

Code of audit practice

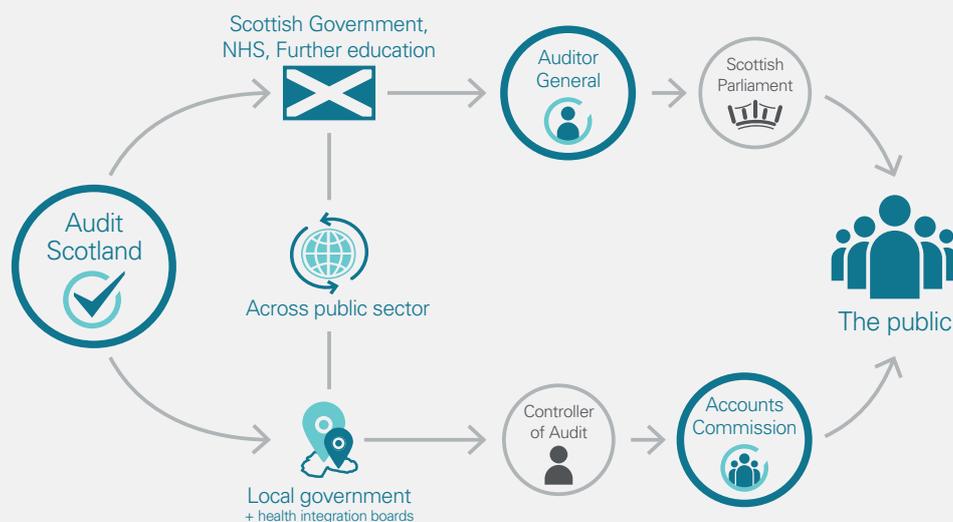
2016



Who we are

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

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



About us

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

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

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

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Foreword

The public sector landscape in Scotland will continue to change significantly with the greater powers and responsibilities being devolved to the Scottish Parliament for taxation and social security.

The public sector will continue to face challenging financial and demand pressures. New ways of providing services are being developed including the creation of Integration Joint Boards for health and social care which marks a significant shift in the planning and delivery of these major services.

As we set out in [Public audit in Scotland](#) , public audit helps create a strong and effective system of financial accountability and transparency which supports the best use of public money in the public interest. Public audit provides independent assurance that public money is spent properly and is providing value for money thereby supporting effective decision-making.

This new Code of audit practice sets the framework for public audit in Scotland. The Code requires auditors to comply with the highest professional standards including International Standards on Auditing and ethical standards.

The Code now requires auditors to provide conclusions on the four dimensions of wider-scope public audit: financial sustainability, financial management, governance and transparency, and value for money. The audit work on the dimensions will help meet stakeholder expectations of audit and also help to focus auditors' work in support of the Accounts Commission's evolving new approach to auditing Best Value. This involves an increasingly integrated approach that will make more use of the work that auditors carry out so that they add value for audited bodies and are better placed to address the challenges that they face.

The Code is a high-level document and will be supplemented by more detailed guidance which will reflect changing priorities and auditing developments and support auditors to provide consistently high-quality audits.



Caroline Gardner
Auditor General for Scotland



Douglas Sinclair
Accounts Commission Chair

Introduction

Background

1. The Code of audit practice (the Code) outlines the responsibilities of external auditors appointed by the Auditor General for Scotland and the Accounts Commission and it is a condition of their appointment that they follow it.
2. The Code also describes the scope of public audit in Scotland where audit work is undertaken by appointed auditors, performance audit and Best Value audit staff from Audit Scotland or jointly depending on the nature and timing of the work.
3. The Code forms part of the wider context in which the conduct of public audit in Scotland takes place.
4. This Code applies to external audits for financial years starting on or after 1 April 2016. It replaces the Code issued in May 2011.

Context for public audit in Scotland



Note: 1. The standard letters of appointment will be published on Audit Scotland's website. These letters cover all the contractual elements and responsibilities to be followed by appointed auditors when undertaking audits for the Auditor General and the Accounts Commission including relevant environmental, sustainability and other matters.

Responsibility for public audit in Scotland



5. The Auditor General and the Accounts Commission are responsible for securing the external audit of most public sector bodies in Scotland. They work closely together and, by looking at issues across boundaries, aim to maximise the effectiveness of audit work. Audit work is carried out by Audit Scotland staff and appointed auditors including private firms.

The Auditor General for Scotland

6. The Auditor General for Scotland is an independent Crown appointment, made on the recommendation of the Scottish Parliament. 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 (the 2000 Act) for appointing the external auditors of most public bodies in Scotland outside the local government sector, and reporting on their financial health and performance. The following bodies fall within the Auditor General's remit:

- the Scottish Government, its agencies and its non-ministerial departments

- Scottish Parliamentary Corporate Body and other directly funded bodies
- Crown Office and Procurator Fiscal Service
- National Health Service bodies
- further education colleges
- Scottish Water
- commissioners and ombudsmen
- non-departmental public bodies (eg, Scottish Enterprise) and others.

8. Audited annual financial statements including the independent auditors' reports, and reports by the Auditor General where the Auditor General decides these are appropriate, 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 the relevant public bodies have used their resources in discharging their functions.

The Accounts Commission for Scotland

10. The Accounts Commission for Scotland is an independent public body with its members appointed by Scottish ministers to hold local government to account. The Accounts Commission has five main responsibilities:

- Securing the external audit, including the audit of Best Value and Community Planning. The Commission appoints auditors to councils, local government joint boards and committees, and integration joint boards under the Local Government (Scotland) Act 1973.
- Following up issues of concern, highlighted through the audit, to ensure satisfactory resolutions.
- Carrying out or promoting national performance audits to improve the economy, efficiency and effectiveness of local government or securing best value.
- Issuing directions to local authorities which set out the range of performance information that they are required to publish.
- To coordinate the scrutiny of local government in Scotland.

11. The Accounts Commission has the power to report and make recommendations to Scottish ministers and audited bodies, and it can hold hearings. If it considers that there has been illegality or financial loss due to negligence or misconduct, the Accounts Commission may impose sanctions including censure, suspension or disqualification of members from office.

12. The Controller of Audit post is established by statute with functions involving reporting to the Accounts Commission on the accounts of local authorities and the performance by a local authority of their duties under Best Value and Community Planning. The Controller of Audit acts independently of the Accounts Commission when making judgments in reports.

Audit Scotland and firms

13. Audit Scotland provides services to the Accounts Commission and the Auditor General, including carrying out audit work and supporting them in appointing auditors. It is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair and two non-executive members who are appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament. Audit Scotland also provides guidance and support to appointed auditors and, on behalf of the Auditor General and the Accounts Commission, monitors their performance through a rigorous quality-appraisal process. Once appointed, auditors act independently in carrying out their responsibilities and in exercising professional judgement.

14. Audits of financial statements are carried out by appointed auditors, who are either Audit Scotland staff or firms appointed by the Auditor General or the Accounts Commission. Performance audits and Best Value audits are typically led by Audit Scotland staff working with, and drawing on the work of, appointed auditors where appropriate.

Framework for public audit

Principles of public audit

15. The principles of public audit are shared across the UK and are based on:

- the independence of auditors from the bodies that they audit
- a wider scope which reaches beyond financial statements into judgements on governance, financial sustainability and performance
- public reporting of audit findings and recommendations.

16. This Code provides a framework for auditors to make a difference and support improvement in public services. This framework defines the scope of public audit and explains how audit work and audit outputs are to be delivered and help stakeholders understand the value of audit.

How public audit makes a difference



Responsibilities of audited bodies

17. The 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.

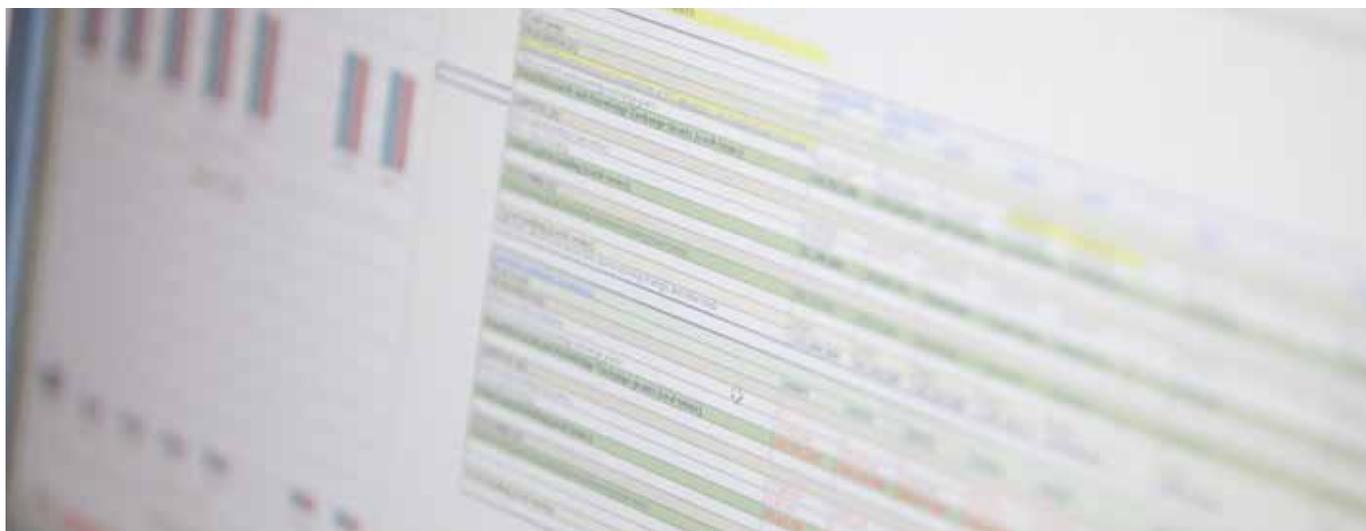
Corporate governance

18. 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

19. Audited bodies must prepare an annual report and accounts containing 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 financial statements 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
- maintaining proper accounting records
- preparing and publishing, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements. Management commentary should be fair, balanced and understandable and also clearly address the longer-term financial sustainability of the body.



20. Further, 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.

21. 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

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

Financial position

23. 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.

Best Value

24. Local authority bodies have a statutory duty, under the Local Government (Scotland) Act 1973 and associated statutory guidance, to make arrangements to secure best value through the continuous improvement in the performance of their functions. In securing best value, local authorities must maintain a balance of quality and cost considerations and have regard, among other things, to economy, efficiency and effectiveness (or 'value for money') and the need to meet equal opportunity requirements and contribute to the achievement of sustainable development. The Community Empowerment (Scotland) Act 2015 will have implications for the Audit of Best Value. This Act 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 also have to prepare and publish performance information in accordance with directions issued by the Accounts Commission.

25. 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.

26. 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.

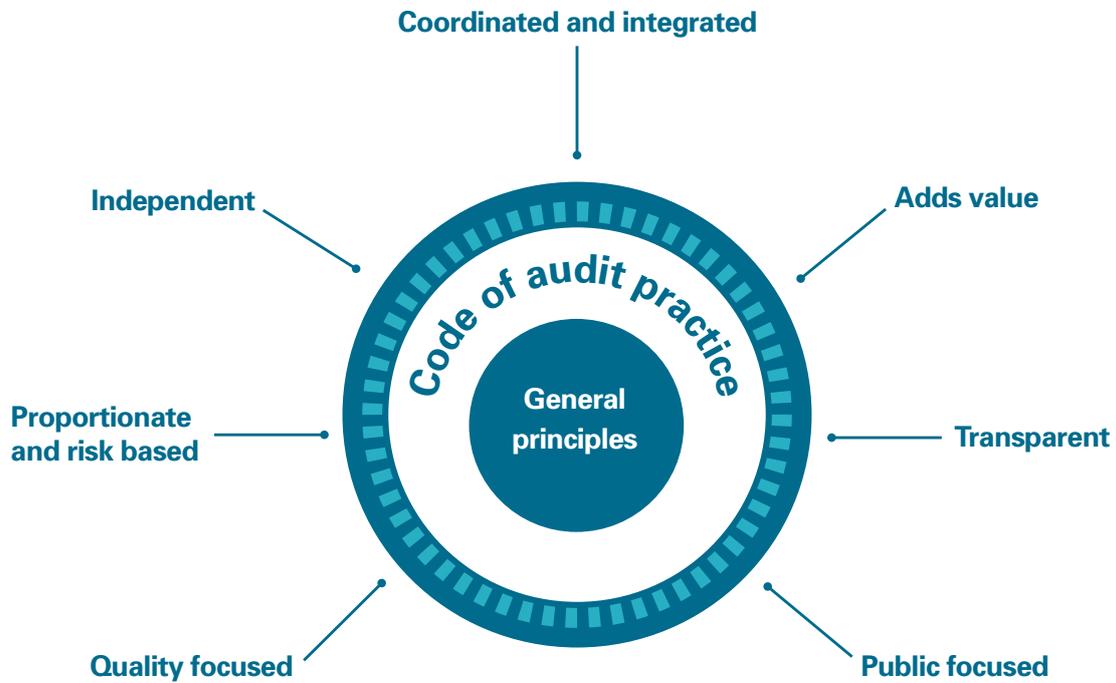
Appointed auditor responsibilities

27. Auditor responsibilities are derived from statute, this Code, International Standards on Auditing (UK and Ireland), professional requirements and best practice and cover their responsibilities when auditing financial statements and when discharging their wider scope responsibilities. These are to:

- undertake statutory duties, and comply with professional engagement and ethical standards
- provide an opinion on audited bodies' financial statements and, where appropriate, the regularity of transactions
- review and report on, as appropriate, other information such as annual governance statements, management commentaries, remuneration reports, grant claims and whole of government returns
- notify the Auditor General or Controller of Audit when circumstances indicate that a statutory report may be required¹
- participate in arrangements to cooperate and coordinate with other scrutiny bodies (local government sector only)
- demonstrate compliance with the wider public audit scope by reviewing and providing judgements and conclusions on the audited bodies':
 - effectiveness of performance management arrangements in driving economy, efficiency and effectiveness in the use of public money and assets
 - suitability and effectiveness of corporate governance arrangements
 - financial position and arrangements for securing financial sustainability
- and additionally for local authority auditors:
 - effectiveness of arrangements to achieve best value
 - suitability of arrangements for preparing and publishing statutory performance information.

28. Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work in accordance with the Code, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

General principles



29. This Code is designed such that adherence to it will result in an audit that exhibits these principles.

Independent

30. When undertaking audit work all auditors should be, and should be seen to be, independent. This means auditors should be objective, impartial and comply fully with the Financial Reporting Council's (FRC) ethical standards and any relevant professional or statutory guidance. Auditors will report in public and make recommendations on what they find without being influenced by fear or favour.

Proportionate and risk based

31. Audit work should be proportionate and risk based. Auditors need to exercise professional scepticism and demonstrate that they understand the environment in which public policy and services operate. Work undertaken should be tailored to the circumstances of the audit and the audit risks identified. Audit findings and judgements made must be supported by appropriate levels of evidence and explanations. Auditors will draw on public bodies' self-assessment and self-evaluation evidence when assessing and identifying audit risk.

Quality focused

32. Auditors should ensure that audits are conducted in a manner that will demonstrate that the relevant ethical and professional standards are complied with and that there are appropriate quality-control arrangements in place as required by statute and professional standards.

Coordinated and integrated

33. It is important that auditors coordinate their work with internal audit,² Audit Scotland, other external auditors and relevant scrutiny bodies to recognise the increasing integration of service delivery and partnership working within the public sector. This would help secure value for money by removing unnecessary duplication and also provide a clear programme of scrutiny activity for audited bodies.

Public focused

34. The work undertaken by external audit is carried out for the public, including their elected representatives, and in its interest. The use of public money means that public audit must be planned and undertaken from a wider perspective than in the private sector and include aspects of public stewardship and best value. It will also recognise 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. The Accounts Commission has recently updated its auditor guidance on its Following the Public Pound (FtPP) Code to reflect its ongoing interest in this area. Compliance with the FtPP Code will be considered as part of the new approach to auditing Best Value. Auditors 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 being spent and to report on this in the public interest.

Transparent

35. Auditors, when planning and reporting their work, should be clear about what, why and how they audit. To support transparency the main audit outputs should be of relevance to the public and focus on the significant issues arising from the audit.

Adds value

36. It is important that auditors recognise the implications of their audit work, including their wider scope responsibilities, and that they clearly demonstrate that they add value or have an impact in the work that they do. This means that public audit should provide clear judgements and conclusions on how well the audited body has discharged its responsibilities and how well they have demonstrated the effectiveness of their arrangements. Auditors should make appropriate and proportionate recommendations for improvement where significant risks are identified.

Scope of public audit



Background

37. Public audit as described in this Code is a combination of specific legal requirements, professional requirements, best practices as applied to public interest entities in the private sector and the requirements arising from this Code that are designed to ensure that public audit adds value for audited bodies, the public and their elected representatives.

38. Audit work is carried out in an integrated way with work undertaken to provide evidence for one objective being used to inform others.

Bases of public audit

Requirements:

Statutory



Best practice



Adds value



Examples:

- Opinions on the financial statements and regularity
- National performance audits and Best Value audits

- Opinions on management commentaries, remuneration reports and governance statements

- Public reporting of audit findings
- Wider scope reporting

Responsibility for audit

39. On behalf of the Auditor General and the Accounts Commission, Audit Scotland leads and coordinates the delivery of public audit in Scotland in consultation with key stakeholders to ensure that it is focused, integrated and proportionate.

40. Auditors appointed by the Auditor General for Scotland or the Accounts Commission are responsible for giving an opinion on the financial statements and reporting on other related matters. Audit Scotland provides technical support to appointed auditors in respect of these responsibilities to inform their professional judgement.

41. Appointed auditors will work in partnership with Audit Scotland performance audit and Best Value audit staff in discharging their wider scope responsibilities. These teams have a key role in developing and delivering national performance and Best Value audit work.

42. For all sectors, except local government, performance audit reports are approved by the Auditor General and many of them are considered by the Scottish Parliament, particularly the Public Audit Committee. The Accounts Commission receives reports prepared by the Controller of Audit on the audit and performance of local authorities. These reports are usually published together with the stated findings of the Accounts Commission.

43. The appointed auditors for each audit will report annually to those charged with governance on the results of their work covering both the financial statements and the wider scope audit.

44. Within each five-year audit appointment period there will be at least one report on Best Value for each council concluding on their performance relating to best value characteristics and improvements. These reports will be informed by the work carried out by the appointed auditors in the intervening years.

Audit of financial statements and related matters

45. For the purposes of the Code, the scope of the financial statements audit work is set by International Standards on Auditing (UK and Ireland) and Ethical Standards for Auditors as issued by the FRC. All appointed auditors are required to comply with these standards.

46. Appointed auditors are required to give an opinion on the financial statements as to:

- whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
- whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
- the regularity of the expenditure and income (not required for local government).

47. In some areas the application of the International Standards on Auditing (ISAs) have been interpreted to meet the additional requirements of public sector audit. The relevant ISAs are referred to in this Code and summarised in the glossary.

48. ISA include certain requirements relating to the auditor's consideration of fraud. The nature of public sector organisations means that there are specific fraud risks that are relevant to a public sector audit which should be considered when applying ISA 240. These include taxation receipts, welfare benefits, grants and other claims made by individuals and organisations on the public purse.

49. Appointed auditors should consider the risks and the arrangements put in place by audited bodies to ensure that all material revenue is identified and collected and that material payments are made correctly. Appointed auditors should use their professional judgement when assessing all the risks within individual audited bodies and whether they are significant, relevant or rebuttable.

50. In line with the Companies Act 2006 requirements that apply in the private sector, appointed auditors are also required to give opinions on remuneration reports, annual governance statements, and whether the management commentaries are consistent with the disclosures in the accounts.

Wider scope audit

51. Legislation creates further responsibilities for the audit of the public sector in Scotland which form the basis for the wider scope of public audit in Scotland. These are:

- The Public Finance and Accountability (Scotland) Act 2000 gives the Auditor General the right to initiate examinations into the economy, efficiency and effectiveness with which audited bodies and certain other bodies have used their resources to discharge their functions. The results of such examinations may be presented to the Scottish Parliament and considered by its Public Audit Committee.
- The Police and Fire Reform (Scotland) Act 2012 gives the Auditor General the right to initiate examinations into the arrangements made by the Scottish Police Authority; the Chief Constable of Police Service of Scotland; and the Scottish Fire and Rescue Service to secure best value.
- The Local Government (Scotland) Act 1973 requires the Accounts Commission to undertake or promote comparative and other studies designed to make recommendations for:
 - the securing by local authorities of best value
 - improving economy, efficiency and effectiveness in the provision of services by local authorities
 - improving the financial or other management of such authorities.
- The Local Government (Scotland) Act 1973 places a duty on the auditors of local government bodies to be satisfied that proper arrangements have been made for securing best value and complying with responsibilities relating to Community Planning.
- The Local Government Act 1992 requires auditors of local government bodies to review and report on the arrangements that specified audited bodies have made to prepare and publish performance information in accordance with directions issued by the Accounts Commission.

52. This Code recognises the increasingly high expectations the public has about the role of audit in the stewardship of public funds. It defines the wider scope of public audit as going beyond the financial statements to include work that contributes to audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability.



53. The planned audit work should, however, be risk based and proportionate to the nature and size of an audited body. Where the application of the full wider scope is judged by auditors not to be appropriate to an audited body then annual audit work on the wider scope should be undertaken that enables conclusions to be made on the:

- appropriateness of the disclosures in the governance statement
- financial sustainability of the body and the services that it delivers over the medium to longer term.

54. Audit Scotland will include guidance on the application of the wider scope audit requirements in its annual guidance to auditors.

55. If, in the case of a small body, an appointed auditor identifies that there is particular risk or public interest in a wider scope issue beyond these areas then the auditor must contact Audit Scotland to discuss the issue and agree an appropriate response.

Audit dimensions and Best Value

56. The Auditor General, the Accounts Commission and Audit Scotland have agreed four audit dimensions that frame the wider scope audit work into identifiable audit areas. The statutory financial statements audit will be the foundation and source for the majority of the audit work necessary to support the judgements and conclusions made by appointed auditors on these dimensions. These dimensions will be used to report where auditors are adding value or having an impact.

57. All appointed auditors must consider these audit dimensions when scoping, planning, performing, and reporting their work. The dimensions are set out in the diagram below.

58. In the local government sector, the appointed auditor’s annual conclusions on these four audit dimensions will contribute to an overall assessment and assurance on best value. Across the five-year audit appointment these conclusions will provide an indication of whether the audited body is demonstrating that it is securing best value through the continuous improvement in the performance of its functions. Supplementary guidance will provide further details on this.

59. The following section describes each dimension and the high-level audit work to be considered by appointed auditors when undertaking their annual audit.

Four audit dimensions to be used when planning and reporting the audit



Financial sustainability

60. Appointed auditors consider ISA 570, including that auditors consider the appropriateness of the use of the going concern basis of accounting, as part of their annual audit of the financial statements. In particular, auditors would consider that if the period to which those charged with governance have paid particular attention in assessing going concern is less than one year from the date of approval of the financial statements, and those charged with governance have not disclosed that fact, the auditor is required to do so within the auditor's report.

61. Going concern is a relatively short-term concept looking forward 12 to 18 months from the end of the financial year. Financial sustainability interprets this requirement and looks forward to the medium (two to five years) and longer term (longer than five years) to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

62. Audit work would include reviewing, concluding and reporting on areas such as:

- the effectiveness of the financial planning systems in identifying and addressing risks to financial sustainability across the shorter and longer terms
- the appropriateness of the arrangements put in place to address any identified funding gaps and whether the body can demonstrate that these arrangements are working
- whether the body can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

Financial management

63. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

64. Audit work would include reviewing, concluding and reporting on areas such as:

- whether the audited body has arrangements to ensure systems of internal control are operating effectively
- whether the body can demonstrate the effectiveness of the budgetary control system in communicating accurate and timely financial performance

- how the audited body has assured itself that its financial capacity and skills are appropriate
- whether the body has established appropriate and effective arrangements for the prevention and detection of fraud and corruption.

Governance and transparency

65. Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making, and transparent reporting of financial and performance information.

66. Audit work would include reviewing, concluding and reporting on areas such as:

- whether the body can demonstrate that the governance arrangements are appropriate and operating effectively (including services delivered by, or in partnership with, others such as ALEOs)
- whether there is effective scrutiny, challenge and transparency on decision-making and financial and performance reports
- the quality and timeliness of financial and performance reporting.

Value for money

67. Value for money is concerned with using resources effectively and continually improving services.

68. Audit work would include reviewing, concluding and reporting on areas such as whether:

- the body can provide evidence that it is demonstrating value for money in the use of resources
- the body can demonstrate that there is a clear link between money spent, outputs and the outcomes delivered
- the body can demonstrate that outcomes are improving
- there is a sufficient focus on improvement and the pace of it.

Integration of the audit dimensions into the annual audit

69. The audit dimensions should be considered by appointed auditors when:

- identifying significant audit risks at the risk assessment and audit planning stage
- reporting the work done on obtaining assurances over these risks and dimensions
- making recommendations for improvement.

70. Where appointed auditors have identified significant wider scope risks during the planning process these should be included in a plan, having regard to the appropriate audit dimensions, together with the audit work that will be undertaken to address these risks.

71. All annual audit reports should include a summary on each dimension that states any work done in the year by the appointed auditor and the assurances, risks and any good practice that they have identified. A simple description of the arrangements in place is not sufficient. Appointed auditors should provide clear judgements and conclusions on the effectiveness and appropriateness of the arrangements in place based on any work that they have done. If there are still significant risks, appointed auditors should make recommendations for improvement.

72. By reporting against the dimensions in their annual audit reports, auditors will have discharged their wider scope responsibilities under this Code.

73. Audit Scotland will use the audit outputs to support the development of performance audits; to inform further work; to report to the Parliament and the Accounts Commission; and to share good practice.

Planning and performing the annual audit



Introduction

74. Auditors should plan and perform their audit work in accordance with ISAs, this Code and additional guidance prepared by Audit Scotland. This guidance will be informed, as appropriate, by the following:

- Accounts Commission Strategy
- Auditor General priorities
- Audit Scotland's Corporate Plan.

Planning

75. Audit planning is an ongoing process which evolves in response to changes in audit risk and emerging audit findings, as well as the context in which audited bodies are operating.

76. As part of the annual audit planning process, appointed auditors should prepare an annual audit plan that documents how they intend to meet their responsibilities, in the light of their assessment of risks and wider scope responsibilities. These plans should be communicated to those charged with governance.

Annual audit plans and the wider scope

77. The principles of ISA 330 are extended to meet the expectations of public audit when planning the audit and must be applied to the appointed auditors' assessed risk of bodies not having appropriate arrangements in place in respect of the wider scope requirements.

78. Auditors should coordinate their planned audit work with internal audit, performance and Best Value programmes to ensure that it is effective and proportionate. Auditors should consider completing audit work covering elements of the four audit dimensions on an annual basis.

79. For local government auditors there is also a requirement to participate in the Shared Risk Assessment process. This involves contributing to a joint local scrutiny plan for a council each year, in partnership with other scrutiny bodies.

80. Annual audit plans should categorise auditor judgements over significant risks by reference to the wider scope dimensions, and clearly demonstrate that the wider scope responsibilities have been considered at the planning stage of the audit.

81. Where significant risks to financial statements and audit dimensions are identified at the planning stage, auditors must indicate the work planned in the year to address these risks in the audit plan.

82. Local government auditors are also required to satisfy themselves that the local authority has made proper arrangements for securing best value and also the suitability of the arrangements for preparing and publishing statutory performance information.

83. To support appointed auditors to discharge their wider scope responsibilities, supplementary guidance will be provided by Audit Scotland.

The auditor's opinion on the financial statements and related matters

84. Appointed auditors are required to provide an opinion on the audited body's financial statements. These opinions will cover:

- whether the financial statements give a true and fair view of the state of affairs of the audited body and its expenditure and income for the period audited
- whether the financial statements have been prepared properly in accordance with the applicable financial reporting framework and relevant legislation.

85. Opinion on regularity:

- in sectors other than local government, the regularity of expenditure and income.

86. Opinion on other matters:

- whether a specified part of the remuneration report has been properly prepared
- whether the management commentary (or equivalent report) is consistent with the financial statements
- whether the information given in the governance statement complies with regulations or Scottish ministers' guidance.

87. Reporting by exception:

- if other information accompanying the financial statements is materially inconsistent with the financial statements or apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by auditors in the course of performing the audit
- if adequate accounting records have not been kept
- if the financial statements and the part of the remuneration report to be audited are not in agreement with the accounting records
- if the auditor has not received all the information and explanations required for the audit
- if there is a failure to achieve a financial objective prescribed by Scottish ministers.

Reporting the annual audit



Introduction

88. Audit reporting is the visible output from the annual audit. Audit plans, the principal audit outputs arising from audit plans and any other outputs on matters of public interest will be published on [Audit Scotland's website](#) .

Outputs from the audit to those charged with governance

89. The following outputs are to be produced annually for each audit appointment:

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

90. The independent auditor's report and annual audit reports are required by the Code to be communicated to those charged with governance and to also be addressed to the Controller of Audit in the case of local authorities and the Auditor General for Scotland in all other cases.

Annual audit plan

- 91.** The annual audit plan will contain an overview of the planned scope and timing of the audit to be carried out in accordance with ISAs, this Code, and guidance from Audit Scotland.
- 92.** It will clearly identify the audit work that is planned to be done to meet the wider code requirements of public sector audit as well as the audit of the financial statements and other related matters. It should include the respective responsibilities of audited bodies and appointed auditors.
- 93.** Audit plans are addressed to the audited body and should be presented to those charged with governance. The plan should contain information relating to the appointed auditor's approach to significant risks and internal control and refer to the concept of materiality³ and the materiality figures used. The annual audit plan will include the name of the engagement lead and confirm the independence of the appointed auditor. Plans should be reviewed throughout the audit and the audit approach updated as necessary.

Independent auditor's report

- 94.** The independent auditor's report must set out the results of the appointed auditor's work on the financial statements in accordance with the Technical Guidance Note on model independent auditor's reports that is prepared annually by Audit Scotland.
- 95.** The auditor's report must be signed with the name of the engagement lead. Where the appointed auditor is a firm, it should be signed for and on behalf of the firm.

Annual audit report

- 96.** The annual audit report will include the content to be reported to those charged with governance at the completion of an audit, the conclusions on work carried out to provide assurance on the wider scope dimensions, and recommendations for improvement where there are still risks. The annual ISA 260 report to those charged with governance may be included in the annual audit report or be separately reported.
- 97.** The annual audit reports that are prepared under this Code will include both opinions and conclusions which are retrospective in nature and also prospective views which will necessarily be based on assumptions about the future.
- 98.** Appointed auditors will discharge their responsibilities in this area by providing clear conclusions in the annual audit report on the wider scope audit work, as framed by the four audit dimensions.

99. These conclusions should provide clear narrative that explains to the reader what the appointed auditor found in respect of the effectiveness and appropriateness of the arrangements that audited bodies have in place regarding the four audit dimensions, including best value characteristics where applicable. Simply describing the arrangements that are in place at an audited body would not meet this responsibility.

100. The enhancements made to auditor reporting for listed companies, and entities who have voluntarily adopted UK Corporate Governance Code, in the private sector by ISA 700 are extended to apply to all annual audit reports prepared under this Code.

Other outputs

101. The following other outputs may require to be produced in the course of audits:

- 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.

102. These other outputs are to be prepared in accordance with the appropriate Technical Guidance Notes produced by Audit Scotland.

103. Auditors may also produce management reports, where relevant.

Principles of reporting

104. It is important that audit reports are clear and can be understood by those charged with governance and members of the public who have an interest. All reports produced are to be:

- written in plain language, minimising jargon and technical terms
- relevant to the needs of the audited body and users
- focused on drawing clear conclusions and making recommendations for improvement, where appropriate
- issued promptly at the appropriate point in the audit process.

105. Recommendations arising from audit work should:

- be useful, specific and practicable and focused on the public interest

- be proportionate and take account of the expected costs and challenges of implementation
- include management responses including target dates and responsibility for action where appropriate
- be followed up at appropriate intervals.

Quality arrangements

106. The audit work completed under this Code will be subject to robust and appropriate quality arrangements to ensure that auditors are meeting their responsibilities. These arrangements provide assurance to the Auditor General for Scotland and the Accounts Commission on the quality of the audit work that they have procured. The quality-review results will be used to promote improvements in the quality of public audit.

Guidance

107. Audit Scotland will issue guidance in support of this Code and appointed auditors must have regard to it. On an annual basis planning guidance will be issued covering the expected audit outputs for each audit year. Supplementary guidance will be issued as appropriate to support appointed auditors to fulfil their responsibilities.

Technical support

108. Audit Scotland provides technical support and guidance to all appointed auditors. While appointed auditors act independently, and are responsible for their own conclusions and opinions, Audit Scotland has a role in ensuring that those conclusions and opinions are reached on the basis of informed judgement. Audit Scotland will consult with appointed auditors and other interested parties on the preparation of technical guidance and appointed auditors are expected to contribute. Consistency in similar circumstances is important and therefore appointed auditors should consider such guidance. However, appointed auditors must advise and discuss with Audit Scotland promptly of any intended significant departures from the technical guidance.

Other matters/activities



Information returns

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

Fraud returns

110. Appointed auditors are required to report information on cases of fraud and irregularities in accordance with guidance from Audit Scotland. Appointed auditors should also review information about frauds disseminated by Audit Scotland and consider whether any action is required in relation to their own audit appointments.

Correspondence – issues of concern

111. People or organisations write to Audit Scotland because they have concerns about an issue within a public body that falls under the remit of the Auditor General for Scotland or the Accounts Commission. An issue of concern may be something such as a breakdown in financial management or governance arrangements.

112. The key factor in determining whether Audit Scotland examines an issue is the relevance of the issue to Audit Scotland's role and functions. Audit Scotland and appointed auditors will 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.

113. All correspondence relating to issues of concern should be directed to and managed by the Audit Scotland Correspondence Team in the first instance, who will liaise with auditors as appropriate. In investigating issues of concern, auditors should have regard to any guidance issued by Audit Scotland.

114. If the issue of concern does not fall within our remit we may redirect the correspondent to a more appropriate body.

Whistleblowing

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

Data matching

116. Audit Scotland may conduct data matching for the purposes of preventing and detecting fraud. Scottish public bodies are supported in their counter-fraud activities through participation in the National Fraud Initiative. This is a data-matching exercise which matches data within and between other public bodies to identify potentially fraudulent transactions or claims and errors.

Requests for auditors' views

117. 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 should be as helpful as possible, but should bear in mind that:

- their independence must not be prejudiced by being involved in audited bodies' decision-making
- they must comply with professional standards
- they are not financial or legal advisers to audited bodies
- they should 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.

118. Audited bodies and their management are responsible for deciding whether to embark on transactions or courses of action. Responses made by appointed 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.

Responsibilities to third parties

119. 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 this Code extends only to:

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

120. 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.

Appendix 1

Appointed auditors' statutory duties and reporting

For bodies falling 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 auditor's independent report in relation to the financial statements) must set out the auditor's findings on:

- whether the expenditure and receipts⁴ shown in the financial statements 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 financial statements relate
 - Sections 4 to 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 financial statements were incurred or applied in accordance with any applicable guidance (whether as to propriety or otherwise) issued by the Scottish ministers
- whether the financial statements comply with any applicable direction by virtue of any enactment.

Appointed auditors must send the financial statements, including the auditor's report, to the Auditor General who may prepare a report on the financial statements under Section 22 of the 2000 Act. Further details on Section 22 reporting are summarised at [Appendix 4 \(page 41\)](#).

For local government bodies

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

- audit the financial statements and place a certificate (ie, independent auditor's report) on the statements stating that the audit has been conducted in accordance with Part VII of the Act
- satisfy themselves that:
 - financial statements have been prepared in accordance with all applicable statutory requirements
 - proper accounting practices have been observed in the preparation of the financial statements
 - the body has made proper arrangements for securing best value and is complying with its community planning duties⁵
 - a local authority has made adequate arrangements for collecting, recording and publishing prescribed performance information
- hear any objection to the financial statements lodged by an interested person.

Appointed auditors should also be familiar with the responsibilities in Section 102 of the Local Government (Scotland) Act 1973, summarised in [Appendix 3 \(page 39\)](#) including those relating to the audit of the accounts of a local authority.

Appendix 2

Public right of inspection and objection under the Local Government (Scotland) Act 1973

The wider public interest dimension 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 to:

- inspect a local authority'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.⁶ Appointed auditors should advise the Controller of Audit promptly of any objections or submissions received directly. If requested by the objector, the local authority or any officer of the authority 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 should have regard to any additional guidance issued by Audit Scotland when dealing with objections to the accounts of a local authority.

Appendix 3

Statutory reports under Section 102 of the Local Government (Scotland) Act 1973 and auditor's right of access

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 authorities
- any matters arising from the accounts or the audit of local authorities that the Controller considers should be considered by a local authority or brought to the attention of the public
- the performance of a local authority of their duties relating to best value and accountability and community planning as set out in the Local Government in Scotland Act 2003.

Section 102(2) requires any report under Section 102(1) to be copied to any local authority named in the report and to any other persons that the Controller thinks fit.

Section 102(3)

Having considered any matter arising out of the audit of the accounts of a local authority, and having made such enquiries as the Controller sees fit, in certain circumstances the Controller may, under Section 102(3), make a special report to the Accounts Commission. A report may be made where the Controller 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 an authority 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 an authority has been credited or debited to another account and the authority has not taken, or is not taking, steps to remedy the matter.

A fundamental feature of the process which might give rise to a report to the Accounts Commission is the role which auditors play in bringing circumstances which could give rise to a report for the attention of the Controller. For example, should the auditors of a local government body identify a matter which could potentially lead to a report under Section 102(3), immediate contact should be made with Audit Scotland. The need to draw early attention to the matter takes priority over the need to have prepared a detailed report or for the auditor to have formed a definitive view on the matter.

Immediate notification to Audit Scotland should normally be followed by the submission of a detailed report.

Section 100 – auditor’s right of access to documents

Section 100 covers an auditor’s right of access to documents in the local government sector.

An auditor shall have a right of access at all reasonable times to all such documents relating to the accounts of a local authority that they judge necessary to examine for the purpose of auditing those accounts.

Auditors shall be entitled to require from any officer of that authority or any other person holding or accountable for any such document such information and explanation as they think necessary.

Appendix 4

Statutory reports of the Auditor General under the Public Finance and Accountability (Scotland) Act 2000 and an auditor's right of access

Section 22 reports

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

Reasons for the Auditor General preparing a Section 22 report

Reporting under Section 22 of this Act 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 they have audit responsibility. These matters of public interest are generally focused on specific issues or concerns that have been raised by the appointed auditor and highlighted in their annual audit report on a public 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.

Examples of issues that may be highlighted in Section 22 reports

The issues highlighted in Section 22 reports can vary and a range of factors are considered when deciding whether to prepare a Section 22 report including:

- the auditor's opinion on the accounts, eg the auditor may have highlighted particular issues by qualifying 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 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.

Arrangements for preparing a Section 22 report

During the annual audit of a public body, the appointed auditor will draw any significant issues arising to the attention of the public body concerned as well as to the Auditor General. The auditor will also

comment on significant issues in their annual audit report which is submitted to the Auditor General once the audit is complete. Working closely with the auditor, the Auditor General will make a judgement on whether Audit Scotland should prepare a Section 22 report.

The appointed auditor and Audit Scotland work together in drafting the Section 22 report. The appointed auditor will check with the public body that the content of the draft report is factually accurate and the Auditor General signs off the final draft. The accounts and the final Section 22 report are then laid before the Scottish Parliament.

The Auditor General briefs the Scottish Parliament's Public Audit Committee on the Section 22 report. The Committee may decide to take evidence from the relevant Accountable Officer.

Section 23 – economy, efficiency and effectiveness examinations

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 take into account any proposals made by the Parliament. However, it is for the Auditor General personally to initiate an examination under this section and to decide who is to carry out the examination.

Section 24 – access to documents and information

Section 24 of the Act ensures that the auditor, under Sections 21 and 22, or examiner, under Section 23, has the necessary right of access to documents and information to enable them to discharge their responsibilities.

Endnotes

- ◀ 1 Appendices 1, 3 and 4 provide more detail on the statutory reporting arrangements for public audit in Scotland.
- ◀ 2 It should be noted that audits undertaken in compliance with ISAs (UK and Ireland) do not allow direct assistance from internal audit.
- ◀ 3 Auditors should follow and apply the concept of materiality as laid out in ISA 320 Materiality in planning and performing an audit.
- ◀ 4 The relevant accounting frameworks require most audited bodies under the Auditor General's remit to prepare financial statements on an accruals basis and the independent auditors' report usually refers to income rather than receipts.
- ◀ 5 The Accounts Commission has approved arrangements under Section 53 of the Local Government in Scotland Act 2003 so that appointed auditors work alongside performance audit and Best Value audit staff in Audit Scotland to discharge auditor responsibilities in this area and in providing overall conclusions on a local government body's arrangements in a public report by the Controller of Audit. A new more integrated approach is developing in this regard and supplementary guidance will be issued in due course.
- ◀ 6 Audit Scotland may also consider correspondence received at any time about the finances of an audited body or an issue which is relevant to auditors' functions. See the Other matters/activities section.

Glossary

Audit	Work carried out by auditors to meet any of the requirements of the Code.
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ALEOs	<p>Arm's-length external organisations.</p> <p>Companies, trusts and other bodies that are separate from a local authority but are controlled or influenced by them. The local authority could do this, for example:</p> <ul style="list-style-type: none">• by having a representative on the organisation's board• by the council being the organisation's main funder or shareholder• in both these ways. <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>
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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 firms.
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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 authority or executive and non-executive directors of NHS bodies), an accountable officer, management and other officers, as appropriate.
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Auditors	Appointed auditors and performance audit and Best Value audit staff collectively.
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Best value	<p>Local authorities' duty to secure best value:</p> <p>(1) It is the duty of a local authority to make arrangements which secure best value.</p> <p>(2) Best value is continuous improvement in the performance of the authority's functions.</p>
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Best value (continued)	<p>(3) In securing best value, the local authority shall maintain an appropriate balance among:</p> <ul style="list-style-type: none"> (a) the quality of its performance of its functions (b) the cost to the authority of that performance (c) the cost to persons of any service provided by it for them on a wholly or partly rechargeable basis. <p>(4) In maintaining that balance, the local authority shall have regard to:</p> <ul style="list-style-type: none"> (a) efficiency (b) effectiveness (c) economy (d) the need to meet the equal opportunity requirements. <p>(5) The local authority shall discharge its duties under this section in a way which contributes to the achievement of sustainable development.</p> <p>(6) In measuring the improvement of the performance of a local authority's functions for the purposes of this section, regard shall be had to the extent to which the outcomes of that performance have improved.</p>
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. New audit approach is detailed in the relevant supplementary guidance.
Code (the)	The Code of Audit Practice issued by Audit Scotland and approved by the Auditor General and the Accounts Commission.
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 3 (page 39) of the Code.
Ethical Standards	Ethical Standards issued by the FRC.
Financial Reporting Council (FRC)	The body responsible in the UK for issuing auditing and ethical standards 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.
Financial statements	Annual or periodic financial statements, abstract(s) of accounts or the account in the prescribed form on which the auditor expresses an opinion.
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. This Code is still relevant and local government auditors are required to review the guidance for auditors when carrying out their work in this area.
FReM	<i>Government Financial Reporting Manual</i> published by HM Treasury.
Fraud	Intentional distortion of financial statements and accounting records and/or misappropriation of assets involving deception to obtain an unjust and illegal financial advantage.

ISAs	<p>International Standards on Auditing (UK and Ireland). The following ISAs are referenced in this Code:</p> <ul style="list-style-type: none"> • 240 – The auditor’s responsibilities relating to fraud in an audit of financial statements • 260 – Communication with those charged with governance • 320 – Materiality in planning and performing an audit • 330 – The auditors responses to assessed risk • 570 – Going concern • 700 – The auditors report on financial statements.
Local government bodies	<p>Councils, joint boards, committees, integration joint boards and other associated bodies, established under the Local Government (Scotland) Act 1973, as amended or replaced by the Local Government (Scotland) Act 1994.</p>
Other (joint) scrutiny bodies	<p>Inspectorates and other public sector organisations that have a role 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)	<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 more commonly used in independent auditors’ reports.</p>
Shared risk assessment (SRA) Local government auditors only	<p>A process involving a joint approach using key information about a body to plan scrutiny activity that is proportionate and based on risk. SRA is undertaken by a joint scrutiny network and leads to the preparation of an assurance and improvement plan, part of which may be the conduct of a Best Value audit.</p>
Those charged with governance	<p>Those charged with governance are defined in auditing standards as ‘those persons entrusted with the supervision, control and direction of an entity’. In most cases, for example, this might be a full council or board of management, an audit committee (where established) or another committee with delegated responsibility for receiving the financial statements.</p>
Whole of Government Accounts (WGA)	<p>The WGA initiative is to produce a set of consolidated financial statements for the entire UK public sector on commercial accounting principles. 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

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