Dear Sir,

**ICAS response to consultation – Audit Scotland Code of Audit Practice 2015**

ICAS (the Institute of Chartered Accountants of Scotland) is a professional body for more than 20,000 Chartered Accountants across the UK and internationally. We are an educator, examiner, regulator and thought leader. Our Public Sector Committee is a broad based committee of ICAS members with representation from across the public sector. ICAS’s Charter requires its Committees to act primarily in the public interest, and our responses to consultations are therefore intended to place the public interest first.

ICAS welcomes the opportunity to comment on the consultation of Audit Scotland’s Code of Audit Practice (the Code). Overall, our impression is that the revisions proposed in the Code are a positive step forward. We are supportive of the principles based approach to the Code, including the changes set out in the principles of public audit, such as the wider scope of audit and increased transparency of significant audit outputs. The updated Code helps to clarify and formalise developments in good practice and the direction of travel. We hope the following observations are helpful.

There are some differences in the approach and content of the various codes of audit practice adopted across the UK. While each is based on a public audit model, some are more principles based than others. These differences in public audit across different jurisdictions are not necessarily obvious to the public and we would therefore encourage a more consistent approach to UK public audit. In our view, a non-statutory basis for the audit code of practice (such as Audit Scotland's) can be beneficial. We believe that a non-statutory model is more conducive to setting aspirational practice and raising the bar for auditors and audited bodies. Government ministers have announced a priority to deregulate; in our view, it would be timely and productive to discuss developing a more consistent and non-statutory UK approach with the UK government.

We note references throughout the Code to the revised ISAs. As part of a principles based approach, we suggest that it would be helpful to have an upfront statement of the duty for auditors to comply with ISAs (UK & Ireland), UK ethical standards1 and professional body codes. Clear communication of this intention to align with international standards and keep pace with evolving good practice underlines the importance of consistency of audits across different sectors.

We are supportive of the “general principles” identified in paragraph 28 however we suggest that the last principle ‘adds value’ could be developed further to give a clearer steer and support consistent improvement.

We believe that it would be beneficial if the Code included greater emphasis on the importance of “knowing the client” to improve the effectiveness of the audit. This is particularly relevant for complex or specialist aspects of the organisation’s business. It is also of greater relevance given the recent mergers which have increased the number of large regional or national organisations. Examples may include identification of the need for, and appropriate access to specialists such as actuarial support.

We have identified certain areas where the responsibilities of audited bodies could be developed to balance and reflect the auditor responsibilities, revisions in the ISAs (UK and Ireland) and updates in accounting regulations.

As part of a principles based approach it would be helpful to include an overarching statement in the Code on the responsibilities of management of an audited body which would also reflect the effect of recent

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1 Referred to in paragraphs 27, 30 & 45
regulatory changes including the content of the auditor's report. This would be to stress that it remains the responsibility of management, with the oversight of those charged with governance, to communicate relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework. The relevant information should be communicated clearly and concisely. Some particular observations are noted below.

There is reference to audited bodies' responsibilities such as preparing true and fair financial statements; for completeness, we believe that the Code should include a similar intention to underline audited bodies responsibilities for the new Management Commentary. This could highlight that audited bodies are responsible for producing a Management Commentary which is fair, balanced and understandable in line with the intentions of the FReM or Local Government Finance Circular 5/2015 (as appropriate). This would aim to set the standard and underline management responsibilities to deliver this vision rather than just tick the box. We believe this is important to drive improvement by preparers.

The audit dimension “financial sustainability” currently reflects the auditor’s responsibilities in the ISAs for short term going concern and notes audit work on an audited body's management arrangements for its' medium and longer term financial sustainability. We suggest that it would be appropriate for the Code to recognise and disclose the auditor's responsibility to provide a broad and robust assessment of their organisation’s longer-term financial sustainability within the Management Commentary in the section “responsibilities of audited bodies”. This is consistent with the forward looking orientation of the Management Commentary and better aligns with the direction of travel in current good practice for boards of listed companies to include a ‘viability statement’ in their Strategic Report (equivalent to the Management Commentary) which looks forward significantly longer than 12 months.

We are supportive of the efforts to increase transparency of the main audit outputs. This is also consistent with the direction of travel to increase confidence in audit as well as policy intentions for 'open government' and robust stewardship. However, the wording used in paragraph 35 is open to different interpretations of what is relevant to the public. Further clarification would be helpful to confirm expectations. As an example, in the auditor's report to management we suggest that to maintain focus on the significant issues, it would be appropriate to present a consolidated point on minor control weaknesses/ other observations.

The Code refers to independence as part of the general principles on page 13 for appointed auditors. For completeness, it would be helpful to also reference the principle of independence, and provide commentary on what that means, to those responsible for appointing the auditors as they may not necessarily be covered by ethical codes of professional bodies. As an example, the ICAS Code of Ethics adopts a conceptual framework approach and certain more specific provisions to independence at section 290 which could be applied.

Finally there is reference to the legislation which places a duty on auditors of local government bodies regarding best value. The reference should be to the Local Government in Scotland Act 2003, not 1973.

Yours faithfully,

ALICE TELFER
Assistant Director Business Policy and Public Sector
ICAS

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2 Code paragraph 20
3 For example Local Government Finance Circular 5/2015 “The strategic report [equivalent to the Management Commentary] should be fair balanced and understandable.” (Communication principles paragraph 12)
4 Local Government Finance Circular 5/2015 - “a local authority is required to apply the communication principles set out in the FRC Guidance and to consider materiality” (paragraph 23)
5 Code paragraphs 58,59
6 Enshrined in the Corporate Governance Code C.1.3 and disclosed in the Strategic Report
7 Code paragraph 51 (page 17)