

27 March 2026
ICAS response to Audit Scotland



Consultation on a new Code of Audit Practice



Our response

Audit Scotland Consultation on a new Code of Audit Practice

Thank you for the opportunity to comment.

Our response to the detailed questions

Section 1 of the ITC: Principles of Public Audit

Question 1: Do you agree with the proposed general principles for public audit?

Yes **partly** / No (please delete as appropriate)

We agree subject to two amendments, noted below.

If not, what alternative do you suggest?

Whilst we understand the need to highlight “data-driven” in our view the fundamental principle is an evidence-based approach of which “data-driven” is one aspect. We suggest rewording the principle to “evidence-based (including data-driven analysis)”.

While we agree with the substance of the definitions of professional scepticism and professional judgement used in the draft Code, we would prefer wording to refer to the specific material and wording of the standard setters contained in the ISAs¹ (UK), the FRC Glossary, and the IESBA and ICAS Codes of Ethics.

In relation to paragraph 24 (professional scepticism), as well as “to challenge audited bodies” we believe the wording should also specify “those charged with governance” as it emphasizes the particular roles/ individuals responsible, not just the organisation.

For example:

“It is characterised by a willingness to challenge audited bodies, those charged with governance and the experts they use, to look for contradictory as well as corroborative evidence and to critically assess information.

Section 2 of the ITC: Audit of the annual accounts

Question 2: Do you agree that the standard on review engagements (ISRE 2400) is an appropriate standard for auditing smaller bodies?

Yes **partly** / No (please delete as appropriate)

A review engagement is not a statutory audit. Therefore, while not disagreeing that an alternative form of scrutiny for smaller bodies may be appropriate, we assume that Audit Scotland have received legal advice and are comfortable that they (or the Auditor General) have the appropriate powers to introduce a limited assurance assignment for smaller bodies and set thresholds without the need for legislation.

We believe this should be explained in the revised code and reference content in both the Public Finance and Accountability (Scotland) Act 2000 (which does not appear to define an audit) and Local Government (Scotland) Act 1973.

The Code should also include an explanation of how the scope of ISRE 2400² is being applied. ISRE 2400 explicitly states that it is intended for use by practitioners; it does not state auditors. Audit Scotland may wish to define/ set criteria for those who can undertake these engagements.

For local authorities, an explanation is needed as to whether ISRE 2400 provides enough for the "auditor" to meet the general duties³ for the auditor in legislation and conclude that "proper accounting practices have been observed" (section 99).

We also suggest that the Code includes an example audit/ assurance report template.

As a short-term measure, we agree that ISRE 2400 is an appropriate standard to inform limited assurance to aid proportionate scrutiny of smaller bodies. However, we note from experience that smaller bodies can be subject to greater risks and problems due to lower resource levels and may not have the same access to specialist or expert support as larger bodies. It is therefore important to stress a rigorous approach to understanding the organisation, its environment, risks and duties to be able to inform a conclusion and focus on addressing areas where material misstatements are likely to arise.

There is currently limited experience of limited assurance engagements in Scotland. This needs to be monitored to check that implementation is meeting objectives.

As a subsidiary point to the need for proportionate audit of publicly funded bodies, there is likely to be a short-term implementation cost for firms/ those providing assurance to develop their procedures. We are not aware of any evidence quantifying this but note that the proposed change is during a period of cost pressures for small bodies, with comparatively low audit fees and profitability for firms. The cost effectiveness of a limited assurance model and its benefits will need monitored and are likely to vary across firms and organisations. Our understanding is that procedures for smaller bodies in England are very similar which may enable economies of scale for firms operating across the UK.

The difference between a full audit and limited assurance will need to be clearly communicated to readers of the accounts as a matter of public interest.

Ideally solutions should address the root causes of problems, take a long-term perspective and be cost effective. Whilst we support the materiality argument, in practice limited assurance will dilute the level of assurance and whilst an easier and quicker measure, it is not the sole or optimal solution. The problem can be approached from a different angle which also needs acknowledgement.

We believe it is important for Audit Scotland as a relevant expert body, to proactively inform stakeholders of the wider risks, issues and potential solutions (even if beyond the powers of Audit Scotland), to raise awareness of the risks relating to small bodies (e.g. a lack of capacity and access to expertise), to stimulate constructive debate on longer-term actions to address the root cause of a proliferation of small bodies and inform decision-makers who may be reviewing fundamental reform and improvement over the longer term.

There is a regulatory question on how small bodies are created and impact on other regulation, such as financial reporting and audit. This includes the variety of constitutions and audit/ financial management frameworks applied in legislation, their alignment (or not) with standards and good practice, how proportionate that is and what is fit for purpose today. These questions need further exploration. We believe there is scope to reduce variety, complexity and opportunity for greater simplification and proportionality. Opportunities for consolidation and shared services could offer small bodies efficiencies and economies of scale.

Whilst the offer of a five-year horizon for eligibility offers stability, flexibility is needed to identify bodies who grow in size, consolidate or change significantly so that limited assurance is not used for bodies it is not intended for.

We suggest a transitional arrangement similar to the Companies Act 2006 section 382⁴ which applies a consecutive two-year rule and support Audit Scotland reserving the right to request additional assurance if risk assessments, organisational changes or circumstances indicate a need.

If not, what alternative do you suggest?

We would also welcome further information and evidence on the cost benefit of how a cyclical audit model may operate e.g. a deeper audit one year out of five years, depending on the level of assessed risk; and whether this may be proportionate.

Question 3: Do you agree that limited assurance is proportionate for auditing the accounts of smaller bodies?

Yes / No (please delete as appropriate)

If you do not agree, what are your reasons?

See our response to question 2 above.

Question 4: Do you agree with the proposed features of the review of the audited accounts for smaller bodies?

Yes / No (please delete as appropriate)

If not, what alternative do you suggest?

See our response to question 2 above.

Question 5: Do you agree that smaller bodies should be defined for the purposes of auditing the accounts primarily using an expenditure-based threshold set by the Auditor General and the Accounts Commission?

Yes / No (please delete as appropriate)

If you agree, do you have any views on the appropriateness of the setting the expenditure threshold at £6.5 million?

If you do not agree, what alternative for defining smaller bodies do you suggest?

Please refer to our response to question 2 on certainty of legislative powers for defining smaller bodies.

We would prefer to see a broader range of criteria representing size, risk and impact of the organisation. Some organisations have a high value of assets or a larger number of staff. To reflect this, we suggest applying a blended set of criteria similar to the Companies Act 2026 section 382.

Audit Scotland might also consider incorporating greater flexibility when bodies experience problems or failures which increase risk. There may be a reasonable public expectation of full audit scrutiny until the organisation has recovered. It would be helpful if Audit Scotland explained what the approach to audit quality will be for these bodies in the Code/ elsewhere.

We support the focus on ensuring VFM and wider scope issues to keep sufficient focus on public sector risks.

Section 3 of the ITC: Wider scope reporting areas - Auditors appointed by Auditor General

Question 6: Do you agree that the assurance standard ISAE 3000 is the appropriate standard for the wider scope reporting areas specified in the Code?

Yes / No (please delete as appropriate)

If you do not agree, what are your reasons for disagreement and what alternative do you suggest?

We would be supportive of Audit Scotland using the standard as a basis for the guidance.

Question 7: Do you agree with the proposals for reporting conclusions on the four wider scope reporting areas and Best Value for smaller bodies?

Yes / No (please delete as appropriate)

If you do not agree, what are the reasons for your disagreement and what alternative do you suggest?

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Question 8: Do you agree that the definition of smaller bodies should be consistent for all elements of the audit?

Yes / No (please delete as appropriate)

If not, what alternative do you suggest?

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Section 4 of the ITC: Best value in local government

Question 9: Do you agree that the wider scope areas should be discontinued for local government? Do you agree that auditors should focus on Best Value arrangements and report a conclusion on whether councils and IJBs comply with the statutory guidance on Best Value?

Yes / No (please delete as appropriate)

If you do not agree, what alternative do you suggest?

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Question 10: Do you agree that auditors should report discrete conclusions on the elements of Best Value arrangements related to financial sustainability and financial management?

Yes / No (please delete as appropriate)

If you do not agree, what alternative do you suggest?

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Question 11: Do you agree that the assurance standard ISAE 3000 is appropriate for considering and concluding on Best Value arrangements?

Yes / No (please delete as appropriate) **partly**

Yes, however, we suggest that reference should be made to the UK version of the standard ISAE (UK) 3000 International Standard on Assurance Engagements (July 2020).

Please also refer to our comments in the response to question 6.

Question 12: Do you agree that the proposals set out at paragraphs 60 and 61 of the ITC should be adopted for local government bodies other than councils and IJBs?

Yes / No (please delete as appropriate)

If you do not agree, what are your reasons for disagreement and what alternative do you suggest?

There is some confusion over the wording in the Draft Code para 187 “There are no adaptations to the requirements for financial sustainability set out in section 3” and the Consultation paper para 61 stating limited rather than reasonable assurance on “financial sustainability – this is appropriate as it is considered less of a risk than in a council or IJB”.

The wording appears inconsistent and we are not convinced by the latter comment. We believe the approach to financial sustainability should be subject to a risk assessment and eligible for greater scrutiny if appropriate to meet public interest needs and duties around public funds as well as reflecting awareness of the wider financial challenges in government and rising costs due to inflation and wider geo-political risks.

Question 13: Do you agree that the Best Value annual thematic reviews should be carried out by a central Audit Scotland team and on a sample of councils each year?

Yes / No (please delete as appropriate)

If you do not agree, what are your reasons for disagreement and what alternative do you suggest?

Section 5 of the ITC: Other proposals

Question 14: Do you agree that the proposed explanation in the Code appropriately articulates the relationship between going concern and financial sustainability?

Yes / No (please delete as appropriate)

If you do not agree, what alternative do you suggest?

We would like to see reference⁵ to ISA (UK) 570 on Going Concern as the mandatory standard and the SORP Practice Note 10 where it provides relevant additional guidance or an interpretation of the standard. It should confirm that if any conflict arises between the two, ISA (UK) 570 prevails.

We would not object to further explanation if consultation responses report this is needed to support readers understanding of the two concepts (their definitions and differences), responsibilities of the organisation and the auditor, and the audit approaches for each concept.

Question 15: Do you agree that the Code clearly sets out the appropriate responsibilities of auditors when reporting on financial sustainability?

Yes / No (please delete as appropriate)

If you do not agree, what alternative do you suggest?

We believe more is needed in the conclusion on the going concern basis of accounting as it is not sufficiently clear whether it is the auditor, the organisation or both that is disclosing the material uncertainties. We suggest adding a reference to ISA (UK) 570 paragraphs 19 & 20 on page 10 “Disclosures Related to Going Concern Appropriateness of Disclosures When Events or Conditions Have Been Identified and a Material Uncertainty Related to Going Concern Exists.”

On page 16 of the draft Code, it states “Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services **or** the way in which they should be delivered.”

In our view the above should be an “and” and not an “or” condition – both should be considered.

Question 16: Do you agree with the proposed definition of the term significant?

Yes / No (please delete as appropriate)

If you do not agree, what alternative do you suggest?

We would prefer that the Code definition includes a reference to use the reasonable and informed third party test which is encapsulated in both the FRC's Ethical Standard and the ICAS Code of Ethics⁶.

Question 17: Do you agree with the proposed inclusion of references to sharing good practice in the Code?

Yes / No (please delete as appropriate)

If you do not agree, what alternative do you suggest?

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Any other comments

Question 18: Do you have any other comments that the Auditor General or Accounts Commission should take into account in finalising their new Code?

Yes / No (please delete as appropriate)

Please share any other comments that the Auditor General or Accounts Commission should take into account in finalising their new Code below:

In addition to our response to question 2, we have the following observations:

- a) Reference should be made to ISAs (UK) throughout the Code, not ISAs.
- b) The FRC recently announced Practice Note 28 (Guidance for audits of small and medium-sized entities) which can be applied to public sector bodies. We suggest that the new Code of Audit Practice includes a reference to this FRC guide to support consistent application of the ISAs (UK) to small and medium-sized entities in a scalable, proportionate, and effective way.
- c) We suggest that Audit Scotland and the Scottish Government may need to review the interaction between Best Value, sustainability reporting and the Code of Audit to ensure there are no gaps and that wording is consistent when viewed cross-laterally to minimise confusion. Sustainability is a rapidly developing topic. The question is whether Best Value terminology and content set within the Local Government in Scotland Act 2003 needs to be refreshed and if this should sit in the legislation or Code or referenced to other source.

As an example, sustainability development is noted as a Best Value theme in paragraph 83, then "sustainability" in paragraph 89. The terms are not interchangeable⁷. Sustainable development concerns more than Best Value.

- d) There is an important question about the balance of using legislation versus Codes or guidance for details on accounting, audit and reporting topics. Given the pace of change today, we believe that more needs to go in a Code/ guidance so that it can be updated on a timelier basis with the legislation focusing on being a high-level enabler. This would offer a flexible and more agile mechanism for keeping pace with change.

This approach could also support a more consistent basis for accounting, auditing and reporting which reflects international standards and reduces the scope for differences which can drive complexity. Currently we see that public bodies (especially the smaller ones) can be set up using different legislative frameworks and while the need for audit and accounting is noted, it does not consistently apply the UK versions of international standards.

- e) The effective use of resources (page 17) – we think it would be helpful for the Code to encourage a long-term approach to this as it is consistent with good practice financial management.

- f) We believe that it is relevant for the Auditor General to review and challenge government processes and management arrangements for developing, monitoring and updating regulation. Independent scrutiny of arrangements helps to support quality, promote transparency and accountability which is in the public interest.

It aims to promote consistent application of good practice and cost effectiveness, align with strategic priorities and proportionate and efficient. It helps to ensure historic regulation remains fit for purpose and fit for today and the future.

While some departments may review legislation and regulations regularly to ensure they meet the intended impact, to identify and correct for errors or unintended consequences and reflect good practice⁸, this is not done on a consistent or regular basis. We believe this would support continuous improvement, cost effectiveness and best value.

Who we are

ICAS is a leading professional body for chartered accountants with over 23,000 members working across the UK and internationally. Our members work across the private and not for profit sectors. 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. Our Charter also requires us to represent our members' views and to protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.