

Transparency report 2020



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Auditing in 2020

Introduction

This is Audit Scotland's Transparency Report for 2020. As an audit provider, it covers our financial audits, performance audits and Best Value audits in 2020. It also covers our work to support audit quality and public audit more generally. The report aims to provide assurances to the Auditor General and the Accounts Commission.

1. Audit quality is at the centre of all we do. Auditors in our Audit Services Group (ASG) and Performance Audit and Best Value (PABV) focus on auditing to the highest standards, in accordance with international auditing standards, the Code of Audit Practice (the Code) and our approved audit approaches.
2. Delivering audits is only part of what we do. Audit Scotland leads public audit in Scotland, recognising that high-quality auditing supports effective scrutiny and improves the use of public money and outcomes. [More information about our wider work is available in our other corporate publications on our website.](#)
3. Covid-19 had a significant impact on auditing in 2020. In difficult circumstances, our staff responded extremely well. They coped with the disruption and supported each other to complete almost all of the audits by the end of 2020. This is a remarkable achievement. We prioritised health and wellbeing and we welcomed our highest ever Best Companies staff survey score at the start of 2021.
4. We can also report robust quality monitoring arrangements, further progress in quality in our performance audits, and that audited bodies expressed high levels of satisfaction with our reports. However, after several years of improvement, our financial audit quality scores this year are below the standards we expect. We have responded quickly to address the issues identified and to increase support for audit quality and for our teams during 2021.
5. Audit Scotland provides services to the Auditor General and the Accounts Commission. Further details about our organisation and its board, management team and finances are available in [our annual report](#).

Audit delivery

6. ASG delivers approximately two-thirds of the annual financial audits of public bodies with the remainder carried out by appointed private firms. PABV delivers the programme of performance audits and sector overview reports. PABV also works with auditors on statutory reports by the Auditor General or the Controller of Audit, depending on the sector, and on Best Value Assurance Reports on councils. [More information on the audits is available on our website.](#)

7. In 2020, we produced a range of outputs across these areas:



- delivered 121 out of 124 annual audits of 2019/20 financial statements and related accounts, including returns to the National Audit Office (NAO) for UK Whole of Government Accounts
- audited the Scottish elements of the European Agricultural Funds Accounts (EAFA) as part of the consortium led by the NAO¹



- prepared nine statutory reports highlighting significant issues identified during financial audits



- completed five national performance reports on a wide range of topics such as [Affordable housing](#) and [Scotland's City Region and Growth Deals](#), and an [overview report on local government in Scotland](#)



- published seven Best Value Assurance Reports



- published 13 additional outputs such as Covid-19 related guides, briefing papers, impact reports and a range of interactive data graphics and animations in support of our main audit reports.

8. The following sections summarise our performance against audit deadlines and our other outputs during 2020. In line with the good practice principles of openness and transparency, [all our reports are available on our website](#).

Annual financial audits

9. Completing audits on time supports timely accountability and improvement. We work to the deadlines in the annual audit planning guidance issued under the Code. Audit timetables were adjusted in the [Guidance on planning the audit 2019/20 audits – addendum](#) because of the Covid-19 pandemic.

During 2020, we completed 101 out of 124 (81 per cent) of our 2019/20 annual audits on time relative to the targets in the planning guidance. While this was not as good as 2019 in absolute terms, our performance in 2020 is remarkable given the constraints in auditing remotely because of Covid-19.

10. [Exhibit 1](#) shows our performance in delivering annual audit plans, independent auditor's reports, and annual audit reports along with comparative figures for the previous year. For our central government audits, although in some cases the planning guidance deadlines were not achieved, all audits were completed in time to enable the audited accounts to be laid in the Scottish Parliament by 31 December 2020, in accordance with the statutory deadline. [Appendix 3](#) lists all public bodies we audited in 2020.

Exhibit 1

Percentage of outputs delivered by the planning guidance targets

Audit output	Year				
		Local government (%)	Central government (%)	Health sector (%)	Further education (%)
Annual audit plan	2019/20	90	83	100	100
	2018/19	100	84	100	100
Independent auditor's report	2019/20	92	66	80	100
	2018/19	94	100	100	100
Annual audit report	2019/20	94	66	80	100
	2018/19	89	93	100	100

11. Covid-19 has of course affected public bodies as well as our audit teams, audit timetables and reporting. It took time to establish remote auditing arrangements such as file sharing with audited bodies and we found that audits generally took longer to complete. This means that the planning work for our 2020/21 audits started later than normal and we anticipate further challenges in delivering audits in 2021. Common issues in 2020 included:

- Productivity, as auditors and audited bodies adapted to homeworking with many balancing work with caring responsibilities due to lockdown
- Audit evidence, including access to information and verification of assets
- Management oversight, including coaching and development of our staff.

12. In addition to the outputs in [Exhibit 1 \(page 5\)](#), we issued management reports for 48 (39 per cent) of our audits, a decrease on 2018/19 audits (61 of our audits, or 50 per cent). These report the results of our interim audits including, for example internal control weaknesses. Due to Covid-19, we raised matters with the audited body at the time of the interim audit in some cases and reported formally through the annual audit report later.

Performance audits, overview reporting, Best Value audits and statutory reports

13. [Our programme](#) of performance audits, sector overview reports and Best Value audits reflects the strategic priorities of the Auditor General and the Accounts Commission. During 2020 we paused the programme to assess the impact of Covid-19 on the timing and scope of the audits. We resumed our performance audit programme after consulting with stakeholders and will keep it under review.

Nine of 14 (64 per cent) of performance audits, overview reports and Best Value Assurance Reports were completed to initially planned timescales. Again, this is a remarkable achievement given the challenges in 2020.

14. For the remaining five audits:

- We postponed performance audits on Skills planning and investment and on Social security to take account of changes in these sectors. We updated our work on [Improving outcomes for young people through school education](#) to include a review of the Scottish Government's and councils' response to Covid-19 and their plans for service recovery. We published the report in March 2021.
- We revised the schedule for Best Value Assurance Reports (BVARs) due to the disruption caused by Covid-19. The Moray Council BVAR was published in August instead of May 2020 and the City of Edinburgh Council BVAR in November instead of August 2020.

15. The Auditor General can prepare reports on issues from the audits for which the Auditor General is responsible (section 22 reports). The Controller of Audit has similar powers for local authorities (section 102 reports)². These are known collectively as statutory reports. In 2020 we prepared nine statutory reports highlighting significant issues identified from this year's audits or as follow-ups from previous statutory reports, including on [NHS Tayside](#), [Scottish Police Authority](#) and the [Scottish Government Consolidated Accounts](#). [All reports are available on our website](#).

Other outputs

Alongside our audit reports, we produce other outputs to communicate our audit work and to engage our stakeholders. We also innovate to maximise the value of our work and to ensure it is accessible to those who use and provide public services in Scotland.

16. We draw on our audits and our wider experience of the public sector to prepare outputs which support good governance and accountability. Our Covid-19 briefings were particularly welcomed by the organisations we audit, and others, in 2020.

Examples of outputs published in 2020



Briefing papers and impact reports summarising the impact of performance audits

such as the [Student loans](#) briefing and [Equal pay in councils](#) impact report.



Good practice guidance and checklists

for example [Good Practice Note on management commentaries in councils](#).



Key issues and briefing papers

Including briefings on our [Covid-19 e-hub](#) such as

[Emerging fraud risks](#), [Guide for audit and risk committees](#) and [Going concern in the public sector](#).



Supplementary outputs and electronic resources

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

Audit quality and improvement

We have robust audit quality monitoring which includes systematic quality reviews across all aspects of our audit work. We have extended the independent assessment of financial audits to include performance audits and Best Value work, making us leaders in this area. This assurance work is important to ensuring we continue to learn and improve, and to identify and address issues affecting audit quality.

17. The quality of our work is critical because it is the basis of our audit conclusions and recommendations. Our senior management, our Audit Quality Committee, the Audit Scotland board, and the Auditor General and the Accounts Commission are all involved in audit quality and oversight. More detail is provided in [Appendix 1](#).

18. The [Audit Quality Framework \(AQF\)](#) applies to all audit work and providers. It combines the highest professional standards with comprehensive quality review. It also provides for systematic reporting on audit quality within Audit Scotland, to the Auditor General and the Accounts Commission, and to the public. Our approach aligns with [Public audit in Scotland](#) and the [Code of audit practice](#).

19. Our audit quality model involves three levels of assurance ([Exhibit 2, page 8](#)).

Exhibit 2

Three levels of assurance for audit quality in Audit Scotland



- **First** – Appropriately trained individuals and audit teams working within comprehensive audit frameworks, with guidance from Audit Scotland’s Professional Support
- **Second** – Organisation-wide internal quality monitoring in accordance with audit quality standards (ISQC1) and guidance, and related planned improvement activity
- **Third** – Independent quality assurance and reviews, and related planned improvement activity

20. Our first level of quality assurance centres on our people. Our audit guides are designed to help staff provide high-quality audit work. These include our Audit Guide for financial audits, our Audit Management Framework for performance audits and our Best Value manual for Best Value auditing. Internal reviews by more experienced audit team members are integral to the audit process and Audit Scotland’s Professional Support is central in our quality arrangements, providing cross-organisation support for auditors.

21. The second level is ongoing quality assurance, including engagement quality control reviews (EQCRs) or ‘peer reviews’ of audit approaches and matters arising from the audits. This also includes ‘hot’ reviews of ongoing work and ‘cold’ reviews of completed work which are carried out by experienced senior staff. In 2020, ‘hot’ reviews of ongoing work were in relation to performance audits.

22. The third level of assurance is independent quality reviews, by reviewers who are not directly involved in the audit work, including the Institute of Chartered Accountants of Scotland (ICAS). The Financial Reporting Council’s (FRC’s) scoring methodology is applied across all quality reviews to provide a consistent and comparable scoring basis for the different quality activities ([Appendix 1](#)). For this report, a review score of 2A or above demonstrates a satisfactory level of quality.

Quality reviews of 2020 audits

23. Audit quality depends on our audit teams and the work we do to support our people to deliver quality audits. More information on our people and related audit quality indicators is set out later in this report.

24. In 2020, six higher-risk financial audits were selected for EQCRs performed by Audit Directors. They concluded that there was a sound basis for the proposed audit opinions. In addition to planned EQCRs, peer review panels were set up to discuss unusual and contentious issues arising from the 2019/20 audits, eg relating to disclosures of accounting estimates, accounting for provisions and the valuation of land and buildings.

25. Three of the six financial audits subject to internal cold review (50 per cent) demonstrated a satisfactory level of quality (score 2A or above). This is a decline on last year when all seven (100 per cent) of the financial audits received a 2A score or above. One financial audit this year received a 3 score (‘significant improvements required’). The internal review of a performance audit received a 2A score, maintaining the performance assessment last year.

26. Only one of the five financial audits which ICAS selected for cold review (20 per cent) demonstrated a satisfactory level of quality (score 2A or above). This is a decline on last year when two of the four financial audits (50 per cent) financial

audits received a 2A score. Three of the financial audits this year received a 3 score ('significant improvements required'). The ICAS reviews of a performance audit and a joint BVAR engagement report each received 2A scores, maintaining the performance assessment last year.

Across the internal and ICAS financial audit cold reviews, only four of the eleven achieved our target standard of quality, ie minimum 2A. Of the remainder, three were scored as 2B 'improvements required' and four were scored as 3 'significant improvements required'. This is below our stated expected standards. We are addressing the issues identified as well as increasing support for audit teams to improve in 2021.

27. We have taken action to understand the reasons for the financial audit quality review scores and to address the review findings – more detail is provided in the 'Next steps' section of this report. In two cases where audits were scored as 3 'significant improvements required', and where the reviewer indicated a risk of a material misstatement in the financial statements covered by the auditor's opinion, Professional Support carried out an independent assessment. Professional Support concluded that in both cases the auditors' opinions were not inappropriate.

Improvement in the quality review scores for performance audits and BVAR engagements was maintained in 2020, with all three reviews across the ICAS and internal reviews scored as 2A 'limited improvements required'. This is encouraging and reflects the work we have done to embed recognised auditing standards and quality processes.

28. Our thematic reviews of audit sampling and auditors' review of key judgements and estimations concluded that there had been progress compared with previous years, but with further improvement required.

Strengths and good practice

29. Feedback from the 2020 quality reviews highlighted good practice, including:

- Directors of Finance and Audit Committee Chairs provided positive feedback on audit teams' ability to adapt well and respond quickly to remote auditing during 2020
- Team risk assessment meetings evidenced risk assessment and discussion of emerging issues prior to starting the financial statements audits
- Review of the management commentary/performance report sections in the annual accounts were completed well with close reference to Technical Guidance Notes and related checklists
- Audit teams keep good records to demonstrate their Continuing Professional Development
- Approvals of performance audit work were well documented, draft reports were retained in line with corporate guidance and appropriate clearance and fact checking processes were adhered to.

Areas for improvement

30. The 2020 quality reviews identified areas for improvement, including:

- Materiality considerations – documentation and justification of materiality could be improved
- Audit sampling – this continues to be an area for improvement, including how we document the basis for sample selection and the justification of sample sizes

- Audit documentation – as with audit sampling, this continues to be an area for improvement with insufficient audit documentation provided in some cases on the extent of work performed and audit conclusions
- Audit approach – this was not always clearly documented, and some inconsistencies were found between the planned work and audit testing
- Monetary errors – some inconsistencies were found with the classification of monetary errors and related documentation
- File specific issues – relating, for example to the audit of group accounts and the approach where the audited body uses a service provider for aspects of their financial systems
- Engagement lead review – there was insufficient audit evidence in some cases of engagement lead review in critical areas of judgement and the audit response to significant audit risks
- Review of performance audit work – although the work had been approved at appropriate stages, there was less clarity on the main changes resulting from the review and approval process by senior staff and stakeholders
- Records management – while several improvements in records management have been identified, some files were not labelled as records in SharePoint.

Next steps

Audit quality remains a top priority and quality monitoring findings are taken very seriously in Audit Scotland. We have identified the issues behind the review scores for our financial audits, and are acting urgently to address the issues and to continue the steady improvement seen in previous years.

31. ICAS and the internal quality team provide feedback to all financial audit staff. We are also supporting our staff through mandatory training which will focus on the 2020 quality review findings and the audit approach. We recognise that further training and methodology development work are not enough in themselves to secure improvement in recurring areas. We are therefore also focusing on team roles, including management review and engagement lead involvement.

32. The financial audit results also show the need for us to strengthen our ongoing quality assurance processes. To secure the pace and urgency of response required, we have established a permanent quality assurance team. This team is supporting our audit teams and will help maintain our financial audits at the level of quality we expect.

33. We have analysed the quality findings to produce a detailed action plan. Progress of all quality improvement actions will be monitored by the ASG and PABV leadership teams and by the Audit Quality Committee. The Audit Scotland Board also takes a close interest in quality results and the actions taken and proposed in response to quality monitoring.

Feedback from audited bodies

We commission an independent survey to seek views about the quality and impact of audit work. As in previous years, survey respondents expressed a high level of satisfaction with the usefulness of the annual audit and the performance of the audit teams continued to score highly.

34. Audited bodies were also broadly supportive of the remote audit process – they felt that communication worked well and that they were able to maintain previously established positive working relationships. Perceptions of the annual audit reports

remained positive but there was some variation in stakeholder views on the degree of usefulness of some performance audit reports.

Prior period errors

35. Auditors reported that seven prior-period errors were corrected in 2019/20 financial statements (ten in 2018/19). Two of these had no impact on the overall financial position. The remaining five represented over or understatements of the 'bottom line' with an aggregate total value of £48.9 million.

36. The single largest error amounted to £29.7 million in Orkney Islands Council which failed to recognise a provision for decommissioning costs for Flotta Oil Terminal in previous years (the sum had previously been held as an earmarked reserve rather than a provision). Of the remaining four prior-period errors, three were in the area of capital accounting and one related to an understated deficit.

Developments in audit quality

We closely monitor developments in the auditing profession. We consider how these affect our audit approaches and the work we do to support audit quality in public audit in Scotland more generally.

37. Examples include Sir Donald Brydon's [Review into the quality and effectiveness of audit](#)³ which was published in December 2019, and Sir Tony Redmond's [Oversight of local audit and the transparency of local authority financial reporting](#) in England which was published in September 2020. We are currently reviewing the Department for Business, Energy and Industrial Strategy's consultation '[Restoring trust in audit and corporate governance: proposals on reforms](#)' and will respond accordingly.

38. Recognising our central role in public audit and audit quality, Audit Scotland's internal auditors carried out an independent review of our preparedness for audit profession changes. The internal auditors considered the design and operational effectiveness of our controls for preparing for audit profession changes and reported 'substantial assurance' (their highest level of assurance conclusion).

39. The Financial Reporting Council emphasises that high-quality audit is supported by fundamental principles, rigorous standards, due process, and mandated quality assurance. As an audit provider we have a range of controls in place which promote a positive audit culture and its contribution to audit quality. Our success in developing a strong quality culture is confirmed in our staff quality survey results highlighted in the following section of this report.

40. The strong quality culture is matched by our arrangements for supporting audit quality. Matters arising from quality reviews are acted on systematically and then tested again through ongoing quality monitoring. We have reassessed these arrangements in light of this year's quality results. Learning from good practice is also an important part of our overall approach to audit quality.

People-related audit quality indicators

We surveyed ASG and PABV staff to seek their views on how well they were supported to deliver high-quality audits during 2020. The survey response rate was 60 per cent for ASG and 46 per cent for PABV which is higher than last year's response of 56 per cent in ASG and 34 per cent in PABV. The results show further improvement compared with last year and are positive overall.

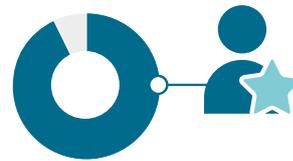
41. The detailed results and comparison with last year's results are shown in [Exhibit 3 \(page 12\)](#).

Exhibit 3

Staff audit quality survey results

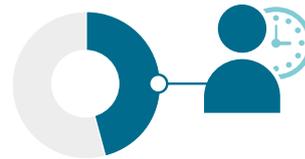
Percentage of staff who said that they were encouraged to deliver high-quality audit work.

93%
(89% in 2019)



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

46%
(27% in 2019)



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

70%
(63% in 2019)



Note: Percentages shown are the percentage of those staff who responded.

42. 93 per cent of staff who responded to the survey felt encouraged to deliver high-quality audit work, which confirms a strong culture for high-quality audit. In 2020, operating under Covid-19 lockdowns, our staff told us that they received clear messages on prioritising audit quality over deadlines.

43. 70 per cent of staff who responded said they received enough training and development for high-quality audits. This reflects our continuing work to enhance our approach, and the specific steps we took during 2020 under Covid-19 to provide training in different ways. Our staff found pre-recorded training videos helpful and praised the quality of the training provided. They also told us that they welcomed moves to mandate more elements of the training and suggested how we might further develop training in 2021.

44. 46 per cent of staff who responded said that they had sufficient time and resources to deliver high-quality audits. This is a substantial improvement, reflecting the action we have taken in this important area and the flexibility offered by remote working. There is of course scope for further improvement, and we continue to look at how we resource our audits, taking account of the working environment and the positive results from a large-scale recruitment campaign we started early in 2021.

45. ASG staff were appropriately qualified with 95 per cent of staff either CCAB (Consultative Committee of Accountancy Bodies) or Chartered Institute of Management Accountants qualified, or in training for a CCAB qualification. Several ASG staff also hold qualifications in other areas, such as ICT.

46. PABV staff have a wide range of professional and policy qualifications. These include audit, research and public policy-related qualifications, for example in economics and social sciences. These wide-ranging backgrounds and experience support the delivery of high-quality performance audits. In addition, 15 per cent of PABV staff were also either CCAB qualified or in training for a CCAB qualification, enabling flexible working across audits.

47. Our learning and development (L&D) strategy supports Audit Scotland's two priorities – delivering world-class audit and being a world-class organisation. The

L&D helps our auditors develop the right knowledge, skills and behaviours to deliver world-class audit and equip them for the future. The Personal Development and Growth Group provides strategic direction for learning, development and personal growth in Audit Scotland.

In response to Covid-19 and colleagues working from home, we adapted and continued to deliver training and development remotely. This accelerated our plans for digital and accessible learning. We are planning further work in 2021 to enhance our L&D, including new online training courses, bitesize learning and a new personal development portal.

48. In 2020, the average number of training days across ASG and PABV was 12.5 days per person (10.4 days in 2019) which includes training courses, knowledge cafés and conference attendance. The figure excludes our Institute of Chartered Accountants (ICAS) training scheme and additional continuing professional development (CPD) carried out by colleagues through, for example on-the-job learning.

49. We remain committed to professional trainees, modern apprentices, and student placements as part of our workforce planning and long-term talent strategies. Audit Scotland runs one of the largest public sector accountancy training schemes in Scotland, with 51 trainees and staff working towards the ICAS qualification. In 2020, our trainees passed 139 out of 152 exams (91 per cent) on their first sitting. We also run mentoring and coaching schemes.

Independence and ethics

The independence of auditors from the organisations they audit is a fundamental principle of public audit. We recognise auditor independence is paramount and have stringent controls in place to mitigate actual or perceived threats to independent audit and reporting. Audit independence was maintained across all aspects of our audit work in 2020.

50. Our independence controls include:

- the appointment of independent auditors by the Auditor General and Accounts Commission
- enforced rotation of auditors
- 'fit and proper' disclosures completed by all staff annually and reviewed by each business group's compliance partner
- arrangements to control non-audit services.

51. We have adopted the FRC's Ethical Standards for auditors for all our work. The FRC published its latest revised Ethical Standard in December 2019 which will apply to our 2021 audits. We are currently reviewing our policies for compliance.

52. The Director of Audit Services is our Ethics Partner. This position has the necessary seniority, experience, and authority to ensure compliance with the Ethical Standard. 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.

53. Audit Scotland staff complete an annual 'fit and proper' form confirming their compliance with standards and bringing to attention any possible conflicts of interest. As every year, all ASG and PABV staff completed their 2019/20 fit and proper form with 24 potential conflicts of interest noted and acted upon. Auditors have not had to report any concerns in relation to independence and the Ethical Standard to audited bodies.

54. Audit Scotland auditors are required to obtain permission from the Ethics Partner before committing to any non-audit services. The approval process includes consideration of both the Ethical Standard and the Code of Audit Practice, recognising the wider scope of public sector audit and the consequent increased risk of 'self-review' threats to independence. There were no non-audit services that were refused by the Ethics Partner.

55. During 2019, there was only one instance of non-audit work undertaken by Audit Scotland staff – an audit of the Scottish Funding Council's Education Maintenance Allowance grant claim undertaken by the audit team, with a total value of £2,754 included in the overall audit fee. 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 clearly insignificant. As such, AQA and Audit Scotland's Ethics Partner granted approval to the auditor to carry out this non-audit work during the remaining of the audit appointment.

Added value

Adding value is central to our approach across our audit work and the work we do to support public audit in Scotland. We are constructive and forward looking, identify areas for improvement and recommend and encourage good practice.

56. In 2020 we continued to promote improved standards of governance, better management and decision-making, and more effective use of resources. Examples flowing from our financial audits and performance audits and Best Value auditing are outlined in [Appendix 2](#).

57. Audit Scotland, the AGS and the Accounts Commission work to a common goal of improving the quality of public services by scrutinising how the Scottish Government and other public bodies spend money and deliver policy. During 2020 we continued to support the Parliament, primarily the Public Audit and Post-legislative Scrutiny Committee (PAPLS) through our performance audit reports, statutory reports, briefings and support for the committee's scrutiny of Accountable Officers and public bodies.

58. Alongside PAPLS and the Finance and Constitution Committee, our work is also used by subject committees of the Parliament, such as Education and Skills, Justice and Social Security. Every year we hold briefing and evidence sessions with Parliamentary committees, attend business planning meetings and contribute to committee enquiries. Feedback from MSPs on the quality and value of Audit Scotland's work in supporting parliamentary scrutiny continues to be strong.

59. Identifying issues and key risks that lie ahead is an essential part of what we do, more so in Covid-19 times. We established a [Covid-19 hub](#) on our website, bringing together the Covid-19 related reports we have produced as well as other resources such as blogs and our planned future work. As part of this we published briefing papers on significant topics in which we have an audit interest. These include our [general statement on public audit](#) summarising our approach during Covid-19 and what audited bodies and stakeholders can expect from us. We also published and shared with audited bodies a variety of Covid-19 products such as [Going concern in the public sector](#), [Guide for audit and risk committees](#), [Covid-19: Implications for public finances in Scotland](#) and [Emerging fraud risks](#).

60. We also add value through our representation on professional bodies and share and learn from good practice. For example, members of the Leadership Group participate on the FRC's Audit and Assurance Council, LASAAC (Local Authority (Scotland) Accounts Advisory Committee), CIPFA/LASAC Board, the ICAS public sector panel, the ICAEW Scotland strategy board, ICAEW public sector advisory board and the Financial Reporting Advisory Board (FRAB). 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.

61. As part of its role in supporting audit quality, Audit Scotland's Professional Support adds value to sectors through its technical guidance and good practice notes, all of which are available on its website. Professional Support also hosts roundtable events to support the audit approach and learning. These include the annual planning event where Professional Support facilitates a discussion of the purpose and content of the planning guidance, and the overall audit approach.

62. 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 focus of our development work is on local government, on behalf of the Accounts Commission, to coordinate and facilitate local government scrutiny.

Appendix 1

Quality control in Audit Scotland

Our organisational approach to audit quality

The Director of ASG is responsible for the quality of financial audits delivered by Audit Scotland's in-house audit practice. The Director of PABV is responsible for quality of performance audits, Best Value auditing and other statutory reports. In all cases, the work is done in accordance with International Standard of Quality Control 1 (ISQC1), compliance with which is reviewed by ICAS.

The Auditor General and the Accounts Commission are involved at key stages of audits. The Auditor General takes a close interest in the process leading to section 22 statutory reports. Similarly, the Auditor General and the Accounts Commission are involved in key stages of performance audits.

The Audit Scotland board and its audit committee also have important roles in audit quality. The board approves the Audit Quality Framework (see below) and obtains assurances from reports produced by the Audit Quality and Appointments (AQA) team, which works independently of the audit delivery functions. The audit committee's remit includes advising the board on the arrangements for audit quality monitoring and reporting. The committee also considers AQA's Quality of public audit in Scotland annual report prior to its submission to the board.

Audit Scotland's Audit Quality Committee oversees the quality review programme of financial, performance and Best Value audits and identifies training needs arising from the quality review work. The committee includes representatives from ASG, PABV and Corporate Services.

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. Its remit includes enhancing the efficiency and effectiveness of public audit and high standards of audit across the public sector by active cooperation between the national audit agencies, sharing knowledge and good practice on the application of audit standards and codes of audit practice.

Professional Support

Audit Scotland's Professional Support is a key part of our audit quality arrangements, providing cross-organisation support for auditors. This involves:

- providing support and audit guidance to Audit Scotland including accounting and auditing training
- producing technical and other guidance under the Code to all audit providers (Audit Scotland and the private firms) and promoting good practice in financial reporting
- coordinating, supporting and contributing to Professional Leadership (which involves Audit Scotland's Leadership Group who, as part of their roles, champion areas of interest and lead our activities)
- carrying out internal quality reviews
- coordinating the audit contribution to counter-fraud arrangements.

Quality control reviews

Internal reviews of quality

These are 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, conclusions are appropriate, and work complies with the audit methodology and auditing standards.

This type of review extends to all types of work including financial, performance and Best Value auditing.

Engagement quality control reviews (EQCRs) 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.

Organisation-wide quality control activity

Such reviews include 'hot' and 'cold' reviews by Professional Support and are used to continuously improve our audit processes and methodologies. The cold review process is further strengthened by Audit Scotland's reciprocal arrangements with other UK audit agencies who perform 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

These complement our internal reviews and cover ICAS reviews of financial audits, performance audits, statutory reporting and Best Value work. In addition, AQA performs thematic reviews of annual audit plans and annual audit reports. These independent reviews provide a very high level of assurance on audit quality.

Financial Reporting Council's scoring methodology applied to quality activities

Score		Grade	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 nor collectively significant. In such circumstances it is expected that the auditor would consider whether any remedial action is required in respect of the audit inspected and to amend procedures for subsequent audits.
3		Significant improvements required	<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>

Appendix 2

Added value in 2020 – examples

Adding value through annual audit work

We aim to add value to audited bodies through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we help audited bodies promote improved standards of governance, better management and decision-making and more effective use of resources.

Added value is '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 draw on our deep, cross-sector understanding to provide challenge and support. We participate in audited bodies' audit committees where, alongside our audit reports, we provide insight on wider issues affecting the organisations we audit.

We often provide technical assistance on accounting and reporting issues. This includes encouraging public bodies to revise the form and content of their annual reports and accounts to provide better information about their activities and performance.

Under the Code of Audit Practice we also add value through our work on the 'wider dimension' aspects of public audit: financial sustainability, financial management, governance and transparency, and value for money. For example, we encourage public bodies 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 over time. We also make recommendations for improvements in audited bodies' financial management such as budget monitoring and scrutiny, encourage enhanced transparency and promote effective governance and performance reporting arrangements.

Some specific examples of how our annual audits added value to audited bodies during 2020 are outlined below.

Providing technical assistance on accounting and reporting issues

Efficiencies in Aberdeen City and Shire Strategic Development Planning Authority (SDPA) reporting

Following the Planning (Scotland) Act 2019, the statutory responsibilities of the SDPA have reduced. We recommended in 2019 that, with low levels of spending, continuing to prepare and audit accounts was no longer a good use of resources. Following our recommendation, the SDPA will no longer prepare the accounts, with the minimal costs of running the SDPA meeting now absorbed by partner bodies.

Technical assistance with accounting policies at Skills Development Scotland (SDS)

During 2019/20, we added value to SDS by providing additional insight into the timing of the application of a revised accounting standard on leasing and this resulted in SDS agreeing to postpone the implementation of IFRS16, in line with the relevant guidance. Additionally, in response to questions from SDS about the application of the going concern basis of accounting, we provided information based on our understanding of the technical issues affecting audit considerations of going concern in the public sector.

Improved accounting policies and disclosures in Edinburgh College annual report and accounts

We provided the college with technical assistance and additional insight on accounting and reporting issues. As a result, the college revised its accounting policies, made additional disclosures for pensions and improved the quality of its performance report and the governance statement.

Improved accounting for non-current assets at Forestry and Land Scotland (FLS)

In 2019 we recommended that accounting for non-current assets and the associated accounting policies should be revised. This resulted in the FLS improving its accounting policies on vehicles, machinery and equipment, with these now more suited to the FLS.

Supporting effective financial management and controls

Improved budget monitoring information at Education Scotland

In previous years we reported that better budget monitoring information could be provided to budget holders. Following our recommendations, Education Scotland has reviewed and improved the financial information presented to budget holders and this has increased the effectiveness of budget control and accountability.

Improved internal controls at Inverclyde Council

We identified an issue with the council tax bad debt provision due to incorrect application of the accounting policy and an incorrect application of collection rates. As a result, the council introduced an internal control check in 2020 to ensure that the information and calculations were accurate and in line with the policy.

Improved financial management at Scottish Police Scotland (SPA)

We have received feedback that our previous section 22 reports provided the necessary leverage for improvement in the SPA's financial management, including the preparation of a corporate plan and an associated business plan.

Supporting enhanced transparency

Enhanced transparency at Standards Commission for Scotland (SCS)

We have previously recommended that SCS publishes minutes of committee meetings on its website to offer greater transparency. As a result, SCS reviewed the information that is made publicly available and all minutes are now available on their website.

Publication of registers of interest on Transport Scotland website

Following discussions during the audit, Transport Scotland agreed to publish its senior management team's register of interest within its Public Services Reform (Scotland) Act 2010 disclosures, in line with the Scottish Government's 'On: Board' guidance.

Improved management commentary in Glasgow City Integration Joint Board (IJB) annual report and accounts

We recommended that the IJB's management commentary should be more focused to bring it in line with good practice. We shared good practice examples with the Glasgow City IJB and promoted good practice with other IJBs through our attendance at the Chief Financial Officers' Network meeting in February 2020. We noted a clear improvement in the Glasgow City IJB's management commentary in the 2019/20 annual report and accounts with the IJB committing to keep it under review.

Promoting effective governance and performance reporting

Enhanced scrutiny in the Scottish Government

We recommended that the Scottish Government's Audit and Assurance Committee should provide greater scrutiny and challenge to support the advice and assurances given to the Permanent Secretary as the Principal Accountable Officer. We also recommended that the Committee should produce an annual report to summarise its work from the past year and undertake a review of its own effectiveness to ensure it operates in line with the Scottish Government's good practice guidance on audit and assurance committees.

The Scottish Government made good progress against these recommendations during 2020, with the Committee reviewing its terms of reference and preparing an annual report to summarise its work which included a planned review of its own effectiveness.

Streamlining of charities administered by South Lanarkshire Council

The administration of the three charities administered by the council was outdated with many of the funds of the trusts not distributable in the modern context. Following our recommendation, the council reviewed the administration and governance of the charities and streamlined the funds to allow a greater degree of flexibility in their distribution. The new arrangements have been agreed with the Scottish Charity Regulator and are expected to be put in place during 2021.

Enhanced performance reporting in VisitScotland's annual report and accounts

We recommended in previous years that VisitScotland enhance its performance report by making clearer links between its strategic objectives and how performance was contributing to national outcomes. Following our recommendations, VisitScotland inserted a new table into its performance report to show its contribution to the National Performance Framework, demonstrating its contribution to the Scottish economy.

Improved performance report in SportScotland's annual report and accounts

In previous years we commented on the length of the performance report and the impact this had on users' understanding. We shared good practice examples with SportsScotland and the organisation developed a new approach which enabled it to significantly reduce the length of the performance report. This resulted in a more focused output that was a good mix of narrative and exhibits.

Adding value through performance audits

Performance audit reports focus on efficiency and effectiveness in the use of public resources. We aim to add value by making recommendations on areas such as public service reform, value for money, use of resources, and service performance and sustainability.

As indicated in this Transparency Report, in 2020 we paused our programme of performance audits and sector overview reports to assess the impact of Covid-19 on the timing and scope of the audits. After consulting with stakeholders, we reshaped the programme to focus on key issues and reflect the renewed strategic priorities of the Auditor General and the Accounts Commission.

Due to pausing our performance audit work, we only published two performance audit reports during 2020 – [Scotland's City Region and Growth Deals](#) and [Privately financed infrastructure investment: The Non-Profit Distributing \(NPD\) and hub models](#). Early impact of these reports is outlined below.

Early impact of performance audit reports published in 2020

Scotland's City Region and Growth Deals

We reported that the Scottish Government has not set out how it would measure the long-term success of City Region and Growth Deals, how it would know if deals were value for money, or how deals would contribute to the outcomes in the National Performance Framework. We also found that it was not always clear why some deal projects were approved over others and highlighted the risk around the capacity of councils and their partners to deliver deal projects against a challenging backdrop for the public sector. Since we published our report, in line with our recommendations:

- Partners in the Edinburgh and South East Scotland City Region Deal established a cross-partner communications group to improve communication with the individual councils and other partners. They have also started working with the Scottish Government to develop a monitoring and evaluation framework.
- The UK Government and the Scottish Government have started developing detailed accountability and working arrangements via a Memorandum of Understanding.
- The project management officers for each of the deals have established a peer to peer network to share good practice and discuss common challenges.

The Non-Profit Distributing (NPD) and hub models

We reported that it was not clear enough how the Scottish Government decisions have been taken about which projects would use private finance, or how well this was achieving the best balance of cost and benefits in practice. We also reported that it was not clear how public sector organisations have assessed the value for money of using private finance, or whether the implications of these contracts had been fully considered. Since we published our report, in line with our recommendations:

- The Scottish Futures Trust revised and expanded the published information and started providing limited information on secondary market trading and ownership.
 - In the Capital Spending Review, published in February 2021, the Scottish Government directly referenced our analysis of funding required to meet the National Infrastructure Mission. In this document, and the Infrastructure Investment Plan, it also set out the hierarchy of and rationale for capital investment decisions.
-

Adding value through Best Value auditing

Through our Best Value audit work we aim to ensure that there is good governance and effective management of resources, with a focus on improvement to deliver the best possible outcomes for the public. The current programme of Best Value work began in 2017. The Annual Assurance and Risks Report (AARR) published in March 2021 shows that the pace and depth of continuous improvement in the six councils where a BVAR was published in 2020 (year four) has been mixed. While most councils have demonstrated improvements in some areas, the depth of improvement has not been council-wide or shown substantial improvement.

The AARR also reported that all 19 councils which had BVARs published in Years one, two and three of the programme published improvement plans in response to the Accounts Commission's findings and recommendations. Auditors reported that most councils are making good progress in addressing the recommendations.

Early impact of BVARs published in 2020

Improvements at The Highland Council

The BVAR in January 2020 highlighted that the Council's pace of change had been inconsistent and slower in areas such as improving its performance management and demonstrating its longer-term financial sustainability. By March 2020 the council had developed a BVAR improvement plan and had already implemented some actions to address issues highlighted in the BVAR. This included increasing its unearmarked general fund position to provide greater financial resilience, and refreshing its corporate performance monitoring arrangements to enhance monitoring and scrutiny.

Appendix 3

2019/20 annual audits

Local government audits			
Councils	Pension Funds	Integration Joint Boards (IJBs)	Other Joint Boards
Aberdeenshire	Fife	Aberdeenshire	Aberdeen City and Shire SDPA
Angus	North East Scotland	Angus	Central Scotland Valuation Joint Board
Argyll and Bute	Orkney Pension Fund	Argyll and Bute	Clyde Muirshiel Park Authority Joint Committee
Clackmannanshire	Scottish Borders	Clackmannanshire and Stirling	Clyde Valley Learning and Development Joint Committee
Comhairle nan Eilean Siar	Strathclyde	Dundee City	Dunbartonshire and Argyll and Bute Valuation Joint Board
Dundee City	Tayside	East Dunbartonshire	East of Scotland European Consortium
East Dunbartonshire		East Lothian	Glasgow and Clyde Valley SDPA
East Lothian		East Renfrewshire	Glasgow City Region City Deal Cabinet Joint Committee
East Renfrewshire		Fife	Grampian Valuation Joint Board
Fife		Glasgow City	Lanarkshire Valuation Joint Board
Glasgow City		Inverclyde	Mugdock Country Park Joint Committee
Inverclyde		Moray	NESTRANS
Moray		North Lanarkshire	Renfrewshire Valuation Joint Board
North Lanarkshire		Orkney	Scotland Excel
Orkney Islands		Renfrewshire	SESplan
Renfrewshire		Scottish Borders	Tay Road Bridge Joint Board
Scottish Borders		South Lanarkshire	Tayside SDPA
South Lanarkshire		West Dunbartonshire	Tayside Contracts Joint Committee
Stirling		Western Isles	Tayside Valuation Joint Board
West Dunbartonshire			West of Scotland Archaeology Service Joint Committee
			West of Scotland European Forum

Central government audits

Architecture and Design Scotland	QLTR	Scottish Natural Heritage
Children's Hearings Scotland	Quality Meat Scotland	Scottish Parliamentary Corporate Body
Creative Scotland	Registers of Scotland	Scottish Police Authority
Creative Scotland Lottery Fund	Revenue Scotland	Scottish Public Pensions Agency
Crown Office and Procurator Fiscal Service	Risk Management Authority	Scottish Qualifications Authority
Education Scotland	Royal Botanic Garden Edinburgh	Scottish Teachers' Superannuation Scheme
Food Standards Scotland	Scottish Children's Reporter Administration	Skills Development Scotland
Forest Enterprise Scotland	Scottish Commission on Social Security	Social Security Scotland
Forestry Commission Scotland	Scottish Consolidated Fund	Sportscotland
Highlands and Islands Enterprise	Scottish Criminal Cases Review Commission	Sportscotland Lottery Fund
National Galleries of Scotland	Scottish Enterprise	Standards Commission for Scotland
National Library of Scotland	Scottish Fiscal Commission	Transport Scotland
National Museums of Scotland	Scottish Funding Council	VisitScotland
National Records of Scotland	Scottish Government	Water Industry Commission for Scotland
NHS Superannuation Scheme (Scotland)	Scottish Land Commission	
Non-Domestic Rates Account	Scottish Legal Aid Board	

Health audits

NHS Borders	NHS Greater Glasgow and Clyde	NHS Western Isles
NHS Fife	NHS Lanarkshire	NHS National Services Scotland
NHS Forth Valley	NHS Orkney	
NHS Grampian	NHS Tayside	

Further education audits

Dundee & Angus College

Edinburgh College

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 Auditor General for Scotland can report under the section 22 of the Public Finance and Accountability (Scotland) Act 2000 and the Controller of Audit under the section 102 of the Local Government (Scotland) Act 1973.
- 3 [Report of the independent review into the quality and effectiveness of audit](#), Sir Donald Brydon, December 2019

Transparency report

2020

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