

Statement of responsibilities of auditors and of audited bodies

Contents

Introduction	1
Responsibilities	1
Financial statements	2
Corporate governance arrangements	3
Performance management	5
Special powers and duties	6
Grant claims	6
Reporting the audit	6
Ad hoc requests for the auditor's views	7
Public private partnerships/private finance initiative	7

Audit Scotland

Audit Scotland is a statutory body set up in April 2000, under the Public Finance and Accountability (Scotland) Act 2000. It provides services to both the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Executive and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

Auditor General for Scotland

The Auditor General for Scotland is the Parliament's watchdog for ensuring propriety and value for money in the spending of public funds.

He is responsible for investigating whether public spending bodies achieve the best possible value for money and adhere to the highest standards of financial management.

He is independent and not subject to the control of any member of the Scottish Executive or the Parliament.

The Auditor General is responsible for securing the audit of the Scottish Executive and most other public sector bodies except local authorities and fire and police boards.

The following bodies fall within the remit of the Auditor General:

- departments of the Scottish Executive eg the Department of Health
- executive agencies eg the Prison Service, Historic Scotland
- NHS boards and trusts
- further education colleges
- water authorities
- NDPBs and others eg Scottish Enterprise.

The Accounts Commission

The Accounts Commission is a statutory, independent body, which through the audit process, assists local authorities in Scotland to achieve the highest standards of financial stewardship and the economic, efficient and effective use of their resources. The Commission has five main responsibilities:

- securing the external audit
- following up issues of concern identified through the audit, to ensure satisfactory resolutions
- reviewing the management arrangements which audited bodies have in place to achieve value for money
- carrying out national value for money studies to improve economy, efficiency and effectiveness in local government
- issuing an annual direction to local authorities which sets out the range of performance information which they are required to publish.

The Commission secures the audit of 32 councils and 34 joint boards (including police and fire services). Local authorities spend over £9 billion of public funds a year.

Statement of responsibilities of auditors and of audited bodies

Introduction

1. The Auditor General for Scotland (“Auditor General”) and the Accounts Commission for Scotland (“the Accounts Commission”) are responsible for appointing auditors and determining their terms of appointment, as well as for approving the Code of Audit Practice (“the Code”) which sets out the framework within which auditors are to carry out their functions. Audit Scotland is a statutory body that provides services to the Auditor General and the Accounts Commission and provides guidance and support to auditors on technical matters and monitors their performance through a quality control process.
2. The purpose of this statement is to assist the auditor and audited bodies by summarising where – in the context of the usual conduct of the audit – the responsibilities of the auditor begin and end, and what is to be expected of the audited body in certain areas.
3. The responsibilities of the auditor are derived from statute (principally the Public Finance and Accountability (Scotland) Act 2000 and the Local Government (Scotland) Act 1973) as interpreted by the Code. Nothing in this statement is intended to limit or extend those responsibilities. In particular, audited bodies should note that, because the auditor’s independence of the audited body must not be prejudiced, it is not the auditor’s role to act as a financial or legal adviser or consultant to the audited body.
4. In addition to the framework for the audit and other work contained in the Code, Audit Scotland may issue guidance from time to time to assist the auditor in the application of the Code.
5. The auditor may wish to refer to this statement in audit plans, the annual audit report, management reports and other outputs.

Responsibilities

6. The audited body is responsible for the conduct of public business and the handling of public money and, as such, is fully accountable for the conduct of that business in accordance with the law and proper standards, ensuring that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Given this accountability to the public for the conduct of public business and stewardship of funds under its control, the audited body therefore has a responsibility to establish proper corporate governance arrangements, manage its affairs to secure economic, efficient and effective use of resources, maintain accounting records, prepare financial statements, safeguard assets, and take reasonable steps for the prevention and detection of fraud and other irregularities.
7. It is the auditor’s responsibility to form an independent and objective view of the discharge by the audited body of its stewardship responsibilities. In so doing, the auditor may wish to obtain representations from management, both orally and in writing, on important matters.

8. The following paragraphs summarise the responsibilities of the audited body and auditor in relation to each of the principal functions of the auditor described in the Code.

Financial statements

9. It is the responsibility of the audited body and its management to:
 - act within the law and ensure the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority
 - maintain proper accounting records
 - prepare financial statements timeously which (depending on the financial reporting framework) give a true and fair view or present fairly the financial position of the body and its expenditure and income.
10. The auditor is required to audit the financial statements in accordance with Statements of Auditing Standards and to give an opinion:
 - whether, as appropriate, they give a true and fair view or present fairly the financial position of the audited body and its expenditure and income for the period in question
 - whether they have been prepared in accordance with relevant legislation and applicable accounting standards
 - except for local government bodies, on the regularity of the expenditure and receipts.
11. The financial statements should be prepared by the audited body in accordance with the timetable prescribed by statute or required by appropriate sponsoring departments or bodies, for example, the Scottish Executive Health Department in the case of NHS bodies. The financial statements submitted for audit by the audited body should be prepared in accordance with all appropriate regulatory requirements and be supported by appropriate accounting records and working papers prepared to an acceptable professional standard.
12. An auditor appointed by the Auditor General is responsible for ensuring that the audit is completed in a timely manner which enables the Auditor General and the Scottish Ministers to comply with their duties under Sections 22(4) and (5), Public Finance and Accountability (Scotland) Act 2000. An auditor appointed by the Accounts Commission should complete the audit by the date specified by the Commission.
13. The auditor takes reasonable steps to remain apprised of significant financial transactions or events that are unusual or of questionable regularity. The auditor has a responsibility to review and, where appropriate, report on the audited body's corporate governance arrangements as they relate to the regularity of transactions which might have material financial consequences. The auditor will obtain reasonable assurance that there is compliance with the statutory and other requirements applicable to the financial statements of the audited body, and that material requirements for accounting presentation and disclosure have been met. Where there are secondary financial statements, such as those for trust funds and the common good in

the case of local government bodies, the auditor assesses whether regulations or trust deed requirements have been complied with to the extent that non-compliance might cause a material misstatement in the financial statements of the audited body when viewed as a whole.

14. The auditor will examine selected transactions and balances on a test basis and assess the significant estimates and judgements made by the audited body and its management in preparing the financial statements.

Corporate governance arrangements

15. The audited body has a responsibility to put in place arrangements for the conduct of its affairs, ensure the legality of activities and transactions and to monitor the adequacy and effectiveness of these arrangements in practice.

Internal control

16. To ensure the proper conduct of its business, the audited body has a responsibility to develop and implement systems of internal control, including systems of financial, operational and compliance controls and risk management and, for most bodies, at least annually to conduct a review of the effectiveness of the body's systems of internal control and report publicly that it has done so.
17. The auditor has a responsibility to review and, where appropriate, report any findings on the audited body's review of its systems of internal control. It is the responsibility of the audited body to undertake a proper assessment of the risks facing the audited body and to implement systems and procedures to address those risks. The auditor is not responsible for reviewing the effectiveness of the audited body's procedures.
18. In relation to financial systems relevant to the financial statements the auditor will evaluate those systems and related controls. Other systems will be considered in accordance with the responsibilities set out in the Code. In practice the auditor will not examine every financial activity or accounting procedure. The auditor will rely on the results of the evaluation of the audited body's systems, supplemented, as necessary, by appropriate tests of control or detail. Whilst the auditor aims to identify any major weaknesses in a system under review, the auditor's work should not be relied upon to identify all weaknesses that may exist.
19. As part of the organisation's control framework, it is the responsibility of the audited body to secure effective internal audit arrangements and to ensure that, commensurate with the assessment of risks facing the body, internal audit work is properly planned, controlled, performed and reviewed. The working assumption used to estimate the indicative fee for the audit is that internal audit work is undertaken upon which the auditor can place reliance in accordance with Statement of Auditing Standards 500.

Prevention and detection of fraud and irregularities

20. It is the responsibility of the audited body to establish arrangements to prevent and detect fraud and irregularity. It therefore needs to put in place proper arrangements for:
 - developing, promoting and monitoring compliance with standing orders and financial instructions
 - developing and implementing strategies to prevent and detect fraud and irregularity; and

- receiving and investigating allegations of breaches of proper standards of financial conduct or fraud or irregularity.
21. The auditor plans his approach to this aspect of the Code in accordance with professional guidance. However, the auditor does not perform detailed tests of transactions to the extent that would be necessary to disclose all unlawful or irregular transactions or events that may have occurred, or might occur, and the audit process should not be relied upon to disclose such matters. The work of the auditor should not be taken as a substitute for the audited body obtaining appropriate legal advice.
22. The auditor has a responsibility to review and, where appropriate, report any findings on the audited body's arrangements in relation to the prevention and detection of fraud or error. The auditor's work does not remove the possibility that fraud or irregularities have occurred and remained undetected. It is not the auditor's function to prevent fraud or irregularity, although the auditor will be alert to the potential for such acts and will act with no undue delay if such instances come to light.

Standards of conduct; integrity and openness

23. It is the responsibility of the audited body to ensure that its affairs are managed in accordance with proper standards of conduct. It therefore needs to put in place proper arrangements for:
- implementing and monitoring compliance with appropriate guidance on standards of conduct
 - expressing and promoting appropriate values and standards across the body
 - developing, promoting and monitoring compliance with standing orders and financial instructions.
24. The auditor has a responsibility to review and, where appropriate, report on the audited body's corporate governance arrangements as they relate to standards of conduct and arrangements in relation to the prevention and detection of corruption.

Financial position

25. It is the responsibility of the audited body to conduct its affairs and to put in place proper arrangements to ensure that its financial position is soundly based having regard to:
- such financial monitoring and reporting arrangements as may be specified
 - compliance with statutory financial requirements and achievement of financial targets
 - levels of balances and reserves; and
 - the impact of planned future policies and known or foreseeable future developments on the body's financial position.
26. The auditor has a responsibility to review and, where appropriate, report any findings on the audited body's arrangements as they relate to the financial position of the audited body. While it is likely that the auditor will focus on

the arrangements made by the audited body in relation to, say, budgetary control and financial reporting, it is not the auditor's responsibility to consider in detail the audited body's corporate strategy, financial plans, projections or budgets. Accordingly, the auditor is unlikely to identify any deficiencies that these may contain.

Performance management

Arrangements for securing value for money

27. It is the responsibility of the audited body to ensure that suitable arrangements are in place to secure economy, efficiency and effectiveness in the use of its resources, and that they are working effectively. These will include procedures for planning, appraisal, authorisation and control, accountability and evaluation of the use of resources, and to ensure that performance targets and required outcomes are met and achieved.
28. The auditor discharges the responsibility to consider the audited body's arrangements for securing value for money by reviewing and, where appropriate, examining evidence that is relevant to aspects of those arrangements. The auditor's planning process in relation to this will have regard to an assessment of audit risks and significance, evidence from other aspects of the audit or previous audit work, the work of other auditors where appropriate, and any guidance issued by Audit Scotland.

Use of resources

29. Where appropriate in relation to participation in value for money studies regarding an aspect of the audited body's services or functions, the auditor undertakes the necessary fieldwork and reports in accordance with guidance from Audit Scotland.
30. The auditor's consideration of aspects of the audited body's performance management is not a consultancy or advisory exercise. It is carried out with a different resource input and relies on information from management.
31. While consideration of performance management provides an independent assessment of the audited body's arrangements for securing economy, efficiency and effectiveness in the use of resources, it cannot be relied on to have identified every weakness or every opportunity for improvement. Before deciding whether to place reliance on conclusions and recommendations from a performance audit, the audited body should consider them in the broader business, commercial, or other relevant context.

Best value performance management and planning

32. Guidance issued by the Scottish Ministers about Best Value requires local government bodies to develop a performance management and planning framework which establishes clear standards and targets for all of the body's activities, identifying where and how improvements can be made, and reporting on performance.
33. The auditor's responsibility within the overall framework of value for money work is to provide an independent, external report on the audited body's progress in implementing appropriate frameworks, identifying good practice for wider dissemination and areas of concern and ensuring that services are planning for improvement. The auditor discharges the responsibility in accordance with guidance from Audit Scotland.

Local authority performance indicators

34. The Local Government Act 1992 requires the Accounts Commission to specify information which local authorities must publish about their performance. The auditor's duty is to be satisfied that the audited body has made the necessary arrangements for collecting, recording and publishing performance information.
35. The auditor discharges this duty by appraising the audited body's arrangements, testing the completeness and appropriateness of the arrangements and considering whether statutory reporting requirements have been met.

Special powers and duties

36. Under Section 22(3), Public Finance and Accountability (Scotland) Act 2000, the auditor must send the financial statements and the auditor's report to the Auditor General, who may prepare a report. Whilst the decision to prepare a subsequent report and the content of that report are the responsibility of the Auditor General, the auditor must keep the provision in mind and should bring to the attention of Audit Scotland any matter which may give rise to such a report at the earliest opportunity.
37. The auditor of a local authority has a duty to report to the Controller of Audit on any matters in respect of which there may require to be an exercise of the Controller of Audit's statutory reporting powers under Section 102, Local Government (Scotland) Act 1973.

Grant claims

38. The responsibility for ensuring the preparation, accuracy, completeness and timely submission of any grant claims and returns lies with the audited body. The Scottish Ministers, sponsoring bodies or others may require independent examination as a condition of their acceptance of claims or returns and in advance of any reimbursement being made. Audit Scotland will advise the auditor of claims or returns which have been approved for examination by the auditor and no others should be accepted without the prior approval of Audit Scotland.
39. In conjunction with the audited body, the auditor is required to identify those "approved" claims likely to be prepared and submitted by the audited body and to assess, agree and incorporate the time required for such work in the audit plan. When required, such information should be made available to Audit Scotland.
40. The auditor should have regard to any grant notes and other guidance issued by Audit Scotland in relation to such claims and returns.

Reporting the audit

41. It is anticipated that the auditor will provide such opinions and reports as required by the letter of appointment and the Code.
42. When considering the action to be taken on outputs from the audit process, the audited body should bear in mind the nature and scope of the auditor's work and the responsibilities of the auditor as set out in the Code and explained in this statement. Matters raised in reports will be drawn from those that came to the auditor's attention during the audit. The audit cannot and should not be relied upon to detect all weakness, errors or opportunities

for improvement in the body's arrangements that might exist. The audited body should assess conclusions and recommendations in audit outputs for their wider implications before agreeing to the action plan to be included with the auditor's management or other report.

43. Although reports may be addressed to the members or managers of the audited body, they are prepared for the sole use of the audited body, the Auditor General, Controller of Audit, Accounts Commission or Audit Scotland. Auditors appointed by the Auditor General should also recognise that most accounts will be laid before the Scottish Parliament and accordingly the Parliament will also be an addressee of the audit opinion. Certificates and reports to grant paying agencies are prepared for the sole use of those agencies or for any agency having statutory rights of access to them. The auditor does not undertake responsibilities to members, directors or managers in their individual capacities or to third parties.

Ad hoc requests for the auditor's views

44. There may be occasions when the audited body will seek the views of the auditor on the regularity, accounting treatment or performance management implications of a transaction or proposed course of action before embarking upon it. In such cases the auditor will be as helpful as possible, but the auditor is precluded from giving a definitive view in any case because:
- the auditor's independence must not be prejudiced by being involved in the decision-making of the audited body
 - the auditor is not a financial or legal adviser to the audited body; and
 - the auditor may not act in any way that might fetter the ability to report on the matter, or to exercise the powers conferred by statute on the auditor, the Auditor General, Controller of Audit, the Accounts Commission or Audit Scotland.
45. In response to such requests, the auditor can only be expected to offer an indication as to whether anything in the information available to them at the time of forming a view is likely to cause the auditor to consider reporting on the matter. Any response from the auditor to such a request should not be taken by the audited body as suggesting that the proposed transaction or course of action will be exempt from challenge in future, whether by the auditor or others entitled to raise objection to it. It is the responsibility of the audited body and its management to decide whether to embark on any transaction or course of action.

Public private partnerships/private finance initiative

46. An audited body considering a project under a public private partnership or the PFI should appoint its own financial and legal advisers. It is for the audited body to take such advice as they consider appropriate before proceeding with any such project.
47. While any public private partnership or PFI development will require to be considered by the auditor as part of the responsibilities under the Code, indicative fees for the audit specified by Audit Scotland do not specifically provide for the auditor requiring to undertake audit work in relation to a public private partnership or PFI project. Where it is apparent that such audit work will require to be undertaken, Audit Scotland will consider a request from the auditor to enter discussions with the audited body over fees.

48. If the auditor were asked for views on a proposed course of action this would be regarded as an ad hoc request for the auditor's view within the context outlined in the paragraphs above.



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