ICAEW
REPRESENTATION 29/26

AUDIT SCOTLAND CODE OF AUDIT PRACTICE

Issued 27 March 2026

ICAEW welcomes the opportunity to comment on the consultation on a proposed new Code of Audit Practice published by Audit Scotland on 23 February 2026. A copy is available from this link.

We support a more proportionate assurance regime for smaller public bodies

- We accept that applying ISRE 2400 is an acceptable approach for assuring smaller bodies for the time being.
- A better long-term solution would be for the FRC to accelerate its consideration of the ISA for Less Complex Entities (LCEs), which we would then advocate ahead of ISRE 2400.
- We believe it is important to assure public money while avoiding excessive burdens.
- Testing of wider assertions should be considered, and all material items should be subject to some form of review.
- The Code should make it clear that any review undertaken using ISRE 2400 would not constitute an audit to avoid any confusion and manage users' expectations.

Audit thresholds should be more than purely expenditure-based

- We agree that a £6.5m threshold is a good starting point for identifying smaller bodies.
- The monetary threshold should consider both expenditure and income.
- Some small public bodies may still be complex and have high levels of audit risk.
- Underlying risk factors should be considered together with a monetary threshold.
- Public bodies should be able to opt to have a full external audit regardless of size.

Avoiding unintended consequences

- One-off 'lumpy expenditure' could see entities moving between assurance regimes unnecessarily if not addressed.
- There is ambiguity in the draft Code for how a 'small' body moves between assurance regimes.
- We recommend setting the monetary threshold on a rolling two-year basis.

1. ICAEW is a world-leading professional body established under a Royal Charter to serve the public interest. In pursuit of its vision of a world of sustainable economies, ICAEW works with governments, regulators and businesses and it leads, connects, supports and regulates more than 210,000 members and students around the world. 98 of the top 100 global brands employ ICAEW Chartered Accountants. ICAEW members work in all types of private and public organisations, including public practice firms, and are trained to provide clarity and rigour and apply the highest professional, technical and ethical standards.
2. ICAEW engages with policy makers, public servants, and others to promote the need for effective financial management, audit and assurance, financial reporting and governance and ethics across the public sector to ensure public money is spent wisely.
3. This response has been prepared by ICAEW's Public Sector team in consultation with ICAEW's Public Sector Advisory Group. ICAEW's Public Sector team supports members working in and with the public sector to deliver public priorities and sustainable public finances, including over 15,000 in ICAEW's Public Sector Community.
4. Our response to this consultation focuses on questions two to eight, surrounding the audit of smaller public bodies and assuring wider scope reporting areas.
5. We provided evidence on 29 January 2025 to the Ministry of Housing, Communities and Local Government's consultation on overhauling the local audit system in England, which discussed increases to the audit threshold of English local government bodies.
6. We provided evidence on 1 September 2025 to the Public Accounts Committee inquiry on accountability in small government bodies, where we referenced our support for the creation of a proportionate 'small body reporting regime'.
7. For questions on this submission please contact our Public Sector team at representations@icaew.com quoting REP 29/26.

KEY POINTS

WE SUPPORT A MORE PROPORTIONATE ASSURANCE REGIME FOR SMALLER PUBLIC BODIES

8. We support the introduction of a limited assurance regime using ISRE 2400 for smaller public bodies as set out in the proposed new Code of Audit Practice. However, a better long-term solution would be for the Financial Reporting Council (FRC) to accelerate its considerations of the standard designed for smaller entities – the IAASB's ISA for Less Complex Entities.
9. We also believe that it is important to assure public money while at the same time avoiding placing an excessive burden on smaller entities where transactions and balances are straightforward, and financial reporting risks and audit risks are not elevated.
10. We recommend that testing of wider assertions should be considered where appropriate. For instance, following the example of the assurance of smaller English local government bodies, where assertions such as fraud, non-compliance with laws and regulations, the adequacy of internal controls, or effective financial management, are tested on a rotational basis.
11. We have some concerns that some elements of ISRE 2400 are not reflected in the proposed Code of Audit Practice. ISRE 2400 requires the practitioner to design and perform enquiries and analytical procedures 'to address all material items in the financial statements, including disclosures,' and 'to focus on addressing areas in the financial statements where material misstatements are likely to arise.' It is not immediately obvious from review of the proposed Code that material items outside of expenditure, income, debtors, creditors, or cash balances would be subject to any kind of assurance procedure. Considering the potential for unidentified material misstatements should material items not be subject to some kind of assurance procedures, we believe that this should be reconsidered.
12. We acknowledge that taxpayers' money is not the same as shareholder capital when comparing small public sector bodies with SMEs in the private sector, therefore we prefer some form of assurance where we do not consider a full external audit to be proportionate to the underlying risks. However, the value of a limited assurance regime should not be over-stated and clear communication is required to ensure there is not an expectations gap by users of the accounts if they had previously relied on audited financial statements.

AUDIT THRESHOLDS SHOULD BE MORE THAN PURELY EXPENDITURE-BASED

13. While any threshold that might be chosen is arbitrary to an extent, we support the proposed £6.5m threshold as a reasonable point in the context of the Scottish public finances for determining what is or is not a smaller public body, for the purpose of deciding whether a full audit or a limited assurance review is more appropriate.
14. We believe the monetary threshold needs to consider both expenditure and income as there may be instances where a body has a high income and low expenditure or vice-versa. We think, subject to the one-off instances as discussed below, any public body with either income or expenditure above the threshold should not be classified as small.
15. It is important to note that some 'small' public bodies may still be complex and have high levels of financial and audit risk. One example might be the use of derivative financial instruments while others might include foreign investments, transactions in multiple currencies, the provision of banking, insurance or other financial services, commercial activities not usually seen in the public sector, a significant proportion of assets subject to valuation, or provisions for liabilities and charges with a significant degree of uncertainty.
16. Risk factors can also include concerns around regularity, fraud or the waste of public money, significant legal exposures, previous failures in controls over financial reporting or in wider financial controls, or reputational issues that have or may affect the public trust.
17. We believe that risk factors such as these should be considered in conjunction with the proposed monetary threshold before determining whether a limited assurance review is appropriate or that a full external audit is required.

18. In addition, we believe that small public bodies that fall below the monetary threshold and have no risk factors indicating otherwise may still have good reasons to opt for a full external audit. These might include governing documents stipulating it, the requirements of funds, or simply choosing to have an audit for good practice. We believe that the Code should therefore clarify that bodies are able to opt for a full external audit where appropriate.

AVOIDING UNINTENDED CONSEQUENCES

19. We note that one-off 'lumpy' items of income or expenditure could inadvertently see entities moving between assurance regimes unnecessarily. This could see public bodies that are small in previous years be required to undertake a full external audit because of a one-off item of income or expenditure that is not expected to recur, leading them to become small again the year afterwards.
20. Furthermore, there is some ambiguity within the draft Code of Audit Practice as to how bodies move between assurance regimes, with there being a suggestion in paragraph 182 that bodies may remain classified as a 'small' body throughout the five-year auditor appointment period. We do not support such a suggestion, as an organisations' risk profile, level of income or expenditure, structure, or underlying complexity could change drastically over a five-year period, ensuing that a limited assurance review engagement could be highly inappropriate.
21. Our suggestion for addressing the above possibilities is for there to be a two-year rolling approach to assessing the classification of public bodies as small or not. This would enable small public bodies to retain their 'small' status even if they breached the threshold for a single financial year, while ensuring that bodies with regular levels of public spending or income above £6.5m are subject to an appropriate level of assurance for an organisation of their size.

ANSWERS TO SPECIFIC QUESTIONS

Question 2: Do you agree that the standard on review engagements (ISRE 2400) is an appropriate standard for auditing smaller bodies? If not, what alternative do you suggest?

22. Yes, we agree that ISRE 2400 is an appropriate standard for providing assurance on the financial statements of smaller public bodies as it is specifically designed for limited assurance reviews of historical financial information. Please see paragraph 30 for a more appropriate long-term solution.
23. Other standards such as ISRE 2410 or ISAE 3000 would not be appropriate in the circumstances, as they apply to reviews of interim financial information or apply to information other than audits or reviews of historical financial information respectively.
24. Similarly, ISRS 4400 is only relevant to agreed-upon procedure engagements where no assurance opinion is provided by the practitioner, and we concur that public money should be subject to some level of assurance.
25. ICAEW Technical Release 09/13 on assurance review engagements of historical financial statements provides useful guidance to assist with compliance with ISRE 2400, also providing illustrative letters and reports to support such engagements.

Question 3: Do you agree that limited assurance is proportionate for auditing the accounts of smaller bodies? If you do not agree, what are your reasons?

26. We agree that limited assurance is proportionate for assuring the financial statements of smaller public bodies in Scotland as a short-term solution.
27. While external audit is one of the best ways in ensuring that the Scottish Parliament and the public are able to trust the numbers reported to them by public bodies in Scotland, we believe that there are circumstances where the level of effort and cost required to undertake a full external audit may be excessive in the context of the assurance gained.

28. Such an approach already applies for the assurance of English local government bodies who qualify as a smaller authority under the Local Audit and Accountability Act 2014. The act identifies a smaller authority as one where the higher of the authority's gross income or expenditure for the year does not exceed £15m, with the National Audit Office Code of Audit Practice in paragraph 6.5 setting out that the auditor of such a body should undertake a smaller authority limited assurance engagement.
29. A limited assurance engagement for smaller bodies can therefore provide a suitable balance where primary users of the financial statements still receive some assurance over the information reported, while the reporting entity avoids the burden of a full external audit.
30. However, a better long-term solution would be for the Financial Reporting Council (FRC) to accelerate its considerations of the auditing standard designed for smaller entities – the IAASB's ISA for Less Complex Entities, which provides a higher level of assurance (reasonable) while not being as demanding as applying ISAs in full.

Question 4: Do you agree with the proposed features of the review of the audited accounts for smaller bodies? If not, what alternative do you suggest?

31. Yes, we agree with the proposed features of the review of the financial statements of smaller bodies. However, we have some concerns that some important requirements of ISRE 2400 may not be reflected in the proposals.
32. First, paragraph 47 of ISRE 2400 requires the practitioner to design and perform enquiries and analytical procedures 'to address all material items in the financial statements, including disclosures,' and 'to focus on addressing areas in the financial statements where material misstatements are likely to arise.' From the proposals, it is not immediately clear whether material areas outside of income, expenditure, cash balances, debtors or creditors would be subject to any kind of assurance procedures.
33. Secondly, paragraph 48 of ISRE 2400 requires the practitioner to inquire of management around the identification of related parties, significant and unusual transactions, fraud and non-compliance with laws and regulations, and their assessment of the entity's ability to continue as a going concern. Again, it is not immediately clear whether auditors would be expected to assess these wider assertions as part of the audit of smaller bodies. As a minimum, we would expect for auditors to have to make inquiries for each assertion and undertake additional audit procedures where audit risks are identified.
34. Such an approach is similar to that of the approach taken for assessing wider assertions in small English local government bodies. As detailed by the National Audit Office's Auditor Guidance Note 02 Specified Procedures for Assurance Engagements at Smaller Authorities, where an authority is subject to an 'intermediate level review', auditors must test three of the ten identified assertions each audit year and ensure that all assertions are tested on a rotating basis. The list of assertions subject to testing can be found in Appendix 1 of Auditor Guidance Note 02.

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? If you agree, do you have any views on the appropriateness of setting the expenditure threshold at £6.5m? If you do not agree, what alternative for defining smaller bodies do you suggest?

35. While we agree that the expenditure of a body is a good starting point when setting an audit threshold, it is our view that monetary consideration should not be the sole criteria for defining smaller bodies. monetary threshold We believe that a threshold must also consider the underlying risks of the entity.
36. For instance, we consider that there should be an assessment of underlying risk factors that interplay with the entity's underlying expenditure (or income, as we discuss below). Such risk factors could be based around the financial sustainability of the entity, for example going concern risks, modified prior year audit opinions, regularity, fraud, legal or regulatory issues.

37. Applying a blanket threshold also ignores that some ‘smaller’ entities may have underlying complexities that could warrant a full external audit (e.g. particularly complex, unusual or significant transactions).

38. We recognise that the invitation to comment states that the Auditor General and Commission would have the discretion to require the ISAs to apply to a public body under the threshold, and that the above risk factors would likely be considered when applying such discretion, it would be clearer to users for the Code to provide example of such risk factors so that preparers and assurance provides can directly consider them in conjunction with any monetary threshold and be in a position to raise these with the Auditor General and Commission if they feel that a full audit would be warranted.

39. We agree that a threshold of £6.5m strikes a balance between appropriately assuring public money and avoiding placing an undue burden on similar bodies. We would not be supportive of the threshold being set at £15m in line with the threshold for private limited companies in the UK, as we believe that public bodies and public money should be subject to higher levels of scrutiny.

40. However, it would be more appropriate for the monetary threshold to consider the higher of expenditure or income of the entity in question, as there may be instances where an organisation has high levels of income and low levels of expenditure, or vice-versa. Therefore, any organisation with income or expenditure levels above £6.5m should not be considered to be ‘small.’

41. We also concur that the threshold should be set on a rolling two-year basis, where an entities income or expenditure must exceed £6.5m in two consecutive years. This would avoid entities moving between thresholds because of one-off ‘lumpy’ expenditure or income and ensure that entities are better prepared for the demands of an external audit. Entities who are at risk of moving between audit thresholds are also likely to need support in managing this transition effectively.

42. We note that there is some ambiguity in paragraph 182 of the draft Code, which states that ‘bodies will remain classified as a smaller body throughout the audit appointment other than in exceptional circumstances.’ We are unclear as to whether this means that bodies would not move between assurance regimes throughout the five-year audit appointment period, or simply within an individual financial year. We would not support the former as an organisations’ risk profile, level of income or expenditure, structure, or underlying complexity could change drastically over a five-year period, ensuing that a limited assurance review engagement could be highly inappropriate.

43. Finally, we also believe that smaller public bodies should be able to elect to have a full external audit if they deem this more appropriate to their circumstances. Similarly, we believe it would be appropriate for the Scottish Government, or the relevant local authority as appropriate, to be able to request that a full audit be carried out.

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

44. Yes, we agree that assurance standard ISAE 3000 is a more appropriate standard for the wider scope reporting areas specified in the Code. The standard is specifically designed to apply for subject matter other than historical financial information and therefore is better tailored for reviewing wider scope reporting areas than ISAs.

45. The other advantage of applying ISAE 3000 is that the standard is designed to be applied to both reasonable and limited assurance engagements. This therefore enables its use for auditors reporting a conclusion giving reasonable assurance for each of the wider scope reporting areas of ‘non-small’ public bodies detailed in Section 3 of the Code, and for auditors reporting conclusions giving limited assurance where this is applicable for smaller bodies as per Section 8.

Question 7: Do you agree with the proposals for reporting conclusions on the four wider scope reporting areas and Best Value for smaller bodies? If you do not agree, what are the reasons for your disagreement and what alternative do you suggest?

46. Yes, we agree with the proposals for reporting conclusions on the four wider scope reporting areas and Best Value for smaller public bodies.
47. We particularly agree with the requirement for auditors to continue reporting their conclusions on financial sustainability with reasonable assurance. We believe the financial sustainability of public bodies is paramount and there is a desire from stakeholders for more work to be done in this area.
48. Providing a limited assurance conclusion on the other wider scope reporting areas seems a proportionate response to the underlying risks at smaller public bodies.

Question 8: Do you agree that the definition of smaller bodies should be consistent for all elements of the audit? If you do not agree, what alternative do you suggest?

49. Yes, we agree that the definition of smaller public bodies should be consistent across all elements of the audit.

