

Chartered IIA response to the Consultation on Audit Scotland's Code of Audit Practice 2026

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

The Chartered Institute of Internal Auditors (Chartered IIA) welcomes the opportunity to respond to this consultation. The Chartered IIA is the professional body for internal auditors, representing over 10,000 professionals across the UK and Ireland, including within the public sector in Scotland. We advocate for good corporate governance, strong risk management and a rigorous control environment, leading to the long-term success of organisations. Internal audit makes a significant contribution to these aims.

We broadly agree with the draft Code of Audit Practice, including the proposed additional principles and we support the direction of travel they represent.

Paragraph 37 "Cooperation"

We welcome the inclusion of internal audit within the co-operation principle at paragraph 37, specifically the requirement for appointed external auditors to build effective coordination arrangements with internal audit. Unlike inspectorates and other external scrutiny bodies referenced in the co-operation principle, internal audit provides ongoing assurance on governance, risk management and internal controls. The explicit recognition of internal audit within the co-operation principle is a positive step in supporting a joined-up and coordinated approach to assurance between external and internal audit.

We advocate that internal audit has an open, constructive and cooperative relationship with external audit, characterised by regular communication and appropriate information sharing, and we welcome that the co-operation principle reflects this.

However, we suggest that paragraph 37, bullet point three, could be further strengthened and enhanced by using the following tweaked wording:

*"build effective coordination arrangements with internal audit, **maintaining an open, constructive and cooperative relationship**, and using the work of internal audit where, in the auditor's judgement and in line with professional standards, this is appropriate."*

As Audit Scotland develops the supplementary guidance that supports the co-operation principle, we would welcome the opportunity to engage on how the relationship between internal and external audit can be most effectively reflected in the guidance.

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

The Chartered IIA supports the proposed inclusion of references to sharing good practice in the Code. As internal audit provides ongoing assurance on governance, risk management and internal control throughout the year, external auditors would benefit from engaging with internal audit's findings when sharing good practice in these areas.

We would encourage Audit Scotland to consider, when developing any supplementary guidance in this area, how the good practice findings of internal audit could complement and inform the good practice sharing undertaken as part of the external audit process, ensuring the full assurance picture within an audited body is captured.

Question 18: Do you have any other comments?

The Chartered IIA welcomes the proposed new Code and the positive direction of travel it represents for public audit in Scotland, including the references to internal audit throughout. However, we wanted to highlight several additional points regarding internal audit in the proposed code and to suggest further wording edits for Audit Scotland to consider.

Paragraph 64 – Prevention and Detection of Fraud

The 2021 Code of Audit Practice recognised internal audit as a component of effective systems of internal control, which safeguard public assets and prevent and detect fraud, error and irregularities. This reference does not appear in the draft 2026 Code. Given internal audit's role in providing assurance over the effectiveness of an audited body's internal controls, including controls relating to the prevention and detection of fraud and error, we would encourage Audit Scotland to consider reinstating this reference in the updated Code.

For reference, the suggested revised wording for paragraph 64 could be:

*"Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption **through effective systems of internal control, including the use of internal audit assurance**, and to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place."*

Paragraph 69 "Internal Audit"

Paragraph 69 requires internal audit functions to comply with the Public Sector Internal Audit Standards. We can confirm that with effect from **1 April 2025**, the **Global Internal Audit Standards**, applied in accordance with the **Global Internal Audit Standards in the UK Public Sector Application Note**, supersede the Public Sector Internal Audit Standards across the UK public sector. We would strongly encourage Audit Scotland to update paragraph 69 to reference the Global Internal Audit Standards ahead of the proposed Code coming into effect for 2027/28 audits.

For reference, the suggested revised wording for paragraph 69 could be:

*"Audited bodies are required to establish **and maintain an independent** internal audit function as a support to management in maintaining effective systems of control and performance. The internal audit **function and programme of work are** expected to comply with the **Global Internal Audit Standards (in accordance with the Global Internal Audit Standards in the UK Public Sector Application Note)** and the requirements set out in the Scottish Public Finance Manual."*

Internal Audit should report into the audit committee or equivalent governance body. The Chief Audit Executive/Head of Internal Audit and other members of the team should be appropriately qualified."

Paragraph 75 – Internal Audit's Annual Opinion as an Evidence Source

Paragraph 70 of the Code requires external auditors to consider whether internal controls are operating effectively and whether governance arrangements are appropriate and effective in areas such as financial management and vision, leadership and governance reporting. Internal audit provides an annual opinion on precisely these matters within audited bodies. Paragraph 75 sets out the evidence sources external auditors should draw on when considering the four specified reporting areas highlighted in the Code. This includes the governance statement, previous audit work, national reporting by Audit Scotland, and the work of inspectorates and other scrutiny bodies. Internal audit's annual opinion is not included in this list.

While paragraph 75 includes a provision for any other evidence source auditors regard as necessary, we would suggest that internal audit's annual opinion warrants explicit inclusion rather than reliance on a catch-all provision. Given that paragraph 62 requires audited bodies to maintain a robust internal audit function, and that internal audit provides an annual opinion on precisely these matters within audited bodies, we would suggest Audit Scotland consider adding internal audit's annual opinion as a named evidence source in paragraph 75.

In addition, we would be happy to support Audit Scotland in developing the supplementary guidance on this area if that would be helpful.