

# Transparency

## report

2021



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# Key messages

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- 1** Our performance in this first full audit year under Covid-19 restrictions was strong. During 2021, we completed 85 per cent (105 out of 124) of our 2020/21 annual financial audits in line with the revised target dates in the planning guidance. This was a significant improvement on 2020. Eight reports relating to performance audits, sectoral overviews and Best Value auditing were published within revised target dates, and ten statutory reports also published.
- 2** Audit Scotland are leaders in ensuring there is robust audit quality monitoring arrangements, including systematic and independent reviews of financial audits, performance audits and Best Value auditing. Our approach ensures we continue to identify and address issues affecting audit quality, with an emphasis on continually learning and improving.
- 3** The improvement in quality scores provides a clear indication that high-quality standards are being achieved and that quality improvement plans are taking effect. Further work continues in some areas to ensure that all of the audit work meets the recognised standards expected by all our stakeholders and in particular by the Auditor General for Scotland and the Accounts Commission.
- 4** Our ongoing analysis of all aspects of the system, including its oversight by our Audit Quality Committee, provides us with assurance that the system of internal quality control is functioning effectively.
- 5** Our ambitious target standard for audit quality for all audits is a score of 2 or above. Across the internal and external financial audit cold reviews, seven of the eleven achieved this target, including two scoring a 1. This means that almost double the number of reviews achieved the expected standard, compared to last year (64 per cent compared with 36 per cent). For the remaining four reviews this year, three were scored as 'some improvements required' (score 3) and one was scored as 'significant improvements required' (score 4). We are determined to learn more from this audit and build in learning for the future.
- 6** The quality review scores for performance audits and BVAR engagements was maintained in 2021, with all three reviews across the internal and external reviews achieving the target score 2. This reflects the work and our commitment to further embed recognised auditing standards and quality assurance processes across all audits.

- 7** The external quality review process by ICAS of compliance with ISQC (UK) 1, and related operational procedures, including review of the internal audit manual and quality control procedures was positive, with no findings or matters for consideration reported. This work covered policies and procedures over financial statements audit work, Best Value auditing and performance audits, and related teams.
- 8** Once again, our yearly, independent survey seeking views about the quality and impact of audit work, clearly showed that survey respondents expressed a high level of satisfaction with the audits. The performance of the Audit Scotland audit teams also continued to score highly. Audit Quality and Appointments (AQA), a separate team within Audit Scotland, are responsible for commissioning this independent survey to seek views about the quality and impact of audit work.
- 9** We closely monitor developments in the auditing profession. We consider how these impact our audit approaches and the work we do to drive forward quality in public audit in Scotland more generally.
- 10** A survey of colleagues in Audit Services Group (ASG) and Performance Audit and Best Value (PABV) sought views on how well they were supported to deliver high-quality audits in 2021. There were small increases this year in the percentage of staff who said they were encouraged to deliver high-quality audits and who thought they receive enough training. Staff feedback also told us that we need to continue to ensure all staff have sufficient time and resource to deliver high-quality audits. This will be a key area of focus and development going forward.
- 11** Audit independence was maintained across all aspects of our audit work in 2021. 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.
- 12** Adding value is central to our approach across our audit work and the work we do to support public audit in Scotland. We continue to be constructive and forward looking, identifying areas for improvement, and recommend and encourage good practice.

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# Auditing in 2021

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## Introduction

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This is Audit Scotland's transparency report for 2021. It covers our audits and the work we did to support public audit in Scotland during the year.

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- 1.** Delivering annual financial audits and performance audits is our core business. We are also 'system leaders' for public audit in Scotland. We set ourselves the highest possible standards of audit and independence. Through this, we support high-quality auditing which provides assurance, recommendations for improvement and the basis for effective scrutiny. Details about our wider work is available in our other corporate publications on our [website](#).
- 2.** Covid-19 continued to have a significant impact on auditing in 2021, while staff wellbeing remained a priority. This was the first full audit year under restrictions, with all audits completed remotely. We delivered almost all the work we had planned by the end of 2021, while managing the challenges caused by resourcing issues due to absences and difficulty in recruitment. Overall, this was a strong achievement in challenging circumstances.
- 3.** Audit quality remains at the centre of all we do. Audit Services Group (ASG) and Performance Audit and Best Value (PABV) work to the highest standards, in accordance with international standards of auditing, the [Code of Audit Practice](#) (the Code) and our approved audit approaches.
- 4.** Audit Scotland provides services to the Auditor General and the Accounts Commission. Further details about Audit Scotland and its board and management team and our finances are available in our [annual report](#).

## Audit delivery

- 5.** ASG delivers approximately two-thirds of the annual financial audits of public bodies, with the rest carried out by private firms. PABV delivers the programme of performance audit work, whilst working with auditors to produce statutory reports. Best Value Assurance Reports are delivered by integrated teams. More information on the audits and our reports is available on our [website](#).

6. In 2021, we produced a range of outputs across these areas:



- delivered 118 annual financial audits of 2020/21 annual reports and accounts
- audited the Scottish elements of the European Agricultural Funds Accounts (EAFA) as part of the consortium led by the NAO<sup>1</sup>



- prepared ten statutory reports highlighting matters arising identified from the 2020/21 financial audits (seven of which were published during 2021)



- completed five national performance reports and sector overview reports on a range of topics, from digital progress in local government and delivering outcomes for young people through to overviews on council and NHS finances and performance



- published three Best Value Assurance Reports, supporting public bodies to improve governance and to manage resources effectively



- published 25 additional audit products, including blogs, briefing papers and other reports.

7. The following sections summarise our performance against audit completion targets and our other outputs during 2021. In line with the good practice principles of openness and transparency, all our reports are available on our [website](#).

### Annual financial audits

8. Timely completion of audits supports effective scrutiny and improvement. We work to the targets in the annual audit planning guidance issued under the Code. Audit timetables were adjusted in the [Guidance on planning the audit 2020/21 audits – addendum](#) to reflect the continuing impact of Covid-19.

<sup>1</sup> 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.

Our performance in this first full audit year under Covid-19 restrictions was strong. During 2021 we completed 85 per cent (105 out of 124) of our 2020/21 annual financial audits in line with the revised target dates in the planning guidance. This was a significant improvement on 2020. Eight reports relating to performance audits, sectoral overviews and Best Value auditing were published within revised target dates, and ten statutory reports also published.

9. [Exhibit 1](#) shows our performance in delivering key audit outputs, along with figures for the previous year. All our central government audits were completed in time for the audited accounts to be laid in the Scottish Parliament by the statutory deadline of 31 December 2021. In some cases, the deprioritisation of smaller bodies and the impact of accounting for new Covid grants, meant that target dates were pushed back, particularly in local government audits. [Appendix 3](#) lists all the public bodies we audited in 2021.

## Exhibit 1

### Percentage of outputs delivered by the planning guidance targets

#### Audit output

	 Local government (%)	 Central government (%)	 Health sector (%)	 Further education (%)
Annual audit plan 2020/21	91	81	90	100
Annual audit plan 2019/20	90	83	100	100
Independent auditor's report 2020/21	85	81	100	100
Independent auditor's report 2019/20	92	66	80	100
Annual audit report 2020/21	83	81	100	100
Annual audit report 2019/20	94	66	80	100

10. Covid-19 has of course affected public bodies, as well as our audit teams, audit timetables and reporting. We have worked hard to manage the impact on our audits, continuing to build on our experience of remote auditing. Common issues affecting audit timetables in 2021 included:

- assessment of new systems and internal controls set up by public bodies to deliver vital Covid-related funding support to people and businesses
- consideration of accounting treatments for Covid-related expenditure and supplies, and work to support disclosures in annual reports and accounts
- weaker control environments requiring additional audit testing
- access to audit evidence, including access to information and verification of assets
- the impact on productivity as auditors and audited bodies continued to adapt to the changing circumstances and remote working
- additional management oversight, to support remote working and our teams, including coaching and development of our trainees and other staff.

**11.** Audits are taking longer and there is a compounding effect on the cycle of audit planning, audit work and completion. This means we have started our 2021/22 audits later than previously. We have already fully anticipated further challenges in delivering audits in 2022, actively reviewing our resourcing and timings to achieve delivery across all our 2021/22 audits. At the same time, we are mindful of public accountability overall and new audit appointments from 2022/23.

### **Performance audits, Best Value audits and statutory reports**

**12.** Following careful consideration of the impact of Covid-19 on our PABV work programme, we launched our [dynamic work programme](#) in 2021. We review this quarterly to ensure it remains up-to-date, and is agile and responsive, reflecting the strategic priorities of the Auditor General and the Accounts Commission.

**13.** Eight performance audit, overview, and Best Value Assurance Reports (BVARs) were completed during 2021. Due to the impact of Covid-19, we were able to manage our work to revise completion dates, whilst still delivering on time.

**14.** Under the [Public Finance and Accountability \(Scotland\) Act 2000](#), the Auditor General can also prepare a report on matters arising from the audits (section 22 reports). The Controller of Audit has similar powers under the [Local Government \(Scotland\) Act 1973](#) for local authorities (section 102 reports). Collectively, these are known as statutory reports. For 2020/21 audits, we prepared nine section 22 statutory reports and one section 102 report (2019/20: nine and none, respectively). All statutory reports are available on our [website](#).

### **Other outputs**

**15.** We use an increasing range of methods to communicate our audit work and practices, to engage our stakeholders and ensure our work is accessible and valuable to those who use and provide public services in Scotland. To support public audit in Scotland, we draw on the wide range of material we have

available to provide products which add value and help continuous improvement. We monitor the impact and effectiveness of these additional outputs. For example:



### Briefing papers that summarise key issues and future considerations

...including [Community justice: Sustainable alternatives to custody](#), [Personal Protective Equipment \(PPE\)](#) and on the [Covid-19 vaccinations programme](#).



### Blogs that initiate debate, raise awareness and support improvement

...such as [Christie's clarion call can't wait another decade](#), [The digital divide – inequality in a digital world](#), and [Child and adolescent mental health services](#).



### Supplementary outputs and multi-media electronic resources

.....in support of our audit products and as standalone products, for example [e-hubs](#), interactive reports like our [Covid-19 community empowerment update](#) and videos and animations on our [YouTube channel](#).

## Audit quality and improvement

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Audit Scotland are leaders in ensuring there is robust audit quality monitoring arrangements, including systematic and independent reviews of financial audits, performance audits and Best Value auditing. Our approach ensures we continue to identify and address issues affecting audit quality, with an emphasis on continually learning and improving.

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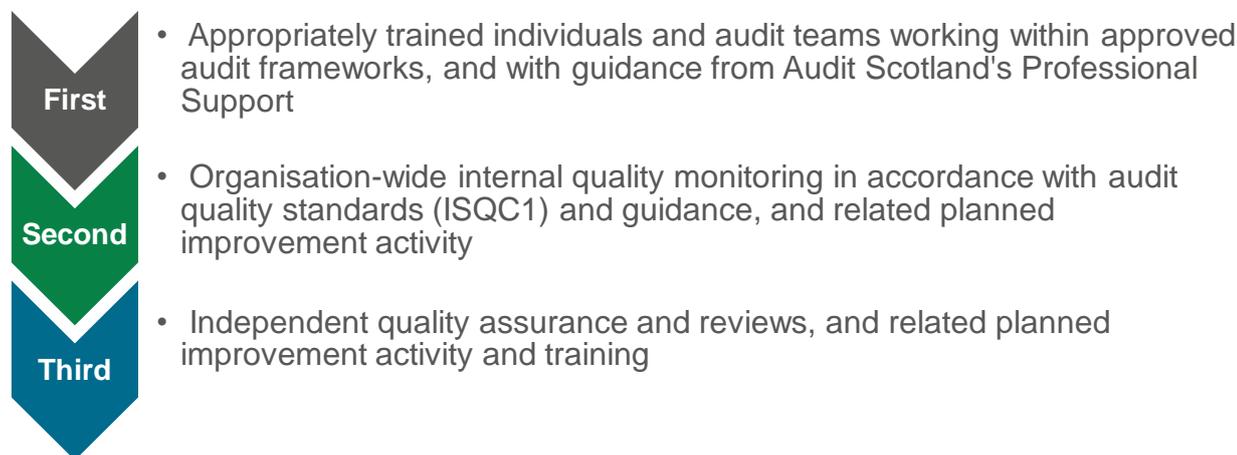
**16.** The quality of our work is critical because it is the basis for our audit conclusions and recommendations. Our staff, our audit quality committee, the audit committee, the Audit Scotland Board, and the Auditor General and the Accounts Commission are all involved in audit quality and oversight. More detail is provided in [Appendix 1](#).

**17.** [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 and aligns with [Public Audit in Scotland](#) and the [Code of Audit Practice](#).

**18.** Our audit quality model involves three levels of assurance ([Exhibit 2](#)).

## Exhibit 2

### Three levels of assurance for audit quality in Audit Scotland



**19.** Our first line of quality assurance centres on our people. Our Audit Guide for financial audits, our Audit Management Framework for performance audits and our Best Value manual for Best Value auditing are designed to support our staff to produce high-quality audit work. More experienced staff carry out file reviews. Audit Scotland's Professional Support Team is central to audit quality, providing cross-organisation support and guidance to our auditors (and to the private firms).

**20.** The second line is ongoing quality assurance, including engagement quality control reviews (EQCRs) or 'peer reviews', and 'hot' reviews of ongoing work and 'cold' reviews of completed work. Hot reviews involve real-time review of work before audits are signed-off. Building on our established hot reviews of performance audits, we initiated hot reviews of financial audits in 2021, as well as 'thematic reviews'. Investment was made in a new quality assurance team in Professional Support to support the expansion in quality reviews.

**21.** The third line of assurance is independent quality reviews, by reviewers who are not directly involved in the audit work. This includes internal reviews and reviews by the Institute of Chartered Accountants of Scotland (ICAS) to ensure compliance with relevant auditing standards and other relevant requirements. The Financial Reporting Council's (FRC's) scoring methodology is applied across all independent quality reviews for consistent and comparable scoring.

**22.** The FRC scoring methodology involves a four-point scale ie, 1 (good); 2 (limited improvements required); 3 (some improvements required); and 4

(significant improvements required). Full descriptions are set out in ([Appendix 1](#)). We consider a review score of 2<sup>2</sup> or above is a satisfactory level of quality.

### Quality reviews of 2021 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.** This year's results reflect the clear action taken in 2021 in response to our 2020 quality results. This included: investment in a new role of Quality Assurance Manager; the introduction of hot reviews for annual financial audits; and the production and implementation of a detailed improvement action plan, including a root cause analysis of individual annual audit quality reviews.

**25.** In 2021, nine higher-risk financial audits were selected for Engagement Quality Control Reviews (EQCRs) performed by Audit Directors ie, four targeted reviews of audits as part of our response to lower-scored reviews in 2020, and five routine reviews of our higher risk audits. In addition to planned EQCRs, peer consultation panels were set up to discuss contentious issues arising in audits eg, relating to accounting estimates, asset valuation and the auditor's response to fraud risk.

**26.** Hot reviews of performance audits continued in 2021. For financial audits, the new quality assurance team's programme of hot reviews covered nine audits over all sectors and a thematic review of the use of data analytics. Hot review of financial audits is a significant development in our audit quality arrangements which has helped address previous quality concerns and supported improvement in 2021.

**27.** Four of the six financial audits subject to internal cold review (67 per cent) demonstrated a satisfactory level of quality (score 2 or above). This included an audit with a score of 1, an improvement on last year when three of the six financial audits reviewed (50 per cent) received a 2 equivalent score or above. None of this year's reviews were scored as 'significant improvements required' (score 4), compared with one last year. The internal review of a performance audit received a score 2, in line with last year.

**28.** Three of the five financial audits which ICAS selected for cold review (60 per cent) demonstrated a satisfactory level of quality (score 2 or above). This also included an audit with a score of 1, an improvement on last year when one of the five financial audits reviewed (20 per cent) received a 2 equivalent score or above. Only one of the financial audits reviewed this year was classified as 'significant improvements required' (score 4), compared with three last year. The ICAS reviews of a performance audit and a joint BVAR engagement report each received a score 2, in line with last year.

<sup>2</sup> Full details of quality scoring under the Financial Reporting Council's (FRC's) quality framework are set out in Appendix 1. In 2020, an FRC score of 2A was defined as 'Limited improvement required'. FRC changed its scoring methodology for 2021, with a score of 2 defined as 'Generally acceptable, but a small number of improvements required'.

**29.** We work with ICAS to promote consistency between our approach to cold reviews and the approach which ICAS takes. To test this, the in-house quality assurance team and ICAS carried out separate reviews of the same financial audit. The in-house quality assurance team scored that audit as a 3 and ICAS scored it as a 4. While there are differences in the quality reviewers' overall scores, the findings are similar and provide a degree of assurance on the consistency of the review approach and outcomes. We will nevertheless examine further the difference in scores awarded.

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Our ambitious target standard for audit quality for all audits is a score of 2 or above. Across the internal and external financial audit cold reviews, seven of the eleven achieved this target, including two scoring a 1. This means that almost double the number of reviews achieved the expected standard, compared to last year (64 per cent compared with 36 per cent). For the remaining four reviews this year, three were scored as 'some improvements required' (score 3) and one was scored as 'significant improvements required' (score 4). We are determined to learn more from this audit and build in learning for the future.

The quality review scores for performance audits and BVAR engagements was maintained in 2021, with all three reviews across the internal and external reviews achieving the target score 2. This reflects the work and our commitment to further embed recognised auditing standards and quality assurance processes across all audits.

The external quality review process by ICAS of compliance with ISQC (UK) 1, and related operational procedures, including review of the internal audit manual and quality control procedures was positive, with no findings or matters for consideration reported. This work covered policies and procedures over financial statements audit work, Best Value auditing and performance audits, and related teams.

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**30.** We have considered the audit quality reviews to understand the matters arising and common themes, maximising learning across the audit review activity.

## Common themes from quality reviews and next steps

### Strengths and good practice

**31.** The 2021 quality reviews highlighted good practice, including:

- Knowledge of the entity – deep understanding of the audited body and its business, well-documented and applied in audit planning.
- Audit planning – good documentation and identification of audit risks, leading to focused audit testing in key areas.
- Audit sampling – good documentation of justification of sample selection and sample sizes.

- Substantive testing – high-quality substantive testing which targeted the significant audit risks and related assertions.
- File review – good evidence of management and engagement lead review of audit work on significant risks.
- Feedback – Directors of Finance and Audit Committee Chairs provided positive feedback on audit teams' engagement and communication.
- Performance audits – good documentation of audit methodology and risk assessment.
- Performance audits – good documentation of audit evidence and draft report management, in line with corporate guidelines.

### Areas for improvement

**32.** The 2021 quality reviews identified areas for further improvement, including:

- Fraud assessment – improvements could be made to documentation of management assessment of fraud risk, and discussion among the engagement team on areas susceptible to material misstatement due to fraud in financial statements.
- Fraud assessment – scope for improved documentation of the consideration of presumed risks of fraud in revenue and expenditure.
- Journals testing – scope for further consideration of the nature, extent and timing of journals and related audit testing.
- Estimates and judgements – the nature and extent of audit considerations of accounting estimates and judgements could be improved.
- Related parties – scope for improvement in audit testing of controls over related parties and testing of the completeness of disclosures.
- Group accounts – documentation of group considerations and assurances could be improved.
- Performance audits – scope for improvement in records, including labelling of appropriate files as records within 60 days of report publication.

### Next steps

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The improvement in quality scores provides a clear indication that high-quality standards are being achieved and that quality improvement plans are taking effect. Further work continues in some areas to ensure that all of the audit work meets the recognised standards expected by all our stakeholders and in particular by the Auditor General for Scotland and the Accounts Commission.

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**33.** ICAS and the in-house quality assurance teams provide feedback to all audit staff, with an improvement action plan implemented as a consequence of the 2020 quality review results. We also support our staff by providing mandatory technical training and through our local audit teams and file review arrangements. This is particularly important as we make the transition from auditing remotely to new working arrangements becoming available as the Covid-19 restrictions start to lift.

**34.** We are analysing the quality findings and have drawn up an improvement action plan. Progress of all quality improvement actions will be monitored by the ASG and PABV leadership teams and by our Audit Quality Committee. The Audit Scotland Board and audit committee also take a close interest in quality results and the actions taken and proposed in response to quality monitoring.

**35.** Following the 2021 financial audit quality review results and building upon the root cause analysis process introduced last year, a root cause analysis framework has been agreed. A formal root cause analysis will be facilitated by the Quality Assurance Team for all those audits scoring a 3 or 4, and those scoring a 1, so that best practice is understood and disseminated. For those audits with a score of 2 the teams will conduct their own internal root cause analysis.

### **Feedback from audited bodies**

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Once again, our yearly, independent survey seeking views about the quality and impact of audit work, clearly showed that survey respondents expressed a high level of satisfaction with the audits. The performance of the Audit Scotland audit teams also continued to score highly. Audit Quality and Appointments (AQA), a separate team within Audit Scotland, are responsible for commissioning this independent survey to seek views about the quality and impact of audit work.

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

**37.** In addition, the quality assurance team obtained feedback on audit quality from Directors of Finance and Chairs of Audit Committees for the six audits subject to cold review. Where feedback was received, comments continue to be very positive. This included the professionalism of audit staff, good lines of communication, the quality of reporting, and the ability to continue to deliver the audit remotely and deal with challenges during the pandemic.

**38.** We are doing more to get feedback from stakeholders on our performance audits. Pilot work on one performance audit this year showed that stakeholders were positive about the engagement with the audit team and the quality of the audit work. Stakeholders welcomed open and constructive dialogue with the audit team.

## Prior-period errors

**39.** Consistent with prior years, we can report that auditors recorded ten material prior-period errors across seven audits that were corrected in 2020/21 financial statements (seven prior-period errors in 2019/20). Seven of these had no impact on the overall financial position. The remaining three represented over or understatements of the financial position with an aggregate total gross value of £45 million (2019/20: £49 million).

**40.** The errors related to overstated depreciation charges, group consolidation adjustments and an error in the application of the EUV-SH valuation for council dwellings.

## Developments in audit quality

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

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**41.** Examples include the Department for Business, Energy and Industrial Strategy's next steps on reforms, following its consultation '[Restoring trust in audit and corporate governance: proposals on reforms](#)'. The consultation sought views on proposals to strengthen the UK's framework for major companies and the way they are audited. The proposals covered financial reporting and auditing, the audit market, and oversight from a new regulator. We are monitoring developments and will respond accordingly.

**42.** Audit Scotland's internal audit function gave us the highest level of assurance conclusion. Recognising our 'system leader' role in public audit and audit quality, Audit Scotland's internal auditors carried out an independent review of our approach to audit quality and delivery during Covid-19. The internal auditors considered the design and operational effectiveness of our controls in these areas and reported 'substantial assurance'.

**43.** We have a cross-organisation project to establish a new system of quality management for Audit Scotland, in accordance with International Standards on Quality Management (UK) 1. This focuses on identifying and responding to risks to audit quality and on engagement quality reviews, with implementation of ISQM 1 required by December 2022. ISQM 2, which focuses more on the quality review processes, is effective from 2022/23.

**44.** The Financial Reporting Council emphasises that high-quality audit is supported by fundamental principles, rigorous standards, due process, and mandated quality assurance. Our success in promoting a commitment to high quality audit is confirmed in our staff quality survey results which are highlighted in the following section of this report.

**45.** The strong quality culture is matched by our arrangements for supporting audit quality. Matters arising from quality reviews on financial audits are assessed through root cause analysis, acted on systematically and then tested again through ongoing quality monitoring. Learning from good practice is an equally important part of our overall approach to audit quality.

## People-related audit quality indicators

A survey of colleagues in Audit Services Group (ASG) and Performance Audit and Best Value (PABV) sought views on how well they were supported to deliver high-quality audits in 2021. There were increases this year in the percentage of staff who said they were encouraged to deliver high-quality audits and who thought they receive enough training. Staff feedback also told us that we need to continue to ensure all staff have sufficient time and resource to deliver high-quality audits. This will be a key area of focus and development going forward.

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

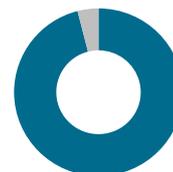
### Exhibit 3

#### Staff survey results (for those who responded to the survey)



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

**96%**  
(93% in 2020)



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

**36%**  
(46% in 2020)



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

**71%**  
(70% in 2020)



47. The survey response rate was 49 per cent for ASG and 42 per cent for PABV, both of which are lower than last year's response of 60 per cent and 46 per cent respectively.

48. Ninety-six per cent of staff who responded to the survey felt encouraged to deliver high-quality audit work. This reflects our teams' commitment to high-quality audit and our focus on building a strong quality culture.

**49.** Seventy-one per cent of staff who responded said they received enough training and development for high-quality audits. In 2021, we continued work to enhance our approach, and took steps to provide training in different ways. Our staff found pre-recorded training videos helpful and praised the quality of the training. They also told us that they welcomed moves to mandate more elements of training and suggested how we might further develop training in 2022.

**50.** Thirty-six per cent of staff who responded said that they had sufficient time and resources to deliver high-quality audits, compared with 46 per cent in 2020. We have already acted on these concerns, completing a significant recruitment exercise in 2021, creating 24 new WTE posts, focused on audit delivery, and provided promotion opportunities for several colleagues. Our aim was to build capacity and help relieve the resourcing pressures.

**51.** We know, however, that it takes time before new colleagues can fully contribute and in 2022, we would expect teams will really begin to fully benefit from the additional resource. We will continue to monitor and evaluate how we organise staff resources going into the new audit appointments, from 2022/23.

### **Our approach to learning and development**

**52.** 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.

**53.** PABV staff have a wide range of professional and policy backgrounds. These include audit, research, and public policy-related qualifications in disciplines such as economics and social sciences. This depth and breadth of knowledge and insight across the sectors we audit supports the delivery of high-quality work. In addition, 21 per cent of PABV staff were also either CCAB qualified or in training for a CCAB qualification during 2021, which supports flexible working across Audit Scotland.

**54.** A challenging and complex environment for the public sector and changing expectations of auditors emphasise the need for us to continue to invest in learning and development. It also means we need to continue to ensure we have the right culture to deliver world class audit and build high-performing teams. We must continue to retain and recruit talented people and ensure that everyone is able, encouraged and supported.

**55.** Our learning and development (L&D) strategy supports Audit Scotland's two priorities - delivering world class audit and being a world class organisation. The broad range of topics in the L&D plan focuses on helping 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 leads the strategic direction of learning, development and personal growth and ensures that the plan is delivered effectively. Due to Covid-19 there has been a pivot to more virtual and digital learning.

**56.** All centrally scheduled learning is accessed through the L&D portal. The portal is a 'one-stop-shop' hub which helps our staff to plan, schedule and

attend formal L&D events up to twelve months in advance. In 2021, the average number of training days across ASG and PABV was 18.25 days per person (12.5 days in 2020) which includes training courses, knowledge cafés and conference attendance. This figure has increased because of capacity building across ASG and PABV in 2021 and focus on the quality of audit.

**57.** Self-directed learning through the staff review process empowers our staff to take ownership of their development and tailor their learning to meet their individual professional needs and career aspirations. A comprehensive and robust induction process and supporting guidance is also in place for all staff.

**58.** We have continued to develop our approach to recruitment, selection and 'on-boarding' to provide people joining Audit Scotland with a positive early experience in their new roles. As part of this, we work with managers to make 'on-boarding' a success through the creation of a virtual induction and physical induction when restrictions permit.

**59.** We remain committed to our professional trainee, modern apprenticeships, and school leavers programme as part of our workforce planning and long-term talent strategies. We also support audit officers with individual learning agreements to complete relevant qualifications.

**60.** Audit Scotland runs one of the largest public sector accountancy training schemes in Scotland, with 58 trainees and staff working towards the ICAS qualifications. In 2021, our trainees passed 112 out of 136 exams (82 per cent) on their first sitting. Trainees' classes and exams were all conducted remotely during 2021. The first-time pass rate is slightly lower than in previous years. We work, along with the private firms, with ICAS to review the syllabus and support for trainees.

### Staff training

**61.** During 2021, 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 2020 quality review programme
- 'softer skills' training such as management essentials, emotional intelligence and recruitment and selection
- training courses to support both new and existing colleagues in ASG and PABV such as an Introduction to the Public Audit Committee, Audit Approach and on the use of new digital audit tools.

**62.** ICAS also provided training to our quality assurance team prior to the start of the internal quality review programme on key aspects of auditing standards, areas for improvement and moderation of scores.

**63.** We have planned training and development opportunities for colleagues for 2022 and will continue to draw on the expertise of Professional Support as we deliver new training and support improvement. This will include mandatory

training for staff in ASG and PABV. The L&D portal has been updated to reflect these changes. More information about Professional Support is available in [Appendix 1](#).

## Independence and ethics

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Audit independence was maintained across all aspects of our audit work in 2021. 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.

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**64.** Our independence controls include:

- the appointment of 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.

**65.** 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 we applied from 2021.

**66.** The Director of Audit Services was our Ethics Partner during 2021. 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.

**67.** Audit Scotland staff complete an annual 'fit and proper' form confirming their compliance with standards and bringing to attention any possible conflicts of interest. All ASG and PABV staff complete an annual fit and proper form and potential conflicts of interest are noted and acted upon. Auditors have not had to report any concerns in relation to independence and the Ethical Standard to audited bodies.

**68.** 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 declined by the Ethics Partner.

**69.** During 2021, approval was granted by AQA and Audit Scotland's Ethics Partner to carry out non-audit work to a value of £3,000 relating to an Education Maintenance Allowance grant claim at the Scottish Funding Council.

## Added value

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

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**70.** In 2021, we continued to promote improved standards of governance, better management and decision-making, and more effective use of resources. Examples drawn from our financial audits, performance audits and Best Value auditing are outlined in [Appendix 2](#).

**71.** Audit Scotland, the AGS and the Accounts Commission work to a common goal of improving public services by scrutinising how the Scottish Government and other public bodies spend money and deliver policy. During 2021, we continued to support the Parliament, primarily the Public Audit Committee (PAC), through our audit reports and briefings.

**72.** Alongside PAC, our work is also used by subject committees. 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.

**73.** Identifying issues and key risks that lie ahead is an essential part of what we do, more so during Covid-19 and as the public sector in Scotland moves to recovery and renewal. Our [Covid-19 hub](#) on our website brings together the Covid-19 related reports we have produced, as well as other resources such as blogs and our planned future work.

**74.** We also add value through our representation on professional bodies and share and learn from good practice. For example, in 2021 members of the Audit Scotland Leadership Group participated on LASAAC (Local Authority (Scotland) Accounts Advisory Committee), the CIPFA/LASAAC Board, ICAS panels, 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.

**75.** 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 discussion across Audit Scotland and with the private firms about the content of the annual planning guidance, and the overall audit approach.

**76.** Audit Scotland also plays an active role in the Public Audit Forum with the other UK audit agencies, the National Audit Office, Wales Audit Office, and the Northern Ireland Audit Office, to advance public audit.

**77.** 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. These include:

- Care Inspectorate
- Education Scotland
- Healthcare Improvement Scotland
- Her Majesty's Fire Service Inspectorate (HMFSI)
- Her Majesty's Inspectorate of Constabulary for Scotland (HMICS)
- Her Majesty's Inspectorate of Prisons for Scotland (HMIPS)
- Inspectorate of Prosecution in Scotland (IPS)
- Scottish Housing Regulator
- Scottish Public Services Ombudsman (SPSO).

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

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# Appendix 1

## Quality control in Audit Scotland

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### 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 in line with the ASG Audit Guide. The Director of PABV is responsible for quality of performance audits, Best Value auditing and other statutory reports in line with the BV Audit Manual and under the Audit Management Framework. 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, Professional Support 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 promoting high standards of audit across the public sector through active cooperation between the national audit agencies, and the sharing of knowledge and good practice on the application of audit standards and codes of audit practice.

### Professional Support

Audit Scotland's Professional Support team 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 and others. These staff, as part of their roles, champion areas of interest and lead our activities, including contributions to professional institutes and standard setters)
- carrying out internal quality reviews, through the quality assurance team
- 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 audit work.

### 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 improve continuously our audit processes and methodologies. The cold review process is further strengthened by Audit Scotland's reciprocal arrangements with other UK audit agencies who may 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. The scoring methodologies for 2021 and 2020, which are applied by our quality assurance teams and ICAS, are set out in the following tables.

## Financial Reporting Council's scoring methodology applied to quality activities – 2021

Score	Standard	Description
1	 <b>Good</b>	<ul style="list-style-type: none"> <li>• No concerns regarding the sufficiency and quality of audit evidence or the appropriateness of significant audit judgments in the areas reviewed</li> <li>• Only limited weaknesses in documentation of audit work AND</li> <li>• Any concerns in other areas are limited in nature (both individually and collectively).</li> </ul>
2	 <b>Generally acceptable but a small number of improvements required</b>	<ul style="list-style-type: none"> <li>• Only limited concerns regarding the sufficiency or quality of audit evidence or the appropriateness of significant audit judgments in the areas reviewed AND/OR</li> <li>• Weaknesses in documentation of audit work are restricted to a small number of areas AND/OR</li> <li>• Some concerns, assessed as less than significant (individually and collectively), in other areas.</li> </ul>
3	 <b>Some improvements required</b>	<ul style="list-style-type: none"> <li>• Some concerns, assessed as less than significant, regarding the sufficiency or quality of audit evidence or the appropriateness of significant audit judgments in the areas reviewed AND/OR</li> <li>• More widespread weaknesses in documentation of audit work AND/OR</li> <li>• Significant concerns in other areas (individually or collectively).</li> </ul>
4	 <b>Significant improvements required</b>	<ul style="list-style-type: none"> <li>• Significant concerns regarding the sufficiency or quality of audit evidence or the appropriateness of significant audit judgments in the areas reviewed (not limited to the documentation of the underlying thought processes) AND/OR</li> <li>• Very significant concerns in other areas (individually or collectively).</li> </ul>

## Financial Reporting Council's scoring methodology applied to quality activities - 2020

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 nor 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"> <li>• sufficiency or quality of evidence</li> <li>• the appropriateness of key judgements</li> <li>• the implications of other matters that are considered to be individually or collectively significant.</li> </ul> <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>

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# Appendix 2

## Added value in 2021 – examples

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### **Adding value through annual financial audit work**

We aim to add value through our audit work by being constructive and forward looking, recommending improvements, 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.

Adding value is part our approach and what our teams aim to deliver. For example, in our day-to-day meetings with elected representatives, non-executives and senior staff across the public sector and beyond, we draw on our deep, cross-sector understanding to 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 and the public sector more generally.

We often provide technical assistance on accounting and reporting issues. This includes encouraging public bodies to enhance the content of their annual reports and accounts to provide better information about their finances and performance. Through this we aim to support further improvements in transparency about how public money is used and what it achieves.

Under the Code of Audit Practice, we also add value through our 'audit dimensions' work which underpin our approach i.e., financial sustainability, financial management, governance and transparency, and value for money. For example, we encourage public bodies to consider the longer-term to ensure that they have a wide-ranging picture of their finances 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 openness and transparency and promote effective governance and performance management.

Some specific examples of how our annual financial audits added value to audited bodies during 2021 are outlined below.

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### **Avoiding material misstatements in published financial statements**

#### **£55 million of adjustments at NHS Fife**

A total of £55 million in adjustments were posted at NHS Fife. The most significant components related to integration joint board adjustments, accounting for PPE and testing kits, and cash advances to pharmacists.

## Procurement of PPE at NHS National Services Scotland

Due to our review of the arrangements in place for the procurement of PPE by NHS NSS on behalf of NHS Scotland we established that NHS NSS was acting as principal and not agent in the procurement purchase. Consequently, additional expenditure of over £200 million (2020/21) was recognised in its annual accounts that would otherwise have been accounted for by the Scottish Government.

## The treatment of funding allocations at NHS Greater Glasgow and Clyde

We worked constructively with the health board on an ongoing basis from early in the year to understand the associated accounting treatment applied to the additional waiting list funding received from Scottish Government. An appropriate accounting treatment was agreed meaning £28 million was returned to Scottish Government (to be used for national waiting list initiatives in 2021/22) with the remaining £20 million passed over to Glasgow City IJB to hold as a waiting list initiative reserve with the agreement of Scottish Government. This ensured the correct accounting treatment meaning the body did not lose the full £48 million of additional funding.

## Accounting treatment of Covid-19 grants at Inverclyde Council

Accounting guidance identified that most Covid-19 grants should have been accounted for as an agency arrangement with the council as agent and the Scottish Government as principal. We recommended that the audited accounts were updated accordingly, leading to a £18.4 million adjustment to the financial statements.

## Asset register at Inverclyde Council

On reviewing the asset register we noted that the vast majority of the council's assets were revalued in 2020/21 but that the register did not correctly reflect these changes. We also identified that there were assets in the register that were redundant and required adjustment or write-off. The council agreed to adjust the accounts to correctly reflect erroneous amounts. This affected gross book value, accumulated depreciation, the capital adjustment account, and revaluation reserve. These adjustments resulted in an overall decrease in asset values of £15.1million.

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## Providing technical views on accounting and reporting issues

### Asset register at Dundee and Angus College

Our review of the non-current asset register identified that there were a significant number of assets (182) with a nil carrying value. These had a total initial cost of £5.5 million. We recommended that assets no longer in use should be removed from the asset register to ensure the cost and accumulated depreciation balances for Property, Plant and Equipment in the financial statements accurately reflect the operational assets of the college. Management agreed to review of college assets and develop a replacement and acquisition policy.

### Loans fund review at South Lanarkshire Council

In June 2020 the council approved a change in the method used to schedule repayments, from the general fund, for outstanding debt relating to advances from the loans fund. An element of the accounting treatment for the loans fund review involved profiling a recalculation adjustment. Following audit discussions on the profiling of this amount, the council made a change to the unaudited accounts to ensure the profiling better reflected the remaining asset lives that the borrowing financed. The impact of this was to reduce the 2020/21 loans fund repayments from £6.5 million to £2 million and increase the councils reserves by £4.5 million. In our opinion the methodology used for reprofiling the council's loans fund balances is prudent based on the expectations of the guidance and the council's new accounting policy.

### Group accounting at Inverclyde Council

The council had initially completed its annual assessment of the group boundary and concluded that the financial results of Inverclyde Leisure should be consolidated on an associate basis within the group statements in the 2020/21 annual accounts. Our review, prompted by the additional support required during Covid-19 and based on the Funding Agreement, identified that the Trust meets the definition of a structured entity. The council agreed to amend Inverclyde Leisure's classification within the Group Financial Statements as a subsidiary.

### Accounting treatment of assets at Forestry and Land Scotland

Following previous advice that the body had a number of historic practices and processes established by Forestry and Land Scotland's predecessor organisation, Forest Enterprise Scotland, we noted that these continued to be applied. We therefore recommended that the suitability of accounting practices and processes be reviewed and applied to its own circumstances. In 2020/21, management reviewed the accounting treatment of vehicles, machinery and equipment and office machinery, as advised.

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## Supporting effective financial management and controls

### Key controls at Transport Scotland

The agency introduced a new key control reconciliation to address the risk of fraud in a new grant claim. This was outsourced to an external accountancy firm. During our review we identified that the reconciliation control could be strengthened through the consideration of recent audit reports for the largest claimants. This additional step provides extra assurance regarding the accuracy of internally generated reports provided by the operators.

### Provision of training to members at NHS Fife

Training was provided to members of the Audit and Risk Committee (ARC) on their role with a focus on scrutinising the accounts. The Chair of the ARC used the slides to prepare a checklist for use by ARC and Board members. Subsequently, we observed an increase in the level of questions directed to

officers on the draft accounts. Furthermore, the chair of the ARC suggested the checklist should be used by all ARCs.

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## Supporting enhanced transparency and understanding

### Covid-19 funding and expenditure disclosures at Dundee City Council

We liaised with the council's finance team on the disclosures required for additional Covid-19 funding and expenditure and the impact on reported financial performance and the level of reserves at 31 March 2021. The discussions resulted in clear explanations in the management commentary of the use of the funding and how the unspent funds will be applied going forward. In addition, the notes to the accounts included additional information on Covid funding and expenditure. All these disclosures should assist readers of the accounts in understanding the financial position reported by the council for 2020/21.

### Management commentary improvements at Orkney Islands Council

We assisted the council in improving the management commentary within their accounts. We referred to guidance and good practice examples and then reviewed and provided feedback. Amendments were made as appropriate and elected members commented on the improvement, thanking us for the contribution we had made.

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## Promoting effective governance and performance reporting

### Statutory performance indicators at Comhairle nan Eilean Siar

Based on our previous recommendations, the council now identifies a small number of SPIs, that closely align with its corporate aims, to prioritise on a department-by-department basis. The council has set aspirational targets and scrutinising committees will get progress reports setting out how services are performing in delivering against these targets.

### Accounts preparation and disclosures at South of Scotland Enterprise

This body was established in October 2019 and prepared its first annual report and accounts for the period to 31 March 2021. We worked closely with management in advance of accounts preparation, and throughout the audit, supporting them to ensure the accounts were FReM compliant and contained all required disclosures. This included encouraging sufficient disclosure around Covid-19 business support grants, which was the focus of activities during the reporting period. We identified where improvements could be made to the unaudited accounts including recognition of set-up grant income, the remuneration report, and the statement of resource outturn to show more clearly the performance against budget.

## Adding value through performance audits

Performance audits 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.

We launched our dynamic work programme as part of our response to the volatility and uncertainty of the Covid-19 pandemic. We now review and update the programme every three months to ensure it takes account of changing circumstances.

During 2021 we published two performance audits: [Improving outcomes for young people in school education](#); and [Digital progress in local government](#). The early impact of these reports is outlined below.

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## Early impact of performance audit reports published in 2021

### Improving outcomes for young people through school education

We reported that while exam performance and other attainment measures at the national level have improved, progress since 2013-14 has been inconsistent. We found large variations in local authority performance, with some councils' performance getting worse on some measures. The national curriculum recognises that school is about more than exams, but we found that better data is needed to understand if other important broad outcomes, like wellbeing and self-confidence, are improving.

In addition to engagement with several parliamentary committees, the report was discussed at First Minister's Questions.

We held a session on the report at the Scottish Learning Festival in September 2021 and participated in a joint Accounts Commission / Improvement Service event to raise awareness of the report with council education committee convenors and council directors of education.

We drew on the report in our response to:

- the consultation on the replacement of the Scottish Qualifications Agency and the reform of Education Scotland
- the Health, Social Care and Sport Committee's call for views on the Health and Wellbeing of Children and Young People
- the Education, Children and Young People Committee's consultation on the Scottish Attainment Challenge in February 2022.

Our report's recommendations and how these are being actioned was referenced in the National Improvement Framework (December 2021). It was also referenced in the Scottish Government's announcement on the new iteration of the Scottish Attainment Challenge (SAC) in November 2021. This includes a different approach to SAC funding across councils following a recommendation in the report.

## Digital progress in local government

We reported that councils are at different stages of digital transformation and that the long-term focus should now be on how digital technology can provide better opportunities and services for people across Scotland, with citizens placed at the heart of this process. The work of the Scottish Government and COSLA to refresh the national digital strategy provides an opportunity to drive digital transformation across all Scotland's 32 councils. Strong leadership and co-ordination at a national level is essential, to provide a consistent vision and clear direction

The Scottish Government and COSLA refreshed the national digital strategy. The strategy 'A Changing Nation - How Scotland will thrive in a digital world' refers to our report, and states these were used to form eight 'Principles for a Digital Nation'.

At a meeting of Glasgow City Council's Digital Glasgow Board, Glasgow's Chief Digital Officer reported that the council has started work to review its position against the recommendations in our report and will incorporate any major actions that comes out of the review within its renewal programme

The Audit and Scrutiny Committee of Scottish Borders Council discussed our Digital progress in local government report and its findings at both the private and main sessions of the committee. This raised awareness of the digital agenda amongst elected members who acknowledged limited knowledge and information on the topic.

The Elected Members Checklist in our report has now been included in the Digital Office for Scottish Local Government's Modern Workplace Toolkit, promoting the use of the Checklist amongst councils to support digital transformation.

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## 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 in individual councils, with a focus on improvement to deliver the best possible outcomes for the public.

The current programme of Best Value Assurance Reports (BVARs) began in 2017. In our annual assessment of progress, we found that the pace of improvement across the four councils where a BVAR was published in 2021 was mixed. East Dunbartonshire Council showed a good pace of improvement. Aberdeen City Council made positive improvement but needs to increase the pace. Continuous improvement in both South Ayrshire and Falkirk councils has been slow.

For previously published BVARs, auditors follow-up on the findings. Auditors reported positive progress against BVAR recommendations but that improvement actions during the last year have been affected by Covid-19.

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## Early impact of BVARs published in 2021

### Aberdeen City Best Value Assurance Report

We reported that Aberdeen City Council's performance had significantly improved while making challenging savings targets and acting to reshape the city's economy. However, improvements needed to accelerate in housing and education. The report also said the council responded well to the multiple impacts of the Covid-19 pandemic. Its commitment and innovative approach to using digital methods to deliver services enabled staff to work remotely and continue to ensure residents received key services.

The council considered and accepted the BVAR recommendations, alongside an action plan. The Council issued a press release to publicise this decision.

As indicated within the BVAR, auditors intend to monitor and follow-up on aspects of the BVAR as part of the 2021/22 annual audit including the council's progress against their action plan.

Alongside the BVAR, which included findings and a short case study about the council's progress against its digital strategy, our digital audit team prepared a complementary extended case study which was published on our digital e-hub. This shared the council's successes and learning alongside other examples of digital innovation across the public sector during the Covid-19 pandemic.

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# Appendix 3

## Transparency report disclosures

### Transparency report disclosure requirements

The following table sets out Audit Scotland compliance with disclosures required by Article 13 of Regulation (EU) 537/2014 as it forms part of the UK law, by virtue of section 3 of the European Union (Withdrawal) Act 2018, and as amended by the Statutory Auditors and Third Country Auditors (Amendment) (EU Exit) Regulations 2019/177.

Provision of Regulation (EU) 537/2014	How Audit Scotland complies with Regulation (EU) 537/2014
<p>A description of the legal structure and ownership of the statutory auditor, if it is a firm.</p>	<p>Audit Scotland was established by the Public Finance and Accountability (Scotland) Act 2000 as a body corporate. It provides services to the Auditor General for Scotland and the Accounts Commission.</p> <p>The Auditor General for Scotland is the Accountable Officer for Audit Scotland.</p>
<p>Where the statutory auditor or the audit firm is a member of a network:</p> <ul style="list-style-type: none"> <li>i a description of the network and the legal and structural arrangements in the network;</li> <li>ii the name of each member of the network that is eligible for appointment as a statutory auditor, or is eligible for appointment as an auditor in an EEA State or in Gibraltar;</li> <li>iii for each of the members of the network identified under paragraph (ii), the countries in which they are eligible for appointment as auditors or in which they have a registered office, central administration, or a principal place of business; and</li> <li>iv the total turnover of the members of the network identified under paragraph (ii) resulting from statutory audit work or equivalent work in the EEA States or Gibraltar.</li> </ul>	<p>N/A. Audit Scotland is the statutory public audit institution for Scotland, established under the Public Finance and Accountability (Scotland) Act 2000.</p> <p>Audit Scotland is not part of a network.</p>

Provision of Regulation (EU) 537/2014	How Audit Scotland complies with Regulation (EU) 537/2014
A description of the governance structure of the statutory auditor if it is firm	Audit Scotland's governance structure is set out in its <a href="#">annual report</a> .
A description of the internal quality control system of the statutory auditor and a statement by the management body on the effectiveness of its functioning.	<p>Audit Scotland's internal quality control system is set out in <a href="#">Exhibit 2</a> and <a href="#">Appendix 1</a> of this report. As described, the system is made up of a range of reviews and processes.</p> <p>Our ongoing analysis of all aspects of the system, including its oversight by our Audit Quality Committee, provides us with reasonable assurance that the system of internal quality control is functioning effectively.</p>
An indication of when the last quality assurance review referred to in Article 26 of Regulation (EU) 537/2014 was carried out.	<p>The results from the most recent reviews (March 2022) of the performance of our statutory annual audits and performance audits are set out in this report (<a href="#">paragraphs 23-30</a>).</p> <p>Audit Scotland is not subject to reviews by a competent authority. It appoints an external inspector to carry out a programme of quality assurance reviews, currently ICAS.</p>
A list of public interest entities for which the statutory auditor carried out statutory audits during the preceding financial year.	In 2021, Audit Scotland audited one public interest entity, Glasgow City Council.
A statement concerning the statutory auditor's independence practices which also confirms that an internal review of independence compliance has been conducted.	<p>Details of our independence procedures for individual members of staff are set out in this report (<a href="#">Independence and ethics</a>).</p> <p>In its review of compliance with ISQC1, ICAS considers of our independence practices. We can therefore confirm that an internal and external review of practices was conducted in 2021.</p>
A statement on the policy followed by the statutory auditor concerning the continuing education of statutory auditors referred to in paragraph 11 of Schedule 10 to the Companies Act 2006.	Audit Scotland's policies and practices are designed to ensure that our staff maintain their auditing knowledge, professional skills, and values at levels appropriate to support our focus on audit quality ( <a href="#">paragraphs 52-63</a> ).

Provision of Regulation (EU) 537/2014	How Audit Scotland complies with Regulation (EU) 537/2014
Information concerning the basis for the remuneration of members of the management body of the statutory auditor, where that statutory auditor is a firm.	Audit Scotland is not a firm. For details on remuneration of senior staff, see our <a href="#">annual report</a> .
A description of the statutory auditor's policy concerning the rotation of key audit partners and staff in accordance with Article 17(7) of Regulation (EU) 537/2014.	Audit Directors for annual statutory audits are rotated at least every five years (currently six years due to Covid-19) and are required to ensure that other team members are not involved in an engagement for more than six years.
Where not disclosed in its accounts, information about the total turnover of the statutory auditor, divided into the following categories:	Audit Scotland audits are funded by fees charged to the organisations we audit and by funding from the Scottish Parliament. The organisations we audit are required to disclose the fee for the audit in all cases. Where there is no cash fee, a 'notional' fee is agreed.  Details of our finances are included in our <a href="#">annual report</a> .
i revenues from the statutory audit of accounts of public-interest entities and members of groups of undertakings whose parent undertaking is a public-interest entity;	2020/21 PIE audit fee income: £658k
ii revenues from the statutory audit of accounts of other entities	2020/21 other statutory audit fee income: £12.7 million
iii revenues from permitted non-audit services to entities that are audited by the statutory auditor: and	2020/21 non-audit audit related services: £3,000  Revenues permitted from joint agreed audit with NAO in connection with EU agricultural funds work: £710k
iv revenues from non-audit services to other entities	None

# Appendix 4

## 2020/21 audit appointments

### 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 Legal Aid Board
Children's Hearings Scotland	Quality Meat Scotland	Scottish Natural Heritage
Creative Scotland	Registers of Scotland	Scottish Parliamentary Corporate Body
Creative Scotland Lottery Fund	Revenue Scotland	Scottish Police Authority
Crown Office and Procurator Fiscal Service	Risk Management Authority	Scottish Public Pensions Agency
Education Scotland	Royal Botanic Garden Edinburgh	Scottish Qualifications Authority
Food Standards Scotland	Scottish Children's Reporter Administration	Scottish Teachers' Superannuation Scheme
Forest Enterprise Scotland	Scottish Commission on Social Security	Skills Development Scotland

Forestry Commission Scotland	Scottish Consolidated Fund	Social Security Scotland
Highlands and Islands Enterprise	Scottish Criminal Cases Review Commission	Sportscotland
National Galleries of Scotland	Scottish Enterprise	Sportscotland Lottery Fund
National Library of Scotland	Scottish Fiscal Commission	Standards Commission for Scotland
National Museums of Scotland	Scottish Funding Council	Transport Scotland
National Records of Scotland	Scottish Government	VisitScotland
NHS Superannuation Scheme (Scotland)	Scottish Land Commission	Water Industry Commission for Scotland
Non-Domestic Rates Account		

## 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

# Transparency report

2021

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN

Phone: 0131 625 1500 Email: [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)

[www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)

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