explain' basis, comprises:

- applicable practice notes and bulletins issued by the Financial Reporting Council (or successor body)

- guidance from Audit Scotland which assists auditors in performing their responsibilities and explicitly states that auditors should pay due regard to it. This includes guidance to inform audit judgements, and on the application of wider-scope and Best Value audit.

Auditors are also expected to have due regard for and an understanding of the guidance referred to in the Code for which the audited body has responsibility in applying. This includes Statutory Guidance on Best Value issued by the Scottish Government and the Statutory Direction issued by the Accounts Commission on specified performance information.

Glossary

Word or phrase	Definition
Accountable Officer	Accountable Officers have personal responsibility for the propriety and regularity of the finances of the public body for which they are answerable to Parliament, and for ensuring the body's economic, efficient, and effective use of resources. Accountable Officer responsibilities are prescribed in legislation and described in the Scottish Public Finance Manual.
Accountancy firms	The private sector bodies appointed by the Auditor General or the Accounts Commission to deliver audits under the Code. Accountancy firms are required to establish operational separation of their audit practice and accountancy activity by 2024. If subsequent legislation requires full legal separation of audit and accountancy activities the term will apply to audit firms.
Accounts	The suite of financial statements and related reports that must be prepared and published by the relevant body and subjected to audit.
ALEOs	<p>Arm's-length external organisations.</p> <p>Companies, trusts and other bodies that are separate from a local government body but are controlled or influenced by them. The body could do this, for example:</p> <ul style="list-style-type: none"> • by having a representative on the organisation's board and/or • by being the organisation's main funder shareholder. <p>ALEOs can take many forms. They include:</p> <ul style="list-style-type: none"> • companies limited by guarantee or shares • community enterprises, such as industrial and provident societies' trusts • Scottish Charitable Incorporated Organisations. <p>Examples of the services they deliver include leisure, transportation, property development and, more recently, care services. ALEOs are often set up as non-profit-making organisations such as charities to benefit the public in areas such as health, education, recreation, and equal opportunities.</p>

Word or phrase	Definition
Appointed Auditors	External auditors of public bodies appointed by the Accounts Commission under Section 97 of the Local Government (Scotland) Act 1973 or the Auditor General under Section 21 of the Public Finance and Accountability (Scotland) Act 2000. These include appointed auditors in Audit Scotland’s Audit Services Group and appointed private accountancy firms.
Appointment lead	The person responsible for the performance of the audit and for the reports that are issued. The appointment lead on an annual audit is the appointed auditor where it is carried out by Audit Scotland or an individual signing on behalf of an appointed firm. The appointment lead carries the same responsibilities as the engagement partner or engagement lead defined in the ISAs and used in the private sector.
Appointment Period	Audit appointments are usually made for a period of five years, with an option to extend for up to two additional years.
Audit	Work carried out by auditors to meet any of the requirements of the Code.
Audit Quality Framework	The Audit Quality Framework sets out the arrangements for assessing the quality of audit work. The framework is maintained and delivered independently of appointed auditors by Audit Scotland.
Audited body (or body)	A body (or account) for which the Auditor General or the Accounts Commission is responsible for appointing an auditor, comprising the members of the body (eg, elected members of a local government body or executive and non-executive directors of NHS bodies), an accountable officer, management and other officers, as appropriate.
Auditors	Appointed auditors and performance audit and Best Value audit staff collectively.
Best Value Audit	Auditors have responsibility under legislation to provide public assurance on the extent to which local government bodies are meeting their statutory duties. The audit approach is detailed in guidance.
Code (the)	The Code of Audit Practice issued by Audit Scotland and approved by the Auditor General and the Accounts Commission.

Word or phrase	Definition
Controller of Audit	The officer appointed by the Accounts Commission under Section 97(4) of the Local Government (Scotland) Act 1973. The Controller of Audit has statutory reporting functions, in particular those referred to in Appendix 4 (page 36) of the Code.
Ethical Standard	The Ethical Standard issued by the Financial Reporting Council applies to all work performed under the Code.
Financial Reporting Council (FRC)	<p>The body responsible in the UK for issuing auditing and ethical standard and other guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.</p> <p>On 11 March 2019 it was announced that the FRC will be replaced by a new regulator, the Audit, Reporting and Governance Authority (ARGA). References to FRC in the Code should be read to apply to successor bodies as appropriate.</p>
Following the Public Pound Code	In 1996, the Accounts Commission and COSLA published a joint Code of Guidance on Funding External Bodies and Following the Public Pound. Local government auditors are required to review the guidance for auditors when carrying out their work in this area.
Fraud	An intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage.
INTOSAI	International Organisation of Supreme Audit Institutions.
ISAs	International Standards on Auditing (UK) issued by the FRC. ISAs apply to the audit of the accounts and where appropriate to the wider-scope audit.
Local government bodies	Councils, joint boards, committees, pension funds, integration joint boards and other bodies, established under the Local Government (Scotland) Act 1973, as amended.

Word or phrase	Definition
Other (joint) scrutiny bodies	<p>Inspectorates and other public sector organisations that have a role bodies in assessing aspects of organisational performance, compliance with professional standards and the competence of professional staff.</p> <p>In local government, the relevant organisations are listed in Schedule 14 of the Public Services Reform (Scotland) Act 2010 alongside the Accounts Commission. They have a duty to cooperate with each other and, where appropriate, with the Scottish ministers, under the Act.</p>
Regularity (of expenditure and income by virtue of which the expenditure was incurred or the income received)	<p>Whether, subject to the concept of materiality, expenditure and income has been incurred or applied in accordance with (i) any applicable enactment by virtue of which the expenditure was incurred or the income received and guidance issued by the Scottish ministers; (ii) the Budget Act or Acts for the financial year, or any part of the financial year, to which the financial statements relate, and (iii) Sections 4 to 7 of the Public Finance and Accountability (Scotland) Act 2000. Strictly, the legislation refers to receipts rather than income. Where the accounting framework requires audited bodies to account for income this is the term used in independent auditors' reports.</p>
Shared risk assessment (SRA) Local government auditors only	<p>Shared Risk Assessment is designed to identify where scrutiny will make the most difference in terms of helping councils to improve and providing assurance to the public. It also provides a focus for more coordinated engagement between councils and scrutiny bodies. Scrutiny bodies share intelligence and agree scrutiny risks in each of Scotland's councils using the SRA process.</p>
Whole of Government (WGA)	<p>Whole of Government Accounts (WGA) consolidates the audited accounts of over 8,000 organisations across the public sector to produce a comprehensive, accounts-based picture of the financial position of the UK public sector. WGA is based on International Financial Reporting Standards (IFRS Standards), the system of accounts used internationally by the private sector. The larger public sector bodies in Scotland are required to submit a consolidation pack to the relevant Scottish Government directorate, which is based on, but separate from, their statutory accounts.</p>

Code of Audit Practice

2021

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