



Public Sector Audit in Scotland Supplementary Transparency Report

**Report prepared for Audit Scotland under Audit Scotland's Quality
Framework – 2016/17 External Audit Appointments**

January 2018



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“Trust and integrity in markets, including the public sector, is a key pillar of a vibrant economy and also forms a critical part of how we act as a business. The Grant Thornton Transparency Report 2017 – Shaping a culture of quality, and this specific Audit Scotland supplementary report, is an opportunity for us to share the work we do to ensure we act with trust and integrity in all we do, demonstrating our commitment to quality and the Audit Firm Governance Code. It is a chance for us to communicate to our regulators, our clients and other stakeholders what we are doing to put quality at the heart of all we do”

Extracted from Transparency Report 2017 Shaping a culture of quality, October 2017

Our quality arrangements at a glance



Independent quarterly audit measures on 2 Audit Scotland files per annum (Quality KPI's) both of which scored 9 out of 10



We take quality seriously and continue to learn lessons from review findings and apply those to our future audits.



Independent National Audit Review (NAR) of at least one Audit Scotland file per annum. For 2016/17 the file reviewed was recorded as a pass

An audit
underpinned by
quality and adding
value to you



We continue to focus on the results of our staff satisfaction surveys, as reflected in this report and the wider GT UK transparency report. Actions include a continued focus on training; and investment in audit software.



Our GT UK Wide transparency report is published and sets out our overall approach to quality as well as firm wide systems and processes – which apply to all Audit Scotland clients



Our work is undertaken in accordance with International Auditing Standards and the Audit Scotland Code of Practice. During the year we met all Audit Scotland deadlines as set out in the planning guidance.

Introduction

This report outlines Grant Thornton UK LLP (our) key arrangements to ensure we deliver audit quality consistently across our Audit Scotland appointments. This report covers our arrangements in respect of the 2016/17 financial year – the first year of a five year appointment under the Audit Scotland framework.

This report is designed to supplement our Grant Thornton UK LLP wide transparency report which was published in October 2017 entitled “Shaping a culture of quality”, and covers key areas requested by Audit Scotland specifically.

We recommend this supplementary report is read in conjunction with our UK Transparency report which is publically available on our website at:

<https://www.grantthornton.co.uk/en/about-us/transparency-report/>

Making quality second nature

Grant Thornton serves over 20,000 clients each year across a wide range of services and know our reputation relies on the quality of the work we deliver. We have made good progress during the year, although there is more to do.

We were disappointed with the outcome of the Audit Quality review (Financial Reporting Council) earlier this year. It did not live up to the standards we set ourselves and highlighted we still have work to do. We take these findings, and all findings related to quality seriously and are confident that we are taking the necessary steps to address the recommendations from the review.

This year we have put considerable work into the systems and controls we put in place to ensure we deliver quality work each and every time. As our firm has grown and the regulatory requirements have increased, it has been necessary for us to regularly review all our processes and policies to make it easy for our people to deliver their best work at a high standard.

This has included in the last year:

- Launching a new Code of Conduct;
- Introducing a centralised client take on process, as well as review of our client continuance processes;
- Restructuring our Quality, Ethics and Excellence team;
- Codifying who we will, and will not work with, aligned to our purpose.

We also continued our work to move core administrative audit tasks to a Central Audit Support Team, allowing our client facing audit teams to focus on areas of risk and judgement. We see this as an important driver of quality.



Our Audit Scotland portfolio 2016/17

- 2 Local Authorities and 3 associated bodies
- 2 Pension Funds
- 1 Integration Joint Board
- 4 NHS Organisations
- 9 Central Government organisations



Our Audit Scotland team

- Our Audit Scotland portfolio and contract is overseen by Joanne Brown, Director and Head of Public Sector Scotland.
- We have a dedicated Public Sector Scotland team consisting of 12 team members. We routinely recruit 3 to 4 Trainees (Graduates and/or School leavers) directly into the public sector team on an annual basis.
- Our team in Scotland are supported by a National Audit Technical Team and audit specialists including Technology (IT Audit); PPP/PFI experts; Pensions; and valuation experts
- We have a UK wide public sector practice where we have an external audit portfolio in excess of 300 clients across the health and local government sector. We can use this wider experience to share practices across our client base as well as utilise our wider PS team on Audit Scotland audits where appropriate.



Commitment to the Public Sector and Public Sector Audit

- We have a UK wide Public Sector team, where we routinely share insights and practices across our client base
- We have a programme of dedicated public sector thought leadership publications and events including roundtables on topical/emerging issues
- We have a Government and Infrastructure Advisory team, within our wider Business Consultancy Practice
- We work across the UK with a number of partners including for example SOLACE (England and Wales); CIPFA; Society of Municipal Treasurers

2016/17 Performance Summary

Our external audits are undertaken in accordance with International Standards of Auditing (UK) and the Code of Audit Practice. A key document is the Audit Scotland annual planning guidance (2016/17) issued in October 2016, and this sets out a reminder of the Code areas and also specific deliverables required throughout the year for each of the Sectors we work in: Health, Local Government and Central Government. Below we set out how we have performed against the requirements set out in the planning guidance for 2016/17.

Local Government

Our Local Government clients are: Dumfries and Galloway Council; Highland Council; Dumfries and Galloway Integration Joint Board; Highland Pension Fund, Dumfries Pension Fund; SWESTRANS; HITRANS and the Highlands and Islands Joint Valuation Board.

For all, we submitted our audit plans to Members and the Controller of Audit by 31st March deadline. Our audit planning, delivery and reporting all incorporated wider scope as an integral part of the audit.

For all we signed the audit opinions by the deadline of 30 September 2017 and submitted our Annual Report to Members and the Controller of Audit by the 30th of September deadline.

All other Local Government grant claims, returns and progress report were made to Audit Scotland in accordance with the planning guidance.

This included: National Fraud Initiative returns; HB Count certification; Audit Scotland FAAC committee updates, Local Government minimum data sets and a 5 year best value plan.

All Whole of Government Accounts (WGA) returns were all submitted to HM Treasury and Audit Scotland by 30th September 2017.

Health

Our Health clients are: Scottish Ambulance Services; NHS Education Scotland; NHS Dumfries and Galloway and NHS Highland.

For all, we submitted our audit plans to Members and the Auditor General by the 28th February deadline. Our audit planning, delivery and reporting all incorporated wider scope as an integral part of the audit.

All audit opinions and Annual Reports to the Board and Auditor General were submitted to Audit Scotland by the 30th June 2017 deadline.

The summarisation spreadsheets and summary opinions were submitted to Audit Scotland and the Scottish Government by end of June 2017.

All other NHS returns for example the minimum data set were submitted to Audit Scotland in accordance with the planning guidance.

* We submitted signed copies of the financial statements to Audit Scotland by end of June. However, we submitted these to the Scottish Government at the start of July. This was due to an administration error on our side which is now diarised for 2017/18 audits to ensure we meet the deadline.

Central Government

Our Central Government clients are: SEPA; Accountant in Bankruptcy; OSCR, Care Inspectorate; Scottish Social Services Council; Scottish Canals; Loch Lomond National Park; Cairngorm National Park; Community Justice Scotland; and SAAS.

For all, we submitted our audit plans to Members and the Auditor General by the 28th February deadline. Where applicable, our audit planning, delivery and reporting all incorporated wider scope as an integral part of the audit.

The statutory deadline for signing the opinion on Central Government is 30 October 2017. For all our clients the opinion and financial statements were submitted to Audit Scotland before this deadline (between June 2017 and October 2017).

The Scottish Government consolidation return for two bodies were submitted after the deadline of 17 July 2017.

This was due to the date for this being omitted from the planning guidance and communicated to us via email instead. In addition, in the case of one body the returns were not prepared by the deadline to allow us to review the information compared to the unaudited 2016/17 accounts.

Non-audit services

We can confirm that during 2016/17 we did not provide any non-audit services to our Audit Scotland clients.

The fees we agreed with each individual client, reflected in our audit plans remained unchanged with the exception of the Dumfries and Galloway Integration Joint Board which was agreed with the Director of Finance and communicated to the Audit Committee.

All our audit fees for the 2016/17 audits were set in accordance with the fee guidance issued by Audit Scotland. All our fees were set at the base fee level.

In response to a request from Audit Scotland and one Client we performed additional audit procedures to investigate concerns raised around contract management at the client. The findings from our work have been reported to Audit Scotland and the client and we incurred an additional fee as set out under the planning guidance – correspondence.

Overview of our quality review arrangements

In accordance with our contract with Audit Scotland we have completed a return setting out our arrangements in compliance with international standards of quality control 1 (ISQC1). This was submitted to Audit Scotland by the required deadline.

As a firm we have a number of arrangements in place to ensure and demonstrate audit quality. These are summarised below, with further detail provided over each area in our UK Transparency Report:



Summarised in this section are specific aspects of our quality arrangements related to Audit Scotland and our 2016/17 audit appointments we would like to particularly emphasise.

National Audit Review (NAR) process

Each engagement leader is reviewed every 3 years. Joanne Brown as engagement lead has had a review in 2014/15 (A council - a previous Audit Scotland client), 2015/16 an English NHS Organisation as required under PSAA and 2016/17 one NHS organisation

Under our agreed arrangements an Audit Scotland client file will be reviewed annually by our independent national audit review team and will be reported back to Audit Scotland. Typically our NAR process takes place between October and December annually.

Our National audit reviews are undertaken by independent, experienced teams, using a standard methodology. These are under the instructions of the Audit quality monitoring team to ensure consistency.

Findings from these reviews are summarised and reported to the strategic leadership team annually. Findings from recent reviews relevant to our Audit Scotland contract are:

Client	Score	Comments
A Council (2014/15)	4 (out of a 1-5 scale with 5 being the best score)	This was under the previous NAR Scoring with equated to a 2a under the new scoring which is the same basis as the AQRT
An English Clinical Care Commissioning Group (CCG)	1	AQRT Scoring. Reason reflected here related to Joanne Brown as engagement leader.
An NHS Organisation 2016/17	Pass	The final categorisation is just being confirmed through our internal processes but is classified as a pass.

Quality review arrangements continued

External monitoring

As set out in our transparency report the Audit Quality team of the Financial Reporting Council (FRC) undertakes an independent inspection of the quality of the firms auditing function in relation to listed and other major public interest entities.

In addition the FRC also completes thematic reviews. In 2016/17 the FRC completed thematic reviews in respect of: root cause analysis; firms audit quality procedures; and use of data analysis in the audit of financial statements

The findings from this are set out in our report and lessons learned are shared with all staff and built into our training programmes.

Audit Quality Measures

We perform regular focused audit quality reviews under guidance of our National Assurance Support Team. The measures are updated every year to incorporate areas of focus from internal and external monitoring.

The review findings are communicated to the audit practice and the Firm's Senior Leadership Team. All AQM findings are shared with the Audit Scotland Public Sector Audit team on a regular basis and followed up by the Engagement Leader and the Engagement Manager to ensure lessons are being learned.

The findings from the Audit Quality Measures undertaken in the year are linked to the annual performance appraisal process for the Engagement Leader as well as the audit teams.

An engagement leader gets selected twice a year for 2016/17 there were two files subject to an audit quality measure review, both Central Government clients.

The findings from these reviews are shared with Audit Scotland and summarised as below:

Quarter 1 file review 2016/17 (A central government audit file selected) - score 9 out of 10

Lessons Learned: Ensure we specifically request the client's assessment of going concern and document this on our file. This related to client assessment and our audit work on going concern was considered satisfactory.

Quarter 2 file review through to December 2017 (A central government audit file) score 9 out of 10

Lessons Learned: In our preliminary analytics review as part of our planning work, ensuring we record management assessments of estimates against actual outcomes and the assessment on the accuracy of estimates. Then reflect any potential impact on our audit.

Also to ensure all team members when signing independence confirm they have read the planning team minutes if they did not attend the meeting.

Additional quality arrangements

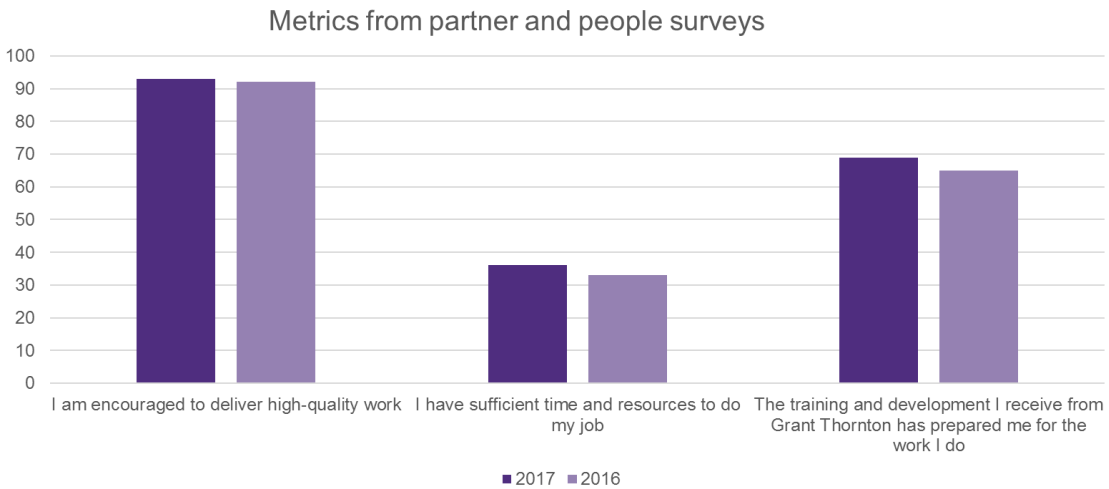
In addition, directly relevant to Audit Scotland 2016/17 appointments we would highlight:

- An NHS Client has an independent review partner due to the value of its annual expenditure and risk profile
- One of our pension fund audits have an independent review partner – The director who is our local government pension's expert nationally for our UK public sector team.
- Our housing benefit grant claim work (both Councils) were subject to a hot review
- We had a hot review of the financial statements for one NHS organisation
- Our Local government technical specialist reviewed one of our Local Government client accounts to support the de-cutting agenda
- Use of our public sector technical experts in our national technical team for specific technical auditing and accounting matters arising during the 2016/17 audits for example related to asset valuations.
- Contact with the Audit Scotland technical team on technical matters arising.

People indicators

Audit Quality is impacted by many different factors and can be difficult to define and measure. In 2014 we worked as part of the policy and reputation group (PRG) to agree a set of metrics in be included in transparency reports. This allows some compassion of activity in each area between firms and the opportunity to monitor performance over time.

We take regular pulse surveys of all our people. The results below (In our UK Transparency report) were as at June 2017:



We look closely at factors affecting these scores and are developing actions at a central and Scottish office level to address those issues. In particular we would highlight:

Time & Resources

- A continued focus on right people doing the right work at the right time
- Continued investment in audit technology for example LEAP software which will be used on our Audit Scotland audits from 2018/19
- Continue to look to improve our people experience including a focus on work/life balance and our balance of time on jobs which are further away from our Edinburgh/Glasgow offices.

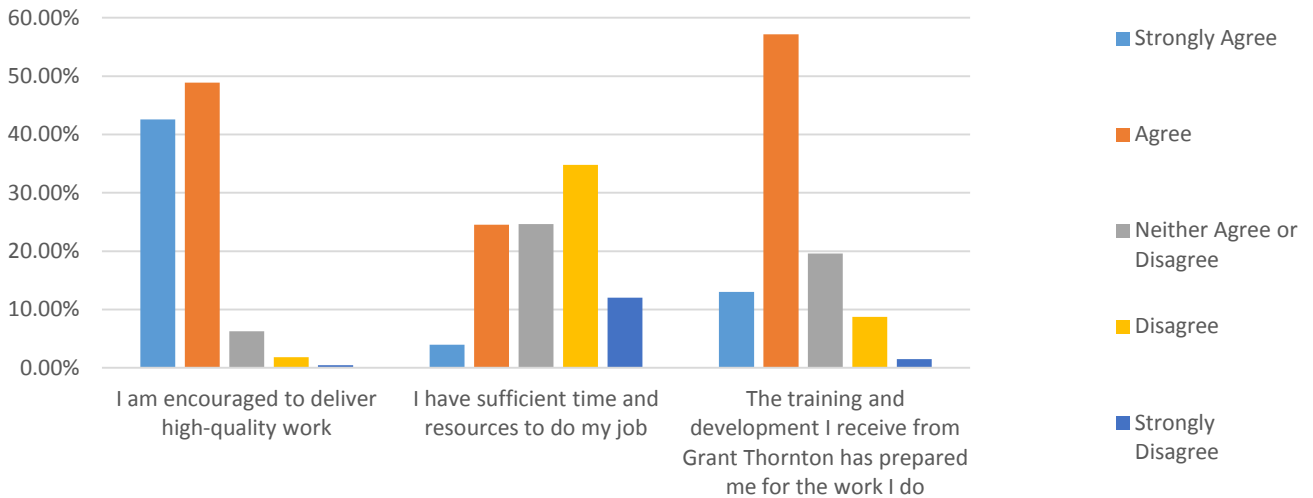
Training & Development

- We have updated our focussed learning pathways for people of all levels in audit as well as specific levels and sectors
- Further tailoring our learning programmes so that they are more relevant to the day to day work our people are doing
- General investment in our Business School and training programmes for all staff grades

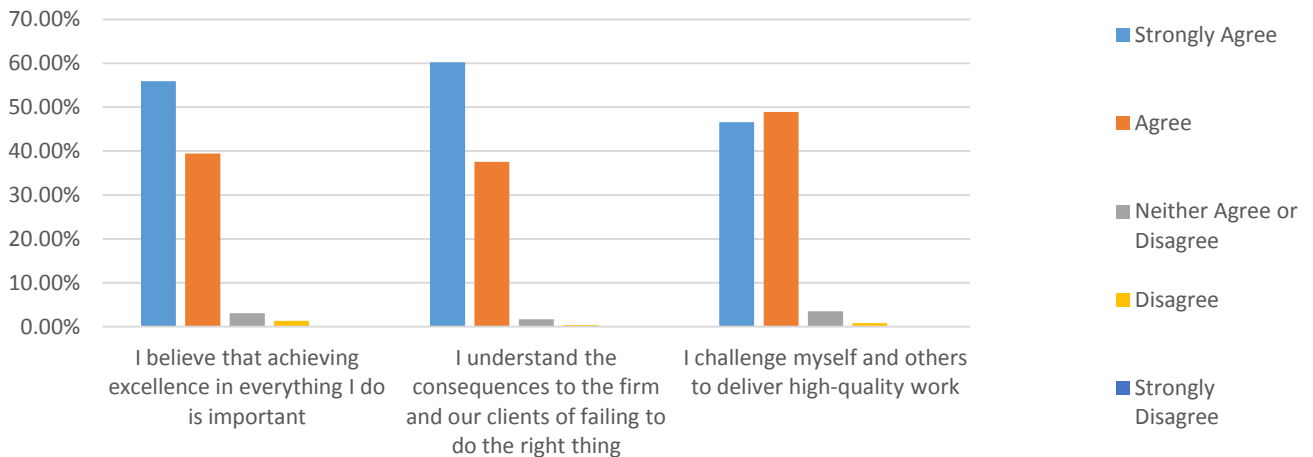
People indicators continued

On a quarterly basis we issue a firm wide pulse survey across all our teams. The last survey, as reflected in the UK Transparency Report covered quality arrangements. The last survey which was issued in December focused on our culture arrangements, but contained two standard questions which will apply in each pulse survey and can be used to measure trends over time – these are referred to as our Net Promoter Scores.

The data from the pulse survey can be cut into different regions so shown below is the data relevant to only Scotland Audit (which is made up of Commercial/Private Sector Audit and Public Sector Audit):



We also captured data related to three further questions as part of our June 2017 Quality pulse survey. Although not captured in our UK report we feel they are still valid and helpful to show in the context of this supplementary report:



People indicators continued

Training

All our trainees work towards achieving a professional qualification (ICAS/CIPA/ICAEW/AAT). On each individual client we consider the ratio on teams to qualified/part qualified. All teams are led by a qualified engagement leader, who is accredited to sign Public Sector Audit opinions under the firms quality arrangements. In addition, Joanne is registered as a Key Audit Partner and able to sign English public sector opinions, based on her experience.

Our teams are assigned to each client taking into account client risk profile; nature of our audit risks; significant areas of judgements within the financial statements and technical nature of those judgements.

As well as training towards a professional qualification we have a training programme which is built up taking into account role in audit and practical experience, and these are required training courses which attendance is monitored.

Additional in-year training includes:

- Public Sector Financial Reporting training day (mandatory for all in-charges and above) covering changes in financial reporting relevant to local government and health
- Quarterly Audit training which is run in Scotland for the Public Sector team as well as our commercial audit practice. This includes for example: Technical accounting standards; findings from quality reviews and/or other reviews; topical accounting and audit updates; audit methodology; ethics
- An annual 2 day audit conference for Managers and above focused on audit methodology. This training is the rolled out to all teams via a one day training course with a course assessment that is required to be passed
- Anti-Money Laundering annual training and annual ethics and compliance training
- ISA Modules and refresher training. So far there are 21 modules that all staff have completed. Each module includes an on-line assessment which a pass mark needs to be achieved and this is recorded.

Adding value

We aim to deliver a quality focused, efficient external audit which provides added value to our clients. In our tender submission to Audit Scotland we outlined a number of areas where over the five years of our appointment we planned to add value to either individual clients and/or directly to Audit Scotland.

Within our 2016/17 external audit plans we included a focus on added value, and set out how we planned to deliver this on an individual client basis.

As part of our audit debriefs/lessons learned sessions with individual clients we have reflected on how we can add further value over the appointment period, and what in particular clients would firstly consider added value, and how we can work with them to ensure we add value to the areas they want and how we do this in practice.

Set out below is a summary of our key tender commitments, how we have delivered on this during the 2016/17 audit process alongside future 2017/18 and beyond reflections.

Adding value through external audit

Bringing our wider perspectives

Using specialists on the audit

Efficient and effective audit – focused on areas of risk

Building relationships

What we said

Given our Audit Scotland portfolio spanning Health, Local Government and Central, Government, and our wider public sector client portfolio in Scotland and the UK we seek to bring wider perspectives to our clients, including sharing best practices, insights and emerging issues.

As a firm we continue to invest in software/data tools and have access to specialists which we engage their specific expertise on, particularly in respect of areas of management judgement and higher risk areas.

Learning from our work in England and Wales where the audit deadlines have been brought forward we will work in partnership with our clients to ensure an efficient audited founded on good project planning, clear and timely communication; and an agreed deliverables list in advance.

2016/17 was year 1 of our audit appointment. For us it is essential we build good open relationships and fully understand each individual clients organisation, governance arrangements, key personnel and business risks, alongside wider sector context.

What we have done

Examples of where we have done this for 2016/17 include: Elected Member training on external audit and the role of the Audit Committee and Local Government Financial Statements (Highland Council)

NHS Progress papers for the Audit Committee outlining sector developments and relevant Scottish Government publications (NHS Highland and NHS Dumfries and Galloway)

Sharing the wider Audit Scotland publications in year including the checklists for example the best practice examples in the NHS Annual Reports

A review of the Highland Council financial statements to support decluttering.

Sharing our wider GT thought leadership publications

A commercial income for LG roundtable for Scotland

We used our Technology Risk Services team of IT specialists to undertake our IT General Control environment testing. This resulted in, where applicable, separate letter's being issued outlining our IT control findings with recommendations for improvement which we will follow up on in 2017/18

For two Central Government clients we used our pensions specialist to look at the pensions assumptions (alongside the assurances from the PwC Report)

For all our clients with PFI/PPP Schemes we used our PPP expert to review the model and assumptions.

We sent out client deliverable lists in advance of our final audit work commencing. These however we more generic given year one audits and for 2017/18 will be better tailored to individual clients based on our learning from 2016/17

For all clients we agreed a project plan and key delivery dates. When these changed (client and/or us) we communicated and agreed alternative timescales. This is also a focus for continued improvement in 2017/18 in particular ensuring we meet all deadlines for Audit Committee papers and give Senior Management sufficient time to review our final report to the Board/Members/Accountable Officer.

We agreed with each individual client our key contacts for the audit and frequency of the meetings. In all cases we met with the Chief Executive/Accountable Officer at least once during the year.

We routinely met with the Director of Finance (or equivalent) throughout the year to discuss key areas of risk including for example: sector updates; financial position; future financial plans; and wider governance arrangements. We also met with all Audit Committee chairs at the start of our appointment.

We will continue to build on the relationships we have developed in 2017/18 and the overall good feedback we have received in this area.

Appendices

Focus on quality – lessons learned and future areas of focus

Lessons learned and future areas of focus

Our culture is of learning and development and we seek to continually review our quality arrangements to ensure we deliver high quality consistently across all our clients, including our clients under the Audit Scotland framework. Key areas of focus for the 2017/18 Audit Scotland appointments include:

Area	Lessons learned and focus for 2017/18 audits
Going Concern	Learning from our Quarterly Audit Quality Measures (AQM) file reviews we will continue to work with management to ensure that they provide going concern assessments which we will consider and fully document on our audit files.
Management judgements and estimates	As part of our preliminary analytical review procedures we will ensure we always follow up on managements assessments compared to actual values and record this on our file, and consider the implications for the 2017/18 audit. This was a finding from one of our Audit Scotland AQM file review in 2016/17.
Continued focus on professional scepticism	We will continue to focus in ensuring all our teams apply professional scepticism and that this is sufficiently documented and evidenced throughout the audit file.
Demonstrating we have listened to our clients feedback	As part of our client audit-debriefs/planning for 2017/18/Client feedback we have captured various actions including what went well and we should continue to do, and what we can do differently. This includes actions for the audit team as well as at an individual client level. Specific actions will be tracked by us during 2017/18 and are captured into individual team members assignment objectives so we can continue to enhance the audit experience for our clients.
Adding value to our clients	Our audit plans for 2017/18 reflect identified areas of adding value. We will ensure we deliver on these commitments and evaluate this through our client feedback. In particular we will actively share sector practices, topical areas of interest, emerging themes and relevant thought leadership publications in our client interactions and formal reports.
Actioning lessons learned through NAR/AQM other reviews	All AQM/NAR findings directly relevant to Scotland are shared in the form of an action plan. Teams will take these actions and track how they have addressed any deficiencies/documentation improvements on the 2017/18 work, which will be reviewed and signed off by the engagement leader.

Grant Thornton wide quality developments



- Our significant investment in our new audit platform and audit methodology (LEAP) will be launched during 2018, and apply to all our Audit Scotland audits from 2018/19.
- Further development of our Central Audit Services Team including public sector capabilities for example disclosure checklists and substantive testing abilities.
- Continuing to learn from our internal National Audit Reviews undertaken, including applying the lessons learned from the root cause analysis work undertaken.
- Learn from the findings of our external regulators which are routinely shared with our teams

What will this mean in practice for our clients



- Our new audit software will support us in ensuring audit quality whilst delivering an efficient audit – we will continue to make more use of data and automation
- Our central team undertaking, for example, disclosure checklists will ensure consistency and compliance with the relevant standards. This will allow our teams to continue to focus on audit risks and areas of judgement, and wider scope work.
- Sharing lessons learned continue to allow us to enhance quality, apply our work and documentation consistently across all our audit files.



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