

Statutory audit market consultation – response from Audit Scotland

Introduction

Audit Scotland has noted with interest your invitation to comment on the statutory audit market in the UK's commercial sector. We have significant experience and knowledge in the statutory audit market in the Scottish public sector and can offer insights that you may find helpful in your considerations. Our submission is particularly focussed on paragraphs 4.40 to 4.51 of your consultation paper, specifically the appointment of auditors by an independent body and the use of an independent national auditor to conduct audits.

Our comments are intended to provide a high level summary of the key features of the audit market in the Scottish public sector that may be of interest to you. However, we would be pleased to provide you with further information on any aspect of our response.

Context

As an indication of scale, Audit Scotland is responsible for over 200 audits with total audit fees of over £20 million. Audits include Scottish central government bodies, councils, health boards, and colleges, as well as more diverse entities such as charities, companies limited by guarantee, and two public interest entities which collectively spend over £40 billion of public money each year. Many of these include group accounting and increasingly, those bodies are finding new ways to collaborate and work with each other in partnership to deliver public services.

Some of the larger more significant audits include the Scottish Government (£34 billion net expenditure), NHS Greater Glasgow & Clyde (£4.6 billion gross expenditure), Glasgow City Council (£2.7 billion gross expenditure), Scottish Water (£1.4 billion revenue).

Public sector audit model - overview

Scottish public sector bodies do not appoint their own auditors. Statutory responsibility for appointing auditors rests with:

- The Accounts Commission which is an independent public body of 12 members appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- The Auditor General which is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit most of the remainder of the public sector.

The Auditor General and Accounts Commission appoint auditors to conduct the audits of bodies under their respective remits following a rigorous recruitment process that is independent of the individual audited bodies. The independent appointment of auditors is a strength of public sector audit and is an important safeguard that helps to ensure that the auditor is free from any potential or perceived conflict of interest or other pressure which may compromise their judgement. Only the AGS and Accounts Commission have the power to dismiss an auditor or change an audit appointment.

Audit Scotland's principal statutory function is to provide services to the Auditor General and Accounts Commission.

Public sector audit model – key relevant features

The Auditor General and the Accounts Commission currently appoint external auditors of most public bodies in Scotland for five year periods with the current appointments being for the 2016/17 to 2020/21 audits. All procurement exercises since the formation of Audit Scotland in 2000 have been single joint exercises between the Auditor General and the Accounts Commission with Audit Scotland undertaking the related procurement work and making recommendations on successful firms and proposed audit portfolios.

Legislation provides for the appointed auditors to be either members of staff of Audit Scotland or eligible accountancy firms. The current appointments are split 65% in house and 35% between 6 private firms (Deloitte, KPMG, EY, Grant Thornton, Scott-Moncrieff and Mazars).

Other than in exceptional circumstances, firms are not appointed to the same audit for a consecutive procurement round. If the audit is undertaken by Audit Scotland, the engagement lead and all audit staff are rotated every five to seven years.

The existence of a strong inhouse practice of sufficient scale mitigates against market concentration and limited competition. This increases flexibility in the appointment process where a number of firms are conflicted in a particular audit as they provide internal audit or consultancy services.

The Auditor General and Accounts Commission value the flexibility, responsiveness and ready access to information that having an in-house team provides. The presence of an in house team also contributes to risk management both in terms of continuity of service and flexibility to respond to emerging issues. Firms' involvement provides access to experience, data and insights from working in private sector audit and in the public sector in other parts of the UK, access to alternative methodologies, market innovation and skills as well as providing cost comparisons to in house teams. A mixed market also provides flexibility to deal with changing workloads

Audit Scotland, as commissioner of audit work, has a range of measures in place to ensure the quality of audit work. A new Audit Quality Framework was established in 2017 which sets out how Audit Scotland provides the Auditor General and Accounts Commission with robust, objective and independent quality assurance over the work of both Audit Scotland and the firms. This includes arranging for independent quality reviews carried out by ICAS. Audit Scotland undertakes surveys of audit quality which help to indicate if there are any issues arising between the appointed auditor and the audited body that either require immediate attention or that should be taken into account at the next round of appointments.

Audit Scotland has developed an ethos of partnership and co-operation with the appointed firms to enhance the overall value from public audit. This is reflected in the regular meetings with the leads from each firm as a group to discuss issues and developments of common interest and the meetings of all auditors working in a particular sector to discuss relevant matters and exchange experiences. This approach also helps to ensure consistency of approach and judgements across a sector.

Audit fees are set by Audit Scotland, and approved by the Auditor General and Accounts Commission, so limiting the risk of cost pressures driving down audit quality.

All non-audit services carried out must be approved in advance by an independent team within Audit Scotland.