

# Agenda

Wednesday 24 March 2021 at 10.00am

## By Teams

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1. Private meeting of Board members
  2. Welcome and apologies
  3. Declarations of interests
  4. Items to be taken in private For approval
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## Standing items

5. Chair's report – verbal update For information
  6. Accountable Officer's report – verbal update For information
  7. Accounts Commission Chair's report – verbal update For information
  8. Review of minutes:
    - Board meeting: 27 January 2021 For approval
    - Audit Committee meeting: 4 November 2020 For information
  9. Governance arrangements: Review of Standing Orders For information
  10. Review of action tracker For information
  11. Covid-19 update For information
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## Strategic priorities

12. Strategic improvement programme
    - Digital audit strategy For information
    - Digital services strategy For discussion
    - Digital services strategy For approval
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## Business planning, performance and governance

13. Operational budget 2021/22 For approval
  14. Q3 Financial performance report For information
  15. Q3 Corporate performance report For information
  16. Best Companies survey results For information
  17. Financial devolution and constitutional change update For information
  18. Corporate governance review of Board arrangements For approval
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19. Data protection policy

For approval

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## Conclusion

20. Any other business

21. Review of meeting

22. Date of next meeting: 19 May 2021

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## Items to be taken in private

23. New audit appointments update

[Item to be taken in private to support the effective conduct of business, commercial sensitivity)

For information/  
approval

24. Proposed equalities outcomes 2021-2025

[Item to be taken in private to support the effective conduct of business, intended for future publication]

For discussion

25. 2020 Stakeholder engagement report

[Item to be taken in private to support the effective conduct of business]

For information

26. 2020/21 Annual report

[Item to be taken in private to support the effective conduct of business, intended for future publication]

For discussion

# Minutes

Wednesday 27 January 2021, 10.00am

Audit Scotland by Video conference

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## Present:

Alan Alexander (Chair)  
Stephen Boyle  
Elma Murray  
Jackie Mann  
Colin Crosby

## Apologies:

There were no apologies.

## In attendance:

Diane McGiffen, Chief Operating Officer  
Martin Walker, Associate Director, Corporate Performance and Risk  
Fraser McKinlay, Director of Performance Audit and Best Value  
Mark Roberts, Audit Director, Performance Audit and Best Value  
Elaine Boyd, Associate Director, Audit Quality and Appointments  
Gayle Fitzpatrick, Corporate Governance Manager

## 1. Private meeting of Board members

The Board met privately and noted the resignation of Fraser McKinlay, Director of Performance Audit and Best Value and Controller of Audit. Stephen Boyle, Accountable Officer, advised of his intention to seek Board approval, in accordance with the Scheme of Delegation, to appoint an interim Director of Performance Audit and Best Value.

Following discussion, members noted the proposal to seek Board approval for an interim appointment.

**Action ASB128: Stephen Boyle to seek Board approval for the proposal to appoint an interim Director of Performance Audit and Best Value. (January 2021)**

## 2. Welcome and apologies

The Chair welcomed attendees to the meeting.

## 3. Declarations of interest

There were no declarations of interest.

## 4. Chair's report – verbal update

The Chair advised of the Scottish Commission for Public Audit (SCPA) session on 15 January 2021 to consider Audit Scotland's Spring Budget Revisions and 2021/22 Budget submission and members noted that the SCPA will come back to Audit Scotland with a decision on its budget in due course. The members noted that the Official Report of the meeting appears at item 14 of today's agenda. The Chair paid tribute to the work of colleagues on the preparatory information and support provided in advance of the meeting with the SCPA.

The Chair advised of regular scheduled meetings with Stephen Boyle, Accountable Officer, Elma Murray, Interim Chair of the Accounts Commission and Diane McGiffen, Chief Operating

Officer. In addition, the Chair invited members to note further engagement with Stephen Boyle following the resignation of Fraser McKinlay, Director of Performance Audit and Best Value.

The Chair also invited members to join him in congratulating Caroline Gardner, former Auditor General for Scotland, on the CBE awarded to her in the New Year's Honours list, and agreed to write a letter of congratulation to Caroline on behalf of the Board.

The Board welcomed the update.

## **5. Accountable Officer's report – verbal update**

Stephen Boyle invited the Board to note it had been a busy period since the last meeting of the Board on 25 November 2020.

Stephen advised of regular meetings with Elma Murray and with the Chair, reflected on the session with the SCPA during which Audit Scotland had set out the value of public audit and sought the Commission's ongoing support in light of the challenges faced during this and the next financial year.

Turning to Parliamentary business, Stephen advised of the publication of five Section 22 reports on NHS and Central Government bodies, subsequent briefings of the Public Audit and Post Legislative Scrutiny Committee (PAPLS) and that further evidence sessions were scheduled throughout January 2021. The Board noted the briefing to the Social Security Committee following the Section 22 report on Social Security Scotland.

Stephen advised of other Parliamentary engagement which had included meetings with the respective Convenors of the PAPLS Committee, the Health and Sport Committee and the Education and Skills Committee. Stephen invited members to note that committees are currently considering their legacy reports as Session 6 of the Scottish Parliament comes to a conclusion.

Stephen advised of other external engagements, including attendance at the Accounts Commission's Insight session which included Jim McCormick, the former Chief Executive of Joseph Rowntree Foundation who had presented on the impact of poverty in Scotland. Stephen also advised of introductory meetings with the Chief Executives of CIPFA, the Care Inspectorate and Scottish Futures Trust.

Stephen advised of formal engagement with the Scottish Government Executive team, Permanent Secretary and Directors General before the Scottish Government Audit Committee at the beginning of December 2020, prior to his signing of the independent auditor's report. Stephen also highlighted ongoing engagement with the other Auditors General from across the UK.

Stephen advised that he had participated in a Fraser of Allander webinar about public finances and had been interviewed by the Holyrood Magazine on his role as the Auditor General for Scotland.

The Board welcomed the update.

## **6. Accounts Commission Chair's report – verbal update**

Elma Murray advised of recent publications by the Accounts Commission including Digital Progress in Local Government, their first e-Newsletter for Councillors and Chief Officers across Scotland and the annual Local Government Financial Overview report which was published on 26 January 2021.

Elma advised that the Accounts Commission had met on 14 January 2021 and thanked Diane McGiffen for providing a briefing on Audit Scotland's organisational priorities. Elma advised that an extra meeting of the commission would take place on 28 January to discuss the Educational Outcomes draft report which is scheduled to be published in March 2021.

Elma invited the Board to note that the Commission members have agreed a Communications Plan for future engagement. In February 2021, as part of the Commission's Insight Programme, three third sector representatives will be speaking about their work with councils and the impact of the pandemic. Elma agreed to extend an invitation to this session to Stephen Boyle, Fiona Kordiak and any member interested in attending.

Elma advised that the Strategic Scrutiny Group had developed a workplan for 2021/22 that its next meeting would welcome Fiona Duncan, Chair of #ThePromise Oversight Board to discuss their work. She also invited members to note that Brian McNulty, Lead Inspector, HMICS would be chairing the operational group going forward with support from Audit Scotland.

Elma invited the Board to note that the Best Value Working Group will now meet every three weeks until the end of March 2021 with ongoing engagement and consultation meetings scheduled.

Elma also advised of other external engagement with SOLACE, CIPFA, Directors of Finance and Executive Committee and a meeting with Integrated Joint Board Chief Officers. In addition, Elma advised of a meeting with the Improvement Service Board and the intention to develop a partnership between the Accounts Commission and the Improvement Service which will focus on support for IJBs. Elma also advised of a meeting with the co-Chairs of the Shared Intelligence Hub run by Health Improvement Scotland and NES.

The Board noted the report on the European Charter of Local - Government (Incorporation) (Scotland) Bill and the potential constitutional implications for local government.

Following discussion, the Board welcomed the update.

## 7. Review of minutes:

### Board meeting: 25 November 2020

The Board considered the minutes of the meeting of 25 November 2021, which had been previously circulated.

The Board approved the minutes as an accurate record of the meeting. The Board noted the revised format of minutes, and Jackie Mann advised that she would adopt a similar style for future Remuneration and Human Resource Committee meetings.

## 8. Governance arrangements: Review of Standing Orders

Martin Walker introduced the Governance arrangements: Review of Standing Orders report, copies of which were previously circulated.

Martin invited the Board to consider the report and proposals to enable the public to access future Board meetings and for the Chair to record a short video summary of the Board meeting to be made available on the website thereafter.

The Board considered the process for managing public attendance at virtual meetings, the security of systems and the communication channels to be used.

Martin provided assurance around the digital security arrangements and management of attendees in relation to public and private items of business.

Following discussion, the Board welcomed the proposals and noted that longer term options for public meetings and engagement channels will be considered at the next meeting of the Board on 24 March 2021 as part of the wider review of governance.

**Action ASB129: Martin Walker to report on longer term options in relation to public meetings. (March 2021)**

## 9. Review of action tracker

The Board noted the updates provided on the action tracker.

The Board agreed that action ASB126 be discussed further under item 10, Strategic Improvement Programme update.

## 10. Strategic improvement programme update

*Fraser McKinlay, Director of Performance Audit and Best Value, joined the meeting.*

Martin Walker introduced the Strategic improvement programme update, copies of which had been previously circulated.

Martin invited the Board to note the update on the strategic improvement programme.

The Board considered the progress reported on the rolling work programme, developments on the new audit appointments (which would be considered at item 12 of today's item), developments on the building capacity workstream and the supporting recruitment campaign, the appointment of a project lead for the replacement electronic working papers system and noted that all colleagues had now migrated to a single time recording system. The Board noted the importance of the development of audit methodologies and the key role of digital to enable research, development and delivery of financial and performance audit. Martin Walker advised that the Digital Audit Strategy and the Digital Services Strategy were scheduled to come to the Board at its next meeting on 24 March 2021.

Looking forward, the Board recognised the challenges for Audit Scotland and agreed priorities and timelines will need to be monitored and adjusted where appropriate and members welcomed Fraser McKinlay's focus and contribution to the ongoing development of the programme.

In relation to action ASB126 referred to above, the Board agreed to explore the Public Audit in Scotland model and how this supports partnership review and future engagement with the Auditor General for Scotland and the Accounts Commission on key strategic objectives at its forthcoming workshop.

### **Action ASB130: The agenda for the forthcoming Board workshop to consider the Public Audit in Scotland model and partnership working. (March 2021)**

Following discussion, the Board noted the report.

*Fraser McKinlay, Director of Performance Audit and Best Value, left the meeting*

## 11. Implications of European Union withdrawal report

*Mark Roberts, Audit Director, Performance Audit and Best Value, joined the meeting.*

Mark Roberts introduced the Implications of European Union withdrawal report, copies of which had been previously circulated.

Mark invited the Board to note ongoing monitoring in relation to data sharing agreements between the UK and EU given the potential significant risks for public bodies, future developments around the EAFA audit work in terms of scope of work and funding arrangements, the ongoing monitoring of the Internal Market Act and how that will operate, the implications for Audit Scotland and the wider Scottish public sector workforce.

The Board welcomed the update and agreed that future reporting to the Board would be scheduled when specific updates are appropriate.

*Mark Roberts, Audit Director, Performance Audit and Best Value, left the meeting.*

## 12. New audit appointments update report

*Elaine Boyd, Associate Director, Audit Quality and Appointments, joined the meeting.*

The Chair introduced the New audit appointments update report, copies of which had been previously circulated.

The Chair invited members to note the progress reported, highlighted the overall improvement to the

project's risk profile and the imminent appointment of a new Project Manager, details of which would be confirmed shortly.

The Chair advised members that further consultation and market engagement was underway and procurement advice has been sought on the option to further extend the current audit appointments or proceed to tender. These will be considered at the Steering Group meeting on 17 February 2020.

The Board considered the proposed high level principles of a limited scope of audit for small and less complex bodies and the implications in relation to an ISA compliant audit and welcomed the sequencing of engagement with the Auditor General for Scotland and Accounts Commission prior to the Board being invited to consider the Steering Group's recommendation on the current audit appointments.

Following discussion, the Board welcomed the update.

*Elaine Boyd, Associate Director, Audit Quality and Appointments, left the meeting.*

### 13. Covid-19 update

Martin Walker introduced the Covid-19 update report, copies of which had been previously circulated.

Martin invited the Board to note the actions taken to date in respond to the Covid-19 pandemic, the ongoing actions and next steps.

The Board noted the latest data which indicate that infection rates were slowing, hospital admissions were stabilising and the rollout of vaccinations.

Members reflected on the continuing organisational pressures for Audit Scotland and its staff as they respond to the increased lockdown restrictions and recognised that despite this 96 per cent of the 2019/20 financial audits had been completed.

Following discussion, the Board welcomed the report and the regular communication and support for colleagues.

### 14. Scottish Commission for Public Audit: Official report

Diane McGiffen introduced the Scottish Commission for Public Audit: Official report, copies of which had been previously circulated.

Diane invited the Board to note the Official report from the virtual meeting with the SCPA on 15 January 2021 which considered Audit Scotland's Spring Budget Revisions and 2021/22 Budget submission.

The Board noted the commission's interest around Audit Scotland's property portfolio and pension arrangements and agreed that the Remuneration and Human Resources Committee would consider Audit Scotland's pension arrangements as required and asked Stuart Dennis, Corporate Finance Manager, to consider Audit Scotland's future property portfolio.

Following discussion, the Board noted the report and agreed that further consideration of Audit Scotland's medium and longer term fees and funding strategy was required.

**Action ASB131: Consideration of Audit Scotland's medium and longer term fees and funding model to be scheduled. (March 2021)**

## 15. Records management plan 2021-2026 report

*Gayle Fitzpatrick, Corporate Governance Manager, joined the meeting.*

Gayle Fitzpatrick introduced the Records management plan 2021-2026 report, copies of which had been previously circulated.

Gayle invited the Board to consider and approve submission of the new joint Records Management Plan on behalf of the Auditor General for Scotland, Accounts Commission and Audit Scotland to the National Records of Scotland by 29 January 2021.

The Board considered the annual review process undertaken of related policies and the two most recent ISO recertification audits which had resulted in no recommendations for improvement. The Board also noted the process for the confidential storage and destruction arrangements of documents while working virtually and welcomed further engagement by the Corporate Governance team with the Secretary and the Accounts Commission on governance matters.

Following discussion, the Board approved the updated Records Management Plan for submission to the National Records for Scotland by 29 January 2021.

Following discussion, the Board welcomed the report and approved the submission of the Records Management Plan to National Records of Scotland.

**Action ASB132: The approved Records Management Plan 2021-26 to be submitted to the National Records of Scotland. (January 2021)**

*Gayle Fitzpatrick left the meeting.*

## 16. Any other business

Diane McGiffen shared with members a summary of the annual stakeholder engagement survey which is scheduled to come to the Board at its meeting on 24 March 2021. The Board welcomed the summary and the positive assurance this provided in light of forthcoming Parliamentary changes and anticipated challenges for public audit in Scotland.

There was no further business.

## 17. Publication of papers

The Board considered and agreed the publication of the reports with the exception of item 12 (New audit appointments update report) due to the commercially sensitive information contained therein and item 15 Records Management Plan as this was due to future publication.

## 18. Review of meeting

The members welcomed the quality, content and comprehensive nature of the reports in supporting helpful consideration and detailed discussion.

The Chair thanked everyone for their contributions.

## 19. Date of next meeting: 24 March 2021

The members noted the next meeting of the Audit Scotland Board is scheduled for 24 March 2021.

# Minutes

## Audit Committee



Wednesday 4 November 2020  
By Microsoft Teams

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### Present:

Colin Crosby (Chair)  
Jackie Mann

### Apologies:

Elma Murray, Interim Chair of the Accounts Commission  
S Cunningham, Alexander Sloan

### In attendance:

A Alexander, Chair, Audit Scotland Board  
S Boyle, Accountable Officer and Auditor General for Scotland  
D McGiffen, Chief Operating Officer  
C Robertson, BDO  
T Barrie, BDO  
J So, Alexander Sloan  
M Walker, Associate Director, Corporate Performance and Risk  
G Fitzpatrick, Corporate Governance Manager  
S Dennis, Corporate Finance Manager  
E Boyd, Associate Director, Audit Quality and Appointments

### 1. Private meeting with BDO and Alexander Sloan

A private meeting was held with Audit Committee members, Alexander Sloan and internal auditors (BDO).

### 2. Welcome and apologies

The Chair opened the meeting, welcomed everyone and noted that there were no issues arising from the private meeting. Apologies were received in advance from Elma Murray.

### 3. Declarations of interests

There were no declarations of interest.

### 4. Minutes of the last meeting: 2 September 2020

The Audit Committee members reviewed the minutes of the meeting of 2 September 2020, which had previously been circulated.

The Chair invited any questions or comments.

Martin Walker, Associate Director, Corporate Performance and Risk advised that Elma Murray had submitted comments prior to the meeting for discussion. Elma sought clarification on the ownership of the risk register referred to in the minutes for 2 September 2020 meeting. Martin confirmed it was the Audit Scotland Risk Register and suggested a revision to the wording of the minute to clarify this.

Alan Alexander noted a reference within the minute to the meeting planned on 7 September 2020 with the Scottish Commission for Public Audit (SCPA), and updated Audit Committee on the productive nature of that meeting.

*The Audit Committee approved the minutes of the previous meeting.*

**AC114: Gayle Fitzpatrick, Corporate Governance Manager to revise the minute of 2 September Audit Committee meeting to reflect the ownership of the risk register referenced. (9 November 2020)**

## **5. Review of action tracker**

The Audit Committee members reviewed the action tracker, which had previously been circulated.

The Chair asked whether there were any questions or comments, and invited Gayle Fitzpatrick, Corporate Governance Manager to provide any additional updates.

Gayle advised that the tracker has been updated and was only for noting. Martin Walker, Associate Director, Corporate Performance and Risk noted there were no current outstanding actions pending those from this meeting.

*The Audit Committee members noted the progress on the actions in the tracker.*

## **6. Audit Committee terms of reference**

The Chair invited comments from members on the report, submitted by the Corporate Governance Manager, which had been previously circulated.

The Chair proposed that the Terms of Reference be reviewed by the Audit Committee annually rather than at every meeting. The committee agreed the proposal.

*The Audit Committee members reported they were content with the current version of the Terms of Reference and going forward agreed the Terms of Reference would be reviewed annually.*

## **7. Organisational response to the Covid-19 pandemic**

*Diane McGiffen, Chief Operating Officer, provided a verbal update on the organisational response to the Covid-19 pandemic.*

Diane advised that Audit Scotland is making good progress in completing this year's audits in the current adverse circumstances, though some audits would be delayed. She also advised that the Auditor General for Scotland had reviewed the draft rolling work programme, that this was the subject of engagement with Parliament and that the Accounts Commission would be reviewing and consulting on the draft programme soon.

Diane advised that the Spring Budget Revision and the 2021/22 draft budget were being progressed and that these would be considered by the Board at its meeting on 25 November 2020.

Diane also provided an update on how colleagues are coping during the pandemic. She advised that the regular 'pulse survey' results provided assurance on colleague wellbeing overall and also highlighted concerns and challenges from some colleagues. She confirmed that a number of colleagues are self-isolating due to reported cases in their children's schools. Diane also advised of positive feedback received at a recent PCS branch executive committee last week on Audit Scotland's response to the pandemic.

Diane confirmed that the offices will remain closed for the duration of 2020 and advised that the Covid-secure working group continues to refine the approach to providing limited access to the offices in the short term for a very small number of colleagues for business critical purposes. She also noted that this process continues to be complex and evolving in light of the tier system and changing rates of infection and that the position regarding offices would be reviewed by the Incident Management Team in December 2020.

The Chair asked about the approach to recruitment in the current environment. Diane advised that Audit Scotland would use a dynamic and flexible approach to attract the widest range of skills. She noted that twelve professional trainees had recently joined Audit Scotland, that recruitment continues to take place and that virtual working provides more flexibility as geographical location is less of a challenge it has been in the past.

Jackie Mann commented positively on Audit Scotland's response to the pandemic and noted that it was positive that future resourcing is being proactively considered alongside the potential impact of remote working.

Stephen Boyle, Auditor General for Scotland (AGS) and Accountable Officer, Audit Scotland noted that the impact of the pandemic was not equally felt across society and that this was reflected in the experience of Audit Scotland's colleagues. He advised that Audit Scotland is taking a considered, cautious approach considering all factors including the tier system in Scotland and associated restrictions, and that the situation remains under constant review. Stephen also highlighted the importance of relationships between line managers and their direct reports/teams.

Alan Alexander noted the complexity and dynamic nature of the current context and emphasised the importance of a consistent approach. The Chair agreed, and stated Audit Scotland should be ambitious for the future. Diane assured the Audit Committee that the organisation was preparing to be bold given the transformative operating context, and the future increased demands on Audit Scotland.

***The Audit Committee members noted the organisational response to the Covid-19 pandemic.***

## **8. Internal Audit report: Preparedness for changes to the Audit Scotland Board and to the Auditor General for Scotland**

*Claire Robertson, BDO, introduced the Internal Audit report, Preparedness for changes to the Audit Scotland Board and to the Auditor General for Scotland, copies of which had been previously circulated.*

Claire summarised the report, highlighting substantial assurance was found in both the design and operational effectiveness of processes reviewed, and noted that there were no recommendations for improvement.

Stephen Boyle, Auditor General for Scotland and Accountable Officer, Audit Scotland advised that the findings reflected his own experience of the processes and that he welcomed the conclusions contained within the report. Jackie Mann advised that the induction she had received to Audit Scotland was the most thorough she had encountered, despite this being during the pandemic.

The Chair asked whether it would be appropriate to have a follow up review with new members within six months of appointment and it was agreed that this could be included in the scope of the governance review scheduled for early 2021.

Alan Alexander noted the discussion and agreed to appraise within six months.

***The Audit Committee noted the internal audit report.***

**AC115: Gayle Fitzpatrick, Corporate Governance Manager to include the option for six-month review for new members in the scope for the forthcoming governance review. (November 2020)**

## 9. Internal Audit progress report: November 2020

*Claire Robertson, BDO introduced the Internal Audit progress report, November 2020, copies of which had been previously circulated.*

Claire advised that the reviews undertaken in 2020 had so far provided substantial assurance. She also advised that the audit on the Procurement of Audit Firms review had been postponed and that BDO were considering options for the replacement of this in the programme.

***The Audit Committee noted the internal audit report.***

## 10. Internal Audit recommendations progress report

*Gayle Fitzpatrick, Corporate Governance Manager, introduced the Internal Audit recommendations progress report, copies of which had been previously circulated.*

Gayle summarised the progress on the internal audit recommendations, and invited questions or comments.

The Chair requested that future reports include only actions completed since the last report. Gayle advised this would take effect in future reports.

***The Audit Committee noted the internal audit progress report.***

**AC116: Gayle Fitzpatrick, Corporate Governance Manager to reduce the scale of the Internal Audit Recommendations progress report to list only those actions included since the previous report (4 March 2021)**

## 11. Draft audit quality interim report

*Elaine Boyd, Associate Director, Audit Quality and Appointments, joined the meeting.*

Elaine Boyd, Associate Director, introduced the draft Audit Quality interim report, which had been previously circulated.

Elaine highlighted the positive progress made within performance audit over the course of the last two to three years. Elaine also noted the welcome introduction of electronic signature software, which provides the ability to remotely sign off on accounts, advising this had been invaluable given the current pandemic.

The Chair invited questions or comments.

Alan Alexander asked for clarification on when best value will be addressed in Integrated Joint Boards (IJBs). Elaine advised that this has been a developing area and that the Accounts Commission's Best Value Steering group had committed to confirming the approach by early 2021.

The Chair noted the risks the pandemic posed for audit quality and the importance of understanding the expectations of stakeholders of the organisation going forward. Diane McGiffen, Chief Operating Officer assured the Chair that this was being considered by the Leadership Group and was the subject of significant engagement with internal and external stakeholders.

Stephen Boyle, Auditor General for Scotland (AGS) and Accountable Officer, Audit Scotland also highlighted the challenges to the auditing profession more widely and referenced a recent report by the Financial Reporting Council (FRC) on local audit quality on England. Stephen assured the Audit Committee that Audit Scotland is in a stronger place than elsewhere in the UK with the Audit Quality framework which considers financial and public audit work. Stephen provided strong assurance that quality has remained a priority and that the results of the forthcoming internal and external quality reviews would be invaluable.

***The Audit Committee noted the draft Audit Quality interim report.***

*Elaine Boyd, Associate Director, Audit Quality and Appointments, left the meeting*

## **12. Q2 Financial performance report**

*Stuart Dennis, Corporate Finance Manager, joined the meeting.*

Stuart Dennis, Corporate Finance Manager, introduced the Q2 Financial Performance report, copies of which had been previously circulated.

The Chair invited questions and comments.

Alan Alexander highlighted the importance of ensuring that additional expenditure caused by Covid-19 is accurately quantified and clearly demonstrable.

The Chair suggested that Audit Scotland's time recording system (TRS) could be used to help quantify the impact of the pandemic and Martin Walker, Associate Director, Corporate Performance and Risk confirmed that TRS will assist with the provision of this quantitative data.

Martin Walker highlighted that Elma Murray had asked about how colleagues were adapting to new ways of working and the impact on audits. He advised that audit delivery is in a better position than was originally anticipated and that the lessons learned around delivering the audit in exceptional circumstances were being shared between teams.

Diane McGiffen, Chief Operating Officer advised a note of caution when looking to the challenges ahead. She noted that how the organisation has moved forward in the last six months might not be representative of the next six months. The delivery of remote audit and dealing with winter challenges may mean that significant challenges still lie ahead. Diane advised that all of these considerations are being factored in to planning.

***The Audit Committee noted the Q2 Financial report.***

**AC117: Martin Walker, Associate Director, Corporate Performance and Risk will respond directly to Elma Murray on the points raised. (11 November 2020)**

*Stuart Dennis, Corporate Finance Manager, left the meeting.*

## **13. Review of the risk register**

*Martin Walker, Associate Director, Corporate Performance and Risk, introduced the Review of the Risk register, copies of which had been previously circulated.*

Martin Walker provided an overview of the Risk Register noting the continuing impact of the Covid-19 pandemic, and highlighted risks relating to colleagues' health, safety and wellbeing, and on EU withdrawal.

Alan Alexander asked about the degree to which audit teams are notified of disruption within audited bodies and the consequential impact on the audit process. Martin advised that auditors are well sighted given strong communication channels established with audited bodies and that approximately 10% of audits may be subject to delay.

It was agreed that the risk management framework will need to be reviewed to consider the appropriateness of the risk assessment descriptors and risk appetite in the context of the external operating environment and the scale and duration of the virus suppression measures.

***The Audit Committee noted the Review of the Risk Register.***

**AC118: Martin Walker, Associate Director, Corporate Performance and Risk to review the Risk Management Framework. (March 2021)**

#### **14. Data incidents / loss report**

*Gayle Fitzpatrick, Corporate Governance Manager, introduced the Data incidents/loss report, copies of which had been previously circulated.*

Gayle Fitzpatrick highlighted that during quarter two there was one incident, which was an improvement on the previous quarter where seven incidents were recorded.

Gayle also advised the Information Commissioner's Office (ICO) had confirmed that no regulatory action was required as a result of the mitigating actions undertaken by Audit Scotland. This was in respect of a data incident previously reported to the committee in quarter one.

Alan Alexander asked how GDPR will operate after leaving the EU. Gayle advised that Audit Scotland is closely monitoring guidance from the government and the ICO as negotiations for the terms of how the United Kingdom exits the EU are still ongoing. Gayle advised that compliance with GDPR remains the default position and work was underway in relation to contractual clauses with suppliers in relation to data flows and data security.

***The Audit Committee noted the data incidents/loss report.***

#### **15. External auditor's independence objectivity and value for money**

*Gayle Fitzpatrick, Corporate Governance Manager, introduced the External auditor's independence, objectivity and value for money report, copies of which had been previously circulated.*

Gayle advised that the review provided positive assurance.

The Chair invited questions or comments, of which there were none.

***The Audit Committee noted the External auditor's independence, objectivity and value for money report.***

#### **16. Review of Audit Committee effectiveness**

*Gayle Fitzpatrick, Corporate Governance Manager, introduced the Review of Audit Committee effectiveness report, copies of which had been previously circulated.*

Gayle advised that the Terms of Reference for Audit Committee contain a commitment for Audit Committee members to undertake an annual self-evaluation process. She advised that the self-evaluation questionnaire had been reviewed and streamlined during 2019 in consultation with Audit Committee members.

Gayle asked the Audit Committee for their approval of the proposed timescales.

The Chair requested that the questionnaire be issued a week earlier to give a three-week window for completion.

***The Audit Committee noted the review of Audit Committee effectiveness report and agreed the revised timescales for the review.***

**AC119: Gayle Fitzpatrick to add one additional week to the response date for questionnaires and update the timeline of the Audit Committee Self-Evaluation Process. (9 November 2020)**

## 17. Any other business

There were no items of any other business

## 18. Review of meeting

The Chair invited those present to comment on the standard of the papers submitted and on the meeting itself.

***The Audit Committee members expressed satisfaction with the papers and the focus and pace of the meeting.***

## 19. Date of next meeting

The next meeting of the Audit Committee was scheduled on 3 March 2021, 10.00am via video conference, to be chaired by Colin Crosby.

The Chair thanked everyone for attending the meeting and for their participation.

## Purpose

1. This report provides the Board with an opportunity to review its governance arrangements and the Standing Orders in the context of the current Covid-19 pandemic.

## Background

2. On 16 March 2020 Audit Scotland's Incident Management Team initiated the Business Continuity Plan in light of the Covid-19 situation. Colleagues were advised to work from home with immediate effect and the offices were closed.
3. At its meeting on 25 March 2020 the Board agreed to temporarily suspend some of the standing orders. These were in relation to; meeting in public, the requirement for papers to be issued to members five days before the meeting and the publication of papers on the website in advance of meetings. The Board also agreed to keep the Standing Orders under review at each meeting.
4. At its meeting on 13 May 2020 the Board agreed that the temporary suspension of the standing orders in relation to the issue and publication of board papers were no longer required.
5. At its meeting on 27 January 2021 the Board agreed that public access to observe Board meetings would be made available using MS Teams with effect from 24 March 2021. In addition, it was agreed that In the Chair record a short video following the Board meetings to summarise the key items of business and decisions. These arrangements mirror those being used by the Accounts Commission.

## Options for extending access to public meetings

6. At its meeting on 27 January 2021 the Board asked that a range of options be explored to broaden access to public meetings.
7. Colleagues from the Accounts Commission support team, Communications and Digital Services are developing proposals to cover the livestreaming of meetings to support greater accessibility, openness and transparency.
8. In the short term the proposal will address the livestreaming of virtual meetings. We are aiming for this to be in place from May 2021.
9. The team is also developing proposals for the livestreaming of future 'face to face' and 'hybrid' meetings (where some participants may be attending the meeting remotely).
10. In developing the proposals, the team is considering a range of issues including:
  - Openness, transparency and accessibility.
  - Digital security, data protection and other regulatory requirements.
  - Service quality and functionality.
  - Delivery options, including outsourcing.
  - Financial/ resourcing implications and value for money.
11. We anticipate that the proposal will be available in June for discussion by the Accounts Commission and the Board.

## Review of other governance arrangements

12. At its meeting on 25 November 2020 the Board agreed the scope of a focussed review of some aspects of its governance arrangements.
13. This review took place in February and March 2021 and the review report is on the agenda for today's meeting.

## Recommendations

14. The Board is invited to:
  - Agree that the variations to the Standing Orders are kept under review and considered at each Board meeting until further notice.
  - Note the development work on live streaming virtual meetings and a proposal for extending the access to face to face and hybrid meetings.

REF	FORUM	Agenda Item No	Item Title	Action Description	Meeting Date	Due Date	Responsible	Assigned to	Complete/Ongoing	Reported Yes/No	Progress Notes
ASB126	Board	12	Strategic improvement programme	A meeting to be scheduled with Elma Murray, Diane McGiffen and Martin Walker to discuss an update on the Strategic Improvement Programme with the Accounts Commission. (December 2020)	25/11/2020	Dec-20	Diane McGiffen	Diane McGiffen	Complete	No	A meeting took place on 7 January 2021 and a verbal update provided to the Accounts Commission on this and related matters at its meeting on 14 January 2021. A SIP update report is item 12 on the agenda for today's meeting.
ASB128	Board	1	Private meeting of Board members	Stephen Boyle to seek Board approval for the proposal to appoint an interim Director of Performance Audit and Best Value. (January 2021)	27/01/2021	Jan-21	Stephen Boyle	Stephen Boyle	Complete	Yes	The recruitment and selection process concluded w/c 08/03/21.
ASB129	Board	8	Governance arrangements: Review of Standing Orders	Martin Walker to report on longer term options in relation to public meetings. (March 2021)	27/01/2021	Mar-21	Martin Walker	Martin Walker	Ongoing	No	An update is provided in the report at item 9 on today's agenda.
ASB130	Board	10	Strategic improvement programme update	The agenda for the forthcoming Board workshop to consider the Public Audit in Scotland model and partnership working. (March 2021)	27/01/2021	Mar-21	Martin Walker	Martin Walker	Ongoing	No	The process is outlined in the report at item 12 on today's agenda.
ASB131	Board	14	Scottish Commission for Public Audit: Official report	Consideration of Audit Scotland's medium and longer term fees and funding model to be scheduled. (March 2021)	27/01/2021	Mar-21	Diane McGiffen	Stuart Dennis	Ongoing	No	Work is underway and an initial report is scheduled to come to the Board in May 2021.
ASB132	Board	15	Records management plan 2021-2026 report	The approved Records Management Plan 2021-26 to be submitted to the National Records of Scotland. (January 2021)	27/01/2021	Jan-21	Gayle Fitzpatrick	Gayle Fitzpatrick	Complete	No	The Records Management Plan was submitted to the National Records of Scotland on 29 January 2021.

## Purpose

1. This report provides an update on Audit Scotland's response to the Covid-19 pandemic. It summarises the current position and the implications for Audit Scotland as an organisation and for the audit work.
2. The situation is changing rapidly, and a verbal update will accompany this report.

## Background

3. The Board considered a Covid-19 update report at its meeting on 27 January 2021.
4. Since then there have been significant developments and the situation remains extremely dynamic.
5. Strict suppression measures have been in place in January, February and March in response to the new variants. At the same time significant progress has been made on the vaccination programme. As at 11 March 1,825,800 first and 141,433 second vaccinations had been administered in Scotland. There are early indications that this is having a significantly beneficial effect on transmission, illness, hospitalisation and mortality rates.
6. On 23 February 2021 the Scottish Government published a revised Covid-19 Strategic Framework which sets out the conditions and planned next steps in responding to the pandemic and easing the suppression measures.
7. The Scottish Government has indicated that more detail will be set out on 16 March 2021, including the order in which parts of the economy will reopen, the use of geographic tiers and the restrictions which may apply to these.
8. The Incident Management Team (IMT) continues to meet on a weekly basis, Covid-19 remains a standing item on the agenda for Management Team and the Board and regular updates have been issued to all colleagues and Board members.
9. The Incident Management Team will be holding a lessons-learned review/stocktake session on 23 March 2021.

## Organisational implications and responses

10. On 25 January we published an updated version of [Covid-19: What it means for public audit in Scotland](#). This paper restated our principles and approach following the reintroduction of significant restrictions in Scotland. It also provided an update on progress on the financial and performance audit programmes, and how we are assessing the pandemic's impact on public bodies and reviewing the Scottish public sector's response.
11. The disruption continues to impact on productivity and this and other cost pressures mean that the financial situation is also challenging, this was reflected in a Spring Budget revision and the 2021/22 budget bid to the Scottish Commission for Public Audit (SCPA).
12. The SCPA considered the spring budget revision and the budget bid at its meeting on 15 January 2021. On 19 February 2021 the Scottish Commission for Public Audit (SCPA) published its [report](#) recommending approval by the Finance Committee.
13. The Stage 3 Budget Bill was passed by Parliament at its meeting on 9 March 2021.

## Our people

14. From the start of the pandemic we have prioritised the health, safety and wellbeing of our colleagues. This continues to be a key priority. We have worked hard to support colleagues who are currently all dispersed, working from home and juggling sometimes quite difficult home and work responsibilities.

This support has taken a variety of forms, including regular communications and engagement, advice and guidance, access to systems and the provision of digital and office equipment.

15. While we have been successful in minimising the impact of the pandemic on the audit work (see 'audit implications and responses' section below), it is clear that the effort involved has taken its toll on colleagues and there is a sense of some 'organisational fatigue'. This was compounded by the new variant, rising infection rates and the second lockdown which has further disrupted people's work and home lives. There have been indications that colleagues with children have been experiencing more challenges in balancing their work and home-schooling responsibilities as both the provision and the expectations around remote learning have increased compared to the first lockdown.
16. More recently, the phased re-opening of schools and the new strategic framework are providing colleagues with increased signs of optimism.
17. Since the last update:
  - No new colleagues have tested positive for Covid-19 since the last update and fewer than five colleagues are currently shielding. Two colleagues are absent due to persisting Covid-19 symptoms.
  - The sickness absence statistics show that there has been a decrease in the number of colleagues who are absent, but an increase in total absence days compared to the same period last year, this is mainly attributable to a small number of longer-term absence cases.
  - An analysis of the time logged by colleagues to the C-19 business continuity time recording codes tells us that 2,373 days have been logged to this code since March 2020. This equates to an average of 7.9 days per FTE over a one-year period.
  - A major capacity building recruitment project is under way and we have received over 200 applications, interviews will take place over the coming weeks
  - The development of the integrated people strategy is progressing, and this is scheduled to be finalised in March 2021.
  - The annual Best Companies survey was carried out in February and Management Team considered the high-level results at its meeting on 9 March 2021.

### Digital and office equipment

18. We continue to support people with home working. To date we have issued 332 items of digital equipment to 228 colleagues. These items have mainly been screens, keyboards and mice. The total cost to date has been £21,546, an average of £87.69 per colleague who has needed equipment.
19. Colleagues can gain secure access to Audit Scotland systems via their own devices and we have also issued/replaced laptops for 67% of the workforce and anticipate 87% coverage by early May.
20. We have also issued 308 items of office equipment to 234 colleagues. These items have included desks, chairs, footrests, and some items have been issued from existing stock in the offices. The number of requests received each week is now down to one or two items. The total cost to date has been £15,226.87, an average of £65.07 per person who has needed equipment.

### Office accommodation

21. The Audit Scotland offices have been closed with effect from 17 March 2020 and we expect this to be the default position for some weeks to come.
22. On 23 February 2021 the Scottish Government published a revised Covid-19 Strategic Framework which sets out the conditions and planned next steps in responding to the pandemic and easing the suppression measures. This, and the outcome of the planned reviews and associated revised guidance, will inform our approach to providing access to the offices. Substantial planning has already taken place on this and in the coming weeks we will review and update our risk assessment, re-survey colleagues on their expected working arrangements, engage with our external health and safety adviser and PCS and update the guidance for colleagues.

23. Management Team will review the position at its Covid-19 lessons learned review session on 23 March 2021.

## Financial management

24. We continue to monitor the financial situation very closely. The focus on the 2019/20 financial audits and the consequential impact of the delayed start to the 2020/21 audits has had an impact on income recognition. Provision was made for this in the 2020/21 Spring Budget Revision (SBR) submitted to the SCPA.
25. On 19 February 2021 the Scottish Commission for Public Audit (SCPA) published its [report](#) recommending approval by the Finance Committee. The Stage 3 Budget Bill was passed by the Parliament at its meeting on 9 March 2021.
26. In terms of the current cash flow position, we invoiced the first fee instalment for the 2020/21 chargeable audits in January. This totalled £5.7 million. To date we have received payments of £3.9 million leaving an outstanding balance of £1.8 million and we expect that payment of all outstanding invoices will be fully received by the end of the financial year.

## Audit implications and responses

27. To date we have prioritised our statutory audit obligations and, in consultation with the Auditor General for Scotland and the Accounts Commission, paused/re-scheduled areas of audit work where we have more discretion. We have also been clear that we will do what is achievable, but that cannot guarantee all deadlines can be met. This is due to the disruption in audited bodies as well as to Audit Scotland. We have also been clear that, while timescales may change, audit quality remains an absolute priority and is even more important at times of significant disruption.
28. Extended audit timetables were implemented for NHS and local government bodies for the 2019/20 audit year. The deadlines for the laying of central government bodies' accounts in the Scottish Parliament and for Further Education colleges remained unchanged.
29. Progress on delivering the 2019/20 has been impressive in the circumstances and all of the audits are now complete. This is testament to the commitment and professionalism of colleagues and those in the audited bodies.

Sector	Deadline	No. audits	No. completed by deadline	% complete by deadline	% complete now
NHS	30/09/20	23	20	87%	100%
LG – councils	30/11/20	32	27	84%	100%
LG-IJBs	30/11/20	30	29	97%	100%
LG-joint boards	30/11/20	32	29	91%	100%
LG-pension funds	30/11/20	11	11	100%	100%
Central Government	31/12/20	75	75	100%	100%
Further education	31/12/20	21	14	67%	100%
		225	205	91%	100%

30. On 14 January 2021 the Accounts Commission published [Digital Progress in Local Government](#). This highlighted that councils need to respond to Covid-19 has increased the pace at which Scotland's 32 councils are delivering services through digital technology. The Commission also noted that greater collaboration, use of shared expertise, citizen engagement and strategic planning are needed, however, to fully realise the potential of digital technology.
31. Covid-19 featured prominently in the [Local Government in Scotland: Financial Overview](#) and the [NHS in Scotland 2020](#) overview reports which were published on 26 January and 17 February 2021 respectively. The latter in particular received extensive coverage and featured prominently in Parliamentary sessions.
32. On 24 March we published [Tracking the implications of Covid-19 on Scotland's Public Finances](#). This was supported by a [blog](#) by the Auditor General for Scotland.
33. Covid-19 features in the Local Government [Annual Assurance and Risk report](#) being considered by the Accounts Commission at its meeting on 11 March 2021.

34. Publications scheduled for March include the report on Educational Outcomes and case studies on the e-Hub relating to digital responses to Covid in local government.
35. The rolling work programme has been updated in consultation with the Auditor General for Scotland and the Accounts Commission. The Public Audit and Post Legislative Scrutiny Committee discussed the draft programme at its meeting on 14 January 2021. The Accounts Commission is consulting with stakeholders in the early months of 2021 and the programme is scheduled to be published in the Spring of 2021. The proposed programme includes audits on the economic and fiscal consequences of Covid-19, Public service adaptation in response to Covid-19, the equality impact of Covid-19 and Governance and accountability (including fraud, error and litigation).
36. The Auditor General for Scotland has responded to feedback from the Public Audit and Post-legislative Scrutiny Committee (PAPLS) and the Parliamentary Committees on his priorities and is planning to update the public on his priorities via a blog in March. The Accounts Commission is currently consulting with its key stakeholders, with a final paper going to the April Accounts Commission meeting. A joint programme will be published following these events. Planning is underway to move away from an annual update and approval process to a more flexible and agile approach.
37. We continue to monitor the discussions taking place in relation to the timing of the Scottish Parliamentary elections currently scheduled for May 2021. Any change to the election date, and the associated publication moratorium will have an impact on the publication schedule.

## Next steps

38. The experience of dealing with the pandemic to date has demonstrated how flexible and resilient Audit Scotland is as an organisation. As we move beyond the 'response phase' we are keen to learn from what this phase has told us and harness and build on the innovation, creativity and flexibility to develop new ways of working. This has informed our refreshed Strategic Improvement Programme which was considered by the Board at its meeting on 25 November 2020. The most recent update report was considered by Management Team at its meeting on 2 March 2021 and will be considered by the Board at its meeting on 24 March 2021.

## Recommendations

39. The Board is invited to:
  - note the actions taken to date in respond to the Covid-19 pandemic
  - note the ongoing actions and next steps.

## Purpose

1. This report provides an update on the Strategic Improvement Programme. It outlines proposals for the governance of the programme and, specifically, the refresh of Public Audit in Scotland, and it presents the Digital Audit Strategy for discussion and the Digital Services Strategy for approval.

## Background

2. The Board considered a report on the Strategic Improvement Programme (SIP) at its meeting on 25 November 2020. The report noted that Scotland's public services are facing greater challenges than at any point since devolution, that the pandemic has brought significant increases in public spending, with corresponding public and Parliamentary interest in how this money is being spent. In this context, high quality, independent public audit is more important than ever.
3. The key objectives of the Strategic Improvement Programme are to:
  - drive our organisational transformation and improvement over the next 18 months
  - provide a bridge between the 'recovery phase' and our new longer-term operating model
  - assure and inspire our colleagues
  - ensure we deliver on our core commitments on audit (quality, focus, methodology and value added)
  - ensure we deliver on our commitments on how we run the organisation – being people focussed by prioritising the health, safety, wellbeing and development of our people, and by being innovative and efficient.
4. The most recent SIP update report was considered by the Management Team and the Board at their meetings on 19 and 27 January 2021 respectively.
5. All projects now have project leads in place and we have made good progress in a number of areas. A more detailed list of the projects in the programme is attached at appendix one.

## Delivering world class audit – What we do

6. The new draft rolling work programme will set out the priorities, themes and subject areas of the performance and overview audits for the years to come. The Auditor General for Scotland has responded to feedback from the Public Audit and Post-legislative Scrutiny Committee (PAPLS) and other Parliamentary Committees on his priorities and is planning to share those more widely via a blog in March 2021. The Accounts Commission is currently consulting with its key stakeholders, with a final paper going to the April Accounts Commission meeting. A joint programme will be published following these events. The Auditor General for Scotland, the Accounts Commission and Audit Scotland are committed to moving away from an annual update and approval process to a more flexible and agile approach, reflecting the more volatile and uncertain operating environment.
7. The development of the new approaches to best value auditing in councils and Integration Joint Boards (IJBs) is progressing well, under the direction of the Accounts Commission's BV Working Group. Consultation is underway with IJBs and we are on track to include a high-level description of the new approaches in the new Code of Audit Practice.
8. The New Audit Appointments Steering Group met on 17 February 2021 to discuss its position on the duration of the current audit appointments and the next steps on the development Code of Audit Practice. The Steering Group agreed to recommend that, barring further unexpected changes, current audit appointments are not extended beyond 2021/22.

9. The Audit Quality and Appointments (AQA) team is currently reviewing the feedback on the draft Code of Audit Practice and targeted engagement is underway. An updated version of the Code will be shared with the Steering Group in the week commencing 22 March 2021. The Code is scheduled to be approved by the Auditor General for Scotland and the Accounts Commission in June 2021.
10. On 17 December 2020 Management Team considered the final draft of the Digital Audit Strategy. This will develop our approach and capacity to harness digital technology in delivering and reporting audit work. The strategy is appended to this report for discussion at the Board today.
11. Scoping work is under way for the One Organisation Deployment project. A draft scope for consultation will be in place during March/April.

## Being a world class organisation – How we work

12. The 2021/22 budget submission provides for capacity building to help meet our increased audit responsibilities and support organisational resilience and improvement. On 19 February 2021 the Scottish Commission for Public Audit (SCPA) published its report recommending approval by the Finance Committee. The Budget Bill was approved by Parliament on 9 March 2021.
13. The building capacity workstream has made significant progress. The recent recruitment campaign is the first step in our wider work to develop our capacity and skills as an organisation, so we can meet the needs of public audit in Scotland in the future. The campaign went live on 22 January 2021.
14. The campaign has used some different approaches to encourage applicants from a wide a range of backgrounds and to emphasise our support for flexible working and opportunities for people who do not live in Scotland. Interviews have been taking place in March and we expect to make somewhere between 7-10 appointments at various auditor grades.
15. On 17 December 2020 Management Team approved the Digital Services Strategy. This is designed to ensure that we maximise the use of technology to support core service delivery and new ways of working. The three key strands are cyber security, virtual business and digital transformation. The strategy is appended to this report for approval.
16. On 23 February the Scottish Government published a revised Covid-19 Strategic Framework which sets out the conditions and planned next steps in responding to the pandemic and easing suppression measures. This, and the outcome of the planned reviews and associated revised guidance, will inform our approach to providing access to the offices. Substantial planning has already taken place on this and in the coming weeks we will review and update our risk assessment, re-survey colleagues on their expected working arrangements, engage with our external health and safety adviser and PCS and update the guidance for colleagues. Management Team considered an equality impact assessment on hybrid working at its meeting on 2 March 2020.

## Our purpose

17. The key project under this workstream is the refresh of [Public Audit in Scotland](#). Public Audit in Scotland, published in 2015, is a high-level strategic statement by the Auditor General for Scotland, the Accounts Commission and Audit Scotland which sets out the purpose and principles of public audit, why public audit matters, and the respective roles of the three partners. It also sets out some common themes that were of particular relevance at that time, particularly new financial powers.
18. A review of Public Audit in Scotland, and the partnership working agreement underpinning it, will provide an opportunity to clearly articulate the role of public audit in the new operating environment. The proposal is that the refresh will be carried out by the Auditor General for Scotland, the Accounts Commission and Audit Scotland between now and Summer 2021.
19. The refresh will be informed by a number of scheduled events and processes including:
  - the Board development sessions (April and May)
  - the Accounts Commission strategy seminars (April)
  - engagement with the Auditor General for Scotland (April)
  - confirmation of the forward work programme (April/May)

- the new Code of Audit Practice (June).
- 20.** The refresh will also be informed by specific engagement sessions as agreed. More detailed planning is required with the key parties to agree the process, and to align the production of the various strategies and publications over the summer period.
- 21.** In turn, this will inform the new Audit Scotland Corporate Plan. The plan will draw from all of the above and articulate how the Strategic Improvement Programme will deliver on the commitments in the plan. The plan will also be informed by engagement with colleagues, with a view to publishing the new Corporate Plan in July 2021.

## Programme governance, reporting and resourcing

- 22.** The programme governance arrangements are designed to ensure that appropriate governance is in place, while retaining sufficient agility and flexibility to support innovation. We are committed to engaging with the AGS, Accounts Commission, the Audit Scotland Board and colleagues, as well as key external stakeholders, throughout the development and implementation of the programme. Each individual workstream will have its own arrangements for governance and engagement.
- 23.** The Management Team is the Programme Board. Its main role is to oversee the programme as a whole and in doing so:
- approve project scopes, business cases and budgets, where appropriate
  - make decisions regarding prioritisation and resources where required
  - consider quarterly programme updates as part of scheduled Management Team meetings
  - approve outputs/deliverables, where appropriate.
- 24.** Martin Walker is the Programme Lead and accountable to Management Team for the delivery of the overall programme. Martin is supported by project/workstream leads who are responsible for the delivery of the individual projects and will report to the Programme Board as appropriate. The Programme Board and the Audit Scotland Board will, as a minimum, receive quarterly updates on the progress of the Programme. In addition, we will agree specific arrangements with the Auditor General for Scotland and the Accounts Commission for projects in which they require a greater level of engagement.
- 25.** The Strategic Improvement Programme operates on a number of different levels. Some projects are more strategic in nature while others are more operational. The approach to engagement will reflect these different levels.
- 26.** Some of the projects require the direct involvement of, and approval by, the Auditor General for Scotland and the Accounts Commission, for example:
- The refresh of Public Audit in Scotland and the supporting partnership framework agreement as outlined above. These will be approved by the Auditor General for Scotland, the Accounts Commission and the Audit Scotland Board.
  - The new Code of Audit Practice and the New Audit Appointments (this includes the Commission's Best Value Working Group and the New Audit Appointments Steering Group). The Code is approved by and the audit appointments are made by the Auditor General for Scotland and the Accounts Commission.
  - The updated rolling work programme – where the Auditor General for Scotland and the Accounts Commission are consulting with stakeholders and agree the programme.
- 27.** Beyond those projects, the Auditor General for Scotland, the Accounts Commission and the Audit Scotland Board will have varying levels of involvement in other projects. Some of these are very operational and will require only regular reporting, and others will require a greater degree of consultation and involvement. We will agree these approaches on a case by case basis, being mindful of the workload and pressures on the Auditor General for Scotland, the Accounts Commission and Board members.

28. Following the SCPA session on the Spring Budget Revision and the 2021/22 Budget proposal, the Convenor wrote to request updates on a quarterly basis on how the additional budget allocation is being spent. The format and content of these quarterly updates is being developed and the first one will be submitted in July 2021. Clearly, there will be internal reporting to Management Team and the Board before being submitted to the SCPA.
29. The current suppression measures continue to present challenges to our organisational capacity, in terms of both audit delivery and the improvement programme. We continue to prioritise the health, safety and wellbeing of colleagues and audit quality and this will inform the prioritisation and resourcing decisions. In turn, this may result in changes to some elements of the Strategic Improvement Programme and the timing of development work. The vaccination rollout and latest infection data and the new 'Covid-19 routemap' offer signs for optimism, but the impact of the suppression measure will continue to be felt for some time.
30. Fraser McKinlay is providing additional strategic capacity on the SIP before his departure in mid-April. That involves working with colleagues across a range of workstreams, ensuring that the governance arrangements for the programme are clear and well understood by all the key stakeholders, particularly the Auditor General for Scotland, the Accounts Commission, the Audit Scotland Board and Audit Scotland colleagues.
31. In particular, Fraser is:
  - Working with Martin Walker to develop an approach to the refresh of Public Audit in Scotland and the supporting partnership framework, for agreement by the Auditor General for Scotland, the Accounts Commission and the Audit Scotland Board (as outlined above).
  - Working with the HR&OD team, along with Audit Services and Performance Audit and Best Value people leads, on the development of the people agenda, including an integrated people strategy, to ensure it underpins the development and delivery of the SIP.
  - Supporting the communications team to ensure that the communications and engagement plans are fully established to support the development and delivery of the programme.
32. In addition, Fraser will continue to provide advice and guidance on other workstreams of the SIP, as appropriate in the time available.

## Programme communications and engagement

33. The communications team has produced a high-level SIP communications and engagement strategy, as well as branding and core messaging for use across the programme itself and its constituent projects and workstreams. This includes informing colleagues of the SIP and its purpose and providing regular high-level updates, engagement across the organisation on key themes and areas, and ensuring consistent and clear messaging and branding across all projects. The SIP was launched internally on the 11 March 2021.
34. Communications will also support SIP governance and programme integration through facilitating a forum for the various project leads to communicate and ensure consistency.

## Recommendations

35. The Board is invited to:
  - note the progress update on the Strategic Improvement Programme
  - discuss the outline plan for the refresh of Public Audit in Scotland
  - discuss the updates on governance, reporting and resourcing and on communications and engagement.
  - provide feedback on the Digital Audit Strategy and approve the Digital Services Strategy.

## Appendix 1

24 March 2021

### Summary of Strategic Improvement Projects



#### Our purpose

- Review, redefine and clearly articulate the purpose, role and value of Public Audit in Scotland and the supporting Partnership Framework

#### What we do

- New Code of Audit Practice
- New Audit Appointments
- Update of the rolling work programme
- Audit methodology (financial audit, approach to BV in councils, IJBs, approach to less complex bodies) and audit outputs
- Digital auditing
- Electronic Working Papers system
- One organisational deployment (audit resources)

#### How we work

- Integrated people strategy ((how we work, workforce plan, learning & development))
- Building capacity (including ongoing recruitment campaigns)
- Medium term financial plan (including fees and funding)
- Digital Services Strategy
- Business Management System
- Workplaces (short term Covid secure working, medium term estate strategy)
- Internal communications

# Digital Audit Strategy: update

# Vision

To deliver world-class audit, we will:

- use the **best available digital tools** for all forms of audit
- provide **assurance about all public bodies' IT environment** on a risk assessed basis
- be able to use **a suite of audit tools** from any location
- **make as much audit data digitally available as possible** to the public
- be **trusted and transparent** about how we use data and digital technology.

We will be able to do this by the next, but one, audit appointment round/code of audit practice.

# Main areas of activity

Digital audit	Auditing digital	Capacity
<ul style="list-style-type: none"><li>• Audit analytics</li><li>• Automation of documentation and processes</li><li>• Govtech /UK collaboration</li><li>• Governance</li></ul>	<ul style="list-style-type: none"><li>• IT general controls and digital and cyber environment</li><li>• Performance audit work programme</li><li>• Dashboards</li></ul>	<ul style="list-style-type: none"><li>• Central team</li><li>• New skills</li><li>• Training</li><li>• Infrastructure</li></ul>

# Digital audit

Area	Action to date	Future intentions
Audit analytics	<ul style="list-style-type: none"> <li>• 25 audits (39% of audits over £30k) using GLiQ or analytics</li> <li>• Stabilising infrastructure/models. Move to using R</li> <li>• User surveys and focus groups</li> <li>• Joint working with Professional Support on journal definition</li> </ul>	<ul style="list-style-type: none"> <li>• Create user friendly dashboards</li> <li>• Roll out ledger analytics tool for next appointment round taking a self-service approach</li> <li>• Audit sampling (with Professional Support)</li> <li>• Bring financial data into data warehouse (or equivalent)</li> <li>• Work with MKI replacement project</li> </ul>
Automation of documentation and processes	<ul style="list-style-type: none"> <li>• Creation of document comparison, audit certificate creation and text scraping/document analysis tools</li> <li>• Joint work with professional support on audit approach/ A03 workbook.</li> </ul>	<ul style="list-style-type: none"> <li>• Continued development and testing of existing tools.</li> <li>• Scope audit evidence/cluster monitoring documentation tool</li> <li>• Work with audited bodies to identify data requirements and characteristics</li> </ul>
GovTech/UK collaboration	<ul style="list-style-type: none"> <li>• Supported appointment of two suppliers to Small Business Research Initiative programme (GovTech replacement) (NIAO led)</li> <li>• Bi-monthly meetings on specific topics</li> <li>• Code sharing</li> <li>• Joint training sessions (e.g. PowerBI)</li> </ul>	<ul style="list-style-type: none"> <li>• Support phase 2 of SBRI</li> <li>• Joint (cross-agency) teams for purchase to pay project and audit evidence</li> <li>• Continued sharing of code and joint training sessions</li> </ul>
Governance	<ul style="list-style-type: none"> <li>• Data governance sub group (data analytics core, Corporate governance and DSG)</li> <li>• Liaising with UK agencies</li> </ul>	<ul style="list-style-type: none"> <li>• Data governance framework</li> <li>• Build into AMF/audit approach</li> </ul>

# Auditing digital

Area	Action to date	Future intentions
IT general controls and digital and cyber environment	<ul style="list-style-type: none"> <li>• Early analysis and work with Professional Support re ISA 315 requirements</li> <li>• Discussions with other audit agencies and firms about their approach</li> <li>• Discussions with SG about changes to requirements for public bodies, and timings</li> </ul>	<ul style="list-style-type: none"> <li>• Set workplan for IT senior manager to manage project (jointly with PS)</li> <li>• Agree a plan to meet new ISA 315 requirements and deliver it</li> <li>• Introduce a new overall approach for classifying audited bodies in terms of digital risk and audit work required. For next change of audit appointments.</li> </ul>
Performance audit work programme	<ul style="list-style-type: none"> <li>• Use of digital advisory panel as a sounding board</li> <li>• Good impact and influence with audit outputs to date</li> <li>• Good communication across teams and clusters of risks and issues.</li> </ul>	<ul style="list-style-type: none"> <li>• Considering potential for topic-based audits, rather than sectoral approach</li> <li>• Strengthening input into audits across the work programme</li> <li>• Refreshing digital advisory panel membership and expanding stakeholder relationships to boost AS' digital profile</li> </ul>
Dashboards	<ul style="list-style-type: none"> <li>• Worked with NHSO, LGO, Scottish Exchequer audit teams to build initial dashboards to consider potential</li> <li>• Worked with digital services and Comms colleagues on the technology and their use.</li> </ul>	<ul style="list-style-type: none"> <li>• Invest in the infrastructure needed to support dashboards</li> <li>• Help more colleagues gain the skills needed to build and maintain dashboards</li> <li>• Work further with Comms on use of dashboards by public</li> </ul>

# Capacity

Area	Action to date	Future intentions
Central team	<ul style="list-style-type: none"> <li>• Successful appointment of a manager to build and manage team</li> <li>• Sharing of information and intelligence – less 'single person' risk</li> <li>• Regular team meetings and use of appropriate tech to keep up-to-date and allocate tasks</li> <li>• Linked into Digital Services</li> </ul>	<ul style="list-style-type: none"> <li>• Boosting capacity in specific skill areas (eg data engineering) to support work of team</li> <li>• Work across the organisation on managing budget requirements and spending</li> <li>• Creation of sub teams (of auditors) to help design and test future tools</li> </ul>
New skills	<ul style="list-style-type: none"> <li>• Working with colleagues to create more skills for dashboards</li> </ul>	<ul style="list-style-type: none"> <li>• Trainees – develop existing skills</li> <li>• Graduates – different scheme</li> <li>• Specialist skills/student placements</li> </ul>
Training	<ul style="list-style-type: none"> <li>• New training hub created</li> <li>• Creation of training videos</li> <li>• 5 Datacamp licences in use</li> </ul>	<ul style="list-style-type: none"> <li>• Creation of a data analytics pathway</li> <li>• Drop in sessions/coding clubs</li> <li>• Work with ICAS on potential changes to graduate training programme</li> </ul>
Infrastructure	<ul style="list-style-type: none"> <li>• Reviewing code for existing products to ensure efficient</li> <li>• Researching new software and trialling new products (eg Rshiny Studio)</li> <li>• Creating a more sustainable infrastructure to build out new and existing tools</li> </ul>	<ul style="list-style-type: none"> <li>• Cloud based</li> <li>• Further develop data warehouse and expand use</li> </ul>

# Digital Services Strategy

2021 – 2024

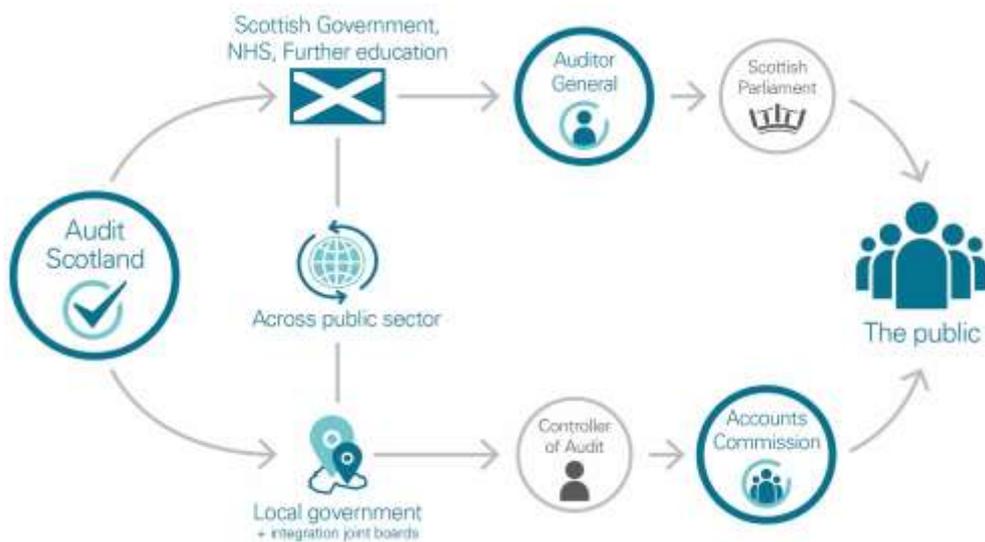


Prepared by Audit Scotland  
December 2020

## Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General for Scotland is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General for Scotland, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



## About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General for Scotland and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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# Introduction

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**1.** This Digital Services strategy aims to ensure that Audit Scotland:

- has the digital skills and technology to help drive changes in the way we work, particularly in areas such as digital audit, team-working and communications
- has the digital resources, capacity and support needed to support the growth we need to make to meet our changing and expanding responsibilities and role
- can take full advantage of the significant opportunities to shape our contribution to Scotland and for our workforce to shape their careers and working lives
- enables all colleagues to work safely, effectively and sustainably, and are able to fully participate in the organisation whatever their preferred working patterns
- provides the resources and working opportunities that continues to attract high quality candidates and retains excellent people.

**2.** The world in which we work has changed. The Covid-19 pandemic has significantly altered many aspects of the public sector and will have a lasting impact. It has also changed how we work and our understanding of how we operate. In that context, we need to make major changes as an organisation to what we do and how we do it in all aspects of our operations, to ensure we are able to meet our changing and growing role and to take advantage of the many opportunities to reshape our purpose, our work and our organisation.

**3.** This extraordinary situation is the primary driver for the 2021-24 Digital Services Strategy. The strategy aims to ensure that all our digital systems and services will support our strategic programme of changes and will enable all colleagues to deliver high quality work and have rewarding careers regardless of their physical locations or working patterns.

**4.** This strategy is designed to integrate with the Digital Audit Strategy and support the delivery of the Strategic Improvement Plan and the Corporate Plan's strategic objectives.

## Consultation

**5.** As well as reacting to the changing environment we operate in, we also need to understand our colleagues' needs and the priorities for developing our systems and services. We consulted with representatives from all business functions and conducted companywide lightning surveys to better understand what our colleagues needed from a new Digital Services Strategy. The results and findings of this consultation are available in here [in appendices 2 & 3](#).

**6.** We also reviewed technology roadmaps for what new systems and services are expected to become available in the next two years, alongside expert predictions on how work would change as a result of Covid-19.

**7.** We will continue to work with the Accounts Commission to develop an approach which delivers the services they need and maintains the high digital security standards required.

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# Strategic objectives

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8. The three new strategic objectives of the 2021-24 Digital Services Strategy are detailed below.
9. They seek to ensure that all the digital systems and services we will deliver will provide an environment that is independent of location, where colleagues can work safely, securely and effectively, while supporting high quality audit work.
10. They redefine our previous digital services strategic goals of resilience and innovation into three new compact and accessible strategic objectives.
11. Each strategic objective is designed to be clear and measurable, informed by feedback from meetings with all areas of our business and the results from a series of all staff polls.
12. Each strategic objective considers the external factors and business needs that it seeks to address and sets out granular milestone objectives that will be used to measure its success.
13. Each objective is also designed to support the delivery of the Strategic Improvement Plan, the Corporate Plan and integrate with the Digital Audit Strategy.

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## Digital Services Strategic Objectives for the period 2021 to 2024

- **Enhance our Cyber Security** – We will continue to improve the safety of our online and remote work environments, ensuring cyber security is a priority and embedded in everything we do.
- **Provide the systems and services for a Virtual Business** – We will ensure all our digital systems and services are resilient, dynamic and independent of location by 2024.
- **Digital Transformation** – We will provide the digital tools, skills and training resources to allow colleagues to work smarter together while working remotely.

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14. The Digital Services Management Team (DSMT) will report quarterly to the Knowledge Information, Technology and Governance Group (KITGG) on progress on the milestone objectives and we will publish a progress update every six months.

## Enhancing our cyber security

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**15.** We will continue to improve the safety of our online and remote work environments, ensuring cyber security is a priority and embedded in everything we do.

**16.** The external factors that drive this objective are set out below:

**16.1.** Lockdown restrictions have limited physical businesses, they have also limited physical criminal activity resulting in greater transition to cybercrime. During 2020 the National Cyber Security Centre (NCSC) has reported a 33% increase in the number of victims of cyber-crime activity with around a quarter related to coronavirus.

**16.2.** The NCSC are also reporting a 300% increase in reported ransomware incidents with successful ransomware attacks against some English councils resulting in significant financial damage and preventing normal business function for many months.

**16.2.1.** Cyber criminals are adapting their attack methods. Rather than preventing access by encrypting data, criminals are stealing it and threatening to leak the most sensitive parts publicly using Data Protection fines as a form of ransom.

**16.2.2.** Cyber criminals are increasingly using phishing techniques to access a network and remain hidden, searching looking for specific sensitive or valuable data before deciding whether to encrypt or steal it then demanding a ransom.

**16.3.** Colleagues are currently working from home, with most interaction occurring virtually through video meetings, file, screen sharing and email. These changes to how business functions are being actively targeted by cyber criminals looking to exploit any vulnerability to generate income.

**17.** The business needs that drive this objective:

**17.1.** Our Lightning poll told us that 70% colleagues wanted even higher levels of cyber security.

**17.2.** Focus Group feedback – colleagues understand the need for Cyber Security and see the effects of weak cyber security in other business. However, they find the limitations it imposes frustrating and would like clearer guidance and safe environments to allow them to work safely and effectively.

**18.** Our milestone objectives to enhance our cyber security are:

**18.1.** Implement immutable cloud backups for our critical services – We will procure and configure cloud services that allow us to make one-time backups of all our critical data ensuring that it can never be overwritten or encrypted, significantly mitigating the threat of a successful ransomware attack.

**18.2.** Deliver enhanced endpoint protection and remote management of all our devices – We will deploy software and services to all our devices to allow remote management, rapid vulnerability patching together with advanced threat monitoring and real time malware scanning.

**18.3.** Deploy remote management of all apps that store or manage our information – We will instigate services to control apps that store or process our information on both corporate and colleagues' personal devices allowing us to restrict or prevent activity that could result in successful cyber-attacks or result in an information or ransomware breach.

**18.4.** Protect our controlled and personal data wherever it resides – Together with the Corporate Governance team, we will introduce sensitivity labelling which will restrict the high-risk activity for personal and controlled information reducing the risk of a ransomware breach.

**18.5.** Implement a 'least permissive' model for all services, enable sandboxing and attack surface reduction by default – We will review all existing systems and services as well as ensure all new systems and services only provide the functions they need to and only after successful authentication, access the other systems that are essential to those functions.

**18.6.** Provide active and automated threat hunting with forensic logging together with risk-based threat monitoring and cloud behaviour analysis – We will implement automated services on both our physical network and our cloud services that look for, and alert us on any unauthorised network behaviour indicative of a ransomware intrusion. We will also instigate forensic logging to enable us to track and undo any successful malicious activity.

**18.7.** Partner with a Cyber Incident Response partner for escalation of critical incidents – We will engage a NCSC approved Cyber Incident response partner to provide us with on call expert skills and services to manage any active cyber-attacks as well as supply specialist technical audit and incident preparedness training.

**18.8.** Maintain ISO 27001 certification – We will maintain our ISO 27001 Information Security certification and require that all suppliers requiring access to Audit Scotland information, systems and/or premises are also ISO 27001 certified.

## Providing the systems and services for a virtual business

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**19.** We will ensure all our digital systems and services are resilient, dynamic and independent of location by 2024.

**20.** The external factors that drive this objective:

**20.1.** The 2020 pandemic and resulting lockdown restrictions have demonstrated how essential it is that our colleagues are able to work safely, securely and effectively from any location. We must maintain our colleague's safety and business effectiveness regardless of possible future biological, environmental or political changes.

**20.2.** The United Nations classify Climate Change as 'the defining issue of our time and we are at a defining moment'. Reducing the distance colleagues are required to travel to complete their work reduces our carbon emissions.

**20.3.** The core principle of our Time Place & Travel guidance is that 'work is something that we do rather than a place we go to' and we need to provide appropriate devices, systems and services to facilitate this.

**20.4.** If colleagues choose to work from different locations and at different times our systems and services need to become:

**20.4.1.** More resilient - no longer reliant on a single location or network for service or support.

**20.4.2.** More dynamic - able to scale up to deliver performance at peak times but scale down when not needed to reduce our carbon emissions and reduce cost.

**20.5.** With such a significant change in working locations our existing workspaces need to become more versatile adapting to the needs of new ways of working while maximising the safety of our colleagues.

**21.** The business needs that drive this objective are:

**21.1.** Our Lightning poll told us that:

- 38% of colleagues wanted MS Teams to be the default meeting type, 58% wanted Teams for meetings with remote colleagues and clients but would still engage in local face to face meetings and 4% wanted to revert to all meetings being physical face to face.
- 51% of colleagues run Teams on a laptop while 38% of colleagues use Teams on a mobile device, 9% use Citrix and 2% would like a dedicated Teams device.
- 71% of colleagues will use Teams for meetings but still use email for internal communication. 19% will use Teams as their primary method of internal communication and 10% would like to use Teams for both internal and external communication.
- 58% of colleagues have or wish to have Audit Scotland laptops to work on while 11% wish to use Chromebooks. 31% would like to use their personal devices when working from home but of that 31% of respondents 56% would want an Audit Scotland laptop to work at clients.
- 49% of colleagues were content to use a mobile phone to make and receive external telephone calls, 37% wanted to use MS Teams for telephony and 14% wanted to continue to use desk phones when in the office.
- 80% of colleagues have little or no issues with their broadband connection for work, 17% broadband connection is adequate, but they experience some problem that affects their ability to work while 4% have very poor broadband and/or must use a mobile hotspot.
- 62% of colleagues have a dedicated workspace at home, 36% have limited workspace and/or need to put devices away at the end of the workday while 2% have no permanent workspace.
- 74% of colleagues found sharing information either easy or acceptable, 26% had to continue to use email or other methods with some clients and 2% could not use our sharing tools with clients.

**21.2.** Focus Group feedback – Colleagues welcome the allocation of laptops, mobiles, additional screens and peripherals. A small number of colleagues are struggling with poor connectivity. There is strong appetite for more integrated cloud services but less consensus on which ones. Video conferencing is the default method of communicating within teams but communication with clients is limited by the clients own technological resources which requires us to be more adaptive. Some of our software systems are now becoming outdated and colleagues are keen to see them updated and delivered as cloud solutions. Data Analytics is becoming an increasingly important component of our audit process and will require specialist environments and skills.

**22.** Our milestone objectives to provide the systems and services for a Virtual Business are to:

**22.1.** Ensure all colleagues have access to a secure device suitable for working anywhere – We will equip all colleagues, who request them, with an Audit Scotland laptop and mobile phone.

**22.2.** Transition all communication and telephony to mobile services suitable for working anywhere – We will ensure all colleagues have access to multiple devices that will deliver telephony, video conferencing, email, messaging and screen sharing.

**22.3.** Improve the resilience and speed of our network connectivity – We will deliver faster direct connectivity from our network to our cloud services together with improving the stability and connectivity of our network. We will also upgrade our mobile hotspots transitioning to 5G as it becomes available.

**22.4.** Provide the services to support advanced analytics and provide cloud-based digital audit tools – We will move all data analytics and data warehouse functions to pay as you go cloud services by mid-2022.

**22.5.** Migrate all existing on-premise systems to cloud-based secure, resilience services – We will support:

**22.5.1.** the procurement and delivery of a modern, resilient cloud-based Electronic Working Papers (EWP) system by 2024.

**22.5.2.** the procurement and delivery of a resilient cloud-based integrated Business Management System (BMS) that will combine all Finance, Human Resources, Organisational Development and Performance Management Framework functions into one centralised system.

**22.5.3.** the transition and development of cloud-based solutions for corporate services systems to support our design, communication and resource management functions.

**22.6.** Implement a versatile work environment that supports both remote and office working – We will:

**22.6.1.** equip offices as work hubs with bookable desks, personal equipment, high capacity fast WiFi, print stations and rooms equipped for virtual meetings.

**22.6.2.** provide additional monitors, keyboards, mice and stands together with any assistive devices to facilitate home working.

## Digital transformation

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**23.** We will provide the digital tools, skills and training resources to allow colleagues to work smarter together while working remotely.

**24.** The external factors that drive this objective are:

**24.1.** Our work environment is changing with an increasing amount of auditable information being made available in a digital form. To audit digital information, colleagues need the necessary tools and skills to help them to analyse and present data from different sources to provide greater insight.

**24.2.** Working from any location limits access to support resources such as the Digital Service Team's Service Desk, it requires colleagues to manage local network connections and troubleshoot common problems.

**24.3.** As video conferencing and document sharing become the default method of auditing remotely colleagues require training resources that allow everyone to better manage this new environment.

**25.** The business needs that drive this objective are:

**25.1.** Our Lightning poll told us that:

- 71% of colleagues will use Teams for meetings but still use email for internal communication. 19% will use Teams as their primary method of internal communication and 10% would like to use Teams for both internal and external communication.
- 42% of colleagues said they did not need any additional support for working remotely, 35% wanted additional support in the form of self-learning resources and 23% required more training including direct team or 1-2-1 training with a specialist.

- 67% of colleagues considered the volume of communication from Digital Service sufficient to keep them informed. 33% thought there was too much information and either ignored it or had to set aside time to read it.
- 48% of colleagues were content with the methods Digital Services used to communicate but 52% considered there were too many methods of sharing information and wanted just one location/method to receive updates

**25.2.** Focus Group feedback – Our colleagues were consistent in their request for more training and self-help material, particularly in the use of MS Teams. Some groups have adapted well but others feel left behind by such a rapid change. Generally, colleagues would like a simpler more centralised communication regarding upcoming changes as well as new training material. There is a significant requirement to better support the Data Analytics Team as well as deliver integration and insight tools as part of our core services.

**26.** Our milestone objectives to provide the digital tools, skills and training resources to allow colleagues to work smarter together while working remotely are:

**26.1.** Working smarter together – We will:

**26.1.1.** Combine all our business functions into a new Business Management System (BMS) that joins our Performance Management Framework, HR&OD functions and Finance services into one new mobile accessible system to manage all colleague services. The Business Management System will also provide a platform for workforce management services to better measure our business efficiency and deliver improved effectiveness.

**26.1.2.** Integrate all our information, combining both internal, external, structured and unstructured audit information in a meaningful way. Using open data and API's across all new services including EWP and our new BMS.

**26.1.3.** Provide the insight to understand and use this information to improve our audit processes and improve all parts of our business through multi-layered tools that provide analytics and reporting for all levels.

**26.1.4.** Support the data analytics team by providing the virtual cloud environments and advanced analytics and development necessary to deliver a data analytics lab. We will also provide the networking, security and development skills necessary to build and maintain these systems.

**26.1.5.** Make these services available everywhere through web interfaces, so that colleagues working from a remote location can directly access advanced environments such as the data analytics lab.

**26.2.** Inclusivity – Working with our HR&OD colleagues we will provide extensive training resources so that all colleagues can:

**26.2.1.** develop a core digital competency, giving them the confidence to troubleshoot and resolve the most common remote working issues.

**26.2.2.** learn how to best use the new tools for virtual meetings, file sharing and remote auditing.

**26.3.** Clear concise communication – We will focus our communication, ensuring there is a single location where colleagues can obtain all information on updates and changes in a condensed more frequent form. We will also provide “public service announcements” on how to keep their personal devices safe.

**26.4.** A resilient team of digital experts in analytics, data management and development – We will increase our development team by one FTE to improve the resilience of this small but critical team and expand its expertise to strengthen our integration projects and, together

with the data analytics team, expand our analytic tools to provide more accessible audit insights.

# Resourcing and delivery

**27.** Delivering the 2021-2024 Digital Services Strategy will necessitate the following:

**27.1.** Revenue – Additional spending to enhance our cyber security has already been factored into Digital Service budget but there will be unknown additional on-going costs for both the EWP and BMS services which if they exceed current on-going costs will require additional budget bids.

**27.2.** Capital – Short to medium term demands for additional devices and implementation of new services has already been factored into Digital Service budget for 2020-2021. Planned future budget provision for and 2021-2022 and 2022-2023 should be sufficient if the planned transition of capital to revenue is suspended. Project implementation costs for both the EWP and BMS services will require independent budget bids.

**27.3.** Staffing – An additional 1 FTE member of the development team to add resilience to deliver the integration and insight components of our Digital Transformation strategic objective and provide resilience in the Development Team to deliver the systems and services for a Virtual Business. The Digital Services Staffing Structure is available here in appendix 1.

**27.4.** Provisional Digital Services Budget for 2021 to 2023 including estimated costing for additional 1 FTE member

	Budget 2020-21	Budget 2021-22	Budget 2022-23
Staff Costs	558,122	573,652	585,246
Services Costs	520,300	520,055	520,060
<b>Total Revenue Budget</b>	<b>1,078,422</b>	<b>1,093,707</b>	<b>1,105,306</b>
Capital Budget	150,000	150,000	150,000 <sup>(1)</sup>
Additional 1 FTE Developer <sup>(2)</sup>	14,600	58,500	58,500

<sup>(1)</sup> Estimate based on previous years requirements

<sup>(2)</sup> Estimate of total employee costs based on current market rate and employment from January 2021

**28.** The strategy is resourced through proactive horizon scanning, to identify when strategic programmes and projects will be implemented over the course of upcoming years. This involves careful consideration of changes in technical, licensing, security and infrastructure requirements and necessitates effective planning to maximise affordability from annual revenue and capital budgets as well as utilising the full potential of the Digital Services team.

**29.** As part of this planning the following year is 'road mapped' in a rolling project timeline, that allows the DSMT and Digital Project Manager to accurately plan resources, budget allocation and dependencies across current, ongoing and upcoming programmes and projects. The current project timeline is available [here in appendix 4](#).



# 2021 – 2024

## 2021-2024

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[www.audit-scotland.gov.uk/accessibility](http://www.audit-scotland.gov.uk/accessibility)

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## Purpose

1. This report presents and seeks approval of Audit Scotland's operational budget for 2021/22.

## Background

2. Preparation of Audit Scotland's 2021/22 Scottish Commission for Public Audit (SCPA) budget submission commenced in the summer of 2020 with the SCPA taking evidence on our financial plans at a session held on 15 January 2021.
3. The SCPA recommended that the Scottish Parliament approve our budget proposal and this has been incorporated within the 2021/22 Scottish Budget Bill.
4. Appendix 1 is the Net expenditure budget proposal that received final approval by the Board for submission to the SCPA.
5. The proposed operational budget for 2021/22 is based on no change to this original submission. The Board will be advised of any budget adjustments made in year as part of the quarterly financial monitoring arrangements.

## Net expenditure requirement

6. The net expenditure requirement of £10,814k is a cash increase of £2,099k from the 2020/21 budget.
7. People costs represent 71% of our expenditure budget and the budget requirement in 2021/22 is an increase of £2,881k. The main reason for the increase is to implement a long-term sustainable resource programme to meet increasing demands on public audit in Scotland. Our proposal also provides for increases to meet annual pay growth, employer pension contributions and additional staffing for new financial powers work.
8. The Board will receive regular updates on the progress of the strategic improvement programme and the planned financial allocations of the additional resources granted in 2021/22. The SCPA have also requested to be kept informed of progress on a quarterly basis during 2021/22.
9. Other expenditure has reduced by £428k with the main changes being the transfer of the £300k management contingency budget to people costs and the removal of £220k for the costs associated with the biennial national fraud initiative exercise.
10. The fees budget for the financial year has increased by 1.9% with the average fee increase for 2020/21 audits increasing by 2.5% from 2019/20 fees.

## Capital requirement

11. The capital budget for 2021/22 is £250k, an increase of £100k from 2020/21.
12. The investment will continue to support our digital strategy and office re-configuration to meet health and safety guidelines as we look to return to a yet to be finalised form of office occupancy later in the year.

## 2021/22 uncertainties

13. The budget proposal was developed in the context of significant uncertainties, which included:

- The organisational, audit work and financial impact of Covid-19 on us and the bodies we audit.
- Timing of budget statements from the UK and Scottish Government.
- Public sector pay policy with negotiations having commenced with staff representatives on a proposed pay policy for 2021/22. Any significant deviation from the pay award assumptions in the budget will need to be assessed from an affordability perspective.
- Timing of the implementation of the remaining financial aspects of the Scotland Act 2016.
- The end of the transition period for the UK leaving the European Union.
- Financial assumptions used to estimate International Accounting Standard 19 (IAS 19) defined benefit pension costs and future employer pension contributions.

**14.** The 2021/22 budget settlement provides sufficient assurance that we are able to meet our breakeven obligation. However, the expected long-term economic impact of the pandemic is that there will be significant pressures on public finances and we will need to develop financial strategies to address future potential issues, which could include:

- Firms procurement exercise
- Fees and funding model
- Pay awards
- EAFA replacement
- Pension fund pressures.

## **Recommendation**

**15.** The Board is requested to:

- approve the 2021/22 operational budget based on the original submission detailed in Appendix 1
- note that any in year budget adjustments will be scrutinised as part of the quarterly financial monitoring process.

## NET EXPENDITURE STATEMENT

	Actual		Approved	Proposed
	2018-19	2019-20	2020-21 Budget	2021-22 Budget
	£k	£k	£k	£k
<b>People Costs</b>				
Salaries and temporary staff	12,179	13,178	13,514	16,146
Employers on costs	3,611	3,852	4,162	4,415
Pension adjustments	2,349	4,871	126	126
	18,139	21,901	17,802	20,687
Accounts Commission members	163	171	169	165
<b>Total people costs</b>	18,302	22,072	17,971	20,852
<b>Fees and expenses paid to external firms</b>	4,475	4,549	4,350	4,554
<b>Other operating expenditure</b>				
Rent & Rates	479	507	535	535
Other accommodation Costs	437	436	403	449
Travel & Subsistence	871	823	877	707
Legal & Professional Fees	740	623	1,134	590
Stationery & printing	117	127	129	129
Training & organisational development	464	457	470	483
Staff recruitment	135	114	130	138
Communications (telephone, postage)	82	49	65	41
Insurance	72	75	79	84
Information technology	470	501	462	496
Internal Audit	27	31	30	30
External Audit - financial statements	29	29	30	30
Other	45	137	91	154
Depreciation	369	356	342	279
<b>Total other operating expenditure</b>	4,337	4,265	4,777	4,145
<b>TOTAL OPERATING EXPENDITURE</b>	27,114	30,886	27,098	29,551
Corporation Tax payable	1	1	0	0
<b>Income</b>				
Fees and charges payable	18,032	18,597	18,383	18,737
Bank Interest	4	5	0	0
Miscellaneous income	53	30	0	0
Other finance income - pensions related	-798	-924	0	0
<b>TOTAL</b>	17,291	17,708	18,383	18,737
<b>NET EXPENDITURE AFTER TAX</b>	<b>9,824</b>	<b>13,179</b>	<b>8,715</b>	<b>10,814</b>

## Purpose

1. This report presents the financial results for the nine months to 31 December 2020.

## Background

2. Detailed variance analysis and explanation is provided in Appendix 1 attached to this report. Appendix 1 also includes a section on the key financial risks that are being managed in 2020/21.
3. This report was discussed by Management Team on 2 February 2021.

## Discussion

4. At the end of the third quarter of the 2020/21 financial year Audit Scotland's Net Operating Expenditure was £5,937k which was £349k (6.2%) more than budget.
5. In-house income for 2019/20 audits is in total £180k less than budget with a negative volume variance of £144k and a negative price variance of £46k. Work on 2020/21 audits has commenced but due to Covid-19 and the extension to 2019/20 audit deadlines income recognition is £556k behind budget, which is based on prior years activity.
6. As we conclude the audit work for the 2019/20 audit year, we will be assessing the critical factors that have delayed the audit completion beyond the revised timetable. Some of this will have been due to the client body, some will be due to resourcing availability and practice. Establishing the cause of any delay will enable us to improve the experience as we move into a second year of audit under remote/working from home protocols.
7. Fee income earned for 2019/20 audits carried out by external firms net of fees and expenses paid to the firms was £117k better than budget. Income recognition was £2k worse than budget with fees and expenses payable to the external firms being £119k better than budget, which is mainly due to reduced expenses.
8. Staff costs including agency expenditure was £135k (1.0%) more than budget.
9. Other expenditure £415k (14.1%) better than budget. The main positive variances were recorded in travel & subsistence (£351k, 57.6%), training/recruitment (£84k, 17.8%) and printing/office costs (£30k, 19.1%). The main adverse variance is in information technology (£51k, 14.4%).
10. An in-year budget adjustment of £1.5 million has been approved by the Scottish Commission for Public Audit (SCPA) to meet the funding shortfall arising from a reduction in fee income recognition.

## Virement

11. There were no instances of budget virement in excess of £20k in the nine months to 31 December 2020.

## Recommendation

12. The Board is invited to note the financial results for the nine months to 31 December 2020.

## Headline Results

The summary financial position to 31 December 2020:

<i>£000</i>	Annual Budget	Actual	Budget	Var.	%Var.	Prior Year	Note
Fee Income - In House	8,099	5,307	6,055	(748)	-12.4%	5,977	1
Fee Income - Audit Firms	4,947	3,815	3,817	(2)	-0.1%	3,972	2
Central Charges	5,646	4,235	4,235	0	0.0%	4,164	
Rebate	0	0	0	0	-	0	
Interest	0	1	0	1	-	4	
Other Income	0	1	0	1	-	33	
IAS 19 Income	0	0	0	0	-	0	
<b>TOTAL INCOME</b>	<b>18,692</b>	<b>13,359</b>	<b>14,107</b>	<b>(748)</b>	<b>-5.3%</b>	<b>14,150</b>	
Approved auditors	4,435	3,331	3,450	119	3.4%	3,542	2
Staff salaries and oncosts	17,916	13,183	13,245	62	0.5%	12,422	3
Payroll provisions incl. severance	0	0	0	0	-	0	
Agency and secondment costs	75	253	56	(197)	-351.8%	412	3
IAS 19 Pension costs	100	0	0	0	-	0	
Property costs	944	634	625	(9)	-1.4%	620	
Travel and subsistence	886	258	609	351	57.6%	627	4
Legal, professional and consultancy	861	382	397	15	3.8%	382	
Training	490	288	358	70	19.6%	356	5
Recruitment	145	101	115	14	12.2%	80	5
Printing and office costs	284	127	157	30	19.1%	195	6
Information technology	486	405	354	(51)	-14.4%	351	7
Audit	60	46	45	(1)	-2.2%	51	
Depreciation	342	256	256	0	0.0%	271	
Other costs	383	32	28	(4)	-14.3%	30	8
<b>EXPENDITURE</b>	<b>27,407</b>	<b>19,296</b>	<b>19,695</b>	<b>399</b>	<b>2.0%</b>	<b>19,339</b>	
<b>NET OPERATING (EXPENDITURE)</b>	<b>(8,715)</b>	<b>(5,937)</b>	<b>(5,588)</b>	<b>(349)</b>	<b>-6.2%</b>	<b>(5,189)</b>	

## Income and Expenditure Summary

### 1. Fee Income – In House

Variances arise in fee income as a result of volume and price differences. Volume variances occur when audit work is carried out at different times and/or durations than the previous year. Price variances reflect the difference in actual fees to expected fees originally budgeted and is based on additional work undertaken and agreed with the audited body.

The table below shows the performance by sector at 31 December 2020 for the in-house audits:

	2019/20 Audit Year			2020/21 Audit Year			Prior Years	Total
	Volume		Price	Volume		Price		
	WIP %	£	£	WIP %	£	£		
Local Government	-1.50	-67	+52	-6.69	-309	-	-2	-326
Health	-	-	-	-9.33	-141	-	-	-141
FE	+11.57	+6	-	-	-	-	-	+6
Central Government	-0.08	-3	-101	-9.58	-104	-	-	-208
Non-statutory	-9.99	-80	+3	-0.32	-2	-	-	-79
<b>Total – December 20</b>	<b>-2.12</b>	<b>-144</b>	<b>-46</b>	<b>-7.05</b>	<b>-556</b>	<b>-</b>	<b>-2</b>	<b>-748</b>

#### Local Government

Local Government 2019/20 audits are 1.50% behind budget leading to an adverse volume variance of £67k. The positive price variance of £52k is due to increased fees being applied to local government bodies with the most significant increases being applied to Aberdeenshire Council, Angus Council, Fife Council and Scottish Borders Council. Audit sign-off for the local government sector was extended from September to November and a small number of the larger bodies have been delayed past this revised date.

The 2020/21 audit work has commenced and due to the extension to 2019/20 audits we are in the expected position of being behind the planned trajectory, currently 6.69% (£309k). It is expected that this variance will increase as we progress to the end of quarter 4.

#### Health

2019/20 health audits are complete. The deadline for audit sign-off of the health sector was extended to the end of September, however, audit work for some health boards extended beyond this deadline due to various complications.

Audit work for 2020/21 has commenced with the current position being 9.33% (£141k) worse than plan. This variance should increase by the end of the year as it will not be possible to catch up to the budgeted level of work by the end of March.

#### Further Education (FE)

ASG undertake 2 FE audits, Dundee & Angus College and Edinburgh College. Progress on 2019/20 audits is currently 11.57% ahead of schedule. The year-end for colleges is different to the rest of the public sector and the final sign-off of these audits needs to take place by the end of March each year. The current planning expectation is that this target will be met.

#### Central Government

Central Government chargeable audits are 0.08% behind plan leading to a minor volume variance of £3k. The main reason for the price variance is due to the official start date of a new body, South of Scotland Enterprise, being later than expected with the audit requirement now commencing in 2020/21 instead of 2019/20.

The 2020/21 audits have commenced and are behind budget by 9.58% (£104k).

**Non-statutory**

The European Agricultural Fund Account (EAFA) audit is behind schedule by 9.99% (£80k). The audit of the European Agricultural Guarantee Fund concluded on 16 October 2020 with expectations that in the future this will be funded through the national framework. The United Kingdom Co-ordinating Body (UKCB) has advised that there is a balance in Rural Development Programme funding which can continue to be spent under EU regulations from 16 October 2020 to 15 October 2023. The projected impact is that our fee and audit requirements will reduce by around 25~30%.

**2. Fee income and expenditure – Audit Firms**

The adverse income variance of £2k is offset by a positive expenditure variance of £119k for approved auditors. Effectively this approach highlights a net favourable variance of £117k on chargeable audits, which is mainly due to lower than expected expenditure on expenses.

Audit firms can negotiate fee increases within set parameters above expected fees with audited bodies. Primarily increases in fees will relate to increased complexity and additional work undertaken for which the audited body has agreed to pay an additional fee.

The table, below, shows the performance for approved auditors by sector to 31 December 2020:

	2019/20 Audit Year			2020/21 Audit Year			Prior Year	Total
	Volume		Price	Volume		Price	Price	
	WIP %	£	£	WIP %	£	£	£	£
Local Government	-2.13	-60	+37	-2.88	-84	-	-	-107
Health	-	-	+3	-4.41	-47	-	-	-44
Water	-	-	-	-19.61	-29	-	-	-29
FE	+30.45	+134	+8	+1.12	+5	-	-	+147
Central Government	-2.26	-10	+42	-0.38	-1	-	-	+31
<b>Total – December 20</b>	<b>+1.31</b>	<b>+64</b>	<b>+90</b>	<b>-3.11</b>	<b>-156</b>	<b>-</b>	<b>-</b>	<b>-2</b>

**Local Government**

Audits in the local government sector for 2019/20 are 2.13% behind plan leading to an adverse volume variance of £60k. Audit firms have agreed fees above expected fees for some bodies leading to a price variance recognition of £37k. The start of the 2020/21 audits is behind plan by 2.88% which leads to an adverse volume variance of £84k.

**Health**

Health audits for 2019/20 are complete with a positive price variance of £3k due to agreed fees being higher than expected. Work on the 2020/21 audit year has commenced though it is behind plan by 4.41% (£47k).

**Water**

As expected the adverse volume variance of £29k on this audit is due to the audit being behind plan, which was based on the prior year actual.

**Further Education (FE)**

Progress on 2019/20 audits is 30.45% ahead of schedule leading to a positive completion position of £134k and the recognition of a further £8k due to the agreement of increased fees. For this sector the firms are slightly ahead of schedule for the 2020/21 audits.

**Central Government**

Central government audits are slightly behind schedule leading to a negative volume variance of £10k. The £42k price variance is due to a number of agreed fee increases with the largest increases being applied to Bord na Gaidhlig, Historic Environment Scotland and Scottish Canals. 2020/21 audits have commenced and are slightly behind plan leading to a minor variance of £1k.

### 3. Staff & Agency Costs

Business Group	Annual Budget £000	Actual £000	Budget £000	Variance £000	Actual Average w.t.e.	Budget w.t.e.	Note
ASG staff costs	9,396	6,750	6,791	41	152.8	157.5	a)
ASG agency & secondments	75	242	56	(186)			
PABV staff costs	4,542	3,404	3,474	70	74.0	77.5	b)
PABV agency & secondments	0	12	0	(12)			
CSG staff costs	2,217	1,702	1,663	(39)	37.3	35.7	c)
CSG agency & secondments	0	-1	0	1			
Business Support staff costs	703	544	527	(17)	19.8	18.7	d)
Business Support agency & secondments	0	0	0	0			
Governance & Other staff costs	1,165	783	790	7	19.1	20.0	e)
Governance & Other agency & secondments	0	0	0	0			
<b>Total staff costs</b>	<b>18,023</b>	<b>13,183</b>	<b>13,245</b>	<b>62</b>	<b>303.0</b>	<b>309.4</b>	
<b>Total agency &amp; secondments</b>	<b>75</b>	<b>253</b>	<b>56</b>	<b>(197)</b>			

- a) **ASG Staff costs** - in the first 9 months of the year the average number of staff employed in ASG has been 4.7 w.t.e. less than the funded budget. The establishment is based on 156.1 w.t.e. with the application of a 1% vacancy/turnover factor reducing the funded w.t.e. to 154.5. During the year an allocation of £180k (3 w.t.e.) has taken place to cover additional staffing costs associated with the ringfenced new financial powers budget. The overall saving to budget is due to lower than planned staffing levels (£209k) and higher average actual salary costs per employee (£168k). As in previous years there was an intake of professional trainees at the end of October.

**ASG agency costs** – the additional agency expenditure has enabled us to fill resourcing gaps and protect capacity to ensure we can meet the revised audit certification deadlines. Covid-19 has meant there are significant additional resourcing/capacity challenges on the availability of staff and there has also been an impact due to the increase in the length of time it takes to undertake audits. This year much of the focus of agency staff deployment has been to assist EAFA work, which helps to enable in-house staff to gain more experience on other audits. This additional cost is being managed through reduced expenditure on travel & subsistence, other savings and staffing variances (reduced seasonal auditor and student placement costs). The deployment of agency staff enables us to minimise the shortfall in income recognition as at 31 March 2021.

- b) **PABV staff costs** - on average PABV have been 3.5 w.t.e. less than budget year to date, which includes an allocation of £170k (4 w.t.e.) from the ringfenced new financial powers budget. The budget saving year to date is due to lower than planned staffing levels (£159k) reduced by a higher average salary cost per employee (£89k).

**PABV secondment costs** - secondment costs of £12k relate to a Scottish Parliament member of staff seconded to assist with housing benefit audit work. This secondment finished in May and is being funded by an underspend in the PABV consultancy budget.

- c) **CSG staff costs** - The average staff resource requirements in CSG has been higher than the funded w.t.e. (£71k) due to staff turnover being lower than expected and the provision of cover for maternity leave. This overspend is currently partially funded by the favourable variance on average actual salary costs (£32k).
- d) **Business Support Staff costs** - w.t.e. above funded figure (£30k) due to the provision of cover for maternity leave. The actual average salary costs are slightly better than budget (£13k).
- e) **Governance & Other staff costs** - slightly below budget due to the vacancy at the start of the financial year for a non-executive board member and the average number of Accounts Commission members being 11 compared to a budget allocation of 12.

### 4. Travel and subsistence

Expenditure on travel and subsistence has significantly reduced compared to the same period last financial year (£369k reduction, 59%). This is due to homeworking and audit work being delivered remotely rather than onsite at the public bodies. Expenditure will be significantly less this financial year with the savings being used to support the overspend on agency expenditure and other financial pressures.

### 5. Training and Recruitment

The underspend in training expenditure is expected as we have had to deal with disruption to our normal model of delivery. We have managed to switch to innovative Microsoft 365 solutions such as Microsoft Teams video-link training, Microsoft Stream pre-recorded events, Microsoft Whiteboard and Sway applications. This has resulted in engaging technical and non-technical professional learning and development for staff throughout Scotland through online delivery.

Recruitment expenditure will increase in the final quarter as we undertake a major recruitment campaign to increase capacity to meet current and future resourcing commitments. This additional capacity will ensure we can deliver Covid-19 specific audit work, meet existing audit commitments where Covid-19 disruption has had an impact, maintain audit quality and look to innovate and improve to keep pace with professional auditing developments (e.g. digital audit, update audit methodologies and organisational efficiency). Current projections expect an overspend of £25k which will be met from reduced expenditure on training.

### 6. Printing and office costs

The current underspend is due to reduced expenditure on printing and is a direct consequence of the policy of staff working from home. Also, expenditure on monitoring is lower than budget which is due to some expenditure being classified as corporate subscriptions. Expenditure year to date is £68k (35%) less than the prior year and it is projected that there will be significant savings on print/copier and mobile phone expenditure in 2020/21.

### 7. Information technology

Software licence expenditure is the reason for the current overspend position within information technology. With homeworking and remote audit the current default position it is essential that we have sufficient licences (e.g. microsoft, mki) to enable the safe delivery of our work requirements. The projection in this expenditure heading will be in excess of budget with the plan to meet this overspend by savings from other corporate services budget headings.

### 8. Other costs

The minor overspend is due to the timing of expenditure compared to the budget being phased equally over the financial year. This overspend will reduce as we progress through to the end of the financial year.

## Overview of Financial Risks

The major financial implications of Covid-19 on Audit Scotland mean we can only deliver our statutory obligation of a balanced budget following approval of additional funding of £1.5 million from Parliament. Our budget adjustment proposal was considered by the Scottish Commission for Public Audit (SCPA) on 15 January 2021 and has been approved.

The budget adjustment submission to the SCPA was prior to the announcement of increased lockdown restrictions at the start of 2021. The financial situation still remains volatile with the potential to cause serious disruption to our operating model, with colleagues experiencing the increased pressures of home schooling and caring for vulnerable adults while trying to manage work commitments. This challenging situation is also likely to be experienced within the bodies that we audit.

Updated financial modelling of potential scenarios based on the financial position at the end of December and projections for the final quarter indicate that the additional funding of £1.5 million is still sufficient to deliver a balanced budget. This is due to the improvement in the December position, particularly with a better than planned work in progress percentage for the commencement of the 2020/21 audits.

The key financial risks are still relevant as we work our way through the issues that the new restrictions bring, and we will manage them in the last quarter of 2020/21. The risks are:

- shortfall in fee income recognition
- additional costs to deliver audit
- resource availability
- impact on firms' costs

Our 2021/22 budget submission was also considered and scrutinised by the SCPA on 15 January and on approval of the proposal we will be able to address future financial challenges, which include:

- The future of the current fees and funding model
- Resourcing pressures and additional cost of audit post Covid-19
- Pension fund pressures
- Auditing post Covid-19
- Firms procurement exercise
- EAFA
- Pay award uncertainty

### **Capital Expenditure and Funding**

To date there has been £68k of capital expenditure against the full year allocation of £150k. This expenditure relates to the purchase of 60 laptops and firewall software. There has also been £9k of revenue expenditure on monitors to support the working from home requirements of staff. This expenditure is currently being reviewed with the potential for it to be added to the capital expenditure this year.

**Stuart Dennis**  
Corporate Finance Manager  
2 February 2021

## Purpose

1. To provide the Board with a review of organisational performance in quarter three (Q3) 2020/21.

## Background

2. The performance information is reported under the two strategic objectives of 'delivering world class audit' and 'being a world class organisation' in line with the Corporate plan.
  - Appendix 1 provides a summary of performance for each strategic objective.
  - Appendix 2 provides the detailed performance information.

## Q3 performance summary

3. Performance over all is good in what remain challenging circumstances and is better than we may have anticipated given the amount of disruption due to Covid-19. This is largely due to the commitment, professionalism and flexibility of colleagues across the organisation. The pandemic continues to have a significant impact on Audit Scotland and the bodies we audit.
4. The performance on audit delivery has been very strong in the circumstances.
5. The deadlines for the financial audits of local government bodies, central government bodies and further education colleges all occurred in quarter three. This equates to over 200 audits. By 31 December 2020 91% of the financial audits had been completed. All of the audits had been completed by 11 March 2021.
6. In addition, we published five statutory reports, two best value assurance reports and three Covid-19 related publications.
7. As a result, the performance assessment RAG indicators for delivery and relevance have moved from red to amber.
8. The following objectives remain 'red'. This is defined as 'Not progressing/significant additional management action required':
  - We manage our resources effectively (where the main impact is on audit costs and income recognition).
  - We maximise our efficiency (where the main impact is on colleague productivity).
9. The Spring Budget Revision and the 2021/22 Budget proposal submitted to the Scottish Commission for Public Audit (SCPA) in December and workstreams in the strategic improvement programme seek to mitigate these risks. The Stage 3 Budget Bill was passed by the Parliament at its meeting on 9 March 2021.
10. We expect a negative impact on performance to continue to show in the quarterly reports for 2020/21 and anticipate this will extend into 2021/22.

## Delivering World Class Audit

11. There were 225 publications in quarter three including; 104 Annual audit reports, 104 audit certificates, two Best Value Assurance Reports, five statutory reports, six annual audit plans and four other publications. This is higher than the equivalent quarter in 2019/20 where there were 106 publications.
12. To date we have delivered seventy-one per cent of the total planned outputs due for the year 2020/21 and 95 per cent of these were on time. The remaining outputs are the annual audit plans for the 2020-21 audits and the residual annual audit reports.
13. Media mentions, downloads and social media engagements are significantly down on the same quarter last year. This is due to the lower number of performance audits being published in the year to date, less promotional work in the early stages of the pandemic, and a busy news agenda dominated by Covid-19 and other matters.
14. Audit Scotland audits were 20% above budget in Q3. This is broadly consistent with other audit organisations.

## Being a world class organisation

15. We continued to prioritise communication and engagement with colleagues across the organisation using a broad range of channels. This includes formal business messaging (through the regular Incident Management Team (IMT) updates, the Covid-19 yammer channel, pulse surveys, the weekly Staying Connected communications and video posts and blogs from members of Management Team) and informal channels (including the 'How we doing' yammer channel, on-line quiz events, virtual tea breaks and check-ins via video conferencing).
16. We had 297.1 (102%) whole time equivalent colleagues in place at the end of the quarter against an establishment 290.2. The absence rate is slightly higher than Q3 in previous years but remains low at 1.67 days.
17. The outturn on core funding was £349k (6.2%) more than budget in Q3.

## Forward look

18. The prioritisation of delivering the financial audits to schedule has been successful, however it, and the impact of the pandemic suppression measures have had an impact on other audit work and the planning for the 2020/21 audits. The corporate risk register, considered by the Audit Committee at its meeting on 3 March 2021 identified a 'red risk' in relation 'failure to deliver audit due to disruption to capacity (individual and collective capacity), prioritisation of key audits) disruption in audited bodies and/or due to complexity arising from Covid-19. We anticipate that the pandemic may continue to have a negative effect on performance in 2021.
19. In quarter four we receive the annual Best Companies survey results. These will provide a valuable insight into our colleagues' views and levels of engagement. Research shows that high levels of employee engagement is strongly correlated with sustainably high business performance - higher productivity, lower employee turnover, and greater customer satisfaction. The results are the subject of a separate report on today's agenda.
20. All audits are carried out in accordance with the code of audit practice and the relevant professional standards. Currently our assessment of performance on quality is at 'amber' as we recognise that the unavoidable approach to remote/virtual auditing presents challenges to both auditors and the organisations we audit. The internal and external reviews of audit quality will take place in Q4. The results from these reviews will provide clearer information on the quality of audit delivered in 2020. The outcome of the reviews will be considered by the Audit Quality Committee and will be reported in the quarterly performance reports to Management Team and the Board and in the annual report on quality.
21. An update on the strategic improvement programme is on the agenda for today's meeting of the Board. This provides the latest position in a number of areas which seek to support improved performance and mitigate risks. These include:
  - The updated work programme.

- The development of the new Code of Audit Practice, new audit approaches on best value auditing for councils and integrated joint boards and the digital auditing.
- Capacity building and recruitment.

## **Recommendations**

**22.** The Board is invited to:

- Review the performance in quarter three.
- Note the actions being taken to sustain and improve performance.
- Consider whether any additional management action is required.

## Appendix 1

24 March 2021

### 2020/21: Q3 performance summary

 Delivering world-class audit	Measure in Q3	Previous quarter	Same quarter last year	Direction of travel in Q3 this year compared to Q3 last year
<b>We conduct relevant and timely audits and report in public.</b>				
Reports 20/21(Q3)	225	184	106	
Reports 20/21(YTD)	493	230	505	
On time (YTD)	91%	96%	95%	
Audit Budget (YTD)	+20%	+18%	+1.75%	
<b>We get our messages out effectively</b>				
Media mentions (Q3)	150	125	354	
Downloads (Q3)	169,671	210,057	367,005	
Social media engagements (Q3)	3,562	3,822	6,588	

### Key performance messages in Q3

- The RAG for the 'relevant and timeliness' objective is now amber. This reflects the performance on delivery in the quarter. The significant increase in cost keeps the cost KPI at red.
- We delivered 225 audits/reports in Q3. This is higher than in previous years due to the rescheduling of audits to Q3.
- Audits were delivered at 20% above budget.
- Communications statistics are down compared to last year due to the scaled back publication and promotion of reports in the early stages of the pandemic and the understandable media focus on the pandemic and other matters. Despite this, we continue to get our messages out and this is reflected in media mentions downloads and social media figures.

### Key actions

- The key actions for this strategic objective are covered by the projects and workstreams in the revised Strategic Improvement Programme. This includes workstreams on refreshing/refining the role of audit in a Covid-19/post Covid-19 world, the annual audit process for 2020/21, the revised rolling work programme, audit methodology and digital audit and the new Code of Audit Practice and audit appointments.

#### Key:

**Red** = Not progressing/significant additional management action required.

**Amber** = Progressing and management action planned.

**Green** = On target/no need for additional management action

## 2020/21: Q3 performance summary

 Being a world-class organisation	Measure in Q3	Previous quarter	Same quarter last year	Direction of travel in Q3 this year compared to Q3 last year
<b>We manage our resources effectively</b>				
Budget Variance (YTD)	+6.2%	+13.9%	-0.4%	
WTE establishment (YTD)	102%	98.9%	101.2%	
<b>We maximise our efficiency</b>				
Staff costs (YTD)	13,183k	8,754k	12,422k	
Agency/secondment costs (YTD)	253k	178k	412k	
Average cost per audit day (Q3)	446	433.5	440	
Proportion of audit time (Q3)	63%	65%	61%	
<b>We empower and support our people to be engaged, highly skilled and perform well</b>				
Absence (YTD)	4.96 days	3.29 days	3.39 days	
Staff turnover (YTD)	3.49%	3.14%	4.99%	
Exams pass rate (YTD)	80%	80%	83%	
Training events (Q3)	22	22	79	
Training attendees (Q3)	214	526	897	
IT uptime (Q2)	99.7%	100%	99.98%	

### Key performance messages in Q3:

- The outturn on core funding was £349k (6.2%) more than budget. There was 68k capital spend in year to date.
- The average number of colleagues employed in the quarter were 102% of the establishment which is higher than the same quarter last year.
- Absence levels remain low though slightly higher than previous years. We remain below the 2019 CIPD benchmark (5.9%).
- The proportion of audit time was 63%, which is up from 61% in the same quarter last year.
- There have been 22 training events and 214 attendees, which is significantly down on the same quarter last year. This is due to a greater number of audits reaching conclusion in Q3 compared to previous years.
- IT up time remains consistently high.

## Key actions

The key actions for this strategic objective are covered by the projects and workstreams in the revised Strategic Improvement Programme. This includes workstreams on the people strategy, building capacity, learning and development and wellbeing, resourcing, one organisational deployment, and the longer-term fees and funding model.

## Appendix 2

24 March 2021

### Performance detail

2020/21: Quarter 3

	<b>We conduct relevant and timely audits and report in public.</b>
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Key Performance Questions	2018-19				2019- 20				2020-21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Are relevant audits being delivered?	G	G	G	G	G	G	G	G	A	A	G	
Are audits delivered on time?	G	G	G	G	G	G	G	G	A	A	G	
Are audits delivered on budget?	G	G	G	G	G	G	G	G	R	R	R	

#### Key messages

The overall performance assessment for this objective has changed the RAG status from red to amber. This is based on two of the key performance questions on timeliness and relevance having gone green. All of the 2019/20 financial audits have been completed.

#### Financial audits – year to date

Sector	Deadline	No. audits	No. completed by deadline	% complete by deadline	% complete now
NHS	30/09/20	23	20	87%	100%
LG – councils	30/11/20	32	27	84%	100%
LG-IJBs	30/11/20	30	29	97%	100%
LG-joint boards	30/11/20	32	29	91%	100%
LG-pension funds	30/11/20	11	11	100%	100%
Central Government	31/12/20	75	75	100%	100%
Further education	31/12/20	21	14	67%	100%
Total		225	205	91%	100%

Audit expenditure is 20% above budget and remains significantly outwith the 5% tolerance target, although we understand this is broadly in line with the Firms and other audit agencies.

In **Quarter 3**: we delivered 225 audit/reports.

- 104 Certified Accounts and 104 Annual reports.
- 6 Annual Audit plans.
- 2 BVARs (Aberdeenshire and Edinburgh).
- 5 statutory reports (S22) – see below.
- 4 other reports: one housing benefit annual report and three Covid-19 reports (Covid-19: Balancing the budget in councils, Covid-19: Going concern in the public sector and Covid-19: responding, adapting and building for the future, Scotland's Strategic Scrutiny bodies).

#### Audit/report schedule 2020/21

	Q1	Q2	Q3	Q4
Annual Audit Plans Audit Scotland (124)	2 FE ✓ <u>Late from 19-20 Q4 return</u> 7 LG ✓ 6 CG ✓	<u>Late from 19-20 Q4 return</u> 1 CG ✓		66LG 47CG 10 NHS
Annual Audit Plans Firms (100)	FE 15 ✓ <u>Late from 19-20 Q4 return</u> LG 1 ✓ CG 2 ✓	FE 1 ✓	FE 3 ✓ <u>Late from 19-20 Q4 return</u> LG 3 ✓	39 LG 29 CG 13 NHS
Accounts certified Audit Scotland (124)	NHS 2 ✓ CG 3 ✓	NHS 6 ✓ CG 21 ✓ LG 25 ✓	NHS 2 ✓ CG 22 ✓ LG 38 ✓ FE 2 ✓	LG 1 ✓
Accounts certified Firms (100)	NHS 6 ✓ CG 1 ✓	NHS 6 ✓ CG 12 ✓ LG 27 ✓	NHS 1 ✓ CG 16 ✓ LG 10 ✓ FE 13 ✓	LG 1 ✓ FE2 ✓
Annual Audit Reports Audit Scotland (125)	NHS 2 ✓ CG 2 ✓	NHS 7 ✓ CG 19 ✓ LG 20 ✓	NHS 4 ✓ CG 17 ✓ LG 42 ✓	LG 1 ✓
Annual Audit Reports Firms (100)	NHS 2 ✓	NHS 7 ✓ CG 12 ✓ LG 17 ✓	NHS 4 ✓ CG 17 ✓ LG 20 ✓	
Performance Audit (6)	Affordable Housing ✓ Highlands and Islands Enterprise: Cairngorm Mountain ✓		Skills planning and investment X (paused – 2021)	Digital in Local Government ✓

	Education outcomes <b>X</b> (paused - now Q1 2021) Social Security <b>X</b> (paused, date TBC)			
Best Value Assurance Report (7)	Argyll and Bute Council ✓ North Ayrshire Council ✓	Dundee City Council ✓ Moray Council ✓	Aberdeenshire Council ✓ City of Edinburgh Council ✓	Falkirk Council <b>X</b> (now Q3 2021)
Overview Report (3)	Local government in Scotland ✓			Local government: financial overview ✓ NHS in Scotland ✓
Statutory (6) Numbers to be confirmed during year	S22 City of Glasgow College ✓		S22 Social Security Scotland ✓ S22 NHS Tayside ✓ S22 Scottish Police Authority ✓ S22 Scottish Water ✓ S22 SG Consolidated Accounts ✓	Health and central government S22s (as required)  Local government s102s (as required)
Other (15) Numbers to be confirmed during year	Fraud and irregularity report 2019/20 ✓ Quality of Public Audit in Scotland annual report 2019/20 (QPAiS) ✓ Transparency report 2019 ✓ Equal Pay in councils Impact Report ✓ Covid-19: Impact on public audit in Scotland ✓ Covid-19: How public audit in Scotland is responding ✓	National Fraud Initiative ✓ Covid-19: Emerging fraud risks ✓ Covid-19: Guide for audit and risk committees ✓ Covid-19: Financial impact ✓	Housing Benefit Annual Report ✓ Teacher workforce planning briefing <b>X</b> (removed from programme) Covid-19: Strategic Scrutiny Group ✓ Covid-19: Balancing the budget in councils ✓ Covid-19: Going concern in the public sector ✓	Skills planning and investment audit <b>X</b> (removed from programme)
Published	63	187	225	

**On budget:** In Q3 the expenditure on audit is above budget by almost 20 per cent

	Budget £	Actual £	£ Variance	% Variance
ASG	8,624,610	10,824,805	2,200,195	25.51%
PABV	1,856,648	1,732,094	-124,554	-6.71%
Total	10,481,258	12,556,899	2,075,641	19.8%

### Forward look

#### Issues/ risks

- There is considerable uncertainty about the short-term and long-term impact of the pandemic on public bodies and Audit Scotland.
- Ongoing uncertainty around workforce capacity (and constraints such as childcare, remote working, etc) is affecting auditor availability to undertake core audit work.
- There are significant risks around our ability to deliver the 2020/21 financial audits to time and budget. This is a red risk in the risk register.
- There are 123 Annual Audit plans scheduled for publication in Q4. It is likely that a number of these may be delayed due to the prioritisation of the 2019/20 audits.

### *The rolling work programme*

During quarter three policy cluster teams continued to develop work programme proposals for April 2021 onwards. These have drawn on the themes and priorities agreed by the Auditor General for Scotland and the Accounts Commission. (Economic recovery and growth, Policy priorities, Inequalities, Innovation and transformation and Governance and accountability)

The key principles emerging that underpin the new programme:

- Insight and improvement - Our unique local and national perspective will produce valuable insights into the innovative ways Scotland's public services are responding to Covid-19. We will contribute to learning across the public sector and drive improvement as Scotland moves towards recovery and renewal.
- Citizen perspective - Wherever possible and appropriate, audit work will capture and reflect the needs and concerns of the people who use public services.
- Cross-cutting themes - When scoping audit work we will look to integrate thinking on key themes and issues that cut across policy areas and have an impact on citizens and service users. For example: inequality, digital, prevention, climate change and community engagement.
- Flexible and agile - Our work will remain flexible and agile. Our work programme may need to change at short notice as new issues emerge, or risks change. We will report our audit work in a range of ways, including thematic briefing papers, round table discussions and blogs alongside traditional overview, performance audit and statutory reports. We will involve key stakeholders in reviewing and approving the work programme at regular intervals.

During quarter four we will consider feedback from the consultation with PAPLS and the subject committees at Scottish Parliament, the Accounts Commission's consultation and Scottish Government. We aim to publish the new work programme by April 2021.



**Audit work is of high quality and we are systematically improving the quality of our work**

Key Performance Questions	2018-19				2019-20				2020-21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Are we assured about the quality of our work?	G	G	G	G	G	G	G	G	A	A	A	
Are we improving the quality of our work?	G	G	G	G	G	G	G	G	A	A	A	

**Key messages**

- In quarter one we changed this RAG from green to amber due to the increased risk to quality whilst working remotely.
- The risk to Audit quality is monitored by the Audit Quality Committee and the Audit Committee.
- The internal and external quality reviews will provide data on audit quality in Q4.

**Quality assurance and improvement during quarter three included:**

We responded to 229 technical queries this quarter, all within the timescale and published the following to support audit quality. The technical guidance/notes published in quarter three included:

- guidance notes on risks of misstatement in 2020/21 local government accounts and on the whole of Government Accounts
- a technical bulletin to provide auditors with details of new technical documents
- the audit planning guidance for 2020/21
- updates to the Audit Management Framework to include guidance on clearance and factual accuracy checking and audit methodology guidance
- training for auditors on an introduction to PABV and on the Audit Management Framework. These were delivered online and positive feedback was received
- a plan has been developed to look at and address potential data protection issues pertinent to PABV audit work.

**Forward look:**

- The internal and external quality reviews take place in quarter four.
- The annual audit quality survey was issued in early Q4 to 599 individuals and will be reported in the Quality of public audit in Scotland annual report.
- A further report, Covid-19: Guide to internal audit, is due to be published in the Spring.

Key Performance Questions	2018-19				2019-20				2020-21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Are we getting messages out effectively?	G	G	G	G	G	G	G	G	G	G	G	

**Key messages**

- We continued to develop a range of different approaches to communicating the messages from our audit work to stakeholders with significantly increased use of blogs and the piloting of a range of different shorter reporting styles.
- Overall communications stats are down compared to last year, this is to be expected in a news agenda dominated by Covid-19 and other issues.
- We continue to engage with key stakeholders and the feedback on stakeholder awareness and views on Audit Scotland received in January was positive.
- We continue to liaise with other UK audit agencies on an ongoing basis about planning, coordinating and sharing learning across Covid-19 related audit work and wider work programmes.

**Engagement:** In Q3 we attended:

- 10 Parliamentary Committees.
- 18 external working group meetings - to ensure Audit Scotland is engaging with relevant standard setters as they prepare codes, manuals, standards and guidance.
- We presented at 4 external events (one international). Two of these requests were a result of organisations looking to hear more on Covid-19 Fraud Risk publication.

**Parliamentary engagement**

Month	Parliamentary questions mentioning Audit Scotland	Mentions of Audit Scotland's work across committees	Mentions of Audit Scotland during FMQs	Audit Scotland staff appearances at committees	Total
October	0	10	0	3	13
November	3	28	0	2	33
December	2	17	0	5	24
Quarter Total	5	55	0	10	<b>70</b>

**Communications**

	Q1	Q2	Q3	Q4	YTD	19/20
Media	101	125	150		376	1,333
Downloads	262,497	210,057	169,671		642,225	1,043,838
Engagements*	2,178	3,822	3,562		6,000	25,901

\*Engagements = not only received but reacted to one of our tweets

Our media and social media engagements figures are both down compared to Q3 last year (Media 354, Downloads 367,005 and engagements 6,588).

### Media

The top three published reports by media coverage in Q3 were s22 Social Security, s22 SPA and the Edinburgh BVAR.

The five s22 reports published during December accounted for nearly two-thirds of the quarter's media coverage. Annual performance reports such as the NHS Overview and the Local Government Financial Overview would normally have featured in this quarter, but both were rescheduled to early 2021 due to the impact of the pandemic.

### Downloads

The two most popular reports in Q3 were the 2011 Justice Overview (over 2,500 hits) and the 2019 NHS Overview (over 2,300). It is likely that the pandemic, and the focus on how the NHS is coping, contributed to the high numbers. Equally, the pandemic has led to a major backlog of court cases in Scotland's criminal justice system.

December was a slightly quieter month for report hits, as is usually the case. It is notable that the four leading reports were the 2018 Health and Social Care report, 2019 Drugs and Alcohol report, 2018 Mental Health report, and the 2019 Community Empowerment briefing. Together they accounted for over 2,500 downloads during the month – and are all issues that have been exacerbated by the pandemic.

### Social media activity

Quarter three saw a return to more frequent and varied posting of content on our channels, particularly on twitter. Three things helped boost engagement with our posts – the greater tagging of organisations with an interest in our work, tapping into the news agenda and sharing relevant archive reports (e.g., 2011 Justice System report when court backlogs were in the news), and encouraging organisations to share our work when it might be of interest to their audiences (e.g., drawing The Trussell Trust's attention to an animation on the inequalities in Scotland's society).

Popular content from the quarter included around 3,000 views of our animation laying out the inequalities Covid-19 has shone a light on, posts about our graduate trainee scheme, an update about our Educational Outcomes audit work, and the former Auditor General for Scotland, Caroline Gardner, receiving a CBE and Scottish Public Service award. Content related to December's s22s, particularly around the Scottish Government's accounts, also performed well.

**Consultations:** In Q3 we responded to six consultations, the detailed statutory guidance that will support auditors to deliver work under the NAO's new Code of Audit Practice, the Local Government and Communities Committee consultation on the impact of Covid-19 on the financial sustainability of local government in Scotland, the inquiry into future funding of Scotland's universities and the impact of UK Gov policies on Scottish Universities, students, employees and research, The UK Digital Economy Act 2017, the 2021/22 accounting code and the Loans fund holiday regulations

### Correspondence

<b>New correspondence cases</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>YTD</b>	<b>19/20</b>
Number of cases	31	31	27		62	136
Acknowledgement within five working days	100%	97%	100%		98%	99%
Final response within 30 working days	96%	100%	97%		97%	94%

- Figures above are for new and reopened cases.
- In addition, we had 15 audit enquiries (compared to 22, Q3 19/20) – relating to queries about our work (e.g. figures within our reports, guidance and access to materials/reports).

### FOI/EIR/Complaints:

- There were five FOI requests, no EIRs and no complaints received in Q3. All FOIs were answered with the 20-day deadline.

Key Performance Questions	2018-19				2019-20				2020-21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Is our work delivering impact?	G	G	G	G	G	G	G	G	G	G	G	
Are our recommendations leading to improvements?	G	G	G	G	G	G	G	G	G	G	G	
Are we offering insight and foresight and making information and intelligence available to others?	Y	G	G	G	G	G	G	G	G	G	G	

**Examples of where work has made a positive impact or positive feedback received in Q3 include:**
*Central government:*

- The statutory responsibilities of the client have reduced due to the introduction of the Planning (Scotland) Act 2019. We engaged with elected members and officers to consider whether it was a good use of resources to prepare and audit Code compliant accounts with such low levels of spend. The client will continue to meet on an ad hoc basis with the minimal costs of running a meeting being absorbed by partners and the 2019/20 was the final set of accounts we will audit.
- In the 2018/19 annual audit report we reported on issues with relocation costs. The client contracted this work out in 2019/20, resulting in improvements in the controls, the quality of reporting and a new relocation expenses policy for senior officers being approved by the Board.

*Local Government*

- Our 2018/19 AAR had recommended that the management commentary should be improved to make it more focused. We arranged discussions with the audit teams of the other similar bodies within the local area to identify common issues and any areas of good practice. There has been a noticeable improvement in management commentary for 2019/20.
- Our 2018/19 testing had identified that weaknesses in controls had led to an overpayment of £12,717 being made. Our 2019/20 audit work has confirmed that this overpayment has now been recovered and the controls have been strengthened by improving documentation and ensuring an independent review of all calculations.
- We recommended that the body carry out a review of its performance measures used to assess performance. The review has now completed, in consultation with other relevant bodies and committees, and internal control reports are now reported to the all relevant committees.
- It has been agreed with the Scottish Charity regulator (OSCR) that one charity no longer needs to be audited, this frees up funds which could be better used to help the vulnerable in communities.
- In 2018/19 we had reported an error in the fixed asset register depreciation calculations which overstated depreciation costs by £2.2 million. In 2019/20, an internal control check was introduced on the fixed asset register to ensure that the depreciation output is accurate.
- In 2018/19 we reported that the year-end outturn for at least the last three years had included a saving due to inflation contingencies not being used, suggesting that inflation contingencies had been set too high. The 2020/21 inflation contingency budget was reduced by £1.5 million following review of the contingency required.

*Health*

- There will now be more focus on local verification and monitoring arrangements in light of auditor qualifications on the care practitioner payments which are made on behalf of boards by NHS National Services Scotland.

*Further education*

- The college has revised its accounting policies, made additional disclosures for pensions and improved the quality of its performance report and the governance statements following some technical assistance and additional insight provided on accounting and reporting issues. This included the College's review of its accounting policies, pensions disclosures, and the content of the performance report and the corporate governance statement.
- In 2018/19 we had reported that limited information on capital budget and spend was included in the monthly management accounts and there was a risk that the Board did not have the information required to make to make informed decisions on capital budgets. The 2019/20 monthly management included more detailed capital budget monitoring information to support better scrutiny by the Board.

Key Performance Questions	2018-19				2019-20				2020-21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Are new processes, products and services being developed?	G	G	G	G	G	G	G	G	G	G	G	
Are products and study programmes suitable and appropriate for emerging issues?	G	G	G	G	G	G	G	G	G	G	G	

**Key messages:**

We continue to develop new and improved processes, products and services to ensure public audit makes a positive contribution to the recovery and renewal of public services. Since November 2020 our Professional Support team has finalised and published two further guidance reports for professional auditors:

- Covid-19: Balancing the budget in councils.
- Covid-19: Going concern in the public sector.

A further report, Covid-19: Guide to internal audit, is due to be published in the Spring. We provided advice to the Accounts Commission’s Interim Chair on raising the profile of these publications amongst the local government community. The Commission included them in its e-newsletter issued in January 2021.

Professional support worked jointly with the data analytics team designing new audit tools for auditors and are working with other UK audit agencies on the impact of revised ISAs on our audit.

**Forward look**

The Strategic Improvement Programme contains a number of projects and workstreams which will deliver/support improved processes, products and services. These include:

- The new code of audit practice.
- Revised audit methodologies for financial audit, best value in councils, IJB and less complex bodies.
- The Digital Audit Strategy.
- Procurement of a new Electronic Working Papers package.
- The people strategy, building capacity and one organisational deployment>
- The new Digital Services Strategy (focussing on cyber security, virtual business and digital transformation).

Key Performance Questions	2018-19				2019-20				2020-21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Are we managing our resources effectively	G	G	G	G	A	A	A	A	R	R	R	
Are we maximising efficiency?	G	G	G	G	A	A	A	A	R	R	R	

**Key messages**

- In the nine months to 31 December 2020 Audit Scotland’s Net Operating Expenditure was £349k (6.2%) more than budget.
- Key financial risks are still present as we work our way through the issues that the new restrictions bring, and we will manage them in the last quarter of 2020/21 . The risks are in relation to the shortfall in fee income recognition, additional costs to deliver audit and resource availability.
- Our 2021/22 budget submission was considered and scrutinised by the SCPA on 15 January and on approval of the proposal we will be able to address future financial challenges. These include; the future of the current fees and funding model, resourcing pressures and additional cost of audit post Covid-19, pension fund pressures, auditing Covid-19, the Firms procurement exercise, EAFA and uncertainty around the pay award.

**Resource management**

In the nine months to 31 December 2020 Audit Scotland’s Net Operating Expenditure was £349k (6.2%) more than budget.

	Q1	Q2	Q3	Q4	19/20
Actual	(2,049)	(3,318)	(5,937)		(13,715)
Budget	(1,847)	(2,914)	(5,588)		(17,442)
Variance K	(202)	(404)	(349)		(426)

**Staff** - The average number of staff in the quarter was 297, which is two per cent above establishment.

	Q1	Q2	Q3	Q4	19/20
2020/21 establishment w.t.e	290.2	290.2	290.2		286.4
Average number of staff employed in 2020/21 w.t.e:	288.5	287	288.9		285.9
No. of staff at end of quarter w.t.e:	286.4	287.1	297.1		291.1

**Staff and Agency costs** – The total staff costs in the nine months to 31 December 2020 are 135k above budget.

	Annual Budget £000	Actual YTD	Budget YTD	Variance	Actual Average WTE	Budget WTE
Total Staff costs 2020-21	18,023	13,183	13,245	62	303	309.4
Total agency & secondments 2020-21	75	253	56	(197)		
Q3 Staff costs 2019-20	16,751	8,230	8,323	93	296.4	296.1
Q3 agency & secondments 2019-20	75	282	69	(213)		

**Legal, professional and consultancy:** the budget this year has increased due to the ongoing Audit appointments process and the NFI which runs every other year.

	Q1	Q2	Q3	Q4
Actual	81	206	382	
Budget	101	152	397	
Prior year spend	87	221	382	

**Estate:** There is a £9k overspend in estate costs in the nine months to 31 December 2021, mainly due to the purchase of essential furniture and equipment for staff to work safely from home and also the purchase of new locks for the doors at 102WP.

	Q1	Q2	Q3	Q4
Actual	215	425	634	
Budget	205	414	625	
Prior year spend	202	403	620	

**Costs of travel:** Travel costs in the nine months to 31 December 2020 has significantly reduced compared to the same period in the last financial year (£369k reduction, 59%). This is due to homeworking and audit work being delivered remotely rather than onsite at the public bodies. The expenditure for travel relates to costs of Audit Scotland leased cars. Expenditure will be significantly less this financial year with the savings being used to support the overspend on agency expenditure and other financial pressures.

	Q1	Q2	Q3	Q4
Actual	87	170	258	
Budget	110	349	609	
Prior year spend	207	433	627	

**Capital Expenditure and Funding:** To date there has been £68k of capital expenditure against the full year allocation of £150k. This expenditure relates to the purchase of 60 laptops and firewall software. There has also been £9k of revenue expenditure on monitors to support the working from home requirements of staff. This expenditure is currently being reviewed with the potential for it to be added to the capital expenditure this year.

**Digital Services:** Downtime was due to a fault with the Citrix hosts that meant Citrix was intermittently unavailable or unreliable for 2 days. There was also an issue caused by the VPN certificates needing to be refreshed and an O365 outage with Microsoft.

	Q1	Q2	Q3	Q4	19/20
IT Network					
IT uptime (%)	99.91	100	99.66		99.36
Working hours lost	0.09	0	0.3		631.8
Average time lost per person (minutes)	0.67	0	2.67		2hrs

**IT Incident management summary** (incident targets are expected to achieve 97%)

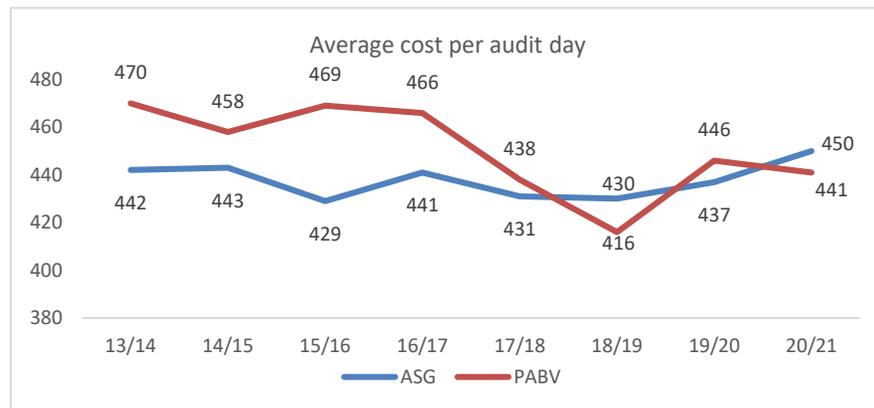
- 88.26% of the 831 requests were accepted within the response time SLA.
- 89.94% of the requests were closed within the fix time SLA.
- An average of 2.5 incidents were logged per user.

**Business group audit and non-audit time:**

Audit time defined is any time charged through TRS/MKI to an approved audit (overviews, performance audit, BVARs, statutory reporting etc). It also includes time logged to programme development, the production of internal and external briefings and other outputs, audit appraisal, policy analysis, stakeholder engagement and correspondence. Non audit time includes time off, corporate forums, improvement projects and learning and development.

During Q3 business group audit time was higher than in Q3 2019/20 for ASG. This reflects the shift in timing of the peak period for financial audits.

	20/21 (%)				19/20 (%)			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
ASG	62	65	63		67	71	57	63
PABV	58	65	62		72	74	64	73



The average cost per audit day of PABV and ASG audits fluctuates between audits and throughout the year. This is due to the timing of audit work, the grade mix deployed and any changes in the daily rate for audit staff made by the finance team each April.

Key Performance Questions	2018-19				2019-20				2020-21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Are we managing information and intelligence effectively (Internal)	Y	Y	G	G	G	G	G	G	G	G	G	

**Key messages**

The Audit Scotland Incident Management Team (IMT) has been in operation since March 2020 in accordance with the Business continuity Plan. The IMT is maintaining oversight of information and intelligence, the impact on financial and performance audit programmes, and ensuring the wellbeing of colleagues and audit quality is at the core of its thinking. Clear and regular communications have been a priority over the course of the pandemic.

**Forward look**

The Best Companies survey results will be available in March and April, these will provide a valuable insight to our colleagues' views around this objective.

The Strategic Improvement Programme contains a number of projects and workstreams which will deliver/support improved use of intelligence. These include:

- The Digital Audit Strategy.
- The new Digital Services Strategy (focussing on cyber security, virtual business and digital transformation and including a new Business Management System).

Key performance questions	2018-19				2019-20				2020-21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Are our people empowered and engaged?	G	G	G	G	G	G	G	G	G	G	G	
Are our people highly skilled?	G	G	G	G	G	G	G	G	G	G	G	
Are people performing well?	G	G	G	G	G	G	G	G	G	G	G	
How effective is communication and collaboration across the organisation?	G	G	G	G	G	G	G	G	G	G	G	
Are career paths offered across the organisation?	G	G	G	G	G	G	G	G	G	G	G	
Do we understand and support diversity within the workforce?	G	G	G	G	G	G	G	G	G	G	G	

**Key messages**

- Wellbeing of colleagues continues to be a priority and preparations took place in Q3 for Wellbeing clinics to be run during Q4.
- We continue to deliver training to colleagues and the numbers to date are similar to last year.
- There were 127 exams taken with a pass rate of 80 per cent.

**Forward look**

- People strategy (including workforce plan and learning and development strategy) to be finalised in Q4.
- The Best Companies survey results will be available in March and April, these will provide a valuable insight to our colleagues' views around this objective.

**Highly Skilled**

- PDGG discussing L&D Strategy and plan in February 2021
- Management Development training scheduled over coming months:
  - 2 x Managing Performance clinics scheduled for February and March 2021
  - 2 x Feedback coaching clinics scheduled for March and April 2021
  - 2 x Delegation coaching clinics scheduled for May 2021
  - 2 x Managing Dispersed Teams clinics scheduled for June 2021.

**Wellbeing**

- HSW Committee meeting on 03/02/21 to discuss 2021 priorities.
- 2 x 'How Wellbeing Works' sessions scheduled in February 2021 (one for colleagues, one for managers).
- 2 x 'How to have a wellbeing conversation' coaching clinics scheduled for managers in January and February 2021.

**Career Paths:**

- CDG applications to be submitted by late January 2021. This is to provide additional resource/capacity and to supplement recruitment campaign

Vacancies filled	20/21 YTD	19/20
Internal	6	19
External	16	35
Total	22	54

**Absence levels:** Remain low but there is a small increase compared to Q3 last year.

	Q1 days	Q2 days	Q3 days	Q4 days	ytd days
<b>Audit Scotland – 20/21</b>	1.63	1.66	1.67		4.96
Audit Scotland – 19/20	1.6	0.46	1.33	1.32	4.97
Audit Scotland - 18/19	1.28	0.76	1.41	1.4	4.85
Audit Scotland - 17/18	0.69	1.16	1.07	1.12	4.40

**Staff turnover:** All leavers are lower than Q3 2019/20 (2019/20 resignations 0.33 and all leavers were 1.98%). The whole year turnover is currently projected to be similar to last year and is expected to be below the CIPD benchmark.

	Q1	Q2	Q3	Q4	YTD	19/20	CIPD benchmark
Resignations %	1.39	0.35	0.35		2.09	3.34	
All Leavers %	2.43	0.71	0.35		3.49	6.32	

**Exam results:** There were 121 exams with a pass rate of 80 percent.

	Q1	Q2	Q3	Q4	YTD	19/20
Exams taken	27	8	121		156	122
Exams passed	21	7	97		125	102
% pass rate	78	88	80		80	84

**Highly skilled** – Due to the higher number of technical training events the total number of events in quarter two are higher than normal as they reflect all staff completing Homeworkers training and all PABV staff completing the Audit Management Framework training.

	Q1		Q2		Q3		Q4		YTD		19/20	
	Events	Attendees	Events	Attendees	Events	Attendees	Events	Attendees	Events	Attendees	Events	Attendees
Health & Safety	0	0	0	0	1	15			1	15	9	117
Knowledge Cafes	0	0	1	25	0	0			1	25	13	154
Learning & Development	0	0	1	287	10	132			11	419	13	184
Management Development	6	30	1	3	6	49			13	82	16	71
Organisational Development	5	20	11	89	3	6			19	115	19	94
Technical Training	17	355	8	122	2	12			27	489	28	437
<b>Total</b>	<b>28</b>	<b>405</b>	<b>22</b>	<b>526</b>	<b>22</b>	<b>214</b>			<b>72</b>	<b>1145</b>	<b>98</b>	<b>1057</b>

## Purpose

1. This report updates the Board on the latest results of the Best Companies Survey and highlights next steps.
2. Audit Scotland has been accredited as a One-Star organisation for the first time with a score of 639.5 with increases across all eight engagement factors measured by the survey. This is a significant result particularly in the context of 2020 working arrangements.
3. This report invites the Board to consider and comment on the results.

## Background

4. We first took part in the Best Companies survey in 2009, reporting the results in early 2010. This is our twelfth year taking part in Best Companies. The survey is one way in which we assess levels of engagement and listen to feedback from colleagues. The results help to support dialogue, exploration and discussion about how to make Audit Scotland a better place to work and deliver world-class public audit in a sustainable manner.
5. Colleagues participate anonymously and this latest survey was completed in January 2021.

## Context

6. The year 2020 has been extraordinary for everyone. The Board have received regular updates on the impact of Covid-19 for colleagues, our business and clients. Audit Scotland's leadership team has prioritised the safety and wellbeing of colleagues, adjusting our audit delivery programme accordingly. The support of Board members has been appreciated.
7. Colleagues have responded with incredible commitment and professionalism. They have adjusted rapidly to new ways of working, including remote auditing, the concept of dispersed teams, working from home and delivering our audits despite the huge disruption and anxiety caused by Covid-19 and the necessary public health restrictions.
8. This disruption has affected our clients, stakeholders and partner organisations – including Best Companies themselves. The late-2020 engagement survey was delayed through to January 2021 due to the impact of Covid-19 on Best Companies and their survey participant organisations.

## Best Companies Results summary

9. We have sustained an exceptionally high participation rate – 83 per cent of colleagues took part (252 out of 305 colleagues). Our participation rate is well above the Best Companies average of around 70 per cent.
10. After eleven years of being 'Ones to Watch', this year Audit Scotland has been accredited as a One-Star organisation for the first time. Our Best Company Index (BCI) score is 693.5 which is our highest score to date by a considerable margin. It sees a significant increase of 54.2 points against our last November 2019 survey, which was itself an all-time high for Audit Scotland. The latest result bring us to within three points of being a Two-Star accredited organisation. An increase like this in one year is remarkable, and to place this into context, it doubles our highest increase previously (24.3 points). Appendix 1 provides a graphic outlining this progress, and further detail on the five-year trend across the eight main survey themes.
11. For the first time in our Best Companies survey history, all eight factors have seen an improvement. Most notable is Fair Deal; this has seen a very significant increase of 13% and has jumped from being our lowest scoring factor to fifth out of eight. Other factors which have seen a significant improvement

are My Company (+8%) and Wellbeing (+8%). With respect to Wellbeing, this reverses the four-year downward trend we observed in 2019.

12. In addition to sharing Audit Scotland's high-level results with colleagues in March, this data will be shared and discussed with the PCS union on the 25 March 2021. The local PCS Branch is supportive of our work in this area, and each year works collaboratively with us to understand, explore and make the most of the learning we can take from the results.
13. Our new accreditation will be featured in the April edition of abacus and Best Companies will present further insights to Leadership Group on 1 April 2021.

## Conclusion

14. The results reflect the significant efforts of colleagues at Audit Scotland over the last twelve months to support each other, maintain wellbeing and work through considerable uncertainty. In other reports to the Board the significant delivery of audit work is reported.
15. We intend to build on this achievement, using it as the springboard for our strategic improvement programme, Our plan, to help shape how we work in a post-pandemic world.

## Next steps

16. Management Team will be working with Leadership Group members as we consider this data alongside other intelligence we already have about our people and the running of our business. Data will be used by local business groups and individual teams to help inform their continuous development during 2021.
17. The Best Companies data will also be used to inform Our plan, including the supporting people strategy for 2021.

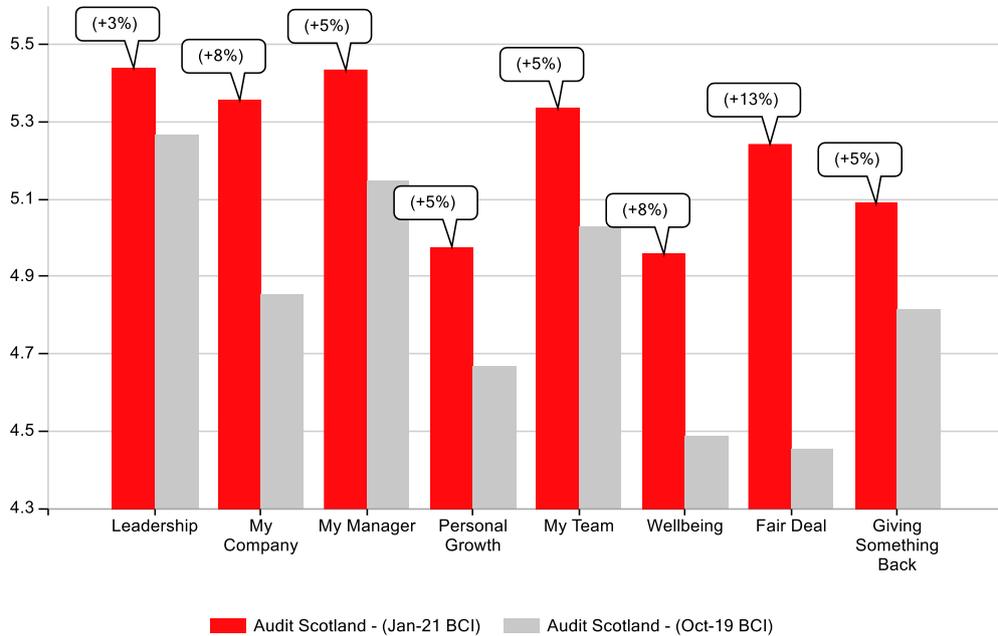
## Recommendations

18. The Board is invited to consider and comment on the results of the Best Companies Survey.

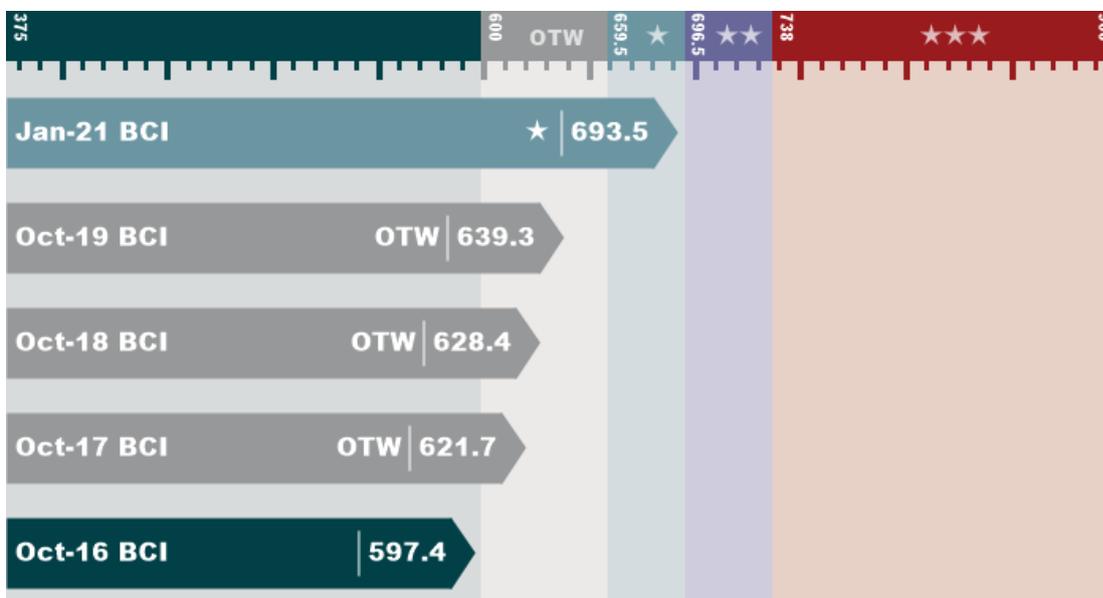
# Appendix 1

24 March 2021

## January 2021 and October 2019: Comparison by factor

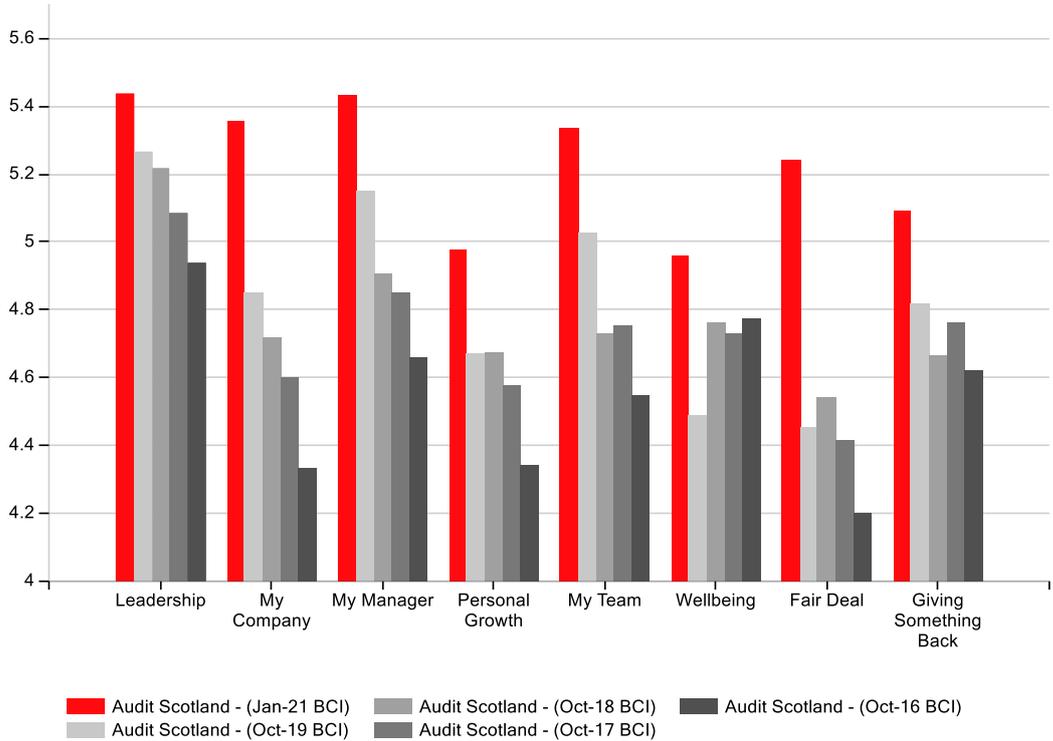


## Best Companies Index score: 2016 - 2021



**Five-year trend**

The red bar represents our score in January/February 2021 (out of a maximum of seven).



## Purpose

1. This report provides an update on key developments surrounding financial devolution and constitutional change, including Audit Scotland's response and organisational arrangements.

## Background

2. We provide six-monthly updates to the Board on financial devolution for the Board's information, outlining relevant developments affecting the Scottish public finances and what these mean for the work of Audit Scotland. We provided the last update in September 2020. Significant developments since then include:
  - The impact of the Covid-19 pandemic on the Scottish public finances and significant changes to the Scottish budget.
  - The proposed Spring Budget Revision for 2020/21 and the proposed Scottish Budget for 2021/22 have been announced.
  - The Scottish Government has continued to take on wider social security powers and introduced the first component of the Scottish Child Payment at the start of 2021.
  - The UK has left the European Union.

## The impact of Covid-19 on the public finances

3. The pandemic is placing huge demands on the Scottish public finances. Under the Scottish Government's fiscal framework additional Barnett consequential of £9.7 billion have been added to the Scottish budget in 2020/21. These are based on spending decisions in England taken by the UK Government and the Scottish Government decides how to apply these in devolved areas. It has spent broadly in line with the UK, though it has targeted some aspects to specific needs in Scotland or to align with existing policy priorities.
4. Funding for Covid-19 has built up during the year and applied as both governments respond to the emerging picture. The accumulation of Barnett consequentials and overlapping UK and Scottish Government spending announcements has further increased the complexity and volatility affecting the Scottish public finances during the year. The increases in block grant were spread unevenly throughout the year. The Scottish Government has decided to carry the most recently announced UK funding of £1.1 billion to 2021/22.
5. The introduction of Barnett guarantees during 2020/21 meant that the UK Government committed to levels of funding to the Scottish budget during the year, in advance of potential UK spending announcements that generate specific consequentials. This provided some earlier certainty to the Scottish Government over aggregate funding levels against which to make its own Covid-19 spending announcements. But also provides challenges and complexities in other respects, as it is not clear what UK spending the guaranteed funding relates to. If the Scottish Government commits this funding to its own spending initiatives, those funds would not be available to match any UK spending announcements made later.
6. We estimated that the Scottish Government made over 170 Covid-19 related announcements between March and December 2020. The figures announced will not link directly to what is added to the budget for 2020/21, because some announcements are spread over multiple years, some programmes have underspends that are then recycled into other projects and some demand led projects do not include estimates of the required spending in the announcements.

7. The Scottish Government has sought changes to the existing fiscal framework, including additional borrowing powers, to help it respond to the financial impact and uncertainties of the crisis. These have not been agreed by the UK Government.
8. As more spending and funding announcements are made, and as the Scottish Government move into post-vaccine recovery phase, tracking the budget will become more complex, as spending links more widely with economic development issues, and other government goals. This means that transparency over spending pressures, and the governance arrangements within public bodies charged with disbursement of this spending, must be maintained.
9. Our Scottish exchequer team is tracking the developing financial position, and the emerging financial and performance risks. A key innovation to support this work has been the development of a Covid-19 spending dashboard. This is available internally to all audit staff enabling teams across the organisation to explore detailed spending announcements for their area of interest. A video demonstrating the dashboard is available [here](#) (internal users only). This information is being used to help develop our work programme and risk assessment at individual public bodies. Consideration of the impact of Covid-19 is now an integral feature of all our auditing.

### Spring Budget Revision 2020/21

10. The Scottish Government has recently published its third budget revision of this financial year, its Spring Budget Revision (SBR). The Scottish Government's 2020/21 approved budget has increased by a net £7.1 billion in total since the beginning of the financial year, primarily because of the additional spending required to cover the costs of the Covid-19 pandemic. Budget revisions include a range of technical amendments alongside changes to spending programmes. All £8.6 billion of Barnett consequentials arising in relation to Covid-19 have now been deployed in the 2020/21 Scottish budget or deferred to 2021/22.

### Scottish Government budget for 2021/22

11. The Scottish Government announced its proposed Scottish budget for 2021/22 was on the 28 January 2021. This set a total budget of £54 billion, a cash terms increase of 9 per cent on the previous year's baseline. This included £1.8 billion of spending for Covid-19. The timing of the budget was disrupted this year due to Covid-19, departing from the agreed timetable established following recommendations of the Budget Process Review Group, restricting the opportunity for Parliamentary scrutiny and increasing budget uncertainty for local government.
12. This budget was set in the context of uncertainty over the amount of money the Scottish Government would have to spend in the year. This was because the UK Budget had been pushed back to 3 March, after the Scottish budget. This meant that the Scottish Government had to make its budget proposals without a clear idea of what funding it would receive from the UK Government (though some information was provided about this at the UK Spending Review in November 2020), or what tax policies the UK Government would set. This made it harder for the Scottish Government to set its own tax policies, particularly for Scottish Income Tax (which needs to be set before the year-end) or introduce its desired policy of 100 percent Non-domestic Rates relief for businesses most affected by the pandemic.
13. In advance of the Stage 1 debate on the budget, the UK Government announced a further £1.1 billion in Barnett consequentials for 2020/21. The Scottish Government intends to apply the latest announced 2020/21 Barnett consequentials of £1.1 billion to its 2021/22 budget, and this has been agreed with HM Treasury.
14. The Cabinet Secretary for Finance has announced that this additional spending will be used to support a range of programmes in 2021/22, including providing full rates relief for properties in the retail, hospitality, leisure and aviation sectors to cover all of 2021/22. Additional funding will also be given to education, to provide support to low-income households, and extra support for mental health and to reduce waiting times.
15. The Stage 1 debate was held on the 25 February. This passed with the support of the SNP, Labour and the Liberal Democrats, with the Conservatives voting against and the Green Party abstaining. This budget is different than most years, with more focus on the Stage 2 and 3 of the bill process, which will be held in the week beginning 8th March.

## Developments following the UK budget

16. The UK Budget was announced on 3 March. This set out further support of £65 billion in 2020/21 and 2021/22 for Covid-19. This included the continuation of furlough until September, a fourth grant for self-employed people, and the continuation of the £20 uplift in Universal Credit, for a further six months. The UK Budget confirmed an additional £1.2 billion of Barnett consequential for the Scottish Budget. The Scottish Government had anticipated £500 million of this funding in its budget proposals.
17. On 8 March the Scottish Government agreed a Budget deal with the Scottish Green Party and the Liberal Democrats in advance of Stage 3 of the Budget Bill. This included a range of initiatives, including:
  - Pandemic Support Payments to households receiving Council Tax Reduction and families of children qualifying for free school meals.
  - The phased introduction of free school meals to all primary school children by August 2022.
  - An £800 pay rise for public sector workers earning up to £25,000, and a 2% increase for those earning over £25,000 up to £40,000.
  - £40 million to support the green recovery.
  - A just transition training fund for the North East.
  - A commitment to protect specialised eye services in Lothian.
18. The Scottish Fiscal Commission noted that with the exception of public sector pay, the deal is funded from the additional UK Government funding.<sup>1</sup> The deal on public sector pay is estimated to cost £100 million but will depend on the deals reached with different workforces, and the Scottish Government plan to revise the Budget during the year to account for this.
19. For Stamp Duty, the tax holiday will continue until June 2021 for residential property purchases up to £500,000 in England. In Scotland, the LBTT holiday (which applies a zero rate to residential properties up to £250,000) will end this month. The Cabinet Secretary for Finance has linked this to the decision in Scotland to extend some key Non-Domestic Rating reliefs to the whole of 2021/22, beyond the extension period proposed by the UK Government.
20. Finally, for income tax, the Chancellor announced that income tax Personal Allowance and higher rate threshold will be uprated in line with inflation for 2021, then maintained at those levels until 2026. The Scottish Government does not have devolved powers over the personal allowance, but had otherwise kept the rates and thresholds the same as last year and increased its top rate threshold by inflation.

## Scotland specific shock

21. In the Scottish Budget 2021/22, the Scottish Government announced that the Scotland specific shock powers have been triggered based on Office of Budget Responsibility (OBR) and Scottish Fiscal Commission economic forecasts. These powers were set out in the Fiscal Framework in 2016 and have been triggered for the first time. They are now available because, on a rolling four quarter basis:
  - Annual GDP growth in Scotland is forecast to be below 1.0 per cent; and
  - growth in Scotland is forecast to be 1.0 percentage point or more below the UK.<sup>2</sup>
22. The difference in the forecasts of UK and Scottish growth means the resource borrowing limit increases from £300 million to £600 million and the drawdown limits from the Scotland Reserve are removed for the next three years. The capital borrowing limits are unchanged.
23. Once the shock criteria were triggered the Scottish Government has access to the additional flexibilities and is using these to support its budget plans. It was expected that once the Office of

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<sup>1</sup> [Scottish Fiscal Update](#), Scottish Fiscal Commission, 9 March 2021

<sup>2</sup> For more information on the Scotland specific shock, please see [Scotland's Economic and Fiscal Forecasts](#), p34, Scottish Fiscal Commission, January 2021

Budget Responsibility (OBR) updated their forecasts at the time of the UK Budget, the conditions for the Scotland specific shock would no longer apply and the difference between UK and Scottish growth would not be forecast to be as significant. The OBR were able to draw on more data on economic activity and the vaccine rollout than the SFC had access to in January. The OBR's forecasts are more positive and the Scotland-specific economic shock is still forecast. The SFC have noted that they still consider Scottish and UK economic outlook to be similar, and that the Scotland-specific shock is still at least partly due to timings of forecasts.<sup>3</sup>

## Medium term outlook

24. The Scottish Government published its latest medium-term financial strategy (MTFS) alongside the 2021/22 Scottish budget.<sup>4</sup> This sets out its assessment of Scotland's economic and fiscal outlook, as well as a broad spending outlook considering the effect of changing funding levels for government spending. The strategy includes broad funding and spending scenarios and sets out the Scottish Government's overall priorities. There is no information about planned spending options and how these could affect outcomes. We will report on the MTFS through our audits in due course.

## Social Security powers

25. The Auditor General for Scotland published his section 22 report on Social Security Scotland's 2019/20 audit in December 2020.<sup>5</sup> As was the case in 2018/19, the independent auditor's report included a qualified opinion on the regularity of expenditure and income because of overpayments of Carer's Allowance attributable to error and fraud. Expenditure resulting from such overpayments was not incurred in accordance with the Social Security Contributions and Benefits Act 1992.
26. Administrative responsibility and accountability for the benefits - executive competence - has been devolved in stages. For the 2019/20 audit year, the Scottish Government was responsible for Carer's Allowance, Sure Start Maternity Grant (which it has replaced and extended with Best Start Grants) and Funeral Expenses Payment (which it has replaced with Funeral Support Payment). Social Security Scotland also administered three Scottish only benefits, Carer's Allowance Supplement, Young Carer Grant and Best Start Foods. Executive competence for most remaining devolved benefits transferred on 1 April 2020, at which point Social Security Scotland became accountable for approximately £3.5 billion of annual social security expenditure. The Scottish Government has agreed that the DWP will continue to administer Carer's Allowance and other benefits on its behalf, until it is able to directly administer them.
27. On 1 April 2020 the Scottish Government announced changes to its delivery timetable for the remaining devolved benefits due to the impact of the Covid-19 pandemic. Further announcements followed in August 2020 for the delivery of the Scottish Child Payment and Child Winter Heating Assistance. In November 2020 the Scottish Government set out its revised delivery plans for Child Disability Payment and Adult Disability Payment. An updated timeline for delivery of the remaining benefits is set out below. The Scottish Child Payment for children under six opened for applications in November 2020, with first payments being made in February 2021.

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<sup>3</sup> *ibid*

<sup>4</sup> Scotland's Fiscal Outlook: The Scottish Government's Medium Term Financial Strategy, Scottish Government, January 2021

<sup>5</sup> The 2019/20 audit of Social Security Scotland, Auditor General for Scotland, Dec 2020

Figure 1 Timelines for the delivery of Scottish social security benefits

Wave 2 benefits	Delivery date pre Covid-19	Revised delivery
Severe Disablement Benefit Allowance <sup>1</sup>	April 2020	April 2020
Scottish Child Payment (under 6s)	Applications: Autumn 2020 Payments: Christmas 2020	Applications: November 2020 Payments: February 2021
Winter Heating Assistance – Children	By end 2020	November 2020
Child Disability Payment	Summer 2020	Pilot: Summer 2021 Full roll out: Autumn 2021
Adult Disability Payment	Early 2021	Pilot: Spring 2022 Full roll out: Summer 2022
Carer's Additional Child Payment	Early 2021	 <p>Delivery timetable being revised - dates to be announced</p>
Pension Age Disability Payment	End of 2021	
Cold Spell Heating Assistance	Winter 2021	
Winter Heating Assistance – Older People	Winter 2021	
Scottish Carer's Assistance	Early 2022	
Industrial Injuries Disablement Benefit	Autumn 2022	
Scottish Child Payment (under 16s)	End of 2022	

28. The 2021/22 budget includes around £3.6 billion of spending for devolved social security payments. This makes it the third largest area of the budget after health and local government. The Department for Work and Pensions will administer £3.3 billion of this, and £158 million will be administered by Social Security Scotland.<sup>6</sup> Devolved social security spending is forecast to grow from £3.6 billion in 2021/22 to £4.3 billion in 2025/26. However, this doesn't take into account that the Scottish versions of DWP benefits could be more expensive. SPICe note that: "the Scottish Government is focusing on 'safe and secure' transfer and not proposing large scale changes. However, given the scale of [Personal Independence Payment], small differences of policy could still have a big impact."<sup>7</sup>
29. Our integrated social security team is now well established, enabling us to take a strategic approach to the financial and performance audits of social security, including Housing Benefit performance auditing undertaken on behalf of the Accounts Commission.

## EU exit

30. The UK Government and the European Union reached agreement about their future trading relationship and the governance of that relationship on 24 December 2020. Following parliamentary scrutiny on 30 December 2020, the agreement became law. The UK completed its transition out of the European Union at 2300 on 31 December 2020. New border arrangements between the UK and EU member states came into force immediately, along with new arrangements within the UK to maintain the status quo at the border between the Republic of Ireland and Northern Ireland.
31. The agreement meant that immediate concerns about the supplies of food, medicines and medical equipment into the UK without an agreement ("no deal") were alleviated. There does not appear, to date, to have been an immediate impact on the flow of imports but this may have been offset by stockpiling in advance of the end of 2020. During January 2021 there were significant border problems affecting fisheries exports, trade between Northern Ireland and Great Britain, and other

<sup>6</sup> This does not include spending for Child Disability Payments. If child Disability Living Allowance cases are transferred quickly, this could change for 2021/22.

<sup>7</sup> Social Security Budget 2021-22, SPICe, February 2021

trade. The Scottish Fiscal Commission expect many of these problems to be short lived, but this highlights the border frictions caused by EU exit, and why international trade is forecast to grow more slowly in the future.<sup>8</sup>

### Implications for the Scottish public sector

32. We have previously identified people, finance and the economy and rules and regulations as the three key areas of long-term uncertainty associated with EU exit for the public sector. At a strategic level, these three areas remain the most significant.
33. Within the public sector, the NHS, teaching and higher education may be affected by reductions in the number of workers wishing to come to the UK from the EU. Overall, social care is likely to be the most critically affected area, especially in the privately operated part of the sector. In the longer term it is unclear what effect exit from the EU and the UK government's revised migration policy will mean for migration into Scotland.
34. It has always been predicted that for certain policy areas (food and environmental standards), there would be significant regulatory changes associated with EU exit and this has proven to be the case. The provisions of the UK Internal Market Act (UKIMA) provide for an integrated, single market with common standards across the whole of the UK. This may mean that areas that have previously been devolved to the Scottish Parliament may return to Westminster.
35. Under the UKIMA UK Ministers also now have a new power to provide direct funding for activities and infrastructure in Scotland, including in devolved areas, without the funding passing through the Scottish Consolidated Fund. This enables some funding streams replacing those previously provided by the EU (including structural funds) to be provided on a whole of UK basis.
36. On 24 February 2021 the UK Government announced that its Levelling Up Fund would be extended to the whole of the UK. The Chief Secretary to the Treasury, said that "communities in Scotland, Wales and Northern Ireland will now all benefit from at least £800 million of investment by the UK Government for town centre and high street regeneration, local transport, cultural and heritage projects". The fund will invest in local infrastructure and will run from 2021/22 to 2024/25. Previously it had been thought the Fund would be England only, leading to Barnett consequential (estimated £400 million) that would be assigned as part of the Scottish Government's budget.
37. Further details on how the Fund will operate were published at the UK Budget – including who can bid, the types of projects eligible for funding, and the criteria for assessing proposals.

### Implications for the Scottish economy

38. The Scottish Fiscal Commission published their updated forecasts for the Scottish economy alongside the Scottish budget on 28 January 2021. The January 2021 forecasts include the same judgements about EU exit as had been used in their recent forecasts, based on a smooth transition to a new free trade agreement with the EU. These assumptions are broadly in line with those used by the Office of Budget Responsibility in its November 2020 forecast for the UK.
39. The SFC notes: "the deal eliminates the immediate uncertainty around the outcome of the negotiations which has affected our recent forecasts, but there remains significant uncertainty about the long-run effects of Brexit on the Scottish economy."<sup>9</sup>
40. The January 2021 forecasts capture the effects of EU Exit through three main channels:
  - Productivity – SFC forecast slow growth in productivity, in part because of EU exit.
  - Trade – SFC forecast slower growth in Scottish international trade from the end of the transition period.
  - Migration – the SFC forecast Scottish population growth to slow over the next few years, in part because of EU withdrawal.

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<sup>8</sup> Scotland's Economic and Fiscal Forecasts, Scottish Fiscal Commission, January 2021

<sup>9</sup> *ibid*

## European Agricultural Funds Accounts (EAFA)

41. The Scottish EAFA accounts for Financial Year (FY) 2020 were certified by the Comptroller and Auditor General, Gareth Davies, on 26th February 2021. We expect to receive clearance of accounts queries from the European Commission (EC) imminently. Based on previous experience we anticipate that these queries will be agreed by June 2021.
42. Following the UK's departure from the EU on 31 January 2020 the UK ceased to receive funding through the European Agricultural Guarantee Fund (EAGF) from 16 October 2020. Due to different regulatory arrangements, access to funding under the European Agricultural Fund for Rural Development (EAFRD) will continue for a further three years (to 15 October 2023). The UK Paying Agencies are required to submit audited accounts during this period.
43. For FY 2021 (to 15 October 2021) we estimate a resource requirement of 1,600 audit days (FY2020: 2,300 audit days). The audit fee for FY2021 is forecast to be £0.710m (FY2020: £1.034m). The audit team is currently undertaking planning work for the FY2021 audit. In doing so they are working closely with colleagues at the other UK audit agencies to identify areas for efficiency and to understand any ongoing commitments as a result of prior year derogations. If efficiencies are agreed the audit fee for FY2021 will be reduced.
44. Projections provided by the UK Co-ordinating Body (UKCB) estimate that EAFRD funding will reduce significantly to £39.1m in FY2021 and again to £2.2m in FY2022. Due to the prescribed nature of the certification guidelines there is unlikely to be a corresponding reduction in the resource requirement or audit fee for FY2022 and FY2023. In short, the level of input required will not be commensurate to the amount of expenditure being audited. The Senior Audit Manager is engaging with colleagues at the NAO and UKCB to explore potential solutions to this issue.

## Audit arrangements

45. In March 2019, the Scottish and UK Governments published a framework for audit and accountability arrangements for devolved services provided by UK public bodies (such as HMRC and DWP). The framework is an annex to the Fiscal Framework agreed between the governments. It sets out the arrangements for ensuring that public services in Scotland can be properly audited to help the UK and Scottish Parliaments hold public bodies to account.
46. Since the framework was finalised, we have engaged very positively with colleagues in the NAO to develop and agree audit arrangements in key areas. We have established initial arrangements with the NAO for both the financial and performance audits of devolved social security powers, to allow us to obtain evidence about areas administered by DWP on behalf of the Scottish Ministers. This is working well, and we continue to work constructively with them to develop arrangements further as more social security powers are devolved. We work with the NAO to provide assurance to the Scottish Parliament on HMRC's administration of Scottish income tax (see below).
47. VAT assignment to the Scottish budget was due to start from April 2021 but has been postponed until April 2022. This delay was requested by the Scottish Government and has been agreed by HM Treasury. Prior to the delay, we had been discussing with NAO how assurance over VAT assignment could be provided. This resulted in agreed preliminary outlines of possible assurance work. Discussions have been temporarily paused following the delay.

## Audit reporting

### Scottish Government 2019/20 Audit

48. The Scottish Government Annual Audit for 2019/20 and the [Section 22 report](#) were published in mid-December 2020. Net spending for the year across the government's consolidated accounts was £39,385 million - £669 million more than budget. The overspend was because of accounting for two large business support schemes agreed in March that cost £912 million. The audit opinion on the accounts was unqualified.
49. The Auditor General for Scotland gave [evidence](#) on the Section 22 to Public Audit and Post-Legislative Scrutiny Committee (PAPLSC) in mid-January. The committee discussed the Section 22 report's recommendations on establishing a framework for future strategic interventions which would consider all lessons learned from recent high-profile investments in Ferguson Marine, BiFab, and

Prestwick Airport. The Auditor General for Scotland outlined the process for the production of the 2020/21 consolidated accounts and discussed the medium-term financial strategy.

## Social Security 2019/20 Audit

50. The Auditor General for Scotland published his section 22 report on Social Security Scotland's 2019/20 audit in December 2020.<sup>10</sup> As was the case in 2018/19, the independent auditor's report included a qualified opinion on the regularity of expenditure and income because of overpayments of Carer's Allowance attributable to error and fraud. Expenditure resulting from such overpayments was not incurred in accordance with the Social Security Contributions and Benefits Act 1992.
51. The Auditor General for Scotland and team [provided evidence to PAPLSC](#) in mid-December. The committee asked questions relating to fraud and error, the agency's digital infrastructure, the impact of Covid-19 on the uptake of benefits, and the number of people employed by the new agency.

## Income tax

52. The Comptroller and Auditor General is required to [report](#) to the Scottish Parliament on HMRC's administration of Scottish income tax each year. The Auditor General also provides [additional assurance](#) on the NAO's audit work on Scottish income tax, and the additional assurance relating to the 2019/20 audit of Scottish Income Tax was published in January 2021.
53. The Auditor General for Scotland and the Comptroller and Auditor General and colleagues provided [evidence](#) to the PAPLSC in early February. The Committee asked questions relating to the implications of Covid-19 on Scottish Income Tax revenues and the impact this might have on the Scottish budget, the need for more accuracy in modelling in some areas, the treatment of savings and dividend income and the informal economy.

## Tracking the implications of Covid-19

54. On 24 February we published a [briefing](#) for the Auditor General for Scotland Tracking the implications of Covid-19 on Scotland's public finances. The briefing is part of a series of work that we are undertaking relating to Covid-19 and its impact on Scotland. It provides a snapshot of the position at the end of December in advance of the Spring Budget Revision. PAPSLC is taking evidence on the briefing on 11 March 2021.

## Finance and Constitution Committee legacy working group

55. Mark Taylor (Audit Director) was invited to take part in the Finance and Constitution Committee (FCC) legacy expert [panel](#). Other members of the expert panel included representatives from ICAS, Fraser of Allander, the Institute for Government, and the University of Edinburgh. The group published its report in January 2021. This recommended that:
  - The timing of key budget outputs for 2021/22 should be set out as soon as possible.
  - The successor Committee considers inviting the Scottish Fiscal Commission to publish a long-term fiscal sustainability report at least once during each session of the Parliament.
  - The current committee structure needs to be reviewed to address the step-change in devolution which has occurred over the past decade.
56. The Convener of the FCC welcomed the report and commend the relevant recommendations in the report for consideration by the Parliament and the Scottish Government.

## Organisational arrangements

57. The 2012 and 2016 Scotland Acts introduced new financial powers for the Scottish Parliament. Financial devolution introduced new responsibilities for Audit Scotland in areas where we had limited skills and experience, such as taxes and welfare benefits. We responded to this through our New Financial Powers and Constitutional Change (NFPCC) organisation change programme. The remit of the programme widened as a result of EU withdrawal. This programme has enabled us to maximise our contribution over the past five years as the new powers were implemented and ensured that we

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<sup>10</sup> [The 2019/20 audit of Social Security Scotland](#), Auditor General for Scotland, Dec 2020

had the skills and capacity across the organisation to fulfil our responsibilities effectively in a period of fundamental change to the Scottish public finances.

- 58.** The NFPCC strategic group continues to meet regularly to consider our response to ongoing developments. Much of the original work of the programme has been mainstreamed into our audit teams. The NFPCC programme of work has significantly changed how Audit Scotland works and the issues we cover. We have recently been reviewing the lessons learned from the NFPCC change programme. We expect to share the findings from this review and plans for the evolution of the programme at our next update to the Board.

## **Conclusion**

- 59.** The Board is invited to note the content of this report.

## Purpose

1. This report provides Board members with an overview of the findings from the Corporate Governance review of Board arrangements, which are for submission to the Board meeting on 24 March 2021.

## Background

2. The Board of Audit Scotland is committed to strong corporate governance and continuous improvement, and the Board has always welcomed internal and external reviews.
3. The Board's Standing Orders, the Scheme of Delegation, the Financial Regulations and the Codes of Conduct for Employees and Members are reviewed on an annual basis.
4. In 2019 the Scottish Commission for Public Audit (SCPA) undertook a review of Audit Scotland's governance arrangements. The SCPA published the report on the findings of the review on 26 June 2019.
5. The review concluded that:

'There is significant evidence to confirm that the Board of Audit Scotland has established robust governance arrangements that contribute to robust leadership, challenge and scrutiny. The existing Board members work well together contributing to the Board's overall effectiveness. Looking forward, whilst acknowledging the uncertainties inherent with significant change, Board members are currently adequately equipped in terms of resources, capacity and preparedness.'
6. On 18 September 2019 the Board considered a report on the outcome of the review. The review made eleven recommendations overall, most of these related to the SCPA. It made recommendations to Audit Scotland on matters relating to quorum, directions and attendance at Audit Committee. These were considered by the Board and the Standing Orders were updated to reflect the recommendations as appropriate.
7. The [Standing Orders](#) were updated as part of the annual review of corporate governance policies, tabled at the 30 September 2020 meeting alongside the Financial Regulations, Scheme of Delegation, Codes of Conduct for Members and Code of Conduct for Employees. Following the annual review, the Standing Orders have remained under review at each Board meeting, given that pandemic-related restrictions remain in place and consequently some Standing Orders remain suspended.
8. The Board also agreed to a focused review of specific corporate governance arrangements, in addition to the annual review of corporate governance policies. It was agreed that the scope of the focused corporate governance review would be considered by the Board at its meeting on 25 November 2020 as this would allow new members to settle into their roles and better inform the scope of the review.
9. Governance arrangements are also reviewed through the programme of internal audits carried out by BDO. A specific [audit](#) on corporate governance was considered by the Audit Committee at its meeting on 4 September 2019. The audit assessment provided substantial assurance in terms of design and operational effectiveness.

## Context, scope and methodology

10. The composition of the Board changed considerably over the course of 2020. Alan Alexander took over as Chair of the Board from 1 April. Stephen Boyle took over the role of Auditor General for Scotland (AGS) and Accountable Officer for Audit Scotland. Elma Murray became Interim Chair of the Accounts Commission. The Board also welcomed two new non-executive members, Jackie Mann and Colin Crosby.
11. All Board meetings and business have been conducted by MS Teams since the start of the pandemic in March 2020. This working context has impacted on the ability of new and existing Board members to

fully engage with each other and develop the working relationships that would have been possible pre-pandemic. During the last year there have been no opportunities for Board members to come together informally in the office or safely outwith the organisation.

12. The scope of the review was approved by the Board at its meeting on 25 November 2020. The areas for consideration were agreed as:
  - matters taken in public and in private
  - the minuting of meetings
  - the induction and personal development of members
  - collective Board development.
13. The Corporate Governance Manager facilitated individual review sessions with Board members during February and March 2021.

## Findings from the review

14. Through the review process it became evident that three key matters had a considerable bearing on the viewpoints shared and conclusions drawn. Firstly, the significant level of change to the Board during 2020, secondly, the organisational reliance on digital working and collaboration in response to lockdown and, thirdly, the complexity of providing a consistent personal development programme for all new executive and non-executive members.

## Matters taken in public and in private

15. The Board remains committed to openness and transparency. The default position is that all agenda items are considered in public, while recognising that on occasion it may be appropriate for some items to be taken in private. Members discussed whether there should be a pre-determined ratio for public and private matters. This was rejected as inflexible and impractical, given the varying nature of Board business.
16. Board members confirmed that the existing criteria for private items/reports not for publication remains appropriate:
  - statutory/security/legal
  - commercial sensitivity
  - effective conduct of business.
17. The Board members agreed that the minuting of items taken in private should be set out in a meaningful and transparent manner. The minute should state the item discussed in private, the reason it was considered in private and the conclusion/decision reached.
18. It was suggested that in advance of the Board meeting members may wish to confirm those items which are to be taken in private and the reason why.

## Meeting minutes

19. The Board reflected on the style, content and detail of the minutes. It was agreed the minutes should provide an overview of discussion and the decision reached. This feedback from members formally endorses the Board's informal pre-review position.
20. It was recognised that where consensus is not achieved this should be recorded.

## Induction and personal development of members

21. Audit Scotland's non-executive Board members are appointed by the Scottish Parliament and the Auditor General for Scotland and Chair of the Accounts Commission are members by virtue of their appointment to those positions. Audit Scotland does not make the appointments to the Board.

22. Each Board member brings a wealth of skills and experience to Audit Scotland. It is also important that Board members have the relevant information, support and skills to fulfil their role effectively.
23. Board members reflected on their own responsibilities in terms of identifying any knowledge gaps or areas for development and recognised the need to take responsibility to address these with support from Audit Scotland as required.
24. The Board reflected on whether a formal skills/training needs analysis was required and agreed a focused discussion on training and development needs was a more appropriate and proportionate approach. Collective Board development sessions would assist members to become more familiar with the skills and expertise of fellow Board members, and how these could best be deployed effectively.
25. The Chair of the Board is subject to an annual appraisal/review by the SCPA. The members appointed by the SCPA are appraised on an annual basis by the Chair of the Board. The Auditor General for Scotland is accountable to the Scottish Parliament and the Interim Chair of the Accountable Commission is accountable to Scottish Ministers, therefore it was considered that additional appraisal for these roles is not required.
26. In considering the arrangements which might support the ongoing development of members, it was suggested that the Board consider revisiting the 'buddy' system between the Board and the Accounts Commission which allowed for members to become more familiar with their respective areas of business.

### Collective Board development

27. Over the last two years the Board has held development sessions focused on managing relationships with key stakeholders and managing organisational risks. These sessions have typically been supported by an external facilitator.
28. Due to the constraints of remote working the next Board development session is scheduled to take place in two stages on 31 March 2021 and 10 May 2021.
29. Over the course of the next 12-24 months, Board members, in recognition of the newness of the Board, suggested that the development sessions focus on managing relationships and working together to achieve combined aims. Organisational risk, good governance and how the Board extends equality in the corporate boardroom were also proposed as future development themes.

### Other points raised

30. The Board recognised the pandemic has accelerated pre-existing trends in remote working, and the implications this has for public audit in terms of how information is consumed. The agility of Audit Scotland, and how the organisation adapts traditional approaches to remain dynamic and responsive was submitted as an additional area for the focus of Board development sessions.
31. The Board has suspended some of its Standing Orders due to the current working context, including meeting in public. It was suggested that the Board consider how meetings be conducted post pandemic, for example, should Board meetings always be face-to-face, and if so, would this apply just to the members, or extended to officers. The Board may wish to consider the emphasis on remote working implied by Audit Scotland's UK wide recruitment campaign.

### Actions/recommendations arising from the review

**32. Recommendation one:**

The Board considers how the public and private items are agreed in advance of the meeting.

**33. Recommendation two:**

The Board agrees the proposed focus of future development sessions as outlined in paragraph 29.

**34. Recommendation three:**

The Board considers how the 'buddy' system might be re-introduced to support development of relations between the Board and the Accounts Commission.

**35. Recommendation four:**

The Board discusses how future Board meetings should take place when working from home is no longer enforced.

- 36.** Depending on the outcome of the decisions Board members make, Corporate Governance will consider any changes which might be required to the Standing Orders.

**Recommendations**

- 37.** The Board is invited to discuss the findings and actions/recommendations arising from the review.

## Purpose

1. This report updates the Board on the annual review of our Data Protection policy and proposes amendments for which their approval is sought.

## Background

2. During April 2018, the Data Protection Policy was updated to reflect the introduction of the EU General Data Protection Regulations (GDPR). The Board agreed this would be reviewed on an annual basis.
3. Since the approval of the policy the Information Commissioner's Office (ICO) continues to issue regular guidance updates and clarifications in respect of the legislation. The Corporate Governance team closely monitors these with the aim of informing staff of any significant changes which would impact on operational practice.
4. In line with review timescales, the Data Protection Policy was reviewed during February 2021 and updated to reflect new ICO guidance. The refreshed draft policy is appended to this report and changes have been tracked. The policy has also been shared with the Knowledge, Information and Technology Governance Group (KITGG) for their review and feedback.
5. The review and approval process of the policy demonstrates our continued commitment to ensure our policies comply with standards. The policy will next be subject to review in March 2022 to ensure it remains fit for purpose.
6. The UK is no longer part of the European Union having formally left on 31 January 2020. From this period until 31 December 2020, the UK was in a 'transition period' to allow for negotiations on additional arrangements on trade, travel and business between the UK and EU to be concluded. During this period the GDPR still applied and given the Data Protection Act (2018) enshrined the GDPR, the UK government began to refer to the UK GDPR.
7. As part of the terms of the exit agreement reached on 24 December 2020, the EU agreed to a four-six month data bridge to allow the European Data Protection Board (EDPB) to assess the adequacy of the UK data protection regime in terms of compliance with the EU GDPR. During February 2021 there were positive indications that an adequacy decision is imminent. This draft decision provides assurance about the continuing flow data between the EU and the UK without needing additional safeguards or authorisation from a supervisory authority.

## Policy changes

8. The following changes have been applied to the policy:
  - an update on data protection following the end of transition arrangements between the United Kingdom and the European Union
  - references to the GDPR have been updated to UK GDPR to reflect that the Data Protection Act 2018 enshrined the EU GDPR.

## Recommendations

9. The Board is invited to approve the proposed amendments to the Data Protection policy.

## Data Protection Policy

Owned and maintained by:	Corporate Governance Manager				
Approved from:	April 2021	Next review:	April 2022	Version:	17

### Introduction

1. The Data Protection Act (DPA) 2018 sets out the framework for data protection law in the UK. It updates and replaces the Data Protection Act 1998 and came into effect on 25 May 2018.
2. It sits alongside the European Union (EU) General Data Protection Regulations (GDPR), and tailors how the GDPR applies in the UK - for example by providing exemptions. It also sets out separate data protection rules for law enforcement authorities, extends data protection to some other areas such as national security and defence, and sets out the Information Commissioner's functions and powers.
3. The frameworks are comprehensive and apply tough punishments for non-compliance with rules around the storage and handling of personal data

### UK GDPR

4. The United Kingdom (UK) officially exited the EU on 31 January 2020, and thereafter entered a 'transition period' which ~~will apply until at least ended on 31~~ December 2020. During this time, ~~Data Protection~~ statutory obligations ~~around Data Protection~~ ~~will~~ remained the same ~~to ensure the continued smooth flow of data between the UK and the EU. Within the UK, the DPA (2018) became known as the UK GDPR.~~ ~~The Corporate Governance Team will continue to monitor and review any impending changes which will impact on the data protection regime within the UK. In the event of any changes to our statutory obligations these will be reflected as and when appropriate. This may mean that the Data Protection Policy, which is subject to annual review may be reviewed earlier than the next scheduled update of April 2021.~~
- 3-5. The UK and the EU agreed the terms of an exit agreement on 24 December 2020. As part of this, a four month 'data bridge' was established (with the potential for extending this to six months), which would allow the EU to assess the adequacy of the UK data protection regime to ensure the continued smooth flow of data between the UK and the EU. There are positive indications that the EU will provide an adequacy decision on the UK GDPR, and that this be formalised by June 2021.
- 4-6. This Data Protection Policy applies to the Auditor General, the Accounts Commission and Audit Scotland. Throughout this policy the terms 'we' and 'us' are used to refer to the Auditor General, the Accounts Commission and Audit Scotland collectively.

5.7. As Data Controllers, we are committed to processing personal data (information) lawfully, fairly and in a transparent manner.

6.8. To discharge our statutory functions we collect, process, store and delete personal information covered by data protection legislation. Examples include information on current, past and prospective employees, Accounts Commission members' and previous Auditors General, clients, suppliers, correspondents, complainants, people covered by the audit process and others with whom we communicate.

7.9. We recognise the benefits of protecting an individual's fundamental rights and freedoms and in particular their right to the protection of their personal information. We also recognise the seriousness of failing to comply with data protection legislation and the resulting risk to our reputation. Therefore, we are committed to:

7.1-9.1. ensuring that all personal information is processed lawfully and in compliance with current data protection legislation;

7.2-9.2. ensuring that our digital systems are secure, and that personal information will be stored securely;

7.3-9.3. implementing effective systems for ensuring the rights of individuals, such as systems for handling and responding to data subject access requests within one month or receipt (requests from individuals to access their personal information);

7.4-9.4. designing systems, processes and methods of working that protect personal information entrusted to us (privacy by design and default);

7.5-9.5. undertaking data protection impact assessments as necessary for major new projects or when considering new software;

7.6-9.6. full awareness of and on-going training in data protection legislation, its implications for our work, our data protection arrangements and our data loss/incident process;

7.7-9.7. implementing effective systems for handling security breaches and data losses;

7.8-9.8. ensuring that when we use a data processor that a written contract is in place so that both parties understand their responsibilities and liabilities;

7.9-9.9. ensuring that any data processor we use also implements appropriate technical and organisational measures;

7.10-9.10. conducting regular testing and reviews of our measures to ensure they remain effective, and act on the results of those tests where they highlight areas for improvement;

7.11-9.11. understanding that encryption can be an appropriate technical measure to ensure that we process personal data securely;

7.12-9.12. ensuring that we keep our encryption solution(s) under review in the light of technological developments.

**8-10.** Data-matching exercises as part of the National Fraud Initiative are subject to a detailed Code of Data-Matching Practice which complies with this policy.

## Definition

**9-11.** Personal data is defined as '*any information relating to an identified or identifiable natural person (data subject); an identifiable natural person is one who can be identified, directly or indirectly, in particular by reference to an identifier such as a name, an identification number, location data, an online identifier or to one or more factors specific to the physical, physiological, genetic, mental, economic, cultural or social identity of that natural person*'.

**10-12.** It applies only to living individuals and covers their personal information held on physical or digital medium.

## Data protection principles

**11-13.** The [EU 2016/679 UK](#) General Data Protection Regulation ([UK](#) GDPR) contains seven principles for processing personal information. They specify the standards that must be met when obtaining, handling, processing, transporting and storing personal information. The seven data protection principles are listed below:

**11-1-13.1.** Lawfulness, fairness and transparency;

**11-2-13.2.** Purpose limitation;

**11-3-13.3.** Data minimisation;

**11-4-13.4.** Accuracy;

**11-5-13.5.** Storage limitation;

**11-6-13.6.** Integrity and confidentiality (security); and

**11-7-13.7.** Accountability

**12-14.** In line with these principles, we will only process personal information where we have a lawful purpose for doing so and be cognisant of rules relating to exemptions that apply.

**13-15.** To comply with the seven data protection principles, we will:

**13-1-15.1.** process personal information lawfully, fairly and in a transparent manner in relation to the data subject;

**13-2-15.2.** only collect personal information for specified, explicit and legitimate purposes and not further process it in a manner that is incompatible with those purposes;

**13-3-15.3.** ensure that the personal information we collect is adequate, relevant and limited to what is necessary in relation to the purposes for which they are processed;

**13.4.15.4.** ensure the accuracy of personal information and, where necessary, keep the information up to date; personal information that is inaccurate will be erased or rectified without delay;

**13.5.15.5.** only keep personal information in a form which permits identification of data subjects for no longer than is necessary for the purposes for which the personal data are processed; personal data may be stored for longer periods insofar as the personal data will be processed solely for archiving purposes in the public interest, scientific or historical research purposes;

**13.6.15.6.** ensure personal information is only processed in a manner that ensures appropriate security of the personal information, including protection against unauthorised or unlawful processing and against accidental loss, destruction or damage, using appropriate technical or organisational measures ('integrity and confidentiality'); and

**13.7.15.7.** ensure that we can demonstrate compliance with [UK](#) GDPR regulations by being able to evidence the steps we have taken to secure personal data including removal / redaction. We require to have a process in place to manage any requests, but also need to have a full audit trail to prove that we undertook the proper actions.

## Disclosure of personal information

**14.16.** We will only disclose personal information to:

**14.1.16.1.** those who are entitled to the information;

**14.2.16.2.** any authority we are required to do so by law e.g. HMRC; and

**14.3.16.3.** anyone to whom we are required to disclose it, such as individuals seeking to access their own personal data.

## Rights of the individual

**15.17.** The [UK](#) GDPR provides the following rights for individuals which we as an organisation must be cognisant of:

**15.1.17.1.** The right to be informed - this covers some of the key transparency requirements of the GDPR. It is about providing individuals with clear and concise information about what you do with their personal data. Articles 13 and 14 of the [UK](#) GDPR specify what individuals have the right to be informed about.

**15.2.17.2.** The right of access - this is commonly referred to as subject access and gives individuals the right to obtain a copy of their personal data as well as other supplementary information. It helps individuals to understand how and why you are using their data, and check you are doing it lawfully.

**15.3.17.3.** The right to rectification - Under Article 16 of the [UK](#) GDPR individuals have the right to have inaccurate personal data rectified. An individual may also be able to have incomplete personal data completed – although this will depend on the purposes for the

processing. This may involve providing a supplementary statement to the incomplete data.

**15.4-17.4.** The right to erasure - Under Article 17 of the [UK](#) GDPR individuals have the right to have personal data erased. This is also known as the 'right to be forgotten'. The right is not absolute and only applies in certain circumstances.

**15.5-17.5.** The right to restrict processing - Article 18 of the [UK](#) GDPR gives individuals the right to restrict the processing of their personal data in certain circumstances. This means that an individual can limit the way that an organisation uses their data. This is an alternative to requesting the erasure of their data. Individuals have the right to restrict the processing of their personal data where they have a particular reason for wanting the restriction. This may be because they have issues with the content of the information you hold or how you have processed their data. In most cases you will not be required to restrict an individual's personal data indefinitely but will need to have the restriction in place for a certain period of time.

**15.6-17.6.** The right to data portability - The right to data portability gives individuals the right to receive personal data they have provided to a controller in a structured, commonly used and machine-readable format. It also gives them the right to request that a controller transmits this data directly to another controller.

**15.7-17.7.** The right to object - Article 21 of the [UK](#) GDPR gives individuals the right to object to the processing of their personal data. This effectively allows individuals to ask you to stop processing their personal data. The right to object only applies in certain circumstances. Whether it applies depends on your purposes for processing and your lawful basis for processing.

**15.8-17.8.** Rights in relation to automated decision making and profiling - Under Article 4 (4) any form of automated processing of personal data consisting of the use of personal data to evaluate certain personal aspects relating to a natural person, in particular to analyse or predict aspects concerning that natural person's performance at work, economic situation, health, personal preferences, interests, reliability, behaviour, location or movements.

## Data protection officer

**16-18.** The Corporate Governance Manager is our designated data protection officer and is to be involved appropriately and in a timely manner, in all issues which relate to the protection of personal information.

## Personal responsibility

**17-19.** Data protection is the responsibility of everyone, and this principle is embedded in our Code of Conduct. We are all expected to ensure that we collect, process, store, share and dispose of personal data in a fair and lawful manner, in accordance with this policy and data protection legislation, and to undergo training as required.

## Training and awareness

18-20. We are committed to ensuring full staff awareness of our statutory obligations around Data Protection, Information Security and Environmental Information Regulations. All staff receive mandatory training on the pertinent legislation and its implications for our work. The training of staff is regularly tracked and monitored to maintain organisational compliance. We are committed to maintaining effective systems for handling personal data to meet our obligations under this legislation.

19-21. Guidance on the application of data protection is available on [SharePoint](#)

## Misuse of personal information

20-22. Failure of staff to comply with this policy and the data protection principles may result in action under Audit Scotland's disciplinary policy.

## Change log

Version	Date	Author	Description
13	12/04/2018	Corporate Governance Manager	Data protection policy changed to include GDPR requirements and the commencement of this change log.
14	26/03/2019	Corporate Governance Manager	Updated to reflect the further guidance updates on GDPR since April 2018
15	01/05/19	Corporate Governance Manager	Revised policy approved by Audit Scotland Board
16	24/03/20	Corporate Governance Manager	Revised policy for the approval of KITGG (4 March) and Board (25/03/2020)
<a href="#">17</a>	<a href="#">24/03/2021</a>	<a href="#">Corporate Governance Manager</a>	<a href="#">Revised policy for the approval of KITGG (March) and Board (24/03/2021)</a>