

Audit Quality Framework

2019



 AUDIT SCOTLAND

November 2019

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.

Contents

Introduction	4
Audit Quality Framework	6
Reporting	13

Introduction

- 1.** This Audit Quality Framework (AQF) describes Audit Scotland's approach to achieving world-class audit quality across all audit work and providers.
- 2.** The Auditor General for Scotland (the Auditor General) and the Accounts Commission are responsible for appointing auditors to conduct the audits of bodies under their respective remits following a rigorous procurement process that is independent of the individual audited bodies. The Auditor General and the Accounts Commission therefore require independent assurance about the quality of the audit work. Paragraph 13 of the [Code of Audit Practice](#) explains that Audit Scotland is responsible for providing support to the Auditor General and the Accounts Commission, including monitoring audit performance through quality appraisal. This Framework sets out how Audit Scotland provides the Auditor General and the Accounts Commission with robust, objective and independent quality assurance over the work of Audit Scotland and the firms.
- 3.** Public sector audit plays a key role in providing assurance that public money is well managed and in providing independent and objective evidence on the performance of public bodies. That assurance is important for the public and decision-makers and will become even more important as Scotland assumes greater fiscal autonomy within the UK. Public interest, trust and confidence is at the heart of public audit.
- 4.** The Framework provides clarity and consistency of approach for all users:
 - It helps explain the important role that audit quality plays in providing assurance on the use of public money; it highlights the impact of audit quality arrangements in demonstrating auditor performance, underpinning stakeholder confidence and driving continuous improvement.
 - For auditors, the Framework explains the structure and processes in place to assure audit quality and provides the necessary evidence that professional standards of quality have been achieved.
 - For the Auditor General and the Accounts Commission, the Framework recognises the fundamental importance of audit quality to their roles and the need to provide regular assurances to them through comprehensive reporting on audit quality and on auditor performance.
 - It encompasses a single set of shared quality arrangements that apply to all types of audit work.
- 5.** Quality is at the core of public audit in Scotland and is the foundation for building consistency and confidence across all audit work. This Framework helps drive Audit Scotland's vision for [world-class audit](#). There are significant challenges ahead for public sector bodies, particularly in relation to financial constraints and the need to deliver service objectives with fewer resources. High quality external audits provide assurance, add value and can support audited bodies to achieve their objectives.
- 6.** The Framework complements [Public Audit in Scotland](#) and the [Code of Audit Practice 2016](#) (the Code). These documents require auditors to comply with the highest professional standards, including International Standards on Auditing (UK) and the Financial Reporting Council (FRC)'s Ethical Standard.

7. This Framework enables Audit Scotland to assess audit quality and provide a strong evidence base through Key Performance Indicators (KPIs), external reviews of audit quality and application of the FRC's audit file grading system. Audit Scotland reports publicly on audit quality to ensure that there is full transparency to all stakeholders.

8. The Framework has been prepared in consultation with the Auditor General, the Accounts Commission, Audit Scotland staff and firms. The AQF will be reviewed again in 2020 once the new Code of Audit Practice and audit appointments are in place.

Audit Quality Framework

9. This Framework:

- applies to all audit work and providers
- is based on key performance indicators of quality
- includes in-year reporting arrangements
- provides for regular public reporting.

10. There are three core principles that underpin the Auditor General and the Accounts Commission commitment to quality:

- quality is embedded at all levels within the organisation engaged in the delivery of the audit
- quality will be assessed in terms of outputs, outcomes and where auditors have made a difference, as well as inputs and processes
- the approach to quality should drive continuous improvement for the public sector in Scotland.

11. The International Auditing and Assurance Standards Board (IAASB) states that: "Audit quality encompasses the key elements that create an environment which maximises the likelihood that quality audits are performed on a consistent basis."¹ The IAASB further explains: "A quality audit is likely to have been achieved by an audit team that:

- exhibited appropriate values, ethics and attitudes
- was sufficiently knowledgeable, skilled and experienced, and had sufficient time allocated to perform the audit work
- applied rigorous audit processes and quality control procedures that complied with law, regulation and applicable standards
- provided useful and timely reports
- interacted appropriately with relevant stakeholders."

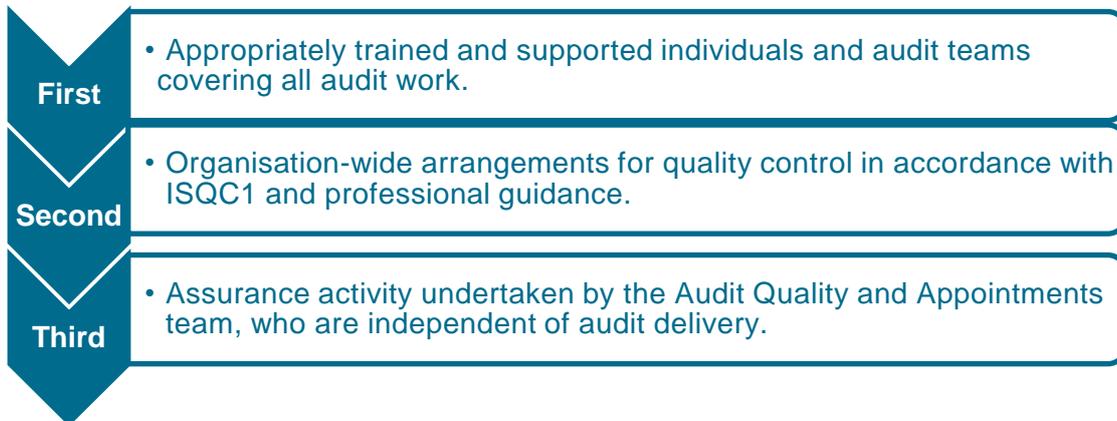
12. This Framework encompasses the key elements of the IAASB's Framework, together with the International Standard of Quality Control (ISQC1).

Lines of assurance

13. The model for audit quality in the public sector set out in this Framework includes three lines of assurance ([Exhibit 1](#)). There are arrangements in place at each level to provide assurance on the robustness of the quality control and monitoring procedures and how auditors combine knowledge and procedures in achieving audit quality.

¹ IAASB: [A Framework for Audit Quality: Key Elements that Create an Environment for Audit Quality](#), 2014

Exhibit 1 – Lines of assurance



Recommended practice

14. In addition to the requirements of ISQC1, auditors are expected to comply with the professional guidance for each of the components in the Framework. The Framework also takes account of the following:

- Framework for Audit Quality (IAASB – 2014)
- Audit Quality Framework (FRC – 2008)
- Professional scepticism (FRC – 2012)
- Professional judgement framework for financial reporting (Institute of Chartered Accountants Scotland (ICAS) – 2016)
- Auditor skills in a changing business world (ICAS & FRC – 2016)
- Scope to improve quality control practices (FRC – 2017)
- Audit Culture Thematic Review (FRC – 2018)
- Reports on findings from quality reviews by national and international audit regulators.

15. The structure set out in the IAASB's best practice arrangements have been adapted to encapsulate Audit Scotland's approach to quality, as shown in Exhibit 2.

Exhibit 2 – Audit Quality Framework



Inputs

Ethics

16. All auditors must comply with the [FRC's current Ethical Standard](#) to avoid any actual or perceived conflicts of interest.

17. To demonstrate compliance with the Ethical Standard:

- Audit Scotland and appointed firms are required to confirm their compliance with the Ethical Standard in their annual report submitted to Audit Quality and Appointments (AQA) in Audit Scotland as part of their professional and contractual requirements.
- AQA monitors the scope and value of any Non-Audit Services (NAS) which could compromise the auditor's independence and scrutinises all applications to carry out NAS.

Knowledge, experience and time

18. All audit providers undertaking public sector audits in Scotland are committed to ensuring auditors have the necessary knowledge, experience and time to undertake their work. KPIs are used to monitor and report on the level of qualifications and training activity delivered by audit providers.

19. The Professional Support team provides technical guidance and support on new and emerging issues to all appointed auditors.

Audit processes and quality control procedures

20. All audit providers are expected to have rigorous audit and quality control processes across audit functions. All audit providers are responsible for establishing their own audit processes and quality control procedures in accordance with their professional requirements. The arrangements must ensure compliance with ISQC1.

21. All audit providers are required to submit a return to AQA at the beginning of the five-yearly appointment, providing detailed information on how the auditor complies with ISQC1. Any changes to the arrangements during the appointment period are also reviewed by the team and followed up to assess compliance and report on any deviations.

22. In addition to regular technical and professional updates, professional standards require auditors to undertake a programme of internal 'hot' or coaching reviews of audit and performance work before the conclusion of the audit where necessary. These reviews are designed to support auditors by identifying and correcting any shortfalls in quality before the conclusion of the audit.

Outputs

Auditor reporting

23. High-quality audit reports provide assurance to stakeholders on the subject matter of the audit and add value by making recommendations for improvement, identifying risks to service performance, increasing insight and facilitating foresight.

24. AQA reviews reports produced to assess their quality and to monitor timeliness, scope and clarity of recommendations. AQA will also undertake focussed thematic studies following these reviews where an area of concern is identified.

Quality monitoring

25. Quality monitoring is undertaken in accordance with ISQC1 for financial, performance and Best Value audits. Such reviews are called 'cold' reviews. The results of these reviews are used to ensure that lessons are learned and to continuously improve processes and methodologies.

26. The quality monitoring regime includes both internal and independent external cold reviews of samples of all types of audit work and ISQC1 arrangements to provide direct assurance over audit work commissioned by the Auditor General and the Accounts Commission. The results of internal cold reviews are reviewed and reported on by AQA; external cold reviews are carried out by an external provider commissioned by Audit Scotland.

27. The FRC file-grading system is applied to the assessment of audit quality. The single grading regime aids consistency and comparability across all audit work commissioned by the Auditor General and the Accounts Commission.

28. The outcomes from all reviews are assessed by AQA to ensure appropriate standards are met. These are reported to the Auditor General, the Accounts Commission and in public, together with associated targets and KPIs which set performance in the context of previous years and comparable organisations.

Improvement feedback for auditors

29. Auditors are supported in learning from the results of the quality review procedures. The findings from external cold reviews and stakeholder surveys are discussed with auditors to identify and support improvement where necessary.

Impact

30. The Code of Audit Practice makes clear that auditors must ensure that audit work adds value to the public sector in Scotland. The audit approach considers the feedback sought and received from stakeholders on the issues that should be addressed and the added value of audit work. Consideration of the application of the Code's wider scope dimensions is also included within the independent external assurance reviews carried out and the results are included in the public reporting which assesses both the quantitative and qualitative impact of audit work.

Key roles

31. Individuals directly and professionally responsible for leading the day-to-day delivery of audit work have key responsibility for audit quality within their job descriptions. Appointed auditors, engagement leads and audit directors work within a clear organisational structure and set of arrangements for quality control and assurance.

Auditor General and Accounts Commission

32. The Auditor General and the Accounts Commission are responsible for appointing auditors to conduct the financial audits of bodies under their respective remits following a rigorous procurement process that is independent of the individual audited bodies. The Auditor General and the Accounts Commission also publish performance audits in their own names: they approve the scope of the work and the final reports based on the work carried out by Audit Scotland.

33. The quality of audit work undertaken on behalf of and for the Auditor General and the Accounts Commission is of fundamental importance to their roles.

34. As commissioners of audit work, the Auditor General and the Accounts Commission obtain assurance from the independent AQA team that the work of Audit Scotland staff and firms of appointed auditors is of appropriate quality.

35. The Auditor General and the Accounts Commission Committees receive biannual reports on audit quality from AQA. The Accounts Commission uses these to inform its public reporting to its stakeholders on quality through the Accounts Commission's annual report.

Audit Scotland Board and Audit Committee

36. The Audit Scotland Board has overall responsibility for the strategic direction of the organisation and for approving significant policies. This Framework is approved by the Board, together with the Quality of Public Audit in Scotland annual report, which forms part of the overall framework of assurances provided annually by management to those charged with governance.

37. The governance role exercised by the Board and its audit committee over the Audit Quality Framework provides assurance to the Auditor General and the Accounts Commission, as commissioners of audits, on the quality of work carried out by Audit Scotland staff and firms of appointed auditors. The committee's remit includes advising the Board on the arrangements for audit quality monitoring and reporting and receiving biannual reports on quality.

Audit Quality and Appointments

38. AQA provides assurance on audit quality. It is independent from auditors undertaking audits and supports the implementation of this Framework across all audit work and providers. The team is led by an associate director who reports directly to the Chief Operating Officer to maintain independence and compliance with professional ethics. The team uses the sources of assurance in paragraph 39 to form an opinion on the quality of audit being delivered and provide regular update reports. The responsibilities of this team include:

- developing the Code of Audit Practice and related guidance on the wider scope of public audit
- advising the Auditor General and Accounts Commission on audit appointments, procuring audit services and contract management
- conducting thematic reviews and reviewing auditor outputs to contribute to quality assessments
- ensuring NAS work is appropriate and compliant with [FRC's current Ethical Standard](#)
- maintaining the Audit Quality Framework
- preparing the audit quality reporting to the Management Team, Audit Scotland Audit Committee and Board, Auditor General, Accounts Commission and the public

- overseeing programme of external quality control and monitoring results of reviews undertaken in line with ISQC1 by both Audit Scotland auditors and appointed firms
- managing and reporting on the independent external assurance programme
- maintaining the KPIs for quality including specifying the range of KPIs required
- liaising with Audit Scotland's internal Audit Quality Committee and the appointed firms
- managing stakeholder feedback and reporting results
- carrying out investigations into audit quality issues if serious concerns arise.

39. AQA will obtain assurance from the following sources:

- reports on auditors' internal quality monitoring results
- results of KPIs
- results from independent external quality assurance
- FRC annual reports on individual firms
- annual quality reports provided by appointed auditors
- own direct work including reviews of outputs, stakeholder feedback and thematic reviews.

Professional Support team

40. Audit Scotland's Professional Support team is led by an audit director who reports to the Director of Audit Services. It provides a centre of excellence for world-class support arrangements for auditors covering all sectors, providers and products. The team's responsibilities include:

- promoting continuous improvement across all audit work including the identification of good practice and areas for improvement
- supporting external professional relationships and representation on external bodies to enable public audit consideration of new developments
- preparing guidance to supplement the Code on the application of auditing and accounting standards to the public sector for use by all audit providers to inform their judgement and maximise consistency, confidence and the delivery of high-quality audits.

Appointed auditors and PABV auditors

41. Appointed auditors and PABV auditors are responsible for implementing their own audit quality arrangements in compliance with ISQC1 and their professional regulator's requirements, and for publishing annual Transparency Reports. Additional independent quality assurance reviews of public sector audits are carried out by the body appointed by Audit Scotland. The results of these reviews are reported to the Auditor General and Accounts Commission and summarised in AQA's audit quality reporting.

42. Appointed auditors are required to produce an annual report on work completed in the year and submit this to AQA for review. This is used to obtain KPI information and inform the overall assurances on audit quality.

43. Audit Scotland and the firms collaborate in order to coordinate coverage of the wider scope audit responsibilities as outlined in the Code. Audit firms are expected to engage with Audit Scotland in regular dialogue through meetings and organised events to share current issues and good practice.

Reporting

44. Firms are required to follow the Statutory Auditors (Transparency) Instrument 2008 published by the FRC. Audit Scotland prepares an annual transparency report to meet the requirements of this Instrument on a voluntary basis.

45. Audit quality forms part of Audit Scotland's regular performance monitoring arrangements including reporting on several KPIs. AQA has responsibility for preparing annually an interim audit quality report in the Autumn and a final published Quality of Public Audit in Scotland report in June for the Audit Scotland audit committee, the Auditor General, the Accounts Commission and the public. These reports form part of the evidence available to the Accountable Officer in the preparation and approval of the Governance Statement prior to the sign-off of the Annual Report and Accounts. They also inform the Accounts Commission's reporting on audit quality through its annual report.

46. The firms and Audit Scotland prepare annual auditor quality reports that describe their governance arrangements, provide an overview of the quality arrangements and the results of their quality monitoring and review processes. AQA uses the information from these annual auditor quality reports as part of its biannual reporting.

47. The Audit Scotland Audit Committee and the Accounts Commission can consider the effectiveness of the Framework in ensuring expected quality standards are achieved and whether the findings in the AQA reports are consistent with feedback from stakeholders and other intelligence received by members from their wider governance capacity.

Audit Quality Framework

2019

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or info@audit-scotland.gov.uk

For the latest news, reports and updates, follow us on:



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk