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Public sector audited bodies in Scotland  
Appointed auditors  
UK public sector audit agencies  
Scottish Parliamentary Audit Committee  
Scottish Commission for Public Audit  
CIPFA Scotland  
ICAS  
COSLA  
APB public sector sub-committee

## **Consultation on a revised Code of Audit Practice & new audit appointments**

### ***Introduction***

The current audit appointments end at the conclusion of the 2010/11 audits. We are therefore considering our strategy for the next round of appointments. In parallel with this we are reviewing the Code of Audit Practice, compliance with which is a condition of all audit appointments. A copy of the Consultation draft of the revised Code is enclosed.

We are issuing this consultation in order to give audited bodies and other stakeholders the opportunity to comment on both the draft revised Code of Audit Practice and our approach to the next round of audit appointments.

### ***Code of Audit Practice***

The Code of Audit Practice sets out the high level scope of the audit work carried out.

The revision is taking place in the most challenging set of circumstances for public bodies and their auditors. A key objective of the consultation on the Code is to secure the best future for public audit so that it can continue to contribute to the good government of Scotland, while responding to the extreme financial pressures that we all face. We need to ensure that the Code sets a sound framework for audit over the next five years and drives innovation and excellence in audit practice and delivery and streamlining and efficiency in the audit process.

In view of the challenging medium term outlook for public finances we are taking the opportunity to consider the scope and volume of audit activity in developing the revised Code. Audit Scotland is fully committed to continuing to generate efficiencies in all public audit work, whether this work is undertaken directly or through the firms which are appointed auditors. However we also need to recognise that the forthcoming period of spending constraints may increase the risks to the control environment and to performance which may lead on occasions to increased audit work being required.

We believe that the public audit model including independent appointment of auditors, wide scope of audits, a focus on value for money and reporting in public is particularly relevant in the present economic climate. We also believe that the revised Code provides an approach that is risk based and proportionate while meeting professional standards. We will continue to review the way in which we carry out the high level requirements of the Code in practice to ensure that it is efficient and effective.

The core audit work is required by legislation, in particular accounting and auditing standards, and there is therefore limited opportunity to change the high level duties placed upon appointed auditors. The main changes to the Code from the current version are that it has been updated to reflect the changes in Best Value audit following the completion of the first round of best value audits, the new scrutiny arrangements introduced in the Public Services Reform (Scotland) Act and shared risk assessments.

For example, in the National Scrutiny Plan for Local Government 2010/11, published on 1 July 2010, Scotland's scrutiny agencies jointly set out the strategic scrutiny work they will do in councils during the year. The agencies are coordinating their work and focusing on the key issues at each council, in order to make scrutiny more efficient and effective. Under the plan, scrutiny bodies will spend 36 per cent less time in councils overall compared with 2008, with visits and inspections generally quicker, more focussed, and involving fewer inspectors. To achieve this, the scrutiny activity within each council will also be more proportionate and risk-based. For some councils, this will mean less activity but in others it could mean an increase. It is also important to recognise that the 36 per cent reduction applies across all scrutiny bodies. Audit Scotland will not be able to reduce its statutory charges by this proportion, but we are absolutely committed to keeping the costs of audit to a minimum consistent with meeting the statutory duties and the stakeholder requirements that are placed upon us.

The National Scrutiny Plan for Local Government is supported by Assurance and Improvement Plans (AIPs) for each of the 32 councils. These local plans set out in more detail the reasons behind the planned scrutiny activity for each council.

Against the background set out above, we would welcome comments on any aspect of the revised Code of Audit Practice and in particular on the following questions:

- Are there any areas of work described in the Code that we should consider stopping or doing less of? If so why?
- Are there any areas of work described in the Code that we should consider doing more of or any areas not included in the Code which we should consider doing? If so why?
- Are there any areas where auditors could better demonstrate that they are complying with the principles set out in the draft Code? If so how?

### ***Audit appointments***

Over the last few months we have been considering our approach to the next round of audit appointments as we need to commence the formal procurement process in the autumn. Whilst we believe that many of the elements of our previous strategy remain appropriate we have decided that for this round of appointments price should be an explicit criterion in the evaluation of tenders from firms.

The key elements of our strategy are:

- A single procurement exercise covering the remits of the Auditor General and the Accounts Commission in order to allow synergy between appointments across our remits, for example between councils and health boards, to maximise the potential for price competition to be effective through the volume of work being tendered and to minimise the costs of conducting the exercises
- A mixed market of private firms and Audit Scotland staff in order to ensure continued comparisons on methodologies and cost and to spread the workload during the final audit periods
- Firms to undertake around 36-38% by value of the annual audit work overall but with them undertaking higher percentages in some sectors such as Further Education Colleges
- The number of firms being sought to remain around the same (5 in local government, 3 in health, 2-3 in central government and 6 in further education)
- Firms will be invited to bid to work in one or more sectors with specific audits being allocated only once successful firms have been identified. We believe that this approach, rather than identifying particular packages of work in advance, provides the best way to construct the most effective portfolios while taking account of the considerable potential for conflicts of interest through firms carrying out other work such as internal audit
- Appointments to last for five years. This period balances the added value that bodies should receive from their auditor gaining a thorough understanding of their business and the need to ensure a fresh pair of eyes from time to time. A five year period for the rotation of the senior members of the audit team is a requirement of Ethical Standards for auditors of listed companies and a number of the larger audited bodies are as large and as complex as some listed companies
- Evaluation of tenders to include price. In order to ensure consistency of charges to audited bodies any benefit to Audit Scotland will be pooled centrally and used to reduce total charges across all audited bodies rather than applied directly to the audited body's fees
- Before appointments are finalised audited bodies will be given the opportunity to say if there are any reasons why the auditor proposed should not be appointed.

We welcome comments on any aspect of the strategy.

In order that we can commence the procurement process in the early autumn and include a final version of the Code of Audit Practice in the tender documents we would be grateful for responses by **3 September 2010**.

Responses, preferably electronic, should be sent to Russell Frith, Director of Audit Strategy, Audit Scotland, 110 George Street, Edinburgh, EH2 4LH; e-mail [rfrith@audit-scotland.gov.uk](mailto:rfrith@audit-scotland.gov.uk).

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The Consultation draft of the Code of Audit practice is also available from the Corporate Publications section of our website

<http://www.audit-scotland.gov.uk/about/as/docs.php> together with a Word copy of the specific consultation questions.

Yours sincerely,



**Robert W Black**  
Auditor General for Scotland



**John Baillie**  
Chairman of the Accounts Commission