

Quality of public audit in Scotland

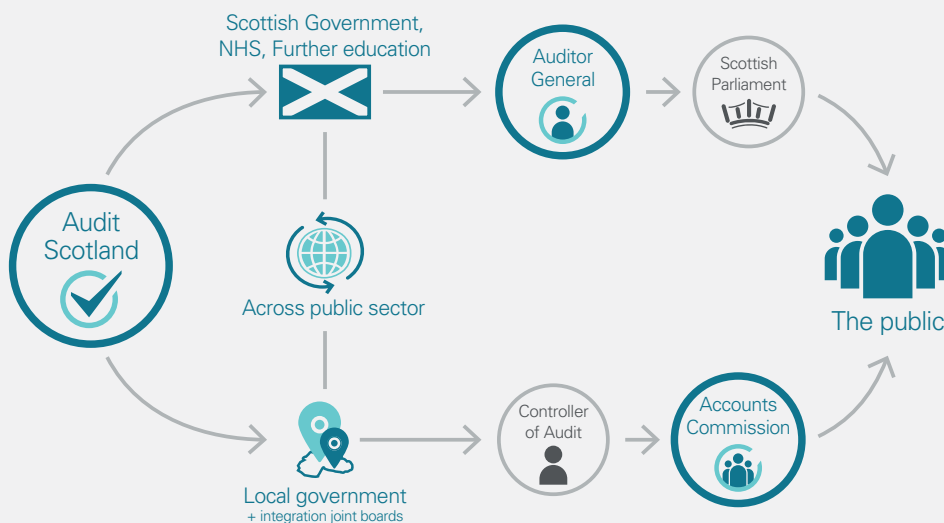
Annual report 2019/20



Who we are

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

- **The Auditor General for Scotland** 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.
- **Audit Scotland** provides services to the Auditor General and the Accounts Commission, and assurance to the people of Scotland that public money is spent properly, efficiently and effectively. This is through a programme of financial and performance audits, and coordination and support of public scrutiny work.



About Audit Scotland

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

- 1.** The Audit Quality Framework is driving improvement in audit quality. Audit Quality and Appointments (AQA) is the independent team responsible for reporting on audit quality. The programme of work carried out under the Audit Quality Framework provides evidence of compliance with auditing standards and the [Code of audit practice](#) (the Code), together with good levels of qualitative performance and some scope for improvements in audit work delivered in the period 1 April 2019 to 31 March 2020.
- 2.** Public bodies have been at the forefront of managing the effects of the COVID-19 pandemic. Public bodies' focus has rightly been on supporting those most affected. Many bodies have new obstacles to overcome as they prepare financial statements and respond to auditors in the coming months. Most of the audit work covered by this report had been completed before the pandemic affected Scotland.
- 3.** Public bodies and auditors are adapting to remote working and the new environment at short notice and it is not yet possible to predict the full impact on audit work. The Auditor General for Scotland and Accounts Commission are revising their work programme, and the Scottish Government has delayed the accounting and auditing deadlines. The Auditor General for Scotland and Accounts Commission recognise that auditors will need to take a pragmatic and flexible approach to their work but are clear that audit quality should not be compromised.
- 4.** The quality of audit work on audits is high and improving. Auditors are engaging with the Audit Quality Framework and addressing previous years' findings, leading to improvements in audit quality.
- 5.** Independent external reviews of audit quality carried out by The Institute of Chartered Accountants of Scotland (ICAS) show evidence of compliance with expected standards and continuous improvement. ICAS has reviewed all auditors and all types audits over the last three years and will now move on to a rolling programme.

 - ICAS did not identify any concerns with audit opinions.
 - 71 per cent of annual audit files reviewed by ICAS over the last three years were assessed as limited improvement required, the remaining reviews were graded as improvement required.
 - ICAS noted considerable improvements in the documentation of performance audits and Best Value assurance reports this year with all reviews assessed as limited improvement. 38 per cent of performance audit and Best Value assurance reports were reviewed by ICAS over the last three years were assessed as limited improvement required, the remaining reviews were graded as improvement required or significant improvements required.
- 6.** Other performance measures showing good performance include:

 - 92 per cent of internal reviews of financial audits in the last three years were assessed as good or limited improvements.
 - Auditors delivered 97 per cent of audit opinions on time and 88 per cent of performance and Best Value audits in the planned quarter.

- All audit providers have a strong culture of support for performing high-quality audit.
- Stakeholder feedback shows an improved level of satisfaction with audit and shows that audit work has had impact.
- Non-audit services (NAS) are declining in number and value and requests made complied with the Auditor General for Scotland and Accounts Commission's NAS policy.

7. AQA monitors progress against areas for improvement. Documentation of audit evidence, particularly of performance audits and Best Value assurance reports has improved. In 2019/20, further areas for improvement were identified in:

- staff views of having sufficient time and resources to deliver high-quality audit despite auditors' efforts to address these concerns
- documenting auditors' professional judgement about sample sizes.

Introduction



Audit Quality and Appointments

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

8. 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 and is led by an Associate Director. AQA does not conduct audit work and is independent from auditors.

9. 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 effective audit quality arrangements to assure the quality of their audit work. The report also highlights areas for further improvement.

Auditor General for Scotland and Accounts Commission

10. The Auditor General for Scotland is responsible for central government, NHS and further education college audits, while the Accounts Commission is responsible for local government audits, including integration joint boards. Both appoint auditors to conduct the financial audits under the Code, which in local government includes Best Value. The Auditor General for Scotland and Accounts Commission [publish](#) performance and Best Value audits under their statutory responsibilities.

11. The Auditor General for Scotland and Accounts Commission have adopted a joint [Code of audit practice](#), a rigorous joint procurement process that is independent of the individual audited bodies, and a joint [Audit Quality Framework](#).

12. The Auditor General for Scotland and the Accounts Commission's governance of audit quality is of fundamental importance to their roles. AQA provides an interim report to both during the year, with details of actions taken in response to findings. The findings of the interim report supplemented by further work by AQA are summarised in this annual public report.

The Audit Quality Framework

13. Producing high-quality audit work is critical in delivering Audit Scotland's ambition for world class audit. The [Audit Quality Framework](#) establishes working arrangements that go beyond regulatory requirements and provide assurance over all audit work and providers, including Best Value and performance auditing. The Audit Quality Framework complements Public Audit in Scotland and the Code.

These documents require auditors to comply with the highest professional standards, including [International Standards on Auditing \(UK\)](#) (ISAs (UK)) and the Financial Reporting Council's Ethical Standard. The Audit Quality Framework ensures there is greater consistency in measuring audit quality across all audit work.

14. AQA applies the Audit Quality Framework across all audit work and providers to assess and improve audit quality. The Audit Quality Framework recognises the high level of public scrutiny of the audit profession and the role of auditors. AQA carries out direct reviews of work delivered by Audit Scotland and the firms and draws evidence from independent reviews carried out by The Institute of Chartered Accountants of Scotland (ICAS), Mark Diffley Consultancy and Research (MDCR) surveys and other independent sources.

15. ICAS carries out independent assurance reviews covering financial audit, performance audit and Best Value work. The reviews include annual coverage of the work carried out by Audit Scotland auditors and all appointed firms over the five-year appointment. MDCR carries out independent surveys on the perception of audit by recipients of audit to provide robust data about the views of stakeholders. These independent arrangements are a significant part of assessing audit quality and provide the highest level of assurance to all stakeholders.

16. The Audit Quality Framework directs the programme of work on which this report is based. The Audit Quality Framework strengthens audit quality arrangements at several levels through:

- independent external assurance across all audit work improving comparability and robustness
- consistency of approach across all audit work and providers
- transparent and contextual reporting of audit quality work.

17. This report provides an assessment of audit quality in terms of the key roles, the inputs and the outputs as described in the diagram below.



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 was refreshed in 2019 to take account of the findings from the first 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 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 Auditor General for Scotland and the Accounts Commission began consulting on a new Code of Audit Practice to accompany a new round of audit appointments. Preparations were well under way before the COVID-19 pandemic which resulted in significant disruption for public bodies and their capacity for financial reporting, and to auditors of the public sector. Due to this, the Auditor General for Scotland and the Accounts Commission for Scotland intend to extend the current audit appointments by one year.

21. The audit profession remains under scrutiny after high profile corporate collapses in the private sector. The [Brydon review](#) into the quality and effectiveness of the UK audit market proposes a significant reassessment of audit. Sir John Redmond is currently reviewing the quality of local authority financial reporting in England and external audit. 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.

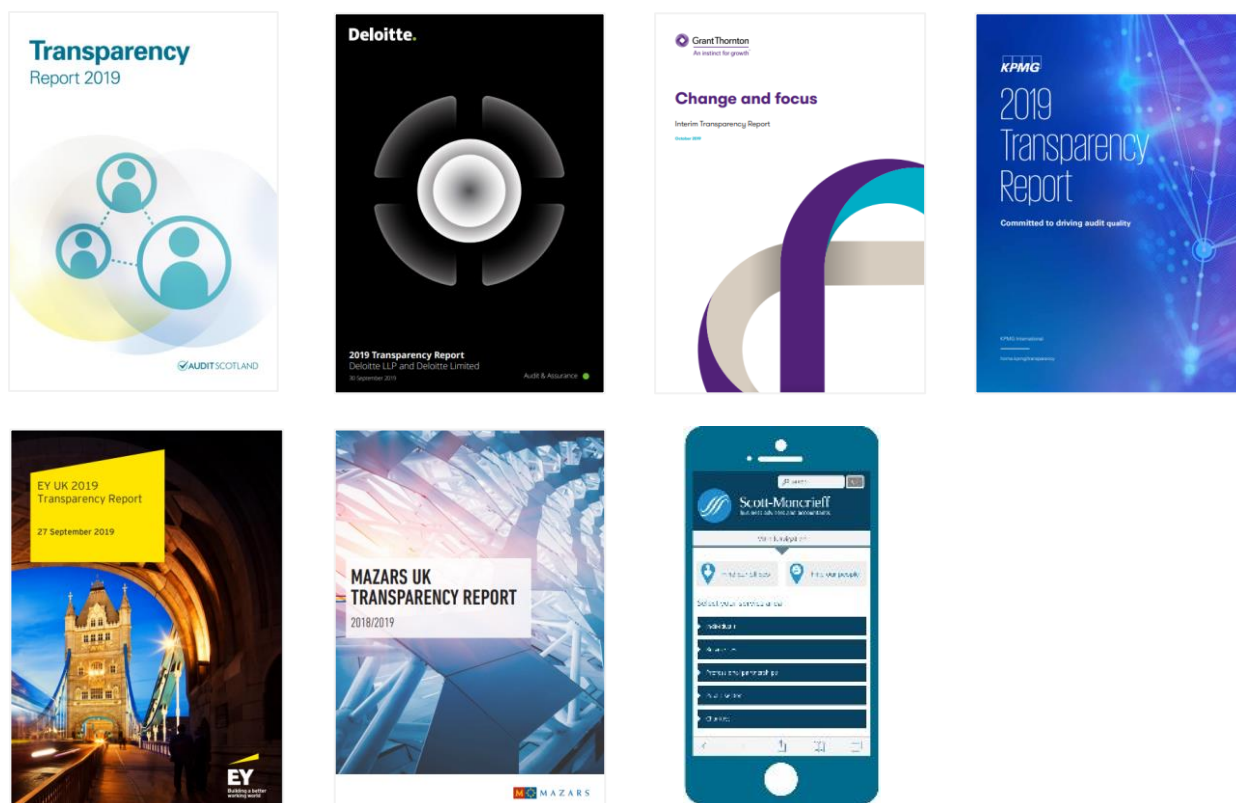
22. Public audit in Scotland is well placed to meet the challenges arising from the reviews of the auditing profession. It already operates many of the proposed features to reduce threats to auditor independence including:

- independent appointment of auditors by the Auditor General for Scotland and Accounts Commission
- rotation of auditors every five years
- independent fee-setting arrangements and limits on non-audit services
- a comprehensive Audit Quality Framework.

Audit Scotland and appointed firms

23. 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 Deloitte, EY, Grant Thornton, KPMG, Mazars and Scott-Moncrieff. Performance audit work is carried out by Audit Scotland auditors.

24. Each appointed firm has its own arrangements for ensuring audit quality for financial audits. Their arrangements vary but are all consistent with [International Standard on Quality Control 1](#). Further information about their audit quality arrangements is available in their Transparency reports.



Audited bodies

25. Public sector auditors in Scotland audited 224 2018/19 accounts for 217 [public organisations](#) in 2019/20, including the Scottish Government, the NHS in Scotland and local authorities. These organisations spend over £43 billion of public money every year.

217

Public bodies audited 2019/20



68

Central government bodies and Scottish Parliament



73

Joint boards and committees



32

Councils



23

NHS



21

Further education colleges

Inputs

26. 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

27. 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 Financial Reporting Council's Ethical Standard to avoid any actual or perceived conflicts of interest.

28. All auditors allocate staff to audits or put in appropriate controls to ensure that potential conflicts of interest do not arise. ICAS completed a programme of reviewing all auditors' ethics arrangements under International Standard on Quality Control 1 as part of their review programme and did not highlight any concerns.

Non-audit services

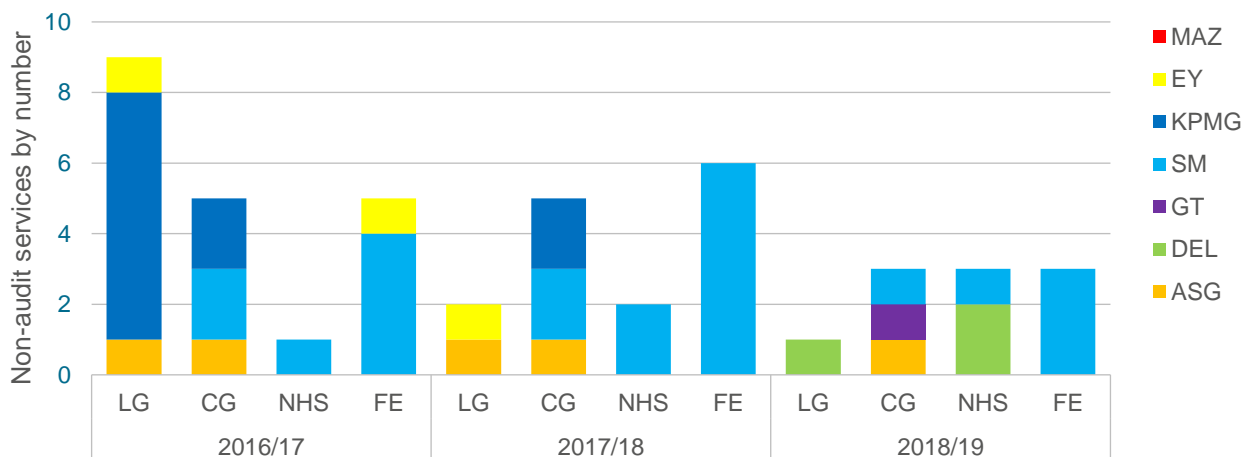
29. Auditors may undertake some non-audit services for the bodies they audit. The Auditor General for Scotland and Accounts Commission have explained what non-audit work is permissible and how it should be approved in a [policy statement](#).

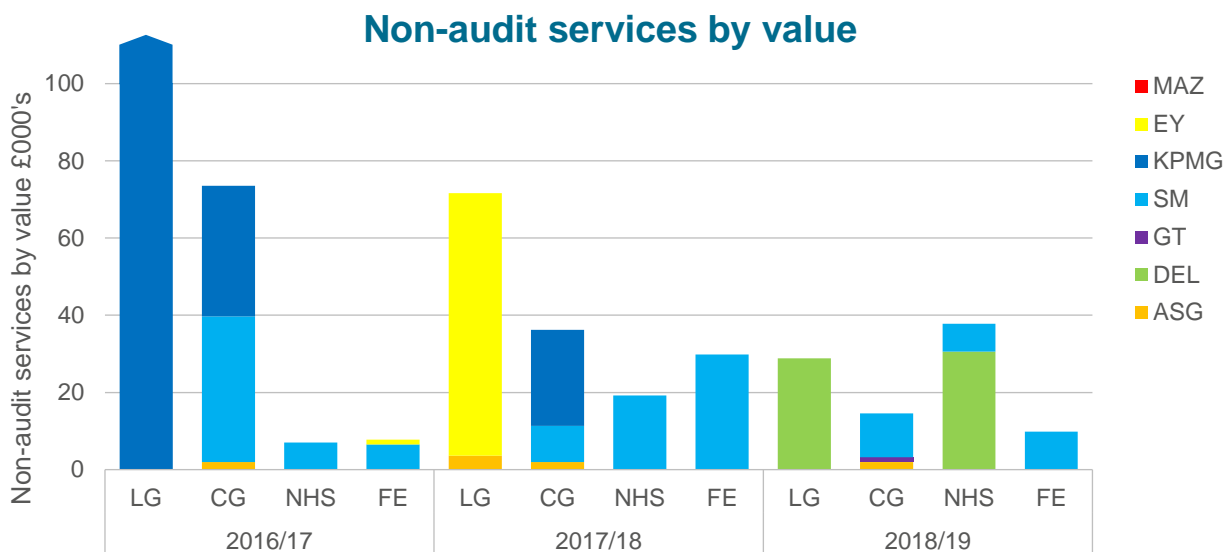
30. Auditors carried out permitted non-audit services to a value of £94k representing 0.5 per cent of total fees during the 2018/19 audits (£157k representing 0.8 per cent of total fees during 2017/18 audits) without compromising their independence. The number and value of non-audit services being carried out by auditors has been steadily declining over the last three years.

31. AQA only approved work that clearly complied with the Ethical Standard and the 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 £94k (0.5% of total fees) during the 2018/19 audits

Non-audit services by number





Knowledge, experience and time

32. 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.

33. 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.

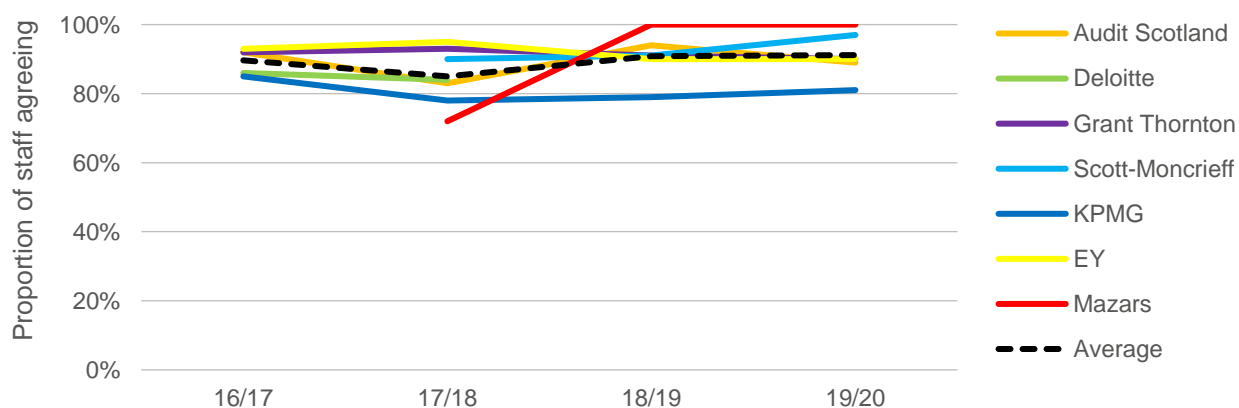
34. The results show that there is a strong culture of support for performing high-quality audit across all auditors, with the decline seen in 17/18 reversed in 18/19 and maintained in 19/20. Auditors remain broadly positive about the adequacy of training.

35. There is significant concern among staff, particularly in Audit Scotland and EY, 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, although there is some improvement in Grant Thornton and Scott-Moncrieff. All other indicators show that staff continue to deliver high quality audit work despite this concern.

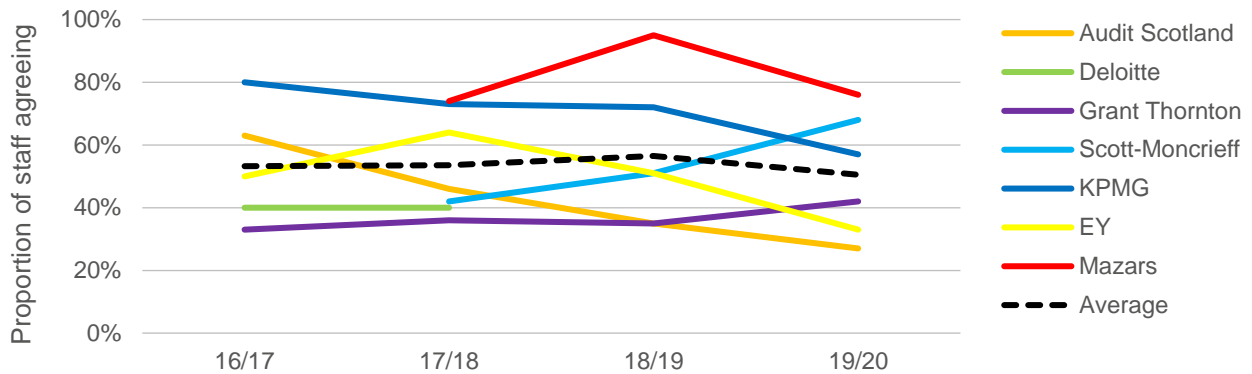
There is a strong culture of support for performing high-quality audit across all auditors.

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

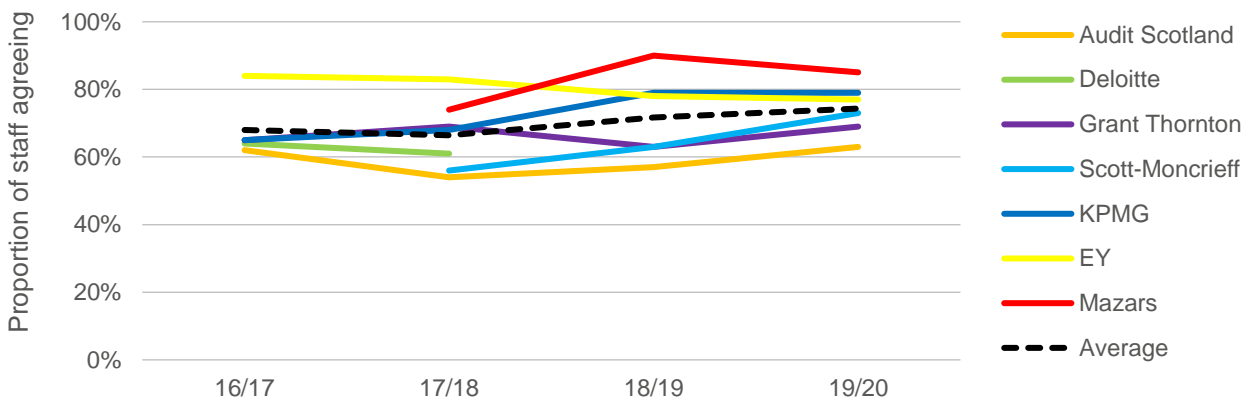
I am encouraged to carry out a high quality audit



The time and resources available to me enables the delivery of a high quality audit



The training and development I receive enables a high quality audit



Notes:

1. 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 (Your Voice), sent to a representative sample of the firm. To date, Deloitte have insufficient data to enable any meaningful metrics in respect of these questions.

Qualifications

36. 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.

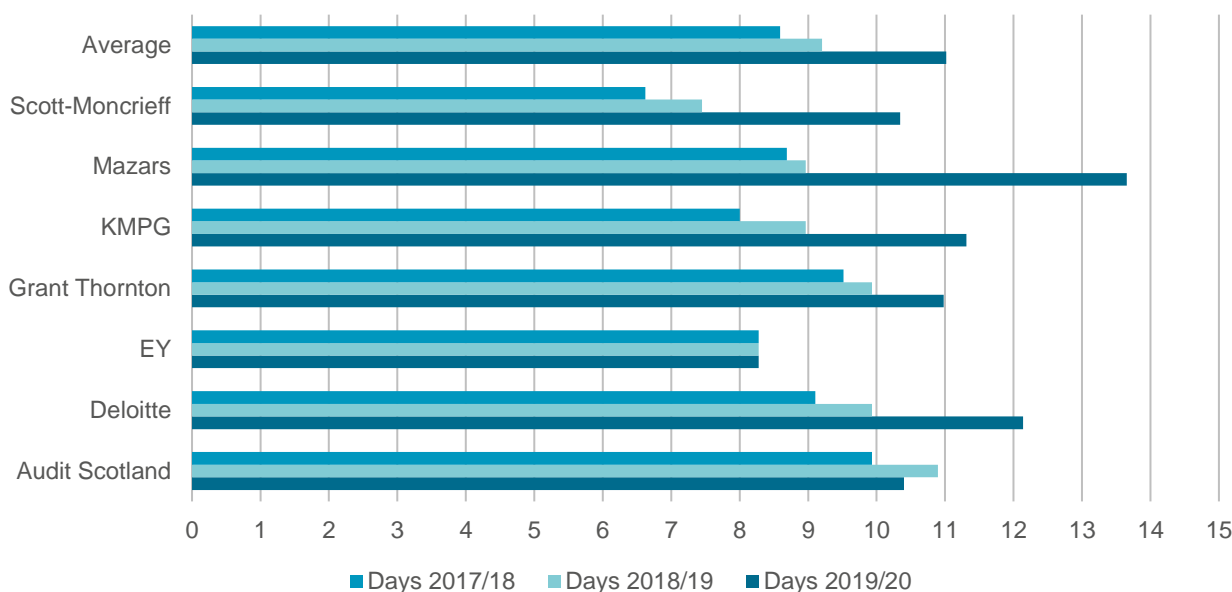
Audit work is carried out by appropriately trained and qualified individuals.

37. 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. 22 per cent (17 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

38. 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.

Training days



Note: Scott Moncrieff's total excludes wider Continuous Professional Development undertaken by staff.

39. 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 11 days per member of staff (9.2 days in 2018/19).

40. 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.

Considerable investment is being made in staff training with an overall average of 11 days per member of staff.

Audit process and quality control arrangements

Organisation-wide audit quality arrangements

41. 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 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.

42. 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 consideration.

All auditors are complying with ISQC (UK) 1.

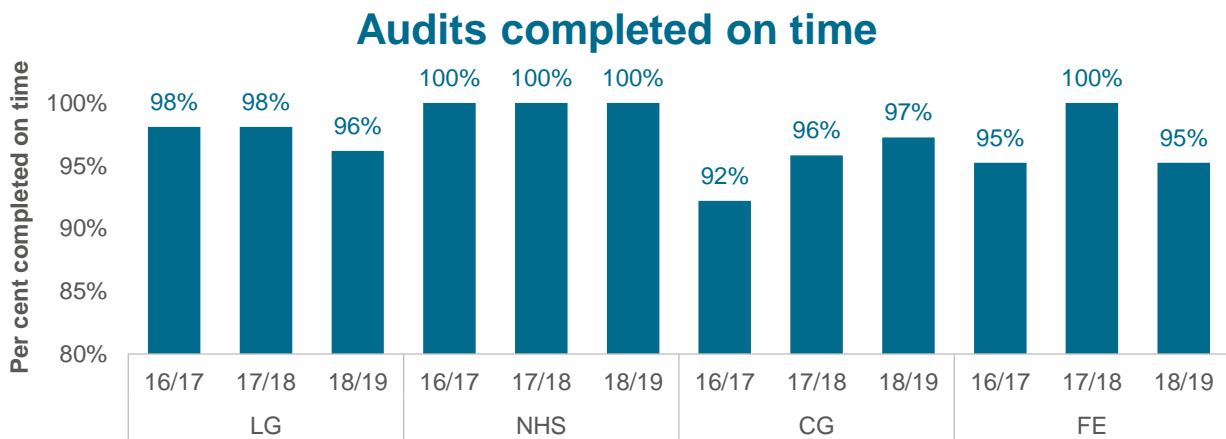
43. Audit Scotland reviewed and refreshed the Audit Management Framework in 2019 and developed more detailed guidance, templates and checklists to ensure all performance audit work complies with the International Organisation of Supreme Audit Institutions (INTOSAI) standards for performance auditing. The Audit Management Framework covers each key stage of an audit from project selection, audit design, fieldwork and reporting through to post-audit review and impact assessment.

Outputs

Reporting

Timeliness of financial audit work on 2018/19 accounts

44. Audit Scotland sets deadlines 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 deadlines but recognises that in some circumstances, events beyond their control can cause the deadlines to be missed. Auditors' performance in meeting the deadlines for 2018/19 audits and the previous two years is shown in the graph below.



45. Auditors completed 97 per cent of their audits on time. In all cases, the auditors completed their work in sufficient time for the audit to be completed on time or were unable to because of difficulties within the audited body.

Auditors completed 97 per cent of their audits on time.

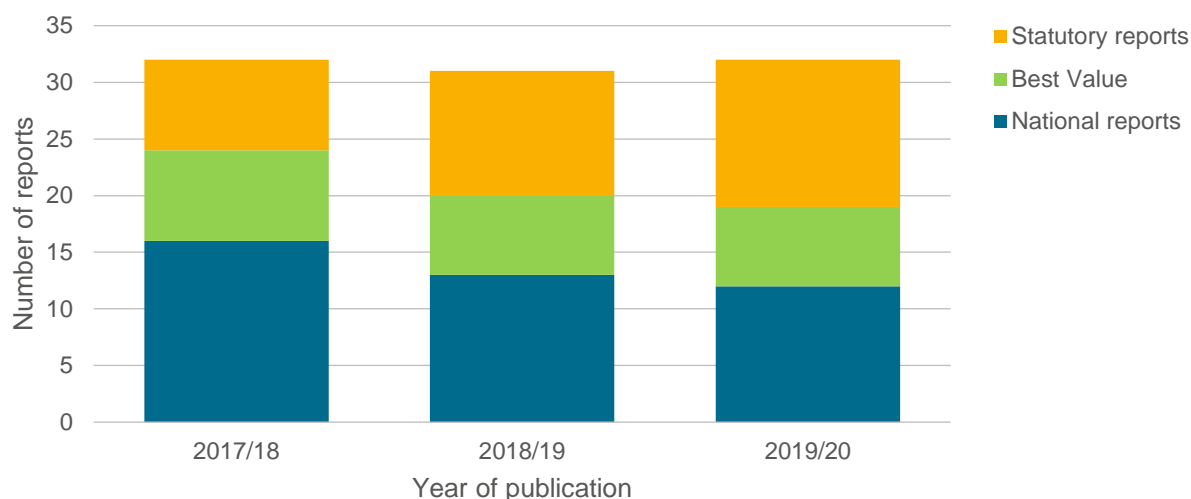
Modification of audit opinions

46. 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.

47. Auditors did not modify their audit opinions on the accounts being true and fair in 2018/19 (none in 2017/18). There was one instance where an auditor qualified their opinion on the regularity of expenditure because they were unable to obtain sufficient appropriate evidence about the extent to which an expenditure stream was in accordance with legal provisions. There were five instances where the auditor reported by exception (four in 2017/18). 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. One auditor reported that adequate accounting records had not been kept in the year.

Publication of performance audit and other reports

48. The Auditor General for Scotland and Accounts Commission have a five-year rolling work programme that covers a range of public sector bodies and services. The number of statutory reports published on behalf of the Auditor General for Scotland and Accounts Commission published each year continues to grow.



49. Audit Scotland published 88 per cent of national performance audits, Best Value reports and statutory reports in the planned quarter during 2019/20 (94 per cent 2018/19). The reporting restrictions during the general election in December 2019 led to delays in publishing reports, without which 91 per cent would have published on time.

Quality monitoring

Cold reviews

50. 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.

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	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. In such circumstances some remedial action may be requested to address the issues identified and to confirm that the audit opinion remained appropriate.

51. The samples of financial audits reviewed ensure that all auditors who sign an opinion are reviewed at least once in a three-year cycle and cover all sectors and sizes of audit.

52. 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.

53. 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.

54. 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.

55. 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. Only internal financial audits have met the 80 per cent target, but all types of review are improving.

Type of review	Current 3 year cumulative at target ¹	Previous year's 2 year cumulative at target ²
Independent (ICAS) financial audit	61%	55%
Independent (ICAS) performance and Best Value audits	38%	0% ³
Internal financial audits	82%	78%
Internal performance and Best Value audits	50%	40%

Notes:

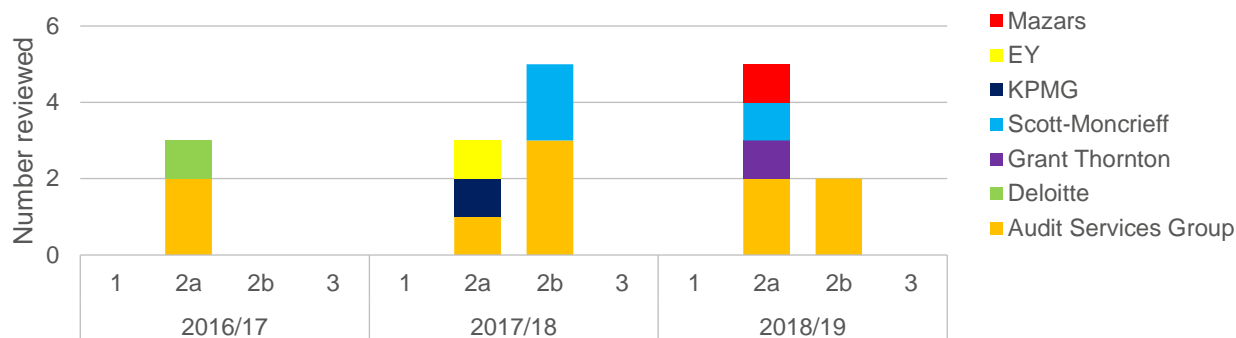
1. The changes to the numbers of audits falling within each grading from year to year reflect a wide range of factors, which may include the size, complexity and risk of the individual audits selected for review and the scope of the individual reviews. For these reasons changes in the cold review results 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.
2. This year is the third year of the Audit Quality Framework so is the first year that a three-year cumulative position can be reported. Last year's cumulative position only reports two years.
3. All PABV reports reviewed by ICAS in the first two years were assessed as either improvement required or significant improvement required.

Independent external reviews

56. 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.

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

ICAS inspection results: Financial audits



57. ICAS did not identify any concerns with audit opinions. ICAS assessed 71 per cent of financial audits reviews this year as limited improvements required (2a, 38 per cent of 2017/18 financial audits). ICAS assessed 61 per cent of financial audits as limited improvements required over the last three years.

ICAS did not identify any concerns with audit opinions.

58. ICAS graded two audits as improvements required in 2018/19. The main reasons for the improvements required (2b) were not obtaining enough evidence for the file (ISA 500) on payroll costs or the occurrence and authorisation of general expenditure items.

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

- As noted in previous years, Audit Services Group files did not all sufficiently document the professional judgement about sample sizes in all areas.
- Audit files did not all sufficiently document the level of assurance through reliance on other Audit Services Group audit team(s).

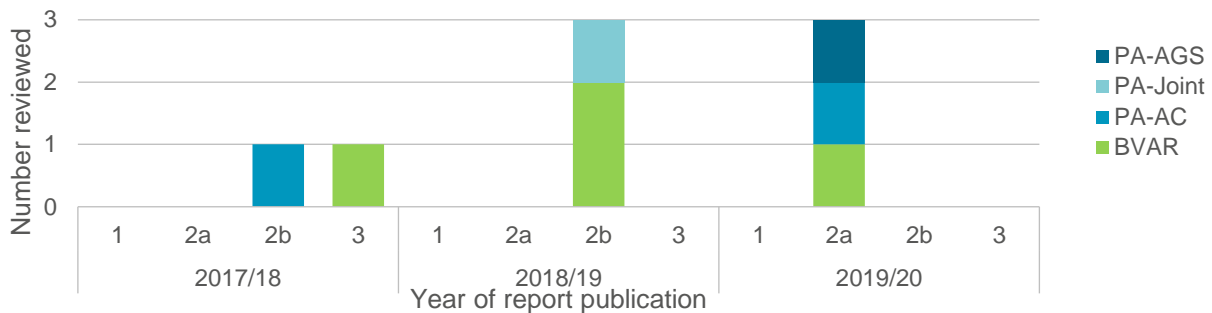
60. ICAS selected two audits from different providers that had also been selected for an internal cold review in the last two years. ICAS' assessments identified similar findings demonstrating that internal cold reviews provide a fair assessment of the quality of audits.

Internal cold reviews provide a fair assessment of the quality of audits.

61. This provides assurance that the quality of audit work on 2018/19 financial audits is high and improving. Auditors are engaging with the ICAS inspections and addressing previous years' findings, leading to an improvement in audit quality.

Audit work on 2018/19 financial audits is high and improving.

ICAS inspection results: performance and Best Value audits



62. ICAS assessed the Best Value assurance report and two performance audits this year as limited improvements required 2a, (3 at improvements required in 2018/19), and recognised the considerable improvements made since the 2016/17 and 2017/18 audits were reviewed. This means that ICAS assessed 38 per cent of PABV audits as limited improvements required over the last three years.

Considerable improvements have been made since the 2016/17 and 2017/18 audits were reviewed.

63. ICAS highlighted further improvement to Best Value assurance report files, and the measures taken to address the issues raised in previous years have been positive in promoting better documentation and linkage from scoping through to reporting.

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



ICAS conducted a review of a sample of financial statement audit; performance audit; and BVAR engagements.

With regards the financial statement audit engagements, whilst a small number of files contained areas where audit work and evidence could have been improved, the majority of audit work across files was assessed as being of an acceptable standard, where the planning sections were comprehensive and included a significant amount of information and background; the completion sections were found to be comprehensive; and financial statement disclosures were generally found to be well-presented. Whilst a number of positive points were noted on each file, there were file specific matters identified and, more pertinently, common underlying causes that would warrant focus going forward, including the documentation of audit sampling; and documentation where reliance is placed on the work of other audit teams. There has also been evidence of improvement against prior year matters, with the majority of repeat issues being of a minor nature only.

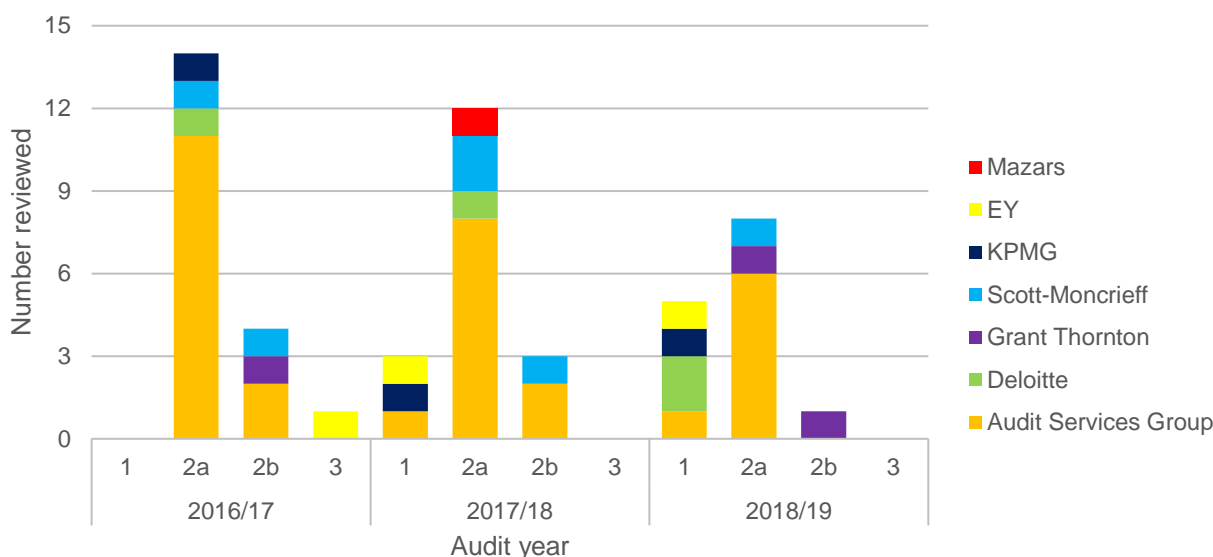
On the performance audits reviewed there were no significant issues with regards compliance with the Audit Scotland Audit Management Framework. Whilst there were instances where documented evidence of review and recording of work performed could have been improved, there was evidence of significant and continuous improvement against the findings from previous years.

Similarly, a number of improvements were demonstrated on the review of a BVAR engagement. Whilst there were areas where documentation could have been improved, there was evidence that the measures taken to address issues raised in previous years have been positive in promoting better documentation and linkage from scoping through to reporting.

Internal reviews conducted by Audit Scotland and appointed firms

65. Auditors reviewed 15 audits representing six per cent of 2018/19 audits (17 audits representing eight per cent of 2017/18 audits). 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.

Internal inspection results: Financial audits



66. Reviewers did not identify any concerns with audit opinions. Reviewers assessed 93 per cent of financial audits as good or limited improvements required (1 or 2a, 83 per cent of 2017/18 financial audits). Reviewers assessed 82 per cent of the internal financial audits as good or limited improvements required over the last three years.

Reviewers did not identify any concerns with audit opinions.

67. Reviewers identified scope to improve in documenting the audit and, in the case of Audit Services Group, sampling and substantive analytical procedures.

68. 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



69. 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 50 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

70. 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](#). Auditors carried out an appropriate number of hot reviews which all confirmed that the correct opinions on financial statements were being given.

71. Performance Audit and Best Value carried out three hot reviews in late 2019. These were thematic based and focussed on the new auditing requirements set out within the revised Audit Management Framework, specifically risk assessment, audit planning and budgeting and developing the methodological approach to the audit. Across all hot reviews, there was a good level of compliance with the Audit Management Framework.

There was a good level of compliance with the new requirements of the Audit Management Framework.

External and internal reviews and investigations

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

73. AQA received one complaint relating to audit quality in 2019/20 and completed that review and one that was received in the previous year. AQA did not uphold either complaint. The AQA investigation into the second complaint identified audit procedures that should be improved to comply with ISAs (UK). An audit quality improvement plan was agreed with the auditor to address this finding. The number of complaints is too small to draw wider conclusions about audit quality. It does however provide a basis for ensuring that matters are appropriately considered within the overall Audit Quality Framework.

Improvement feedback for auditors

74. 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

75. 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 high level of compliance with the Code on auditor reporting.

76. The review identified that some auditors need to be clearer when reporting on their annual conclusion on the effectiveness of arrangements in councils and Integration Joint Boards to secure Best Value. This Best Value conclusion should be separately reported and not be included within the Value for Money audit dimension.

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

Impact

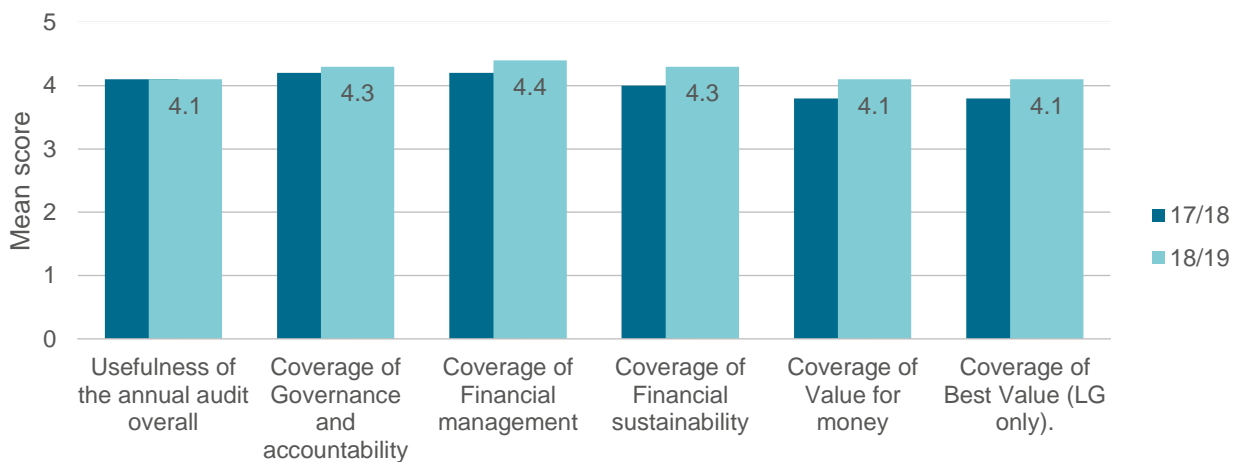
Audited bodies' views on audit work

77. MDCR surveyed 222 individuals in audited bodies to gather feedback on the 2018/19 financial audits, performance audits, overview reports and Best Value assurance reports published in the past year and received 159 responses (35 per cent, 46 per cent 17/8). 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'.

Financial audit

78. The high-level conclusions on the usefulness of the annual audit and appropriate coverage of the wider scope responsibilities are very positive, with stakeholders' perception of wider scope coverage all improving on last year.

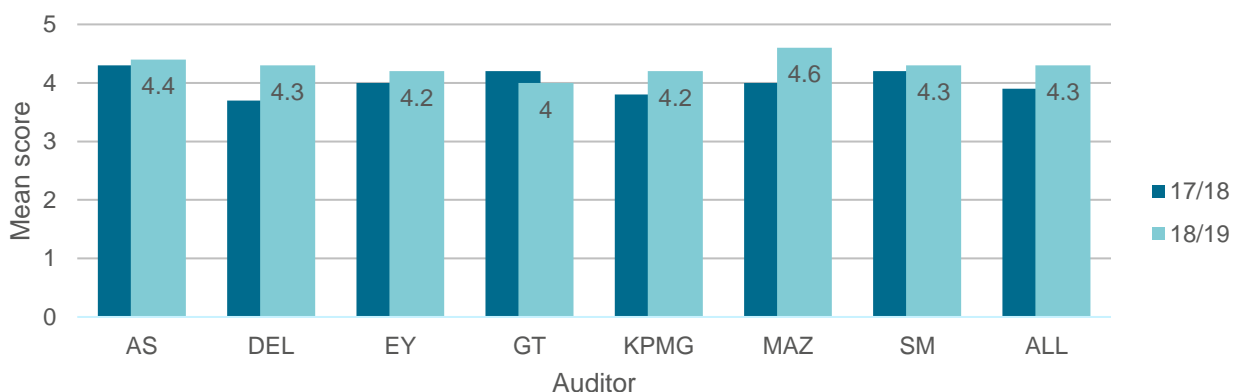
High level summary



79. Perceptions of the usefulness of the annual audit overall were positive, consistent with the 2019 findings. Almost all respondents (92 per cent) felt that the annual audit was useful in providing assurance to their organisation, a majority (82 per cent) felt that the annual audit was useful to the organisation overall and three quarters (76 per cent) reported that it was useful in focusing on the areas an organisation needs to improve.

80. Despite being the source of the largest positive improvement, views on the usefulness of the annual audit in helping organisations to deliver improvement remain mixed, with only two thirds (67 per cent) feeling that the annual audit was useful in this regard.

Quality of audit team

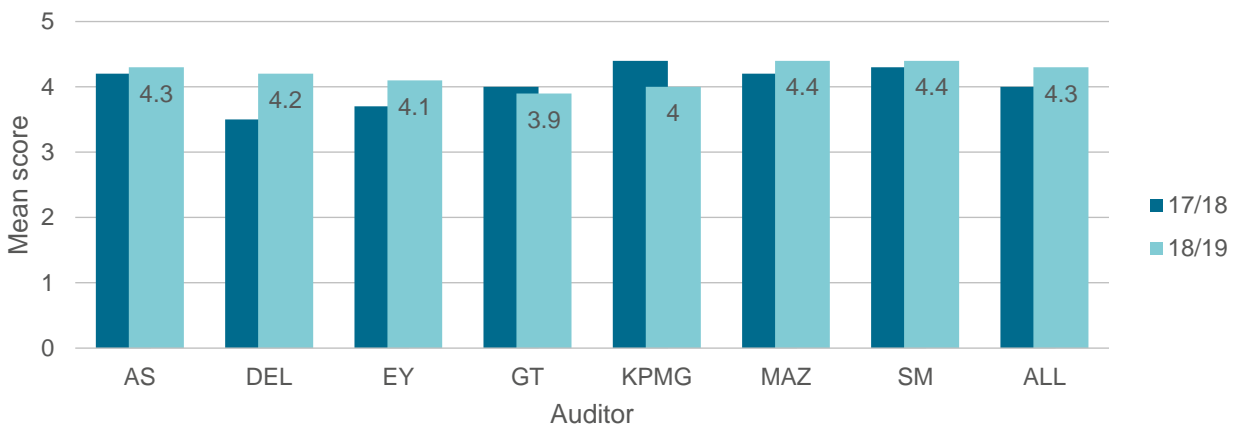


81. Audited bodies expressed consistently positive views about the quality of the audit teams. Understanding of organisations (86 per cent respondents responded as good or very good) has seen the biggest positive increase since 2019, while perceptions of performance at Committee meetings (89 per cent) and the performance of the team overall (86 per cent) continue to score highly.

82. Despite the general overall improvements across all aspects of feedback, there has been an 11-percentage point decline in views on communication throughout the audit. Three quarters (75 per cent) still believe teams performed very or fairly well with respect to communication.

<p>“Providing more timely feedback on material issues arising and not saving these until late in the audit programme”</p> <p>Local Government</p>	<p>“The team changed significantly, including a late change of audit manager. This did not impact significantly but did require some adjustment.”</p> <p>Further Education</p>	<p>“Very impressed generally with the approach and professionalism of the team.”</p> <p>Central Government</p>
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Quality of the annual audit report



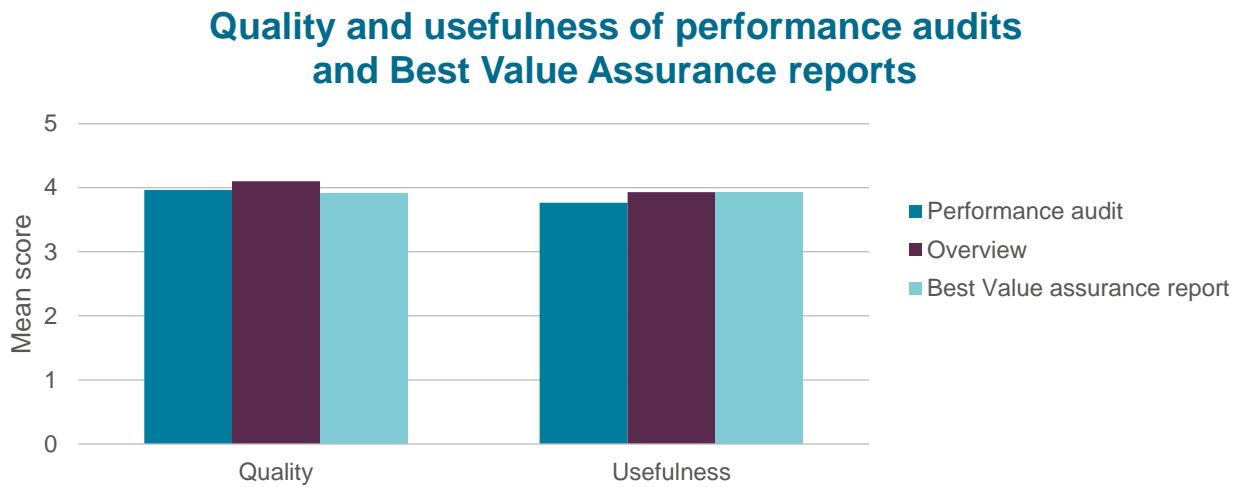
83. Audited bodies expressed consistently positive views about the quality of annual audit reports. High scoring aspects of the annual audit report, as with last year, were the coverage of financial management (92 per cent respondents responded as good or very good); being useful to the organisation overall (89 per cent); covering governance and accountability appropriately (89 per cent); and being well written (87 per cent).

84. Value for money (76 per cent) and best value (67 per cent) remain the lowest scoring aspects of the annual audit report.

<p>“The audit report read well and provided members with good assurance.”</p> <p>Local Government</p>	<p>“Report was precise and relevant with excellent recommendations”</p> <p>Central Government</p>	<p>“There was some ambiguity in the way that the report was written.”</p> <p>NHS</p>
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Performance audit and Best Value assurance reports

85. Audited bodies expressed positive views on the quality and usefulness of performance audits, Best Value assurance reports and overview reports.



86. Respondents were given the opportunity to add comments for each report. These were consistent with the scores. Many respondents commented positively on how the reports are easy to read, use graphics well and provide useful context. Some questioned how much reports applied to their specific situation. AQA has provided the feedback to audit teams to consider whether there is scope to further improve.

87. This is the second year of this set of survey questions. These will be monitored over time to assess how perception of audit changes over time.

Areas for improvement and future focus

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

89. Auditors have made improvements since the 2018/19 Audit Quality Annual Report:

- fully revised the Audit Management framework to ensure compliance with the International Organisation of Supreme Audit Institutions (INTOSAI) auditing standards for performance audits
- improved the quality of documentation, especially in performance audits and Best Value assurance reports
- some improvement in the use of analytical procedures.

90. Work carried out under the Audit Quality Framework has highlighted areas where further improvement may be possible to support the Auditor General for Scotland and Accounts Commission's drive towards world class audit. AQA will monitor improvement areas identified this year. The evidence will be used in discussion with all audit providers to focus on areas for improvement including:

- continued focus on the application of sampling methodology
- documenting the level of assurance through reliance on other Audit Services Group audit teams
- continued focus on audit work on the narrative statements in the annual accounts
- further work to consider the actions necessary to address staff views on the time and resources available to deliver high quality audit
- provide greater clarity on conclusions of local authorities' arrangements for Best Value in annual audit plans and annual audit reports.

91. AQA refreshed the Audit Quality Framework and key performance indicators in 2019. Further development is planned over the following years to include:










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









92. The COVID-19 pandemic may result in some bodies being unable to invest the resources to prepare accounts and contribute to auditors not meeting deadlines. AQA will recognise this context. The FRC has [highlighted](#) that the current situation should not undermine the delivery of high-quality audits. Audits should continue to comply fully with required standards. In current circumstances, additional time may be required to complete audits and it is important that this is taken, even at the risk of delaying company reporting.

93. Auditors' access to evidence in support of their 2019/20 audits may be limited in some cases. It is possible that the current circumstances lead to more modified opinions in auditor's reports than would typically be the case. Should auditors need to modify their opinions, they will provide context to explain the reasons.

Appendix

Key performance indicators

Value of non-audit services carried out during the audit year. (paragraphs 29-31)	Steady or declining value	£91k representing 0.4 per cent of total fees during the 2018/19 audits (£155k representing 0.8 per cent of total fees during 2017/18 audits)	
Percentage of audit providers confirming compliance with ethical guidance. (paragraph 27)	100%	100%	
Percentage of audit staff with appropriate qualifications and in training. (paragraphs 36-37)	100%	100%	
Number of training and development days delivered per member of staff. (paragraphs 39-40)	Steady or increasing	11 (9.2 2018/19)	
Percentage of cold reviews showing good compliance with auditing standards. (paragraphs 50-69)	80% Cumulative over 3 years	ICAS financial audits: 61% Internal financial audits: 82% ICAS PABV audits: 38% Internal PABV audits: 50%	
Percentage of audits completed on time. (paragraphs 44-45)	95%	97%	
Percentage of audits with material prior period adjustments due to error. (n/a)	Less than 10%	4.5%	
Percentage of Performance Audit and Best Value assurance reports published in the planned quarter. (paragraphs 48-49)	90%	88% 91% if adjusted for reporting restrictions from December election	
Perception of the usefulness of the audit overall (paragraphs 78-79)	4/5	4.1	

Perception of the appropriateness of coverage of			
i. Governance and accountability	4.0	4.3	
ii. Financial management	4.0	4.4	
iii. Financial sustainability	4.0	4.3	
iv. Value for money	4.0	4.1	
v. Best Value (LG only).	4.0	4.1	
(paragraphs reference: 79-80)			
Perception of the quality of:			
i. Overview reports	4.0	4.1	
ii. Performance audits	4.0	4.0	
iii. BVARs	4.0	3.9	
Perception of the impact of:			
i. Overview reports	4.0	3.9	
ii. Performance audits	4.0	3.8	
iii. BVARs	4.0	3.9	
(paragraphs 85-87)			
Number of complaints on audit quality upheld	0	0	
(paragraph 73)			
Staff survey results on:	Steady or increasing		
a) I am encouraged to carry out a high-quality audit		91% (91% 2018/19)	
b) The time and resources available to me enables the delivery of a high-quality audit		48% (57% 2018/19)	
c) The training and development I receive enables a high-quality audit.		71% (72% 2018/19)	
(paragraphs 33-35)			

Quality of public audit in Scotland

2019/20

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ISBN 978 1 913287 24 5