

Transparency

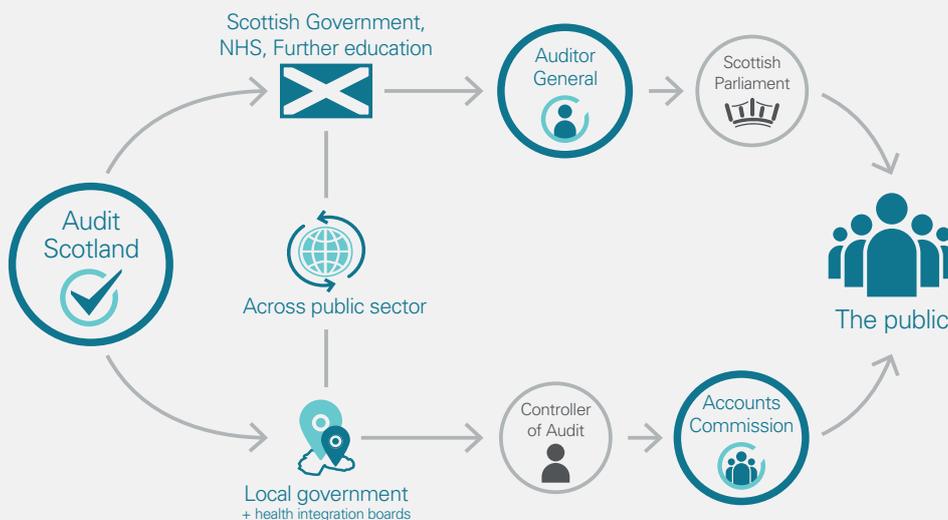
report 2018



Who we are

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

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



About us

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

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

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

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Key messages

- 1** Our annual financial audits, performance audits and Best Value reports were in almost every case completed within planned timescales.
- 2** Well over 90 per cent of our staff feel encouraged to do high-quality audit work and 57 per cent say they received enough training and development to do so. But only 35 percent felt they had sufficient time and resources to deliver high-quality audits.
- 3** Of the 13 internal quality reviews, ten were classed as 'good' or 'limited improvements required' and three as 'improvements required'. The seven external reviews show one 'limited improvements required' and six 'improvements required'. We have addressed key points and further action is in progress in our commitment to continuous improvement in audit quality.
- 4** Feedback from audited bodies highlights our professionalism, openness and responsiveness and good communication throughout the audits. Audited bodies also say that audit teams added value by highlighting key risks and recommending improvements.
- 5** We have stringent controls in place to mitigate actual or perceived threats to independence.
- 6** We added value through our audits, by supporting improved performance and financial reporting, and effective local and parliamentary scrutiny. In our audit work and as the public audit agency in Scotland, we provide insight on key issues and risks, participate in professional bodies and contribute to scrutiny improvement.

Key priorities for 2019

- We are committed to ensuring **staff have sufficient time and resources** to deliver high-quality audits. We will further integrate workforce and resource planning. **A review is underway** and will cover how we **deploy our staff to audit work, workforce planning for the skills** we will need in the future and the **work demands being asked of our staff**.
 - We will continue **our on-going development work** to adopt the International Organisation of Supreme Audit Institutions (**INTOSAI**) standards **for performance auditing**. We have established a project board which will approve changes, new guidance **and support staff through training and development**.
 - In response to quality review findings, we have **produced a detailed action plan** which will include a range of **immediate** improvement actions. **In the longer-term, we will review our approach to financial audits**, including our **sampling methodology** and our approach to **digitally-enabled auditing**.
 - We will consider further actions to safeguard auditor independence and emphasise the **strengths of the Scottish public sector audit model** in our communications and through our work.
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Introduction

- 1.** This is our Transparency Report which includes the quality monitoring results of audits undertaken by the in-house Audit Services Group (ASG) and the Performance Audit and Best Value (PABV) team. It covers all aspects of our audit work in 2018 and the work we did to support audit quality during the year.
- 2.** This report is used by Audit Scotland's Audit Quality and Appointments (AQA) team, together with similar reports from the appointed firms, to inform its independent reporting on audit quality to the commissioners of public audit in Scotland, ie the Auditor General for Scotland and the Accounts Commission.
- 3.** In Audit Scotland, audit quality is at the centre of all we do. We focus on ensuring that our work is of the highest standard, meeting the requirements of international auditing standards and the Code of Audit Practice (the 'Code'), and consistent with our approved audit approaches.
- 4.** This report summarises our audit quality arrangements and our performance in delivering audits in 2018 in accordance with the Code. We also provide examples of how we added value through our audit work. The report covers our financial audits, performance audits and Best Value audits completed between January and December 2018.
- 5.** Our performance in delivering quality audits is of course only part of what we do. Audit Scotland drives the Scottish public audit arrangements. Through our work, and in partnership with others, we support effective parliamentary scrutiny, improve the use of public money and maximise the influence and impact of audit across the public sector. Aspects of that activity which directly affect audit quality are reflected in this report. More information about our wider work is available in our corporate publications.
- 6.** With continuing pressures on public budgets and rapidly changing external environment, 2018 was a challenging year for us and our audit work as well as for the organisations we audit. We responded by investing in our people and strengthening the quality, relevance and value of our work. Through this we have created a strong base for continuous improvement as we strive to deliver audits to the highest standard, provide the best possible support for public audit in Scotland and meet the increasing expectations of the auditing profession generally.

How we are organised

- 7.** Audit Scotland is governed by a board, consisting of a non-executive board chair, the Auditor General, the chair of the Accounts Commission, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament. The Audit Scotland Board is responsible for all Audit Scotland's functions. It exercises its powers and authorities through its Scheme of Delegation.
- 8.** Audit Scotland's governance arrangements provide effective governance while preserving the independence of the Auditor General and the Accounts Commission in their statutory roles. All audit judgements are made independently by the Auditor General, the Accounts Commission, the Controller of Audit or appointed auditors. A management team oversees Audit Scotland's day-to-day operations.
- 9.** Audit Scotland's costs are met from a combination of audit charges to public bodies and funding from the Scottish Parliament through the annual Budget Act.

Audit fees are set to recover the costs of local audit work and, where appropriate, a contribution to other audit and support costs. Audit Scotland's spending and use of resources are examined by the SCPA. This is a statutory body comprising five MSPs that reports to Parliament and appoints external auditors for Audit Scotland.

10. Further details about our board, management team and finances are available in our annual report.

Delivering audits

Main messages

- Our annual financial audits show a high level of compliance with the annual planning guidance with 96 per cent of 2017/18 financial audits delivered on time, showing an overall improvement in performance on last year. Ninety per cent of performance audit, overview and Best Value reports were also completed to planned timescales.
- We also published a wide range of other outputs such as impact reports, good practice guidance and checklists, and key issues briefing papers.

Our performance in 2018

11. Our work results in a range of audit outputs on the performance and finances of Scotland's public bodies and we use different methods to communicate our work and engage with our stakeholders. ASG delivers approximately two-thirds of the financial audits with the remaining third conducted by appointed firms. PABV delivers the programme of national performance audits and overview reports. PABV also works with appointed auditors to produce statutory reports (a specific type of report made under statutory powers by the Auditor General or the Controller of Audit) and Best Value assurance reports on councils.



12. Between January and December 2018, we delivered a range of outputs across these areas:



- delivered 123 annual audits of 2017/18 financial statements under the Code and related accounts, including returns to the National Audit Office (NAO) for the UK Whole of Government Accounts



- audited the Scottish elements of the European Agricultural Funds Accounts (EAFA) as part of the consortium led by the NAO



- prepared twelve statutory reports highlighting significant issues identified during the 2017/18 financial audits



- published eight national performance reports on a wide range of topics from [Children and young people's mental health](#) to [Managing the implementation of the Scotland Acts](#) and [Councils' use of arm's-length organisations](#)



- published four overview reports assessing the overall performance of key parts of the public sector, covering the NHS, local government and the further education sectors



- published seven Best Value Assurance Reports and one Best Value follow-up report on behalf of the Accounts Commission

- published a range of additional outputs such as key issues and briefing papers, good practice guidance and checklists, interactive data graphics and animations.

13. The following sections describe the three main areas of audit activity – annual audits, performance audits (including overview reporting), and Best Value audits – and summarise other outputs we published during 2018.

Annual audits

14. Annual financial audits are designed to provide independent audit opinions on the accounts and other related opinions. Appointed auditors carry out these audits in accordance with the Code which, in addition to the opinion-related work, requires auditors to consider wider dimensions ([Exhibit 1](#)).

Exhibit 1 Audit dimensions



15. The annual financial audits provide independent assurance to the organisations we audit and stakeholders, including the public. Auditors provide judgements on the key aspects of organisations' finances and operations, designed to support accountability and improvement. We also aim to add value through our reports and recommendations.

16. Completing audits on time is important to support timely accountability and improvement. During 2018, we completed 118 out of 123 (96 per cent) of 2017/18 financial audits on time. This included the audit of the Scottish Government Rural Payments and Inspections Division's operation of the European Agricultural Guarantee Fund and the European Agricultural Fund for Rural Development¹. [Exhibit 2](#) shows our performance in delivering audit plans, independent auditor's reports and annual audit reports by the deadlines set out in the planning guidance, issued annually under the Code, along with comparative figures for the previous year.

Exhibit 2

Percentage of outputs delivered by the planning guidance deadlines

Audit output	Year				
		Local government (%)	Central government (%)	Health sector (%)	Further education (%)
Annual audit plan	2017/18	97	82	100	100
	2016/17	98	84	98	100
Independent auditor's report	2017/18	97	93	100	100
	2016/17	82	96	100	100
Annual audit report	2017/18	97	93	100	100
	2016/17	82	96	100	100

17. Exhibit 2 shows a high level of compliance with the deadlines in the annual planning guidance. Except for audit plans, our performance improved compared with 2016/17. We delivered eleven (15 per cent) more local government annual audit reports and independent auditor's reports by the planning guidance deadlines. Delays in submitting central government annual audit plans were mainly due to the timing of audit committee meetings. Delays in central government completion were primarily in cases where matters arising from the audits led to the need for section 22 statutory reports (which require to be laid with the audited accounts in the Scottish Parliament).

18. In addition to annual audit plans, independent auditor's reports and annual audit reports, we issued interim management reports for 48 (39 per cent) of our audits. These reports convey the results of our interim audits and cover issues such as internal control weaknesses.

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

We issued one modified opinion in 2018, for Tayside Contracts Joint Committee, reporting on the failure of significant trading operations to break even over a three-year period. A similar modified audit opinion was also issued for this body in 2016/17.

Performance audits and overview reporting

20. Audit Scotland delivers the programme of national performance audits for the Auditor General and the Accounts Commission. This work involves independent audit judgements on how well public money is used across national and local government to implement policy, address risks and improve services and outcomes.

21. The performance audit work is a key component of the assurance provided by the Auditor General and the Accounts Commission to the Scottish Parliament, the public and other stakeholders on the proper and effective use of public money and the quality of public services across Scotland. The work supports accountability and improvement in public services.

22. The national and cross-cutting nature of performance audit work, solely delivered by Audit Scotland, distinguishes it from the annual audit work by appointed auditors. The rolling five-year programme of performance audits is informed by our monitoring of public sector audit risks, extensive external engagement and on-going programme development activity. The programme is refreshed annually to ensure it reflects current risks, emerging audit intelligence and the strategic priorities of the Auditor General and the Accounts Commission. It was last formally approved in spring 2019.

23. In addition to performance audits, our work programme also includes other outputs such as overview reporting on local government, the NHS and colleges. Delivery of the work programme is monitored and reported on quarterly. 18 out of 20 (90 per cent) of performance audit, overview and Best Value reports were completed to planned timescales during 2018. The two exceptions were:

- the performance report on the Scottish fire and rescue service, completion of which was revised from quarter four (January to March 2018) to May 2018 to accommodate staff availability and publications scheduling constraints
- the performance report on Local Government in Scotland: challenges and performance overview which was published in early April 2018 rather than by the end of March 2018, to accommodate additional quality review activity by the audit team on local government financial and performance data.

Best Value auditing

24. The Accounts Commission agreed the framework for a new approach to auditing Best Value in local government in June 2016. An important principle is an integrated approach to auditing and reporting Best Value, in which Best Value is assessed over a five-year audit appointment as part of the annual audit. In addition, a Best Value assurance report (BVAR) is published by the Accounts Commission for each council at least once in every five-year audit appointment period.

25. The Controller of Audit reports conclusions from this approach through an Annual Assurance and Risks Report (AARR). The AARR provides the Accounts Commission with a summary of the Best Value related findings reported by auditors in their annual audit reports and BVARs. It also covers the Accounts Commission's five strategic audit priorities² and provides a summary of the pace, depth and continuity of improvement in the councils that received a BVAR in any year.

26. In 2018, we published seven BVARs and one Best Value follow-up report. The latest AARR, in January 2019, covered Best Value work in 2018 and concluded that:

- our audit work is providing good coverage of the Commission's strategic audit priorities
- we continue to make good progress with the integrated approach to auditing Best Value in councils
- councils are responding well to the findings and recommendations in the BVARs
- areas of risk are well understood and there are plans in place to cover these areas through our audit work in future.

Other outputs

27. We also use a range of other methods to communicate our audit work and practices, to engage our stakeholders and ensure our work is accessible and valuable to the people who use and provide public services in Scotland. As auditors and as the organisation that supports the overall approach to public audit in Scotland, we draw on the wide range of material we have available to provide outputs which add value and support improvement. Examples of other outputs we published in 2018 included:



Impact reports summarising the impact of performance audits

such as [Social work in Scotland](#) and [Modern apprenticeships](#)



Good practice guidance and checklists

for example, [Major project and procurement lessons](#)



Key issues and briefing papers

including [Withdrawal from European Union](#) and [Scotland's new financial powers: operation of the fiscal framework](#)



[National Fraud Initiative in Scotland 2016/17](#) report



Supplementary outputs and electronic resources

in support of our published audit reports, for example [e-hubs](#), [Tableau visualisations](#) and [animations](#).

Delivering quality

Main messages

- We have robust audit quality arrangements in place, based on our people and on systematic quality reviews of our audits.
- Well over 90 per cent of staff felt encouraged to deliver high-quality audit and 57 per cent said they received enough training and development to deliver high quality audits. But only 35 per cent felt they had sufficient time and resources to deliver high-quality audits.
- Of the 13 internal quality reviews, ten were classed as 'good' or 'limited improvements required' and three as 'improvements required'. The seven external reviews show one 'limited improvements required' and six 'improvements required'. We have addressed key points and further action is in progress.
- Feedback from audited bodies indicates the professionalism, openness and responsiveness of audit staff and good communication throughout the audits. Audited bodies also felt that audit teams added value by highlighting key risks and recommending improvements.

Audit quality arrangements

28. The quality of our work is critical. It forms the basis of our audit judgements, recommendations, our reputation and ultimately our ability to make a difference to public services and how public money is spent. In a complex and challenging environment, it is crucial that independent, objective and authoritative public audit supports strong and effective financial accountability and transparency.

29. The Director of ASG is responsible for the quality of financial audits delivered by Audit Scotland's in-house audit practice in accordance with International Standard of Quality Control 1 (ISQC1). The Director of PABV is responsible for the audit quality arrangements for performance audits, Best Value auditing and other statutory reports, also in accordance with ISQC1.

30. The Audit Scotland board and its audit committee have key roles in audit quality. The board approves the audit quality framework and obtains assurance from the independent Audit Quality and Appointments (AQA) team through its biannual reports on audit quality. The audit committee's remit includes advising the board on the arrangements for audit quality monitoring and reporting. The committee also considers AQA's audit quality annual report prior to its submission to the board.

31. Audit Scotland's Audit Quality Committee includes representatives from ASG and PABV. It is responsible for overseeing the quality control programme of financial, performance and Best Value auditing and identifying training needs arising from the quality review work.

32. We have enhanced our quality arrangements to support independent scrutiny, assurance and to provide professional support for Audit Scotland audit staff and the

appointed firms. This included a new Audit Quality Framework (AQF) which applies to all audit work and providers.

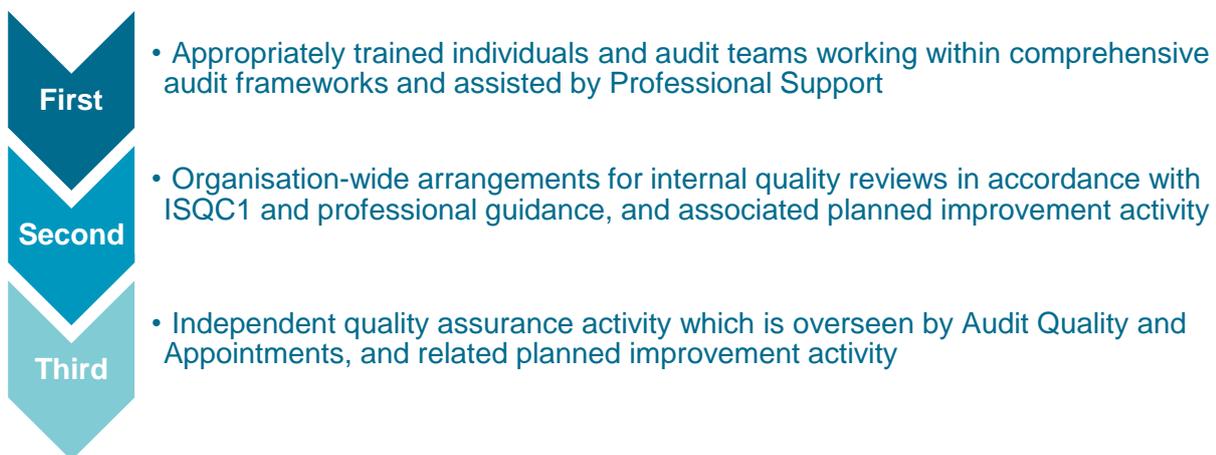
Audit quality framework

33. The AQF combines the highest professional and ethical standards with strengthened and more comprehensive arrangements for internal and external quality reviews. It also provides for systematic reporting on audit quality to Audit Scotland's audit committee, the Auditor General, the Accounts Commission and to the public.

34. These arrangements complement Public Audit in Scotland and the Code of Audit Practice which require auditors to comply with the highest professional standards, including International Standards on Auditing (UK) and the Financial Reporting Council's revised Ethical Standard 2016. The AQF also encompasses the key elements of the International Auditing and Assurance Standards Board's (IAASB's) framework, together with the ISQC1 and ensures consistency in measuring audit quality across all audit work.

35. Our model for audit quality includes three lines of assurance ([Exhibit 3](#)). There are arrangements 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.

Exhibit 3: Three lines of assurance



First line of assurance

36. Our first line for assuring the quality of our audit work centres on our people and our teams. In this section of the report we set out the audit frameworks and supporting arrangements we have established to assist our staff and teams to provide quality audit work. At the end of this section, we set out what our people have told us about the extent they feel encouraged and supported to deliver quality audits.

Audit Guide for financial auditing

37. The Audit Guide provides a common framework for the consistent delivery of high-quality public sector financial audits, with professional judgement at its centre. Fundamental to the approach is full compliance with the requirements of the Code, supplementary guidance from Professional Support including the annual planning

guidance, International Standards on Auditing (UK), applicable Practice Notes, and guidance issued by the Financial Reporting Council.

38. An integrated risk approach has been adopted to meet the auditor's objectives and responsibilities as defined in the Code. This approach recognises that there are risks that can impact on more than one area of our Code responsibilities and that risks can change during the audit.

39. Audit work is 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 is tailored to the circumstances of the audit and the audit risks identified.

40. The Audit Guide is reviewed annually to reflect changes to auditing standards and to capture learning from the quality review activity.

Audit Management Framework for performance auditing and overview reporting

41. We have developed our Audit Management Framework (AMF) to support auditors in carrying out high quality performance audit work. During 2018, we carried out a comprehensive review of the AMF and identified several areas where changes were required. This included more detailed guidance on the outputs required at various stages in a performance audit.

42. To drive this activity, we have established a project board. The project board is overseeing this work and will approve all proposed changes to the AMF and any new guidance.

43. The on-going development work follows approval from the Auditor General and Accounts Commission to adopt the International Organisation of Supreme Audit Institutions (INTOSAI) standards for performance auditing. In taking forward work to ensure compliance with the standards, including changes to our AMF, we are providing staff training and engaging with other audit institutions who have already adopted the INTOSAI standards to learn from their approach, eg Ireland and Norway.

Best Value auditing

44. We reviewed the effectiveness of Best Value audit approach in 2018, after the first year of the new arrangements. The review found that the approach was fit for purpose and met the Accounts Commission's objectives:

- The approach provided good coverage of the Accounts Commission's objectives and principles and assurance on all councils through the suite of reports consisting of the annual audit reports, BVARs and the AARR.
- Councils expressed strong support for the new approach, noting that the BVARs were a fair reflection of their activities and areas for improvement. They also appreciated the clarity of the reports and highlighted that the experience of the process and its outcomes was positive.
- PABV staff and local auditors (ASG and firms) worked together well in integrated BVAR audit teams and councils recognised and welcomed the benefits of the integrated approach.

45. The review also highlighted several learning points including:

- The time taken to produce the first six BVARs exceeded our planning assumptions due to the ambitious and wider than anticipated scope of work. This could be tightened, and more concise reports produced.
- The need to rebalance the pattern of audit resources applied between the BVARs and the local annual Best Value audit work in each council. This would ensure that findings from early BVARs are reported in annual audit

reports and should also reduce the input required to publish BVARs later in the five-year programme.

- The proportionate and risk-based audit approach for each BVAR should be clearly explained to councils at the start of each audit.
- Auditor judgements in BVARs on the effectiveness of a council's self-evaluation and its self-awareness could be clearer.

46. We have applied this learning in planning and delivering our on-going programme of Best Value audits. The Best Value audit guide has been updated accordingly.

Professional Support

47. Audit Scotland's Professional Support provides cross-organisation support on financial, Best Value and performance audits. This involves:

- providing support and audit guidance to Audit Scotland
- producing technical and other guidance under the Code to all audit providers
- coordinating, supporting and contributing to Professional Leadership (where members of Audit Scotland's Leadership Group champion areas of interest and lead and coordinate our activities)
- carrying out internal quality reviews
- providing accounting and auditing training
- coordinating counter-fraud arrangements
- promoting good practice in financial reporting.

48. The Professional Support arrangements are now fully embedded in our arrangements for audit quality.

Working with other audit agencies and organisations

49. Audit Scotland is a member of the Public Audit Forum (PAF), a consultative and advisory body made up of the four UK national audit organisations. The forum was established in 1998 to provide a focus for developmental thinking about public audit. Its remit includes enhancing the efficiency and effectiveness of public audit and high standards of audit across the public sector by active co-operation between the national audit agencies, sharing knowledge and good practice on the application of audit standards and codes of audit practice.

50. Our involvement in PAF provides on-going discussions with colleagues from the other UK audit agencies on key aspects of our financial and performance audit approaches. It is helpful to learn from others involved in public audit and to challenge, to be challenged and then reflect on whether our approaches can be improved further to enhance audit quality.

51. Beyond our involvement in PAF, promoting our work internationally and learning from good practice are central to our international strategy. This provides a further dimension to our approach to audit quality. We do this through a range of activities such as hosting visits and presenting to delegations from other countries, attending or presenting at conferences and 'knowledge cafes', building networks, and knowledge sharing with overseas audit institutions. In 2018, over 70 colleagues from across Audit Scotland were involved to some extent in international-related work.

52. Learning from good practice is an area we continue to develop. For example, we have renewed licences for the Canadian Audit and Accountability Foundation

database, giving us access to over 4,000 audit reports from over 50 audit institutions worldwide. We are currently using the database to source papers on digital audit, public financial management, and fraud. We plan to use the database to source information and make connections with other audit agencies to support our work programme.

People-related audit quality indicators

53. People are the most important assets in an audit. Having the right staff, allocating the right time to audits and providing the right training and knowledge are critical to delivering high-quality audit work. The quality of the staff inputs to audits is demonstrated through staff surveys, qualifications, training and application of technical guidance.

Staff survey

54. Professional Support surveyed ASG and PABV staff to seek their views on how well they were supported to deliver high-quality audits during 2018. The survey response rate was 36 per cent for ASG and 34 per cent for PABV which is lower than last year's response. To ensure a higher response rate next year, we will consider the timing of the survey and explore what would be the most effective form of communication with staff. The results of this survey and comparison with last year's results are shown in [Exhibit 4](#). The comparison is not on a like-for-like basis due to all Audit Scotland staff being surveyed last year as compared with ASG and PABV audit staff only – we are keen to ensure that the survey reflects the views on staff directly involved in delivering audits. On that basis, it gives a high-level indication of movements in how well staff felt supported to deliver high-quality audits.

Exhibit 4 Staff survey results



Percentage of staff who said that they were encouraged to deliver a high-quality audit work.

94%
**(83%
in
2017)**



Percentage of staff who felt that they had sufficient time and resources to deliver high-quality audits.

35%
**(46%
in
2017)**



Percentage of staff who thought that they received enough training and development to enable them to deliver high quality audits.

57%
**(54%
in
2017)**



55. Well over 90 per cent of staff, a significant increase on 2017, felt encouraged to deliver high-quality audit work indicating that there is a strong culture of support for high-quality audit in Audit Scotland. 57 per cent of staff thought that they received

enough training and development to enable them to deliver high quality audits, an improvement on 2017. We anticipate this is an early indication of our efforts to provide a more joined-up approach to training and development, with closer working between Professional Support and HR&OD.

56. Just over a third of staff said that they had sufficient time and resources to deliver high-quality audits, representing an eleven percent decrease on 2017. This survey followed soon after our corporate Best Companies staff survey in which staff expressed concerns about resourcing of audits more generally, including the allocation of staff to audits.

57. The quality survey results here are of course disappointing. We are committed to ensuring that staff have sufficient time and resources to deliver high-quality audits. We have started a review which will cover how we deploy our staff to audit work, workforce planning for the skills we will need in the future and the work demands being asked of our staff. This will include a more detailed assessment of the 'supply' and 'demand' pressures on audit resources and rigorous peer to peer challenge of how we match audit risk and resource. We also have plans to further integrate workforce and resource planning across ASG and PABV. Resource development work is closely linked with our recruitment and appointment activity. Taken together, this will help ensure we have the capacity to continue to improve the quality of our audit work.

Qualifications

58. Audit Scotland staff were appropriately qualified with 97 per cent of staff working on financial audits either CCAB (Consultative Committee of Accountancy Bodies) or Chartered Institute of Management Accountants qualified or in training for a CCAB qualification.

59. PABV staff had a wide range of qualifications which may be audit, research or technical in nature or public policy-related all of which go towards supporting the delivery of high-quality audit work. In addition, 17 per cent of PABV staff were also either CCAB qualified or in training for a CCAB qualification, which supports Audit Scotland's flexible 'One organisation' working.

Our approach to learning and development

60. We recognise the importance of and are committed to staff training and development. A challenging and complex environment for the public sector in Scotland and changing expectations of external auditors emphasise the need for both technical competence of our staff and broader 'skill sets'. Our workforce needs to be agile, highly engaged, knowledgeable about our clients, sectors and issues, and focused on continuous improvement and innovation.

61. Our 2018/19 learning and development strategy outlines our plans to build on the progress made through our Building a Better Organisation programme and is supported by the learning and development plan. The Personal Development and Growth Group is responsible for the strategic direction of learning, development and personal growth at Audit Scotland.

62. All learning and development is accessed through the personal development and growth portal which enables Audit Scotland to track demand, assess the appetite for training and evaluate impact. In 2018, we refreshed our portal to deliver a 'one-stop-shop', easy to use learning and development hub for colleagues seeking to plan, schedule and attend formal learning and development events up to twelve months in advance. The portal also helps provide management information about the number of days training across Audit Scotland. We have taken steps to ensure that information on the average number of training days and the average cost per training day will be available for our 2019 quality report.

63. Audit Scotland runs one of the largest public sector accountancy training schemes in Scotland, with 42 trainees and staff working towards the Institute of Chartered Accountants (ICAS) qualifications. In 2018, our trainees passed 115 out of 125 exams (92 per cent) on their first sitting. We also run mentoring and

coaching schemes and staff are encouraged to shadow colleagues in different roles.

Staff training

64. During 2018, we provided a wide range of internal and external training courses, workshops and 'knowledge cafes' to support high quality audits. These included:

- technical training courses on accounting and auditing standards, including follow-up sessions led by ICAS and Professional Support on key issues from the 2017 quality review programme
- training in the use of the issues and investigations matrix (I&I) in PABV
- professional scepticism and audit interviewing skills training
- other 'softer skills' training such as presentation skills and voice skills
- a range of training courses to support both new and existing colleagues in ASG and PABV such as an introduction to Audit Scotland, financial awareness and electronic audit working papers training sessions.

65. ICAS also provided training to the quality team prior to the start of the internal quality review programme on areas such as breaches of auditing standards, areas for improvement and moderation of scores. We have started planning training and development opportunities for colleagues for 2019 and will continue to draw on the expertise of Professional Support as we plan, develop and deliver new training and support improvement.

Compliance with International Education Standard (IES) 8

66. The International Accounting Education Standards Board (IAESB) has issued IES 8 which focuses on the professional competence requirements for engagement partners who have responsibility for financial statements audits. The IES8 is primarily aimed at International Federation of Accountants (IFAC) member bodies, but recognises the shared responsibilities of engagement partners, public accounting firms, and regulators as part of the system of quality control for engagement teams performing audits of financial statements.

67. We have conducted an informal review of compliance with IES8 with a view to undertaking a more formal compliance exercise during 2019/20. This initial review shows overall compliance with IES8 and we will review this in more detail later on this year.

Second and third lines of assurance

68. Our second and third lines of assurance are based on systematic reviews of the quality of the audits. The second line is about our processes for ongoing quality assurance, including 'hot' and 'cold' reviews of audit work. These are carried out by experienced senior staff within Audit Scotland. The third line of assurance is independent quality assurance activity, carried out by those not directly involved in audit work, including ICAS.

69. We are adopting similar quality review methodologies and scoring across the full range of audits and outputs we deliver. This is a significant undertaking which is helping us focus the quality reviews and the related improvement activity in response to the quality findings. This section of our report summarises the approach and the results of quality reviews in 2018.

Quality reviews

70. There is a range of quality control activity in Audit Scotland which provides assurance on the quality of our audit work:

- Internal reviews of quality carried out by audit teams themselves as individual audits progress. More experienced members of the audit team review the audit work of less experienced staff to ensure audit work achieves its objectives, judgements are appropriate, and work complies with the audit methodology and auditing standards as appropriate. This type of review extends to all types of work including financial, performance and Best Value auditing.
- Peer reviews within ASG and PABV. Audit Directors conduct internal peer reviews of higher-risk annual financial audits and internal peer reviews take place at scoping and draft report stages of each performance and Best Value audit. In 2018, six annual financial audits were selected for peer reviews based on their risk profile – three central government, two health and one local government audit.
- Organisation-wide quality control activity undertaken by Professional Support. Such reviews include 'hot'³ and 'cold'⁴ reviews and are used to continuously improve our audit processes and methodologies. The independence of cold reviews is further strengthened by Audit Scotland's reciprocal arrangements with other UK audit agencies who perform cold reviews in ASG and peer reviews of performance audits and statutory reports in PABV. These arrangements enable shared learning and good practice among the audit agencies.
- External independent assessments carried out by ICAS which cover financial audits, performance audits and Best Value work. In addition, AQA performs thematic reviews of annual audit plans and annual audit reports. These independent reviews provide a high level of assurance on audit quality.

71. Where appropriate, the Financial Reporting Council's (FRC's) scoring methodology is applied across the quality activities to provide a consistent and comparable scoring baseline for the different quality activities ([Exhibit 5, page 20](#)). For this report, a score of 2a or above demonstrates a satisfactory level of quality.

Exhibit 5 FRC's scoring methodology

Score	Standard	Description
1	 Good	No areas for improvement that warrant inclusion in the quality assurance report.
2a	 Limited improvements required	Limited concerns in a small number of areas identified. In such circumstances the auditor would adjust the audit approach in subsequent years' audits to address the issues raised.
2b	 Improvements required	A number of matters are reported but these are assessed as neither individually or collectively significant. In such circumstances it is expected that that the auditor would consider whether any remedial action is required in respect of the audit inspected and to amend procedures for subsequent audits.
3	 Significant improvements required	<p>The QA reviewer has significant concerns in relation to the:</p> <ul style="list-style-type: none"> • sufficiency or quality of evidence • the appropriateness of key judgements • the implications of other matters that are considered to be individually or collectively significant. <p>In such circumstances some remedial action may be requested to address the issues identified and to confirm that the audit opinion remained appropriate.</p>

Results of internal quality control reviews

72. Nine out of eleven 2017/18 financial audits (82 per cent) resulted in an audit quality (score 2a or above). The other two were scored as 2b's. This is an increase compared with last year's results when ten out of 13 (77 per cent) 2016/17 financial audits received a 2a score and three received a 2b score. Reviewers did not identify any concerns with audit opinions.

73. Of the two PABV internal reviews, the statutory report received a 2a score and the performance audit received a 2b score.

Results of ICAS external quality controls reviews

74. Seven audits we delivered in 2018 were selected for external quality review by ICAS. One out of four (25 per cent) 2017/18 financial audits scored 2a and three (75 per cent) received a score 2b. This is a disappointing decline on last year when the two 2016/17 financial audits reviewed (100 per cent) were awarded a 2a score. ICAS did not identify any concerns with audit opinions.

75. Both Best Value audits and the performance audit reviewed which ICAS reviewed were scored 2b. While this is an improvement on last year's scores (a 3 score for one Best Value audit and 2b for one performance audit), we would expect further improvement next year as a result of our work to further develop the Best Value audit guide and adopt INTOSAI standards for performance auditing.

76. Overall we recognise that, in line with increasing quality expectations, we need to continue to ensure we deliver our audits to the highest quality. We have identified actions for improvement and these are described in the following section.

Common themes from internal and external quality control reviews

Strengths and good practice identified

77. Feedback from reviews highlighted several areas of good practice across our audit work, including:

- Good knowledge and understanding of audited bodies, and policy subject matter.
- Audit documentation is of a high standard overall, including audit planning.
- Audit outputs are of good quality, reports are clearly written, a wide range of appropriate methods are used including innovative use of infographics.
- There is evidence of appropriate two-way communication with audited bodies and wider stakeholder groups.
- There is evidence of good 'one-organisation' working with audit teams involving ASG and PABV staff.

Areas for improvement

78. The 2017/18 cold reviews identified the following areas for improvement:

- Audit documentation – financial audit files did not always adequately record work done and the audit conclusions. In some performance audits and Best Value audits there was an insufficient audit trail of draft report amendments.
- Risk assessment and audit assertions – consideration of audit risks in some cases did not set out fully the financial statement assertions considered to present risk.
- Audit sampling – audit sampling approach and the justification of sample sizes was not always clearly documented.
- Substantive analytical procedures - inconsistent approach in some files to documenting analytical review.
- Journal entry testing – journal entry testing was not always conducted.
- Accounting estimates – planning documentation on some audit files did not include consideration of all potential areas of estimation and the related impact on the audit plan.
- Audit approach – the audit methodology for performance audits was not always set out clearly, particularly the nature of the work and the influence/impact it was expected to have.
- Management/Engagement Lead review – recording key review and approval stages of audit work was only partially completed on some performance audit and Best Value audit files.
- Records management – records management issues were identified in some performance audits, including the time taken to declare records and errors in document metadata.
- Section 22 reporting – uncertainty on occasions about the roles and responsibilities of audit teams, including in relation to where audit evidence should be recorded and the overall process for producing section 22 reports.
- Application of auditing standards in performance audits – continuing challenges of applying key auditing standards to performance audits were

noted, specifically ISA 220 (quality control), ISA 230 (audit documentation) and ISA 500 (audit evidence).

79. In response to quality review findings, we collated issues identified during the internal and external quality reviews and produced a detailed action plan. This includes short-term improvement actions and those to be implemented in the longer-term. Progress will be monitored by our Audit Quality Committee.

Feedback from audited bodies

80. Staff undertaking financial audit cold reviews interview senior staff at audited bodies to get their views on the audit. In summary, this highlighted:

- The professionalism of audit staff.
- Audit staff are open, responsive and accessible.
- Good communication throughout the audit and 'no surprises' in reports.
- Audit teams add value by highlighting key risks and recommending improvements.

81. AQA commissioned an independent survey to seek views about the quality and impact of audit work. Survey respondents expressed a high level of satisfaction with the usefulness of the annual audit, with a particular recognition of the assurance that audit provides. Stakeholder views on how much performance audits, Best Value assurance reports and overview reports help bodies to deliver improvement are also positive but not as strong as the annual audit.

Prior period errors

82. To allow comparisons and to help identify any themes arising which may require further technical guidance, quality monitoring includes consideration of prior period errors.

83. Auditors reported that 22 prior-period errors (PPEs) were corrected in 2017/18 financial statements. Ten of these had no impact on the overall financial position. The other twelve represented over or understatements of the 'bottom line' with an aggregate total value of £100.4 million. Four PPEs were in the area of capital accounting, four related to the under or overstated income or expenditure and the remaining four were in other areas such as group accounts and disclosures in the remuneration and staff report.

84. The capital accounting PPEs amounted to £89.7 million, 89 per cent of the total value of all PPEs. Of this, the single largest PPE was £83.7 million in a council overstating council dwellings – capital enhancing works were reflected as additions over the years as well as included within the valuation of council dwellings as at 31 March 2018. The other three capital accounting PPEs were in two central government bodies and another council and related to other errors in classification and/or valuation of non-current assets.

85. In our view, these errors are not indicative of the need for further technical guidance to auditors.

Recommending actions

86. Audited bodies accepted the vast majority of our recommendations made during 2017/18 financial audits. Out of well over 500 recommendations, there were only ten instances of disputed action plan points across three audited bodies (one council, one health board and one integration joint board) where management has declined to take the recommended action. Eight of these were related to the risks raised in the interim management reports to the council and the health board. While for the council these mainly related to the lack of controls in key financial

systems, the risks raised in the health board's interim report were mainly wider code risks such as effectiveness of scrutiny and lack of transparency.

Developments in audit quality arrangements

87. Audit Scotland closely monitors developments in the auditing profession and considers whether these have a bearing on our approaches and to ensure we are following and promoting recognised best practice.

88. Several reports have been produced in the past year in response to corporate failures and audit quality issues. These include:

- FRC's thematic review of audit culture⁵.
- FRC reports on audit failures including the PwC audit of BHS⁶ and the Deloitte audit of Autonomy⁷.
- A report by the House of Commons Business, Energy and Industrial Strategy Committee and Work and Pensions Committee on Carillion⁸.
- The Competition and Markets Authority (CMA) review of the market for the provision of statutory audit.

89. Key issues highlighted in these reports and related aspects of the Scottish public audit model are covered in the following sections.

Independence

90. Concerns were expressed about auditors being insufficiently independent from the organisations they audit due to appointment arrangements, length of tenure on the audit, the scale of non-audit services provided, overly familiar relationships with senior management and lack of competition and concentration in the audit market.

91. Scottish public sector bodies do not appoint their own auditors - the Auditor General for Scotland and Accounts Commission appoint auditors to conduct the audits of bodies under their respective remits following a rigorous recruitment process that is independent of the individual audited bodies. The independent appointment of auditors is a unique feature and strength of Scottish public sector audit and is an important safeguard that helps to ensure that the auditor is free from any potential or perceived conflict of interest or other pressure which may compromise their judgement.

92. Audit Scotland also has controls in place to mitigate actual or perceived threats to independence including enforced rotation of auditors, 'fit and proper' disclosures and arrangements to control non-audit services. These are described in more detail in the 'Independence and ethics' section of this report.

Scope of audit

93. Recent debate has questioned the ability of audit to adequately underpin transparency and integrity, arguing that:

- auditors have focused on the numbers in the financial statements, with insufficient consideration of financial sustainability going forward
- complexity of modern organisations and the extent of estimation included in the accounts make auditing more difficult, with auditors being insufficiently challenging of management estimates
- the expectations gap between what the auditor does and what stakeholders and the public expect is increasing.

94. The wider scope of public audit is clearly set out in both Public Audit in Scotland and the Code. Alongside Best Value, the dimensions of financial

sustainability, financial management, governance and transparency and value for money set a common framework for all audit work. In terms of financial sustainability, the Code requires auditors to look forward to the medium term (two to five years) and longer term (over five years) to consider whether the audited body is planning effectively to continue to deliver. Our auditors report their findings and judgements on financial sustainability in annual audit reports which are published on our website. Our annual health and local government overview report also play a crucial role in highlighting underlying financial pressures in these sectors.

95. Complexity, lack of transparency and the extent of estimation included in the accounts lead to some financial statements not 'telling the story' as clearly as they could, and our auditors are working with audited bodies to streamline financial statements and improve the clarity of management commentaries. In addition, through membership of bodies such as Local Authority Scotland Accounts Advisory Committee (LASAAC), CIPFA-LASAAC and Financial Reporting Advisory Board (FRAB), Audit Scotland staff also influence public sector financial reporting standard setters.

96. The expectations gap between what we do as public sector auditors and what stakeholders and the public expect has always been an issue and is arguably increasing as the profile of our work increases. There are limits to what we can practically do to counter this other than to continue to:

- be clear on the respective responsibilities of auditors and public bodies and equip staff to be confident in what audit does and doesn't do
- be clear on the power of reporting our findings in public and the important role that both, the Public Audit and Post Legislative Scrutiny Committee of the Scottish Parliament and the Accounts Commission, play in using our findings to hold public bodies to account
- bring key issues to the attention of those charged with governance and use our escalation procedures such as statutory reports.

Audit quality: culture

97. The FRC culture report emphasises that high quality audit is supported by fundamental principles, rigorous standards, due process and mandated quality assurance. But it also recognises that auditing is judgemental and based on human decisions therefore a high-quality audit cannot be assured through rules and standards alone. As an audit provider we have a range of controls in place to assure audit quality as set out earlier in this report.

Regulation

98. Recent corporate and audit failures have brought the regulation process into the spotlight. For example, the FRC has reported that an appropriate focus on both process and judgement is necessary to ensure high audit quality. The role of the FRC itself has also been criticised and, as a result, the FRC was subject of an independent review led by Sir John Kingman.

99. In addition, the Competition and Markets Authority (CMA) undertook a review which considered whether the market for the provision of statutory audit in the UK commercial sector is working as well as it should. The review comes amid growing concerns about statutory audits and the criticism of those charged with governance, as well as poor results from the FRC's reviews of audit quality.

100. Although the FRC does not regulate public sector audit in Scotland, we will use both the Kingman and CMA reviews as an opportunity to further consider our own arrangements and the unique features of public sector audit in Scotland. The Audit Scotland Board considered the relevance of these review recommendations for our work. We will consider these as part of our on-going review of the AQF.

Independence and ethics

Main message

- **We have adopted the FRC's ethical standards for auditors to avoid any actual or perceived conflicts of interest. We have stringent controls in place to mitigate actual or perceived threats to independence including enforced rotation of auditors every five to seven years, 'fit and proper' disclosures completed by all staff annually and arrangements to control non-audit services.**

101. Independence is a fundamental principle of public audit and is central to its effectiveness. Auditors must be independent, to avoid improper influence and allow work to be carried out freely. Independence encompasses the methods of appointment of auditors, the financial relationship between auditor and audited bodies, discretion in the amount of work necessary, the ability to follow up the implementation of recommendations, and the ability to have access to information necessary for audit work.

102. We have adopted the FRC's ethical standards for auditors, not just for financial audits but for all our work. We have a rigorous process in place to ensure that all our auditors comply with the FRC's revised Ethical Standard 2016 to avoid any actual or perceived conflicts of interest.

103. We have designated the Director of Audit Services as our Ethics Partner. This position has the necessary seniority, relevant experience, authority and leadership role to ensure compliance with the Ethical Standard. The Director of Audit Services is a member of Audit Scotland's management team and has direct reporting lines to the board.

104. The Ethics Partner role encompasses responsibility for the adequacy of policies and procedures relating to integrity, objectivity and independence, including communication on these matters and providing guidance to achieve a consistent application of the Ethical Standard. The Ethics Partner's role also extends to advising the Audit Scotland Board on ethical matters.

105. We have controls in place to mitigate actual or perceived threats to independence and these include:

- enforced rotation of auditors every five to seven years
- 'fit and proper' disclosures completed by all staff annually and reviewed by each business group's compliance partner
- arrangements to control non-audit services.

106. Further actions for us to consider in safeguarding auditors' independence include:

- continuing to emphasise the strengths of the Scottish public sector audit model in our communications and through our work

- ensuring our tendering arrangements remain robust and proportionate and maintaining an in-house practice of sufficient scale and quality.

107. Stringent controls are outlined in our ethical policies where a member of staff leaves to join an audited body and our quality assurance procedures guard against issue and risks flagged by the FRC. We also have a rigorous process in place for staff to declare hospitality and gifts whether received, declined or provided. This includes maintaining a register of all hospitality and gifts.

108. To demonstrate compliance with the Ethical Standard and to manage staff relationships with senior finance staff at audited bodies, all Audit Scotland staff are required to complete an annual 'fit and proper' form confirming their compliance with standards and bringing to attention any possible conflicts of interest. As last year, all staff completed their 2017/18 fit and proper form. Of these, nine potential conflicts of interest (four percent) were noted and acted upon by the Ethics partner.

109. Auditors are required to obtain permission from Audit Scotland's Ethics Partner before committing to any non-audit services. The approval process includes consideration of both the FRC's Ethical Standard and the Code, recognising the wider scope of public sector audit and the consequent increased risk of 'self-review' threats to independence. The scope and value of any non-audit work which could compromise the auditor's independence is monitored by the AQA who scrutinise all applications to carry out non-audit services. There were no non-audit services that were refused by the Ethics Partner.

110. During 2018, there was only one instance of non-audit work undertaken by Audit Scotland staff. This was a financial provision review at the Scottish Borders Council as required by the Scottish Environment Protection Agency with a value of £4,000. AQA confirmed that, under the Ethical Standard this was an 'audit-related service', a subset of non-audit services for which any threats to auditor independence are considered to be clearly insignificant. As such, AQA and Audit Scotland's Ethics Partner granted approval to the auditor to carry out this non-audit service.

Adding value

Main messages

- We added value through our annual audits, for example by highlighting increasing public expectations for improved openness and transparency in public business, helping public bodies revise the content and form of annual report and accounts
- We also added value through our rolling programme of performance audits, Best Value work and overview reporting and by supporting effective Parliamentary scrutiny. We provided insight on key issues and risks, participated in professional bodies and contributed to scrutiny improvement.

111. We aim to add value through our audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help promote improved standards of governance, better management and decision-making, more effective use of resources in public sector organisations and enhanced openness and transparency.

112. In this section, we highlight specific areas, with examples, that contributed to our added value in 2018. Adding value is of course central to our approach – across the range of our audit work and in the work, we do to support public audit in Scotland.

113. Added value is in many ways ‘in-built’ to our approach and the attitude which our staff apply. For example, in our day-to-day meetings with elected representatives, senior staff, non-executives across the public sector and beyond, we can draw on our deep, cross-sector understanding to provide challenge and support.

Examples of areas of added value work in 2018

Openness, transparency and financial reporting

114. Transparency means that the public have access to understandable, relevant and timely information about how public organisations are taking decisions and how they are using resources such as money, people and assets. During 2018, we made recommendations to audited bodies that they should consider scope to enhance transparency by reviewing the availability of board papers and committee papers and minutes for public perusal. Some of them reviewed their publications policies and enhanced information available on their websites, however there remains to be scope for further improvement.

Example:**Enhanced transparency at VisitScotland (VS)**

We recommended that VS should consider if there was scope to enhance transparency by reviewing the availability of board papers and committee papers and minutes. In 2018, VS Board reviewed the information that is made publicly available and agreed to extend this to include several policy and framework documents.

115. More generally, we added value by highlighting increasing public expectations for increased openness and transparency in public business. This was based on our wide-ranging understanding of governance in the public sector in Scotland and evidence of a shift in expectations and the direction of travel. We know that in highlighting this issue and in subsequent discussions at audit committees that some organisations have already responded by reviewing what they make available publicly. We issued guidance for auditors to support further work on this important aspect of good governance.

116. During 2018, we also provided technical assistance on accounting and reporting issues across audited bodies including for annual report disclosures. This resulted in organisations revising the form and content of their annual reports and accounts to provide better information about their activities and performance and to make them more accessible to stakeholders, including the public. This is a positive development and represents a contribution to enhanced transparency within public organisations.

Example:**Enhanced disclosures in Skills Development Scotland (SDS) annual report and accounts**

We recommended that SDS could provide further disclosures in its annual report and financial statements in line with good practice and transparency principles for public bodies. In 2018, we shared good practice examples of such disclosures. As a result, SDS included improvements such as the inclusion of a resource outturn analysis and improvements to the strategic report.

117. Audit Scotland's Professional Support prepared the annual planning guidance, which is the key guidance for auditors in planning audits under the Code issued by the Auditor General and the Accounts Commission. It also produced a range of supplementary guidance such as guidance for auditors on assessing openness and transparency and on considering how prepared public organisations are for the EU withdrawal.

118. Professional Support's high-quality technical support and outputs such as new sector-specific 'frequently asked questions' over final accounts periods supported audit quality and communication across ASG and the appointed firms. This also provided a focus on key emerging issues and, where appropriate, a consistent audit approach such as in relation to accounting for council pension liabilities.

119. Professional Support also promoted good practice by:

- producing good practice notes on financial reporting, for example integrated joint board (IJB) accounts
- delivering a joint ICAS/Professional Support training event, open to internal audit staff and the firms, which identified areas of good practice and where improvement in the quality of audit work was needed.

Adding value through wider code work

120. We aim to add value to audited bodies by providing insight on financial sustainability, financial management, governance and transparency and value for money. Since the start of the current five-year appointment, we have been encouraging those public bodies without a medium to long-term financial strategy to consider their financial position in the longer term to ensure that they have a complete picture of their financial position and the challenges they face in meeting their objectives in the medium to longer term. We have also been highlighting to these public bodies that this should include an overarching, organisation-wide workforce plan.

121. We supported this approach in presenting reports to audit committees, explaining that this is not just about having plans in place, it is about the conversations on the organisation's financial position and the options on how to apply available finances.

122. During 2018, several audited bodies have developed either an overarching long-term financial strategy or components supporting longer-term financial planning. This helped those organisations identify any problems with affordability at an earlier stage.

Example:

Long-term financial planning at Highlands and Islands Enterprise (HIE)

We reviewed the financial planning systems and assessed how effective they were in identifying and addressing risks to financial sustainability in the longer term. We recommended that HIE's rolling five-year plan should include scenario plans (best, worst, most likely) including a clear assessment of the impact of budget assumptions on HIE's activity and any residual risks. In response, the Director of Finance & Corporate Services has begun to review HIE's approach to longer term financial planning.

Long-term financial planning at Argyll & Bute Council

We reported that the council needed to finalise developing its long-term financial strategy and subsequently assisted the council by outlining key features that should be included in an overarching financial strategy. As a result, the council approved a medium to long-term financial strategy 2018/19 to 2027/28 which is aligned with the council's priorities. In 2018, we assessed the strategy against good practice and recommended in our 2017/18 AAR that it could be further enhanced by including details of changes in assets, liabilities and reserves over time, and an analysis of levels of service demand.

Workforce planning at Argyll and Bute Integration Joint Board (IJB)

We recommended that the IJB should prepare an overarching workforce plan clearly setting out what staff resources across the statutory, independent and third sectors would be required for service delivery. During 2018, the IJB prepared a workforce plan for adult services. We recommended in our 2017/18 AAR that the IJB needed to develop an overarching workforce plan covering all services to ensure it has appropriate skills and capacity in key areas.

Adding value through the Auditor General and Accounts Commission's rolling programme of performance audit work

123. Several important improvements and innovations have been introduced as part of our new approach to programme development to ensure that the programme reflects current risks, emerging audit intelligence and strategic priorities of the Auditor General and the Accounts Commission. These include:

- the establishment of a Youth Panel of 16 people, aged 12 to 23, from across Scotland to work with us to identify priority issues for the young people and improve the relevance and targeting of our audit work

- the development of new audit outputs, such as interactive data (eg, overview reports, NHS workforce and Broadband) and bespoke reports for different target audiences (eg, self-directed support, health and social care, and early learning and childcare)
- more extensive use of social media to both raise the profile of our work and improved ongoing engagement with individuals with an interest in the areas we are auditing
- a stronger emphasis and more consistent approach to promoting the key messages from our work to influential external stakeholders
- new ways of engaging with key stakeholders on emerging key issues of concern (eg, Transformational Change, Pupil Equity Fund, Housing and Health, Community Empowerment) through Round Tables (eg, on defining and assessing progress within communities) and joint events with key partners (eg, Improvement Service and Glasgow Centre for Population Health).

124. We have been receiving consistently positive feedback from MSPs, local government consultees and others on the more strategic approach to the timing and targeting of our performance audit work since we introduced our new approach to programme development and the five-year rolling work programme. We are getting our messages out effectively and delivering new and improved products.

Example:

Early learning and childcare performance audit

We developed additional audit outputs including a guide for parents and carers to answer some frequently asked questions, and we suggested some ways they can get more information and help. The guide also covers how we carried out our audit, what we found and we developed videos for the e-Hub.

125. The improved links that we are making between our performance audit programme and the key areas of interest to Parliamentary Committees is also helping us to better support effective parliamentary scrutiny.

Supporting effective parliamentary scrutiny

126. Audit Scotland, the AGS and the Accounts Commission share a common goal – to improve the quality of public services by scrutinising how the Scottish Government and other public bodies spend money and deliver policy. Our support for the Parliament has taken on greater significance over recent years because of the significant new Financial Powers that are being transferred to the Scottish Parliament and the efforts that are being made to improve budget scrutiny in line with the recommendations of the Budget Process Review Group (BPRG).

127. We devised proposals aimed at delivering more strategic communication and engagement with the Parliament in May 2016. Considerable activity has been undertaken across business groups since that time to put the principles of the engagement strategy into practice.

128. A central strand of this work is the support that Audit Scotland provides to the Public Audit and Post Legislative Scrutiny Committee (PAPLS) through our performance audit reports, briefings and support for the committee's scrutiny of Accountable Officers and public bodies. Audit Scotland also works in partnership with private sector audit firms to ensure high quality S22 reporting to PAPLS and our communications team offers support and guidance to colleagues who have less experience of appearing before Parliamentary Committees.

129. The Parliament's Budget Process Review Group (BPRG) made several recommendations around how the Scottish Budget is developed and scrutinised. An important focus of our work during 2018/19 involved supporting the Parliament in responding to the BPRG and Commission on Parliamentary Reform reports recommendations. This has involved close working with the Parliament's Finance and Constitution Committee.

130. In May 2018, we hosted two workshops on the revised budget process. They involved around 80 attendees from the Scottish Parliament (committee clerks and researchers), the Scottish Government, COSLA, central government and health bodies, and auditors. The discussion focused on how we can work together to help implement the new process and support improved budget scrutiny. Feedback on the workshops was positive and we continue to work with colleagues in the Scottish Parliament and others to help communicate and support implementation of the revised budget process.

131. The revised budget process for 2019/20 started on 31 May 2018 with the publication of the SG's medium-term financial strategy and extensive use was made of Audit Scotland reports, briefings and data as part of this year's budget process.

132. Alongside our work with PAPLS and the Finance and Constitution Committee we are increasingly seeing our work being used by subject committees of the Parliament, such as Education and Skills, Justice, Equalities and Human Rights, Social Security, and Rural Economy and Connectivity.

133. During 2018, Audit Scotland had over 80 engagements with Parliamentary committees, clerks and forums covering evidence sessions and business planning meetings.

Looking ahead: added value through insight on key issues and risks

134. Identifying issues and key risks that lie ahead is an essential part of what we do. For example, because of the major implications of EU withdrawal and Scotland's new financial powers, we have set up an in-house team to work on the crucial areas of change. Their priority is to map out changes, potential scenarios and possible consequences of actions, then put in place effective audit arrangements to enable the Parliament to receive independent assurance on new bodies and the implementation of policies.

135. We have taken several steps to provide a clearer picture through updated reports, a timeline, key audit issues paper and bringing material together on a website hub. We are keeping a close watch on issues as they develop, including identifying associated audit risks and ensuring they are reflected in our work programme and are considered in our audits of public bodies.

Adding value through participation in professional bodies, contributions to external events and scrutiny improvement

136. We are represented on a wide range of international and UK professional bodies and audit agencies and through these we can influence professional standards and share and learn from good practice. For example:

- The Auditor General is a board member of Public Sector Audit Appointments (PSAA) and the Chair of its Audit Committee.
- Members of the Leadership Group participate on the FRC's Audit and Assurance Council, LASAAC (Local Authority (Scotland) Accounts Advisory Committee), the ICAS public sector panel and the ICAEW Scotland strategy board.

137. Because of our position in the public sector and the knowledge and experience of our staff we are often asked to contribute to conferences, seminars and in other forums. Examples include presentations on the principles of good

governance in the public sector and leading discussion about practical aspects of good governance in a public sector context.

138. Professional Support hosted a number of roundtable events during 2018 to support the audit approach and learning. These included:

- the annual planning event where Professional Support facilitated a discussion of the purpose and content of the planning guidance, and the overall audit approach
- a roundtable on financial sustainability in local government where Professional Support led a discussion among local government auditors on the key issues at Northamptonshire Council and in relation to financial sustainability in Scottish councils.

139. Audit Scotland works with other scrutiny bodies to make sure that the scrutiny of public sector bodies is better targeted and more proportionate to identified risks. The main focus of our development work is on local government, on behalf of the Accounts Commission. This sector has the highest number of external scrutiny bodies and it is where we think the greatest efficiencies can be made.

Endnotes

- 1 Within the UK, a consortium of Audit Scotland, NAO, WAO and NIAO fulfil the role of the UK Certifying Body for the European Agricultural Guarantee Fund (EAGF) and the European Agricultural Fund for Rural Development (EAFRD) Accounts for the United Kingdom, known as the Agricultural Funds. The EAGF finances expenditure associated with PILLAR 1 schemes, which are designed to encourage production and provide guaranteed prices for specific products. The EAFRD finances specific rural development programmes, known as PILLAR 2 schemes.
- 2 The Accounts Commission's strategic audit priorities are issues that the Commission considers particularly important to report through audit work.
- 3 Hot reviews are carried out before the audit opinion is signed or the report issued to provide assurance that the judgements in the reports are appropriate and are supported by appropriate audit evidence. Overall judgements, conclusions and the wording of the independent auditor's report are reviewed at a proportion of financial audits based on audit size, risk or likelihood of a modified opinion.
- 4 Cold reviews are conducted after the completion of the audit and provide a higher level of assurance than hot reviews. They differ from hot reviews in that they cannot change the work in the event of an error. Cold reviews go into greater depth than hot reviews. The samples of financial audits reviewed ensure that all auditors that sign an opinion are reviewed at least once in a three-year cycle and cover all sectors and sizes of audit.
- 5 [Audit Culture Thematic Review](#), Financial Reporting Council, May 2018.
- 6 [The Executive Counsel to the Financial Reporting Council and \(1\) Stephen John Denison and \(2\) PricewaterhouseCoopers LLP](#), Particulars of Fact and Acts of Misconduct, 10 August 2018.
- 7 [Disciplinary Action in Relation to Autonomy Corporation plc](#), Financial Reporting Council, 31 May 2018.
- 8 [House of Commons Business, Energy and Industrial Strategy and Work and Pensions Committees](#), Carillion, HC 769, 16 May 2018.

Transparency

report 2018

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