

Wednesday 2 June 2021 at 12.00noon

By Teams

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1. Private meeting of members
  2. Welcome and apologies
  3. Declarations of interests
  4. Items to be taken in private
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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 draft minutes:<br>- Board meeting 19 May 2021 | For approval    |
| 9. Governance arrangements: review of standing orders      | For discussion  |
| 10. Review of action tracker                               | For information |
| 11. Covid-19 – verbal update                               | For information |
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## Strategic priorities

- |   |                 |
|---|-----------------|
| 12. Strategic improvement programme - verbal update | For information |
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## Business planning, performance and governance

- |  |                 |
|--|-----------------|
| 13. Q4 Financial performance report  | For information |
| 14. 2020/21 Annual report on international work  | For approval    |
| 15. 2020/21 Annual report on complaints  | For approval    |
| 16. 2020/21 Annual report on freedom of information and environmental information          | For approval    |
| 17. 2020/21 Annual report from the Chair of the Audit Committee                            | For approval    |
| 18. 2020/21 Annual report from the Chair of the Remuneration and Human Resources Committee | For approval    |
| 19. Policy on the provision of non-audit services by Audit Scotland's external auditor     | For approval    |
| 20. Counter Fraud Policy review  | For approval    |
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|--|-----------------|
| <b>21.</b> 2020/21 Governance statement and certificate of assurance | For approval    |
| <b>22.</b> Audit summary report for the year ended 31 March 2021     | For information |

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### Items to be taken in private

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|---|-----------------|
| <b>23.</b> Quality of public audit in Scotland 2020/21  | For approval    |
| [Item to be taken in private to support the effective conduct of business, intended for future publication] |                 |
| <b>24.</b> 2020/21 Q4 Corporate performance report  | For information |
| [Item to be taken in private to support the effective conduct of business, intended for future publication] |                 |
| <b>25.</b> Draft Annual Report and Accounts: Year ended 31 March 2021                                       | For approval    |
| [Item to be taken in private to support the effective conduct of business, intended for future publication] |                 |
| <b>26.</b> New audit appointments update  | For information |
| [Item to be taken in private to support the effective conduct of business, commercial sensitivity]          |                 |

# Minutes

Wednesday 19 May 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  
Stuart Dennis, Corporate Finance Manager  
David Blattman, Human Resources (HR) and Operational Development (OD) Manager  
Simon Ebbett, Communications Manager  
Gayle Fitzpatrick, Corporate Governance Manager  
David Robertson, Digital Services Manager  
Graeme Greenhill, Senior Audit Manager, Performance Audit and Best Value  
Ian Metcalfe, Corporate Governance Officer  
Agata Maslowska, Audit Manager, Performance Audit and Best Value  
Elaine Boyd, Associate Director, Audit Quality and Appointments  
Kathrine Sibbald, Project Manager, Audit Quality and Appointments  
Carolyn McLeod, Audit Director, Performance Audit and Best Value  
Gemma Diamond, Audit Director, Performance Audit and Best Value  
Michelle Borland, Business Manager, Performance Audit and Best Value

## 1. Private meeting of Board members

The Board met privately and there were no matters arising.

## 2. Welcome and apologies

*Diane McGiffen, Chief Operating Officer, Martin Walker, Associate Director, Corporate Performance and Risk and Stuart Dennis, Corporate Finance Officer, joined the meeting.*

The Chair welcomed attendees to the meeting and noted there were no apologies.

## 3. Declarations of interest

There were no declarations of interest.

## 4. Items to be taken in private

The Chair invited members to agree that the reports at items 15, 16 and 17 of the agenda be considered in private. The Board agreed.

## 5. Chair's report – verbal update

The Chair reflected on the two Board Development Sessions held on 31 March and 10 May with a further session scheduled for 27 September 2021, and invited members to note the proposal to report back formally at the Board in November.

The Chair advised of regular meetings with the Auditor General for Scotland and Diane McGiffen, Chief Operating Officer and of the meeting of the New Audit Appointments Steering Group on 22 April 2021, reported at item 16 of the agenda. The Chair invited members to note that the Code of Audit Practice has been approved by both the Auditor General for Scotland and the Accounts Commission.

The Chair advised he had observed the meeting of the Audit Committee on 12 May 2021 and attended the meeting of the Remuneration and Human Resources Committee meeting on the same day.

The Chair advised the Board that he had attended one of the 'How we work' drop in sessions chaired by Diane McGiffen and members of the Incident Management Team (IMT) to hear from colleagues about their considerations and concerns around future ways of working. He advised the session had been interesting and informative.

The Chair informed the Board that he had accepted an invitation to give evidence to the Public Audit Committee of the Northern Ireland Assembly who are considering oversight arrangements on 7 July 2021. The Chair advised he will submit an opening statement in advance of the session and will circulate a copy to members. The members noted the respective Chairs of National Audit Office and Wales Audit Office have also been invited to give evidence on 2 June 2021.

### **Action ASB139: The Chair to circulate a copy of his supporting statement to the Northern Ireland Assembly to members. (June 2021)**

The Board welcomed the update.

## 6. Accountable Officer's report – verbal update

Stephen Boyle reflected on the Board Development sessions and two 'How we work' drop in sessions which had been helpful in setting the forward direction both for the Board and how Audit Scotland works, all of which is supported by the Strategic Improvement Programme at item 12 of the agenda.

Stephen invited the Board to note that Parliament has reconvened following the election and work is underway to deliver and support the future engagement strategy with members and committees.

Stephen invited the Board to note that the Scottish Commission for Public Audit (SCPA) propose to hold a session to consider Audit Scotland's annual report and accounts at the end of June 2021. Stephen advised that the appointments to the SPCA will be confirmed in due course and members noted Alison Johnson has been appointed as the new Presiding Officer of the Parliament.

Turning to external engagement, Stephen advised of a meeting with the Chief Executive of Institute of Chartered Accountants for England and Wales, a meeting of the UK and Ireland Auditors General held on 7 May 2021 and a separate meeting with Gareth Davies, Comptroller for and Auditor General, National Audit Office and Kiran Donnelly the Comptroller and Auditor General for Northern Ireland.

Stephen advised the Board of meetings with several Scottish public bodies including an introductory meeting with the Chief Executive of Public Health Scotland, a bi-annual meeting with the Permanent Secretary and her executive team at the Scottish Government and a meeting with the Chief Constable, Chief Executive and Chair of the Scottish Police Authority.

Stephen also invited members to note that, following a meeting with Mairi Spowage, Interim Director of the Fraser of Allander Institute at Strathclyde University, he had committed to doing some further work together which would include hosting knowledge cafes with colleagues.

The Board welcomed the update.

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

Elma Murray invited the Board to note she had held regular meetings with the Auditor General for Scotland and the Chief Operating Officer. She also advised of regular meetings with the Interim Controller of Audit and of a joint meeting with the Chief Executive of the Scottish Borders Council and Alison Evison, President and Sally Loudon, Chief Executive of COSLA.

Elma advised members of the business at the two meetings of the Accounts Commission since the previous Board meeting, and which included updates on New audit appointments, input and approval of the Code of Audit Practice and discussion around mainstreaming equalities and equality outcomes. She advised that the Commission also heard from Kenneth Lawrie, Chief Executive, Falkirk Council and Emily Lynch from the Improvement Service on the development of the Local Government Benchmarking Framework.

Elma advised that the Commission had discussed the role of the Controller of Audit with a further discussion scheduled for its next meeting on 10 June 2021 with Stephen Boyle joining.

The members noted that the Commission's Strategy Seminar had heard from Paul Johnston, DG, Communities and Alison Evison, President of COSLA, considered the results from a survey of members, the Commission's role and purpose, priorities and future development plans. Those plans included working more closely with Audit Scotland, making better use of cross-cutting data and intelligence with scrutiny partners and being clearer in reports about what needs to improve.

Elma advised members that the next Accounts Commission meeting will consider the Best Value Assurance Report for Aberdeen City Council.

Elma invited members to note that the Accounts Commission will publish their Annual Report on Friday 21 May and its work programme on 24 May, followed by the Local Government Overview.

The Board welcomed the update.

## **8. Review of minutes:**

### **Board meeting: 24 March 2021**

The Board considered the minutes of the meeting of 24 March 2021, which had been previously circulated.

The Board approved the minutes as an accurate record of the meeting.

### **Audit Committee meeting: 3 March 2021**

The Board noted the minutes of the Audit Committee meeting of 3 March 2021, which had been previously circulated.

The Board noted the minutes were an accurate record of the meeting.

## **9. 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 note there were no proposed amendments to the Standing Orders and provided an update on the development work on the potential for livestreaming virtual meetings and extending access to face to face and hybrid meetings.

Following discussion, the Board accepted the recommendations contained within the report.

## 10. Review of action tracker

The Board noted the updates provided on the action tracker.

The Chair invited Stuart Dennis to provide an update on Action ASB131 in relation to the development of Audit Scotland's medium-term financial strategy and the associated fees and funding model. Stuart invited the Board to note that the fees and funding workstream is a key element of the Strategic Improvement Project, many of the workstreams of which have potential consequences on Audit Scotland's budget and financial strategy. The Board noted a report would be scheduled to come to the Board in November 2021.

During detailed discussion, the Board noted the financial analysis required together with projections of anticipated audit work over the next three years while safeguarding Audit Scotland's independence and ensuring flexibility to respond to changing demands. In addition, the Board recognised that the sustainability of the current fees and funding model has been tested given the pressures experienced during the pandemic and reflected on the strategic significance and engagement required on any change to the fees and funding model.

Diane McGiffen advised of plans to revisit Public Audit in Scotland which would set the principles to safeguard audit independence including funding. The Board noted progress across areas including the New audit appointments procurement project, its associated costing implications, the financial analysis required to provide assurance and engagement with stakeholders.

Following discussion, the Board agreed they would welcome an early discussion supported by a briefing paper setting out the background to the current fees and funding model and a proposed timeline of engagement with the Board.

**Action ASB131 updated: A briefing on the current fees and funding model and proposed timeline to be circulated to the Board. (July 2021)**

**A meeting with Board members to be scheduled to discuss the medium term financial plan. (August 2021)**

Colin Crosby provided a summary of the meeting with Stuart Dennis on action ASB136 which had taken place prior to today's Board meeting and informed members that details of any budget provision may be incorporated into reporting and presented under two headings i.e. costs outwith our control (for example pensions) and other operational expenditure.

The Board noted the updates and further actions arising.

## 11. Covid-19 update

*David Blattman, HR&OD Manager and Simon Ebbett, joined the meeting.*

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 and provided a verbal update on developments in relation to localised restrictions and the recent rise in community infections.

The Board welcomed the ongoing communication with colleagues, including the survey about 'How we work' and the drop in sessions, noting some of the key questions arising related to remote working, office and on-site working, the requirements to support a Covid secure workplace and travel. Elma advised that the Accounts Commission members are also considering these areas and agreed to share any feedback with IMT.

Following discussion, the Board welcomed the comprehensive report.

## 12. Strategic improvement programme update

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

Martin invited the Board to note the progress reported on the Strategic Improvement Programme and next steps.

During discussion, the Board referred to the outcome of the recent Building Capacity campaign, noting the success of attracting applications from a diverse background. The Board asked how the analysis from this campaign would inform the next campaign. David Blattman advised that he will be taking a closer look at the data in order to take any initial learning through to future campaigns.

The Board acknowledged Audit Scotland's commitment to report quarterly to the SCPA on the increase to Audit Scotland's budget for 2021/22. The Board noted this is also supported by the improvement programme and an update on progress will come to the Board on 2 June 2021.

The Chair invited members to note the meeting between himself, Diane McGiffen, Martin Walker and Colin Crosby on the governance arrangements for the Strategic Improvement Programme and advised a briefing paper will be shared with members which will also consider increased Board participation and engagement in the programme.

Following discussion, the Board welcomed the comprehensive nature of the report.

**Action ASB140:                    Martin Walker to circulate a briefing paper on the governance arrangements for the Strategic Improvement Programme and proposals for Board participation and engagement. (September 2021)**

*David Blattman and Simon Ebbett left the meeting.*

## 13. 2019-2021 Mainstreaming Equality and Equality Outcomes progress report

*Carolyn McLeod, Audit Director, Performance Audit and Best Value, joined the meeting.*

Carolyn McLeod introduced the 2019-2021 Mainstreaming Equality and Equality Outcomes progress report, copies of which had been previously circulated.

Carolyn invited the Board to confirm its retrospective approval for the publication of our Mainstreaming Equality and Equality Outcomes: Progress Report 2019-2021 (the Progress Report).

During discussion, Board members welcomed the opportunity to consider drafts of the respective reports at its meeting on 24 March 2021 and later consideration by correspondence.

Following discussion, the Board confirmed its approval for the publication of the reports.

*Carolyn McLeod left the meeting.*

## 14. Annual report on information governance and security 2020-21

*David Robertson, Digital Services Manager, joined the meeting.*

Gayle Fitzpatrick and David Robertson introduced the Annual report on information governance and security 2020-21, copies of which had been previously circulated.

Gayle Fitzpatrick invited the Board members to note the assurance provided on the annual assessment of information governance and security management at Audit Scotland.

The Board recognised the challenges and additional security risks that have been managed with the entire workforce working from home during the pandemic.

Following discussion, the Board welcomed the positive assurance provided and endorsed the report.

*Gayle Fitzpatrick and David Robertson, left the meeting.*

## Items taken in private

### 15. Environment, Sustainability and Biodiversity plan 2020/21 to 2024/25

*Graeme Greenhill, Senior Audit Manager, Performance Audit and Best Value, and Ian Metcalfe, Corporate Governance Officer, joined the meeting.*

Graeme Greenhill introduced the Environment, Sustainability and Biodiversity plan 2021/21 - 2024/25 a copy of which had been previously circulated.

The Board were invited to consider and approve the draft Environment, Sustainability and Biodiversity Plan 2020/21 to 2024/25 which sets out the actions Audit Scotland will take to further reduce carbon emission levels.

During detailed discussion, the members considered the ambitious target and the need to monitor and revisit the plan given the ongoing uncertainty around future travel for and in relation to audit work. The members indicated the Board's commitment to the plan and were keen to contribute to support the outcomes. The Board also requested additional information in relation to the offsetting process to understand how this would be managed.

Following discussion, the Board welcomed the report and approved the publication of the Environment, Sustainability and Biodiversity Plan 2020/21 to 2024/25.

**Action ASB141: Graeme Greenhill and Ian Metcalfe to circulate information on the offsetting process of emissions. (September 2021)**

*Graeme Greenhill and Ian Metcalfe left the meeting.*

### 16. New audit appointments update

*Elaine Boyd, Associate Director, and Kathrine Sibbald, Senior Manager, joined the meeting.*

Elaine Boyd introduced the New audit appointments update paper, copies of which had been previously circulated.

The Chair invited members to note the progress reported including the approval of the Code of Audit Practice, a copy of which will be shared with members, and consideration of the Invitation to Tender timeline.

The Board discussed the award of contracts and noted that the Steering Group would be considering a report looking at the criteria for tender assessment at its meeting on 26 May 2021 together with market information in order to understand the potential implications for the cost of audit.

Following discussion, the Board welcomed the progress reported.

*Elaine Boyd, Associate Director, and Kathrine Sibbald, Senior Manager, left the meeting.*

### 17. Forward work programme

*Gemma Diamond, Audit Director, and Michelle Borland, Business Manager, Performance Audit and Best Value, joined the meeting.*

Gemma Diamond introduced the report the Forward work programme report, a copy of which had been previously circulated.

Gemma invited the Board to consider the revised approach to the work programme which forms an important part of the Strategic Improvement Programme.

The Board noted the approach to move away from an annual update and approval process to a more flexible and agile approach based on quarterly updates to provide more flexibility to respond to changes in a volatile and uncertain operating environment.

The Board sought assurance on the anticipated impact on resource and training requirements and were assured that this is being actively developed and managed alongside developing themes of reporting.

Following discussion, the Board noted the updated approach to the programme and agreed they would welcome regular updates as the programme develops.

*Gemma Diamond and Michelle Borland left the meeting.*

## **18. Any other business**

There was no further business.

## **19. 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

## **20. Date of next meeting: 2 June 2021**

The members noted the next meeting of the Audit Scotland Board is scheduled for 2 June 2021.

## 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 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.

## Standing orders

6. The standing orders remain fit for purpose and no changes are proposed at this time.
7. The annual review of the standing orders will take place in the Autumn.

## Membership of the Human Resources and Remuneration Committee

8. The membership of the Audit Scotland Board is set out in the Public Finance and Accountability (Scotland) Act 2000.
9. The membership of the Board's committees of the Board is set out in the standing orders.
10. For the Human Resources and Remuneration Committee (Remco) the standing orders state:

*'57. The Remuneration & Human Resources Committee will consist of members of the Board. The Board may appoint persons who are not members of the Board to be members of or advisers to the Remuneration & Human Resources Committee and may pay them such remuneration and expenses as the Board decided.'*

11. The Remco Terms of Reference state:

*'2. The Committee will consist of at least two members of the Board who are not employees of Audit Scotland. Membership may also consist of other suitable persons chosen by the Board'.*

and in paragraph 10:

*'Remuneration & Human Resources Committee meetings will normally be attended by the Accountable Officer, the Chief Operating Officer, the Human Resources & Organisational Development Manager and, where appropriate, a representative of any appointed external advisor(s)'.*

12. To date, the Accountable Officer has attended meetings of the Remco, to answer questions and to participate in the conversations as appropriate but has not been a formal member of the committee.
13. The Board may wish to consider appointing the Accountable Officer as a member of the Remco.
14. Research undertaken by the HR&OD Manager indicates that it is relatively uncommon for a Chief Executive to be a full member of an organisation's Remco, however this is usually because Remco sets the remuneration for Chief Executives. At Audit Scotland, the Accountable Officer's remuneration is not determined by Remco and so the potential conflict of interest that is sometimes present for Chief Executives does not apply in this case. Discussions have also taken with Parliamentary officials as appropriate.
15. The Accountable Officer holds executive responsibility for the performance of Audit Scotland's workforce, underpinned by the terms & conditions being offered to employees and our wider organisational development, diversity & inclusion agenda. It is therefore potentially advantageous that the Accountable Officer be a Remco member.
16. There is one area of the Remco's Terms of Reference where the Accountable Officer declares an interest and withdraws from the meeting. This relates to the annual review of the Accountable Officer's expenses claim.
17. As noted above the standing orders and the Remco's Terms of Reference provide for the Accountable Officer being a member of the committee and no changes are required to these governance documents.

### Options for extending access to public meetings

18. 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.
19. In the first phase the group has developed an approach to address the livestreaming of virtual meetings. This has been outsourced to a supplier who is a well-established provider of such services to local councils. We are aiming for this to be in place from the June meeting of the Accounts Commission.
20. For the second phase the team considered options and develop proposals for the livestreaming of 'face to face' and 'hybrid' meetings (where some participants may be attending the meeting remotely) when these begin to take place. The timing of these remains under review in the context of the Scottish Government guidance and Covid-19 data.
21. In developing the proposals, the team considered a range of issues including:
  - Openness, transparency and accessibility.
  - Digital security, data protection and other regulatory requirements.
  - Technical requirements, including the installation of additional equipment in meeting rooms.
  - Service quality and functionality.
  - Delivery options, including outsourcing and using alternative venues.
  - Financial/resourcing implications and value for money.
22. Management Team considered an options paper at its meeting on 25 May 2021. It was agreed that the first phase would be progressed, noting that this would provide a useful source of information and experience to inform the second phase.

### Recommendations

23. 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

- agree that the Accountable Officer become a formal member of the Human Resources and Remuneration Committee
- note the development work on live streaming virtual meetings the options 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
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	Jul-21	Diane McGiffen	Stuart Dennis	Ongoing		A briefing on the current fees and funding model and proposed timeline to be circulated to the Board. (updated following meeting on 19 May 2021)
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	Aug-21	Diane McGiffen	Stuart Dennis	Ongoing		A meeting with Board members to be scheduled to discuss the medium term financial plan. (updated following meeting on 19 May 2021)
ASB134	Board	9	Review of action tracker	NAA: Diane McGiffen to set out indicative stages and tasks for the next three months and present to the Board in May.	24/03/2021	May-21	Diane McGiffen	Diane McGiffen	Complete	Yes	The appendix to the report at item 17 of 19/05 agenda contained details of the key areas and timeline.
ASB135	Board	12	Strategic improvement programme update	Alan Alexander, Colin Crosby, Diane McGiffen and Martin Walker to meet to discuss aspects of the programme governance, management and reporting (April 2021).	24/03/2021	Apr-21	Colin Crosby	Colin Crosby	Complete	Yes	A meeting to discuss these areas took place on 22/04/2021.
ASB136	Board	13	Operational budget 2021/22	Colin Crosby and Stuart Dennis to meet to discuss aspects of the budget including the pension fund.	24/03/2021	Apr-21	Colin Crosby	Colin Crosby	Complete	Yes	The meeting took place 19/05/2021.
ASB137	Board	16	Best Companies survey results	Elma Murray and Diane McGiffen to discuss how best to share the Best Companies results with the Accounts Commission (April 2021).	24/03/2021	Apr-21	Elma Murray	Elma Murray	Complete	Yes	An update on the Best Companies survey results were shared with the Accounts Commission at its meeting 15/04/2021.
ASB138	Board	18	Corporate governance review of Board arrangements	Martin Walker to prepare a discussion paper for members of the Board (April 2021).	24/03/2021	Apr-21	Martin Walker	Martin Walker	Ongoing		A discussion paper was circulated to members on 21/05/21.
ASB139	Board	5	Chair's report – verbal update	The Chair to circulate a copy of his supporting statement to the Northern Ireland Assembly to members.	19/05/2021	Jun-21	Alan Alexander	Diane McGiffen	Ongoing		A copy of the Chair's supporting statement will be shared with members prior to the session with the Assembly in July 2021.
ASB140	Board	12	Strategic improvement programme update	Martin Walker to circulate a briefing paper on the governance arrangements for the Strategic Improvement Programme and proposals for Board participation and engagement.	19/05/2021	Sep-21	Martin Walker	Martin Walker	Ongoing		A briefing paper will be circulated to members in September 2021.
ASB141	Board	15	Environment, Sustainability and Biodiversity plan 2020/21 to 2024/25	Graeme Greenhill and Ian Metcalfe to circulate information on the offsetting process of emissions.	19/05/2021	Sep-21	Graeme Greenhill / Ian Metcalfe	Graeme Greenhill / Ian Metcalfe	Ongoing		A briefing paper will be shared with members in September 2021.

## Purpose

1. This report presents the financial results for the twelve months to 31 March 2021.

## Background

2. The financial performance report for 2020-21 is attached to this paper based on the un-audited results and are therefore subject to potential adjustment.
3. This report was discussed by Management Team on 4 May.

## Discussion

4. Audit Scotland's Net Operating Expenditure was £12,414k which was £801k (6.1%) less than budget.
5. In-house income was in total £787k (9.7%) worse than budget with the 2019-20 audit year generating a deficit of £36k. Progress on 2020-21 audit work has been affected by the Covid-19 pandemic with the total work in progress position being 9.4% below budget, leading to a negative volume variance of £746k and a minor negative price variance of £2k.
6. Fee income earned for audits carried out by external firms net of fees and expenses paid to the firms was £218k better than budget. Income was £133k higher than budget which is increased by savings of £85k on fees and expenses payable to the external firms. The savings relate to a significant reduction in travel and expenses due to audits being carried out remotely. The 2019-20 audit year generated a surplus of £346k on fee income and is in recognition of additional work the firms have carried out. Progress on 2020-21 audit work is on average 4.24% behind plan leading to the recognition of a negative volume variance of £213k.
7. Staff costs including agency and secondment expenditure was £200k (1.1%) more than budget. The agency staff ensured we were able to complete the 2019-20 audits and make better progress on the start of the 2020-21 audit work than projected (more detail is provided in Appendix 1).
8. IAS 19 pension costs were £205k (8.8%) less than budget due to the £231k current service cost being better than the actuary estimate last year. The favourable position on funded benefits has been reduced by a deficit on unfunded benefits of £26k.
9. Approval was received for additional in-year funding of £1,500k to ensure Audit Scotland could deliver its statutory obligation of a balanced budget. The additional funding was allocated to management contingency, increasing the budget from £300k to £1,800k. From the revised management contingency budget of £1,800k a total of £886k has been allocated to support a provision in the accounts to meet any potential settlement relating to increased costs attributable to remote audit. A further £220k has been allocated to property costs to cover the provision required to meet any potential increase in respect of the overdue rent review for our West Port office. The budget balance of £694k remains in other costs.
10. Other expenditure and income was £1,365k better than budget. The main areas of positive variance were recorded in travel/subsistence £531k, training £123k, printing and office costs £104k, legal, professional and consultancy £93k and other costs £751k (includes £694k management contingency balance). There was an adverse variance on central charges income of £208k due to pooled cost income recognition.
11. More detailed variance analysis and explanation is provided in the attached report.

## Virement

12. There were no instances of budget virement in excess of £20k in the twelve months to 31 March 2021.

## Summary

13. In summary, the final un-audited out-turn for 2020-21 is £801k better than budget and capital expenditure is £11k less than budget.

## Recommendation

14. The Board is invited to discuss and note the un-audited financial results for the 12 months to 31 March 2021.

## Appendix 1

### Headline Results

The summary financial position to 31 March 2021:

£000	Annual Budget	Actual	Budget	Var.	%Var.	Prior Year	Note
Fee Income - In House	8,099	7,312	8,099	(787)	-9.7%	7,903	1
Fee Income - Audit Firms	4,947	5,080	4,947	133	2.7%	5,123	2
Central Charges	5,646	5,438	5,646	(208)	-3.7%	5,571	3
Rebate	0	0	0	0	-	0	
Interest	0	1	0	1	-	5	
Other Income	0	1	0	1	-	30	
IAS 19 Income	(767)	(767)	(767)	0	0.0%	(924)	
<b>TOTAL INCOME</b>	<b>17,925</b>	<b>17,065</b>	<b>17,925</b>	<b>(860)</b>	<b>-4.8%</b>	<b>17,708</b>	
Approved auditors	5,321	5,237	5,322	85	1.6%	4,549	2
Staff salaries and oncosts	17,916	17,867	17,916	49	0.3%	16,684	4
Payroll provisions incl. severance	0	0	0	0	-	0	
Agency and secondment costs	75	324	75	(249)	-332.0%	521	4
IAS 19 Pension costs	2,333	2,128	2,333	205	-8.8%	4,846	5
Property costs	1,164	1,106	1,164	58	5.0%	944	
Travel and subsistence	886	355	886	531	59.9%	844	6
Legal, professional and consultancy	861	768	861	93	10.8%	727	7
Training	490	367	490	123	25.1%	457	8
Recruitment	145	164	145	(19)	-13.1%	114	8
Printing and office costs	284	179	283	104	36.7%	251	9
Information technology	486	566	486	(80)	-16.5%	501	10
Audit	60	59	60	1	1.7%	60	
Depreciation	342	333	342	9	2.6%	356	
Other costs	777	26	777	751	96.7%	34	11
<b>EXPENDITURE</b>	<b>31,140</b>	<b>29,479</b>	<b>31,140</b>	<b>1,661</b>	<b>5.3%</b>	<b>30,888</b>	
<b>NET OPERATING (EXPENDITURE)</b>	<b>(13,215)</b>	<b>(12,414)</b>	<b>(13,215)</b>	<b>801</b>	<b>6.1%</b>	<b>(13,180)</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 March 2021 for the in-house audits:

	2019/20 Audit Year			2020/21 Audit Year			Prior Years	Total
	Volume		Price	Volume		Price		
	WIP %	£	£	WIP %	£	£	£	£
Local Government	-	-	+36	-9.36	-431	+1	-3	-397
Health	-	-	-	-9.29	-141	-	-	-141
FE	-	-	+1	+6.60	+3	-	-	+4
Central Government	-	-	-103	-9.89	-107	-	-	-210
Non-statutory	-	-	+30	-11.21	-70	-3	-	-43
<b>Total – March 21</b>	<b>-</b>	<b>-</b>	<b>-36</b>	<b>-9.38</b>	<b>-746</b>	<b>-2</b>	<b>-3</b>	<b>-787</b>

#### Local Government

Local Government 2019/20 audits are complete with a final positive price variance of £36k 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 were 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, which at the end of the financial year was 9.36% (£431k).

#### 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 9.29% (£141k) worse than plan.

#### Further Education (FE)

ASG undertake 2 FE audits, Dundee & Angus College and Edinburgh College which are both complete with a minor favourable price variance of £1k. 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. As at the end of March we were 6.60% ahead of plan (£3k) for the commencement of the 2020/21 audit work.

#### Central Government

Central Government 2019/20 chargeable audits are complete with the main reason for the price variance being due to the official start date of a new body, South of Scotland Enterprise. This audit requirement will now commence in 2020/21 instead of 2019/20.

The 2020/21 audits have commenced and are behind budget by 9.89% (£107k).

## Non-statutory

The European Agricultural Fund Account (EAFA) audit for 2020 is complete with the agreement of a price increase of £30k. 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% and this has been reflected in our budget plans. As at the end of March 2021 we are 11.21% behind the revised planned days for this audit.

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

There is a positive income variance of £133k and a positive expenditure variance of £85k for approved auditors. Effectively this leads to an overall net favourable variance of £218k on chargeable audits with the positive expenditure variance mainly attributable to a significant reduction in 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 March 2021:

	2019/20 Audit Year			2020/21 Audit Year			Prior Year	Total
	Volume		Price	Volume		Price	Price	
	WIP %	£	£	WIP %	£	£	£	£
Local Government	-	-	+248	-6.82	-199	-	-	+49
Health	-	-	+14	+0.39	+4	-	-	+18
Water	-	-	-	+0.39	+1	-	-	+1
FE	-	-	+51	-1.17	-5	-	-	+46
Central Government	-	-	+33	-3.00	-14	-	-	+19
<b>Total – March 21</b>	-	-	<b>+346</b>	<b>-4.24</b>	<b>-213</b>	-	-	<b>+133</b>

### Local Government

Audits in the local government sector for 2019/20 are complete with a positive price variance of £248k as the audit firms have agreed fees above the expected fees for some bodies. The most significant increases were applied to Aberdeen City Council, Highland Council, City of Edinburgh Council, Falkirk Council, Midlothian Council and West Lothian Council. The start of the 2020/21 audits are behind plan by 6.82% which leads to an adverse volume variance of £199k.

### Health

Health audits for 2019/20 are complete with a positive price variance of £14k due to agreed fees being higher than expected in NHS Highland and NHS Lothian. Work on the 2020/21 audit year has commenced and is slightly ahead of plan by 0.39% (£4k).

### Water

There is a minor positive volume variance of £1k on this audit.

### Further Education (FE)

Progress on 2019/20 audits is complete with the recognition of an additional £51k due to the agreement of increased fees across most colleges. For this sector the firms are slightly behind schedule (1.17%) for the 2020/21 audits.

## Central Government

Central government audits for 2019/20 are complete with the recognition of a £33k price variance due to a number of agreed fee increases. The largest increases were applied to Bord na Gaidhlig, Historic Environment Scotland and Scottish Canals. 2020/21 audits have commenced and are behind plan (3.00%) leading to a negative volume variance of £14k.

### 3. Central charges

The reduction in central charge income recognition is due to the pooled costs being linked to the work completion percentage. As WIP this has reduced in 2020/21 the amount we can recognise has subsequently reduced. This will be addressed as we work through the recovery plan to return to previous levels.

### 4. 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	9,226	9,082	9,226	144	154.3	157.5	a)
ASG agency & secondments	75	312	75	(237)			
PABV staff costs	4,712	4,555	4,712	158	74.0	76.5	b)
PABV agency & secondments	0	12	0	(12)			
CSG staff costs	2,217	2,276	2,217	(59)	37.5	35.7	c)
CSG agency & secondments	0	0	0	0			
Business Support staff costs	703	734	703	(31)	19.9	18.7	d)
Business Support agency & secondments	0	0	0	0			
Governance & Other staff costs	1,058	1,221	1,058	(162)	19.0	20.0	e)
Governance & Other agency & secondments	0	0	0	0			
<b>Total staff costs</b>	<b>17,916</b>	<b>17,867</b>	<b>17,916</b>	<b>49</b>	<b>304.7</b>	<b>308.4</b>	
<b>Total agency &amp; secondments</b>	<b>75</b>	<b>324</b>	<b>75</b>	<b>(249)</b>			

- a) **ASG Staff costs** - the average number of staff employed in ASG has been 3.2 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 (£191k) and higher average actual salary costs per employee (£47k). 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 has enabled us to minimise the shortfall in income recognition as at 31 March 2021.

- b) **PABV staff costs** - on average PABV have been 2.5 w.t.e. less than budget for the year, 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 (£152k) and a minor positive price variance (£6k).

**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 2020 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. (£107k) due to staff turnover being lower than expected and the provision of cover for maternity leave. This overspend is currently partially funded by the positive variance on average actual salary costs (£48k).

- d) **Business Support Staff costs** – The 1.2 w.t.e. above funded figure (£44k) is mainly 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** – the overspend includes the annual accrual required to cover for outstanding leave at 31 March (£171k). Removal of this adjustment would show a positive variance to 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.

**5. IAS 19 Pension costs**

IAS 19 pension costs budgets are based on actuary forecast assumptions as part of the annual accounting exercise. The actual IAS 19 results for 2020/21 has identified a reduction in current service costs of £231k. This positive outcome has been reduced by an adverse variance of £26k on unfunded benefits.

**6. Travel and subsistence**

Expenditure on travel and subsistence has significantly reduced compared to last financial year (£489k reduction, 58%). This is due to homeworking and audit work being delivered remotely rather than onsite at the public bodies. The savings have been used to support the overspend on agency expenditure and other financial pressures.

**7. Legal, professional and consultancy**

The main reasons for the underspend relate to a reduced requirement for consultancy and professional services. This is due the impact Covid-19 had on our work programme and the departure of the external professional support working on with us on the new audit appointments project. This support is now being carried out by in-house resource.

**8. 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.

Exceeding the allocated budget on recruitment expenditure was planned as we undertook 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).

**9. Printing and office costs**

The 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 re-classified as corporate subscriptions. Expenditure this year is £72k (29%) less than the prior year.

**10. Information technology**

Software licence expenditure is the primary reason for the overspend position within information technology. With homeworking and remote audit continuing to be the default position it is essential that we have sufficient licences (e.g. microsoft, mki) to enable the safe delivery of our work requirements. We have been projecting an overspend all year in this expenditure heading with savings delivered in other corporate services budget headings funding this essential increase in expenditure.

## 11. Other costs

The underspend is due to the unallocated management contingency budget (£694k), VAT adjustments and reduced occupational health expenditure as we were unable to offer the annual wellness checks.

### Financial Overview

The major financial implications of Covid-19 on Audit Scotland meant we had to obtain Parliament approval for additional funding of £1.5 million as part of the Spring Budget Revision process. The main reason for the budget increase was to cover the expected shortfall in income recognition on 2020/21 audit work due to 2019/20 audit deadline extensions. This budget adjustment was required to ensure we would meet our statutory obligation of delivering a balanced budget.

The announcement of a second lockdown in January 2021 had the potential to impact our planned work during this quarter as colleagues were required to manage the ongoing situation in respect of school closures, home schooling and other carer responsibilities. The final outturn was £259k better than forecast with work on the 2020/21 audits having a higher completion percentage than projected.

Our 2021/22 budget submission was scrutinised by the SCPA on 15 January and received Parliament approval as part of the 2021/22 budget process. The approved budget gives us the flexibility to address additional capacity requirements to cover:

- Covid-19 specific audit work
- Existing audit commitments where Covid-19 disruption has had an impact on productivity and the range of audit issues arising in public bodies
- Maintaining audit quality
- Innovation and improvement work to keep pace with professional auditing developments in digital audit, update audit methodologies and organisational efficiency
- Continue to respond effectively to the growing demands of financial devolution

The SCPA has requested a quarterly update from ourselves to keep them informed on how we have used the additional resources we have been granted in 2021/22.

### Capital Expenditure and Funding

Capital expenditure of £139k was £11k less than the approved full year budget of £150k. This expenditure relates to the purchase of laptops to improve colleagues experience of working from home during the pandemic.

**Stuart Dennis**  
Corporate Finance Manager  
12 May 2021

## Purpose

1. This report provides the Board with the draft 2020/21 International annual report for their comment and approval.

## Background

2. Each year Audit Scotland reports publicly on international work as part of its corporate performance reporting. In 2020/21 the focus of our international work shifted because of the implications of the Covid-19 pandemic emergency. Key actions included:
  - Increased use of virtual meetings and conferences to conduct our work. This included a presentation by the Director of Performance Audit and Best Value at the ACCA's Public Sector Conference.
  - Audit Scotland worked closely with the other UK audit bodies and European audit organisations on the impact of Covid-19 on our financial and performance audit work.
  - We shared knowledge with international organisations including moderating a meeting organised by the OECD on fraud prevention in social welfare payments at times of crisis.
  - We continued to support public audit around the world including working closely with the Westminster Foundation for Democracy to present at a conference held for parliamentarians from Montenegro and public auditors on good practice in public audit.
  - We ensured that of all our international work was focussed on improving the quality of our audit work. This included the use of international audit databases to access internationally produced work that can help inform our own work.

## Considerations

3. We have refreshed our International Strategy for 2021-24. Our draft International Strategy for 2021-24 sets out our approach to international work. It focuses on how we can apply our learning from overseas to improve the way we conduct work. The next step is for us to engage with the Auditor General for Scotland to ensure that the strategy aligns to his priorities and the new Strategic Improvement Programme. We aim to have a final international strategy ready by the end of 2021.

## Recommendations

4. The Board is invited to consider and approve the 2020/21 International annual report before its scheduled publication as part of a suite of corporate Audit Scotland reports on 11 June 2021.

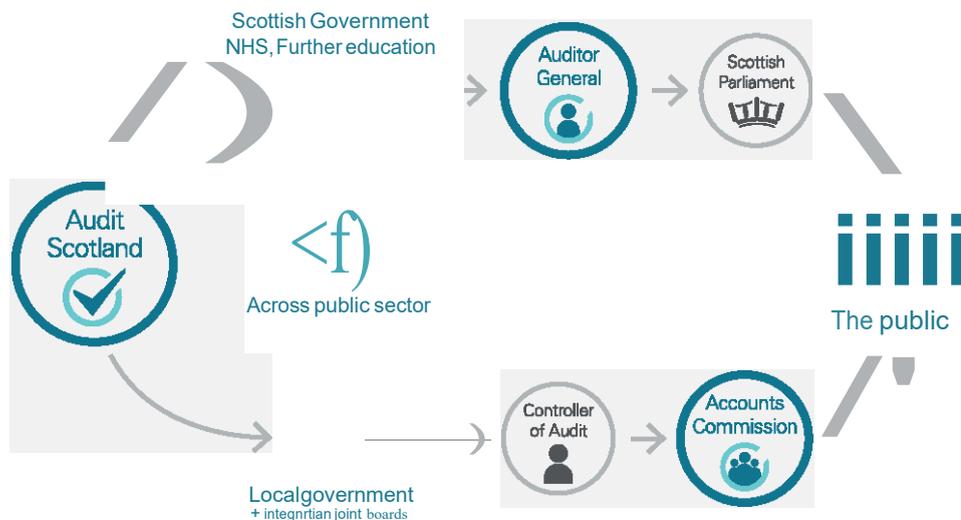
# International work 2020/21



# Who we are

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

- **Audit Scotland** is governed by a board, consisting of the Auditor General, 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.
- The **Auditor General** 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.



## 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 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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The economic, social and health impact that the Covid-19 pandemic has had on society has been profound and its consequences are likely to be felt for many years to come. It is the biggest personal and professional challenge that many of us have experienced in our lives.

Like every other organisation around the globe, Audit Scotland has had to significantly change the way it operates in response to Covid-19. Our international work has moved away from physical meetings to make more use of teleconferencing and virtual meeting with colleagues from across the globe. We have also refocused our international activities to help us better understand and manage the implications of Covid-19 on our work and on the bodies which we audit. Continuing to share knowledge and good practice in our international work was a key strand of our approach.

In early 2020, Audit Scotland along with the other UK audit bodies established the Home Nations Covid-19 group. This allowed us to share ideas and to facilitate better joint working of the UK's four public audit bodies on the impact of Covid-19 on our audit work. Audit Scotland also joined up with our partners in the other European national and regional public audit institutions to consider the many impacts Covid-19 is having on public audit and public services. This gave us access to a network of public audit organisations all of which were coping with the same challenges as us, such as, how best to conduct audit work remotely. It also gave us insights into the various ways the pandemic is impacting on public services in different parts of the world.

Despite the challenges of the pandemic, we felt it was essential that Audit Scotland remained an open and outward-looking organisation promoting good governance and the effective use of public resources internationally. We did this by working with organisations such as the Organisation for Economic Co-operation and Development OECD and the Westminster Foundation for Democracy with whom we continued to help other nations to improve and build their public audit institutions.

We will be reviewing our international strategy during 2021 to reflect the changing circumstances that Covid-19 has created. Whatever the future brings, we remain as keen as ever to continue connecting, sharing, and learning from our colleagues from around the globe.



**Antony Clark**  
Interim Director of Performance Audit and Best Value and Controller of Audit



**Antony Clark**  
Interim Director of  
Performance Audit  
and Best Value and  
Controller of Audit  
Best Value

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# International work 2020/21

## Working with the other UK audit bodies

1. Audit Scotland works closely with other UK audit bodies on areas of joint interest such as improving audit quality. Much of this work is conducted through the Public Audit Forum (PAF). During 2020 Audit Scotland worked with the UK's other three audit agencies as part of the Home Nations Covid-19 group. The group's purpose is to facilitate better joint working on the impact of Covid-19 on our financial and performance audit work. As part of that work Audit Scotland has been liaising with the other UK audit bodies on several areas of shared audit interest such as local government finance during the pandemic, support for children's education during Covid-19 lockdown and supply of Personal Protective Equipment (PPE).



## Working with our European partners

2. Audit Scotland worked closely with European partners on areas of shared interest during 2020/21. EUROSAI (European Organisation of Supreme Audit Institutions) is one of the regional groups of the International Organisation of Supreme Audit Institutions (INTOSAI). EUROSAI membership stands at 50 audit institutions (49 European States and the European Court of Auditors). Under the auspices of the National Audit Office (NAO), Audit Scotland was invited to participate on two working groups that are examining the impact of Covid-19 on financial and performance audit work. Both working groups met for the first time in early December 2020. Our participation allowed us to compare our response to the pandemic with other European countries.



3. All participants agreed that the roundtable discussions were worthwhile. It is hoped that this will be the first of other collaborative projects between Audit Scotland and EUROSAI members. Our participation in the group has led to us being invited and participating in a second meeting on EUROSAI's Covid-19 financial audit response which took place in March 2021. We have also been invited to submit suggestions for future meetings of the group.

4. Our participation in EUROSAI's Covid-19 impact working groups has given us access to EUROSAI's Benchmarking Information Exchange Project (BIEP). EUROSAI members use BIEP to share information on a range of projects. We will use BIEP to assist financial and performance auditors to scope audit work, identify good practice and make access to audit recommendations.

## Sharing knowledge with international organisations

5. In early November 2020, the Organisation for Economic Co-operation and Development (OECD) invited Audit Scotland to moderate a meeting by the OECD on fraud prevention in social welfare payments at times of crisis. This invitation by the OECD demonstrates the international reach and impact of Audit Scotland's counter-fraud activities. The OECD invitation came on the back of other recognition of our counter-fraud activities by several public audit organisations such as Audit Wales and Western Australian Government.



6. In June 2020 we met with public management students from the University of Linz in Austria. Our presentation to this group focused on public audit in Scotland, how we work with the Scottish Parliament and the work done by the Accounts Commission in local government. After the event, Professor Cecon and the students wrote back to say how impressed they were with Audit Scotland's work programme, our openness, and professionalism.

## Supporting public audit around the world



7. In February 2021 Audit Scotland received an invitation from the Westminster Foundation for Democracy (WFD). The WFD is an agency of the UK's Foreign and Commonwealth Office and is tasked with supporting democracy throughout the world.

8. The WFD asked Audit Scotland to attend a conference in Montenegro on the role of public auditing in democratic nations. The invitation came on the back of important work that Audit Scotland had done previously with the WFD in Montenegro. Our presentation covered several areas including:

- The role of public audit in mature democracies to hold to account, scrutinise, provide assurance, and recommend improvements to public bodies.
- Audit Scotland's approach to working with the Scottish Parliament, which allows us to do our work without fear or favour, whilst still maintaining good working relationships with both the bodies we audit and Parliament.
- Recent examples of where our audit work made real improvements to Scotland's public bodies.

9. In December 2020 Fraser McKinlay, Audit Scotland Director of Performance Audit and Best Value attended ACCA's Public Sector Conference which was held virtually with hundreds of ACCA members from around the world. He gave a presentation on Audit Scotland's approach to auditing the UN's Sustainable Development Goals. He also participated in a keynote speaker panel session which included the Auditor General of National Audit Office of Finland, Inspector General in the Supreme State of Audit Cameroon, and the Deputy Auditor General of Afghanistan.

## Improving the quality of our work



10. Almost all international work conducted in 2020/21 has been directly or indirectly related to improving the quality of Audit Scotland's work. This section considers other specific areas where international work is helping to improve audit quality.

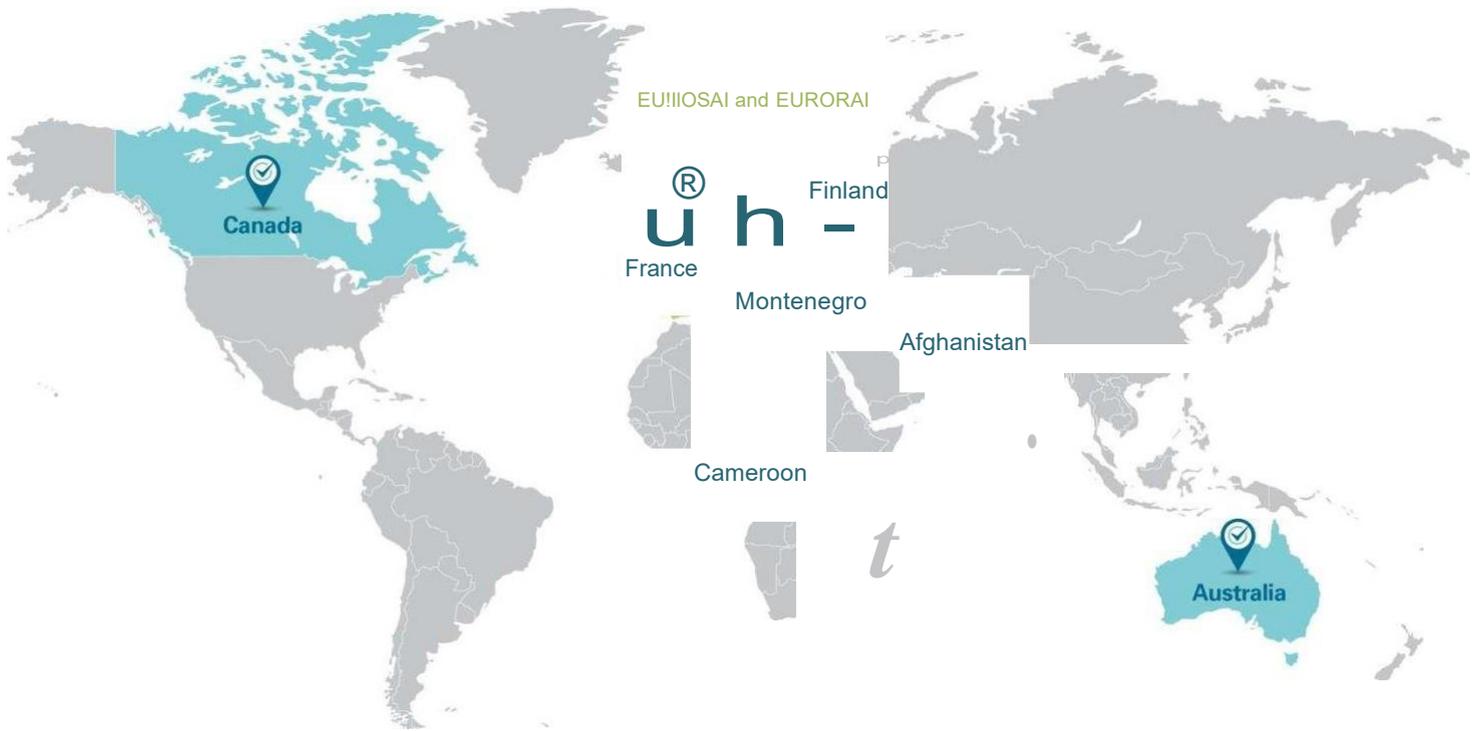
11. Audit Scotland subscribes to the Canadian Audit and Accountability Foundation's database, which we use to access internationally produced work that can help inform our own work. In 2020/21 this included work around climate change and the United Nations' Sustainable Development Goals.

12. Audit Scotland's participation in EUROSAI's Covid-19 impact working groups has given us access to EUROSAI's Benchmarking Information Exchange Project (BIEP) through which EUROSAI members share information on a range of projects. We are currently exploring how BIEP could be used to assist financial and performance auditors to scope audit work, identify good practice and to make audit recommendations.

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**Exhibit 1**

International public bodies with which Audit Scotland interacted during 2020/21



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# Looking forward

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13. During 2021 we will be reviewing our International Strategy to reflect the changing context created by the Covid-19 global pandemic and to ensure that it aligns with Audit Scotland's new Strategic Improvement Programme ('Our Plan'). In doing so our focus will be on ensuring that our approach to international work helps to improve the way we conduct work in line with our World Class audit ambitions. We will also continue to share our knowledge and expertise with others to support effective public audit and good governance around the globe.

14. We anticipate the following themes featuring in areas of focus in our new International Strategy:

- We use knowledge of overseas good practice to scope our audits and shape our recommendations to increase their impact.
- We use international audit standards and good practice networks to improve the quality of our audit work.
- We promote our work within the UK and internationally to build good practice networks and improve as an audit organisation.
- We aim to get as many staff involved in international work as possible to provide learning opportunities, building on their skills, and broadening the outlook they bring to our work.
- We welcome opportunities to share our knowledge and contribute to good public governance in other countries as a way of 'giving something back'.

15. Audit Scotland is committed to the principles of equal opportunity, fairness, and transparency in everything we do. We will strive to ensure that these values are embedded within our international work by working with international organisations who share similar values to ours. In the past, we have worked closely with the United Nations Board of Auditors, Organisation for Economic Co-operation and Development, and Westminster Foundation for Democracy. These are all respected organisations that share our values. We will also ensure that we carefully consider our values when arranging international visits and working with overseas audit institutions and public sector bodies.

16. We will place greater emphasis on virtual meetings and teleconferencing as an alternative to physical travel to help reduce our carbon footprint.

# International work

2020/21

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

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

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## AUDIT SCOTLAND

Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN

T: 0131 625 1500 E: [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk) 

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

ISBN 978 1 913287 XX X

## Purpose

1. This is the 2020/21 annual report to the Audit Scotland Board on complaints received by Audit Scotland about its work. This report forms part of a suite of assurance reports in support of the Accountable Officer's governance statement in the annual report and accounts.

## Background

2. The Public Services Reform (Scotland) Act 2010 (the Act) required the Scottish Public Services Ombudsman to introduce a set of complaint handling principles, to which all public bodies must adhere.
3. The complaints procedure is a two-stage process, stage one is front line resolution within five working days or if more complex, or are not resolved at stage one, stage two is resolved within 20 working days.
4. Audit Scotland, the Auditor General for Scotland and the Accounts Commission introduced a joint complaint handling process in December 2012. The joint complaints handling process was reviewed and updated in 2014 and again in December 2018.
5. In January 2020 the Scottish Public Services Ombudsman published a revised Model Complaints Handling Procedure (MCHP). The Ombudsman expected the revised MCHP to be fully implemented by 1 April 2021.
6. We revised the Complaints Handling Procedure (CHP) for the Auditor General for Scotland, the Accounts Commission and Audit Scotland, to comply with the new model. It was approved by the Board, six months ahead of schedule in September 2020.

## Complaints received

7. The Corporate Governance team maintains the register of complaints received. The register shows that there was one complaint received in 2020/21 (compared to four in 2019/20).
  - The one complaint concerned a) failing to provide an adequate standard of service b) failure to follow proper rules and procedures, c) delays in responding to our correspondence. This was not upheld for parts a) and b) but was upheld for part c).

## Appeals to the Scottish Public Services Ombudsman (SPSO)

8. The Scottish Public Services Ombudsman Act 2002 (the Act) provides a framework for matters that can be considered by the SPSO for investigation. The complainant asked the Scottish Public Services Ombudsman (SPSO) to review their complaint and the SPSO concluded the complaint was not one within their jurisdiction.

## Conclusion

9. This report on complaints handling 2020/21 concludes that there are no significant issues that should be brought to the attention of the Board.

## Recommendations

10. The Board is invited to note the report.

## Purpose

1. This is the 2020/21 annual report to the Audit Scotland Board on our Freedom of Information (FOI) and Environmental Information Regulations (EIRs) arrangements, requests and performance. This report forms part of the suite of assurance reports in support of the Accountable Officer's governance statement in the annual report and accounts.

## Background

2. Audit Scotland, the Auditor General for Scotland and the Accounts Commission are subject to the Freedom of Information (Scotland) Act 2002 (FOISA) and the Environmental Information (Scotland) Regulations 2004 (EIRs).
3. Audit Scotland developed and implemented suitable joint arrangements for the discharge of FOISA/EIRs in 2005 for all three bodies. These arrangements are reviewed annually.
4. The Scottish Ministers' Code of Practice on the discharge of functions by Scottish public authorities under FOISA and the EIRs require us to monitor our handling of information requests.
5. Since 1 April 2013 public bodies are required to submit their FOI and EIR handling statistics, on a quarterly basis, to the Scottish Information Commissioner (SIC). Audit Scotland has complied timeously with this requirement.

## FOI/EIR overview for 2020/21

6. This annual report has been prepared to fulfil our FOI/EIR good practice requirements under the Scottish Ministers section 60 Code of Practice and incorporates our SIC quarterly returns.

## Governance

7. The Knowledge, Information and Technology Governance Group (KITGG) provides oversight of our FOI/EIR arrangements and reports its activity to Management Team, the Audit Committee and the Board as necessary. The Corporate Governance Manager is responsible for day-to-day management of our FOI/EIR arrangements.
8. The FOI/EIR policy was reviewed by the KITGG and Management Team and re-approved by the Board in September 2020. Staff acknowledged compliance with the policy via the Fit and Proper form in January 2021.
9. We reviewed our FOI publication scheme, in March 2021, to ensure it remains up to date.

## Approach to requests

10. It is our policy to be as open and transparent as possible and our approach to FOI/EIR requests is to treat them as a 'business as usual' activity. This means that we normally supply information to those requesting it in the normal course of business and do so without treating them as FOI/EIR requests.
11. More complex 'business as usual' requests and all other requests, which may have to be considered by a FOI panel, are recorded in our FOI/EIR system.
12. Where it is appropriate, we can apply exemptions and exceptions to the information being requested. Audit Scotland has established a group of senior managers (an FOI panel) trained in considering FOI/EIR exemptions and exceptions to complex requests.
13. The following statistics and analysis are based on our recorded FOI/EIR requests for 2020/21.

## Statistics and analysis

### Number of requests received

14. Audit Scotland recorded 35 FOI and no EIR requests this year. These were received in:

Requests received	2020/21		2019/20	
	FOI	EIR	FOI	EIR
Q1 (April – June)	5	0	5	0
Q2 (July – September)	8	0	10	0
Q3 (October – December)	3	0	10	0
Q4 (January – March)	19	0	6	0
<b>Total</b>	<b>35</b>	<b>0</b>	<b>31</b>	<b>0</b>

### Type of requester

15. We categorise the requests we receive for analysis purposes. This year we received:

Requester type	2020/21		2019/20	
	FOI	EIR	FOI	EIR
Media	5	0	3	0
MSP/MP	0	0	5	0
Organisation	12	0	11	0
Members of the public	18	0	12	0
Other	0	0	0	0
<b>Total</b>	<b>35</b>	<b>0</b>	<b>31</b>	<b>0</b>

16. Themes emerging from the information being requested are:

- 17% - Reports, draft reports and correspondence relating to those reports.
- 23% - Data held on other organisations.
- 34% - Audit Scotland's governance, policies, procedures.
- 26% - Contract information: Information technology, equipment, other contracts.

### Responding to requests

17. Information requested was released in full on 25 (71%) occasions, partially released on four (11%) occasions and the information requested was not held by us on six (17%) occasions. The two occasions information was withheld was due to the information being personal data.

### Cost of administrating and responding to requests

18. Time spent on specific requests is generally recorded to the job code for the audit work concerned. In addition, the time spent on FOI/EIR training is coded to the general learning and development job code.

19. Three members of staff recorded 139 hours (compared to 519 in 2019/20) for administering our FOI systems and procedures, replying to some requests and dealing with complex requests at FOI panels. This equates to approximately £6,792 (compared to £28,954 in 2019/20) using the average hourly rate from the Time Recording System. However, the full cost to Audit Scotland of complying with FOI/EIRs will be higher due to the way some FOI/EIR work and training is recorded.

## Time taken to respond

20. FOISA and the EIRs require public bodies to reply to requests within 20 working days and within 40 working days for complex EIRs. Audit Scotland met this requirement for 89 per cent of the requests.

## Charging for dealing with requests

21. Public bodies can make charges for dealing with FOI and EIR requests. We issued no fee notices in 2020/21.
22. Public bodies are also able to refuse a request where it will cost more than £600 to process. Where public bodies estimate the cost to be greater than £600, they are to inform the requester that they may be able to supply some information if they narrow their request.
23. No requests were refused on excessive cost of compliance this year.

## FOI/EIR panels, reviews and appeals

24. No FOI Panels met this year to consider applying exemptions to some or all the information being requested.
25. In the two requests where we applied an exemption to the information this was due to the redaction of personal information.
26. Where an applicant is not satisfied with our initial response to their request, they can ask Audit Scotland for a review. In 2020/21 there were no requests for a review.
27. If an applicant remains dissatisfied with how we dealt with their request after a review they can make an appeal to the Scottish Information Commissioner (SIC). There were no appeals to the SIC this year.

## FOI/EIR training

28. Audit Scotland staff undertake basic FOI/EIR training when they join Audit Scotland and refresher training is given as necessary. In addition, staff updates are published when changes to legislation occur.
29. Maintaining training records is dynamic process due to staff joining and leaving the organisation at any point during the year. As at 6 April two individuals (one per cent of staff) had not completed the FOI/EIR training.

## Conclusion

30. The report concludes that our FOI/EIR arrangements are working well and that there are no significant issues which require to be brought to the attention of the Board.

## Recommendations

31. The Board is invited to review the performance in 2020/21.

## Purpose

1. This report presents the 2020/21 Annual report from the Chair of the Audit Committee to the Board for approval.

## Background

2. The Audit Committee is a standing committee of the Board established under Audit Scotland's standing orders. The Audit Committee consists of the members of the Board, other than the Chair of the Board and the Accountable Officer. In practice the Chair of the Board and the Accountable Officer attend the meetings.
3. All Audit Scotland colleagues have been working from home since 17 March 2020 due to the Covid-19 pandemic using MS Teams to conduct business and meetings both internally and externally. This working context has presented and continues to present unprecedented challenges for the organisation, our stakeholders and audited bodies. During this time, Audit Scotland has demonstrated high levels of professionalism and resilience to adapt and deliver the work programme.
4. During the course of 2020 there were also significant changes to the Board. 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, who are the Chairs of the Remuneration and Human Resources Committee and Audit Committee respectively.

## Programme of work

5. The Audit Committee met five times in 2020/21 by video conference due to the Covid-19 pandemic. In accordance with its Terms of Reference and the Audit Committee Planner the committee considered a broad range of work across 103 agenda items, including 77 papers. This included reports and updates on/from:
  - Financial management.
  - Governance, including the annual assurance and statement of control process.
  - Internal and external audit.
  - Audit quality.
  - Organisational risk.
  - Business continuity.
  - The annual report and accounts.
6. The Audit Committee reviewed the rolling action tracker at each of its meetings.
7. The Audit Committee carries out an annual review of its effectiveness based on a self-assessment checklist completed by members. A report on the outcome of the review and the actions arising was presented to the meeting of the Audit Committee on 12 May 2020.

## The annual report and accounts and financial management

8. The Audit Committee approved the timetable to facilitate the completion of the Statutory Accounts for the Year ended 31 March 2021 at its meeting on 3 March 2021.
9. The audit of the 2020/21 accounts has concluded and was reported to the Audit Committee on 2 June 2021.
10. The Audit Committee considered financial performance reports each quarter.

## Governance

11. The annual review of Audit Scotland's principal governance policies (standing orders, Financial Regulations and Scheme of Delegation) was undertaken in September and November 2020. The review resulted in minor changes.
12. In addition, the Audit Committee considered its Terms of Reference at the March, May, June, September and November 2020 meetings. Minor amendments were made where appropriate during the year. The decision was taken at the November 2020 meeting that the Terms of Reference be reviewed on an annual basis, and this would next take place at the 10 November 2021 meeting.
13. The Code of Conduct for members and employees was reviewed by the Board in September 2020 to ensure it remained up-to-date and in line with the model code published by the Scottish Government. The Code is published on the Audit Scotland website along with the annual declaration of members' interests.
14. The Audit Committee reviewed and approved the Business Continuity Plan and its supporting arrangements in March 2021. The Business Continuity Plan was restructured in light of the impact of EU withdrawal and the Covid-19 pandemic.
15. The Audit Committee considered a suite of annual assurance reports in accordance with the annual assurance and statement of control process. The reports were on:
  - Information Governance and Security.
  - Data Incidents.
  - Hospitality and Gifts.
  - Bribery and Fraud.
  - Whistleblowing.
  - Correspondence Handling and Whistleblowing.
  - Audit Quality.
  - Health, Safety and Wellbeing.
  - Governance statement on internal control and Certificate of Assurance.

## Internal and external audit

16. The external auditors and internal auditors have attended all of the Audit Committee meetings during 2020/21.
17. At each meeting there is a private session with both external and internal auditors. This provides the opportunity for the auditors to raise issues with members of the committee and for the committee to ask questions and seek the view of auditors. No material issues were raised during 2020/21.
18. At its meeting in March 2021 the Audit Committee considered a report from the internal and external auditors on their joint working arrangements.

19. The Audit Committee approves the programme of internal audit work each year. BDO carried out six internal audits and one follow-up review during 2020/21. All reports were presented to the Audit Committee. An overall assurance assessment is given in each internal audit report for the design and operational effectiveness of systems and internal controls.

20. The table below details the Audits and overall assurance assessments:

Audit	Design	Operational Effectiveness
Preparedness for changes to the Audit Scotland Board and to the Auditor General	Substantial	Substantial
IT Procurement	Reasonable	Reasonable
IT Strategy and Service Capacity	Substantial	Substantial
Business Continuity Planning	Substantial	Substantial
Public Audit Best Value Audit Methodology	Substantial	Substantial
Preparedness for changes to the Audit Profession	Substantial	Substantial
Follow-up Review	Good progress	

21. There were four recommendations from the six internal audits. Three recommendations were classified as low significance and one of medium significance. Management responses have been provided for all audit recommendations and work is being undertaken to implement them as appropriate.

22. Reports on progress with internal audit recommendations are brought to each Audit Committee.

23. The internal audit service and scrutiny provided by BDO offered substantial assurances in the round for the 2020/21 annual internal audit report.

24. The Audit Committee was satisfied with the performance of internal audit and that the internal audit programme had been delivered to the required standard for the year.

25. The cost of the internal audit work for 2020/21 was £27,348.00. This was an underspend of £2,652.00 against the budget of £30k. This was due to the postponement of the Procurement of Audit Firms review during 2020/21 to 2021/22. The number of days planned to be used for audit by BDO was originally 55 days, which reduced to 48 days as a consequence of the postponed review.

## Audit quality

26. The Audit Quality Framework approved by the Board in October 2017 committed to providing regular reporting to the Audit Committee on audit quality as well as to the Auditor General for Scotland and the Accounts Commission.

27. In November 2019, the revised Audit Quality Framework was approved by Audit Committee and Board. Positive feedback from stakeholders resulted in minor changes to the framework. Changes included rationalised reporting, an updated suite of key performance indicators (KPIs) and a revised complaints procedure.

28. The Quality of Public Audit in Scotland annual report 2019/20 was presented to the May 2020 meeting of the Audit Committee and highlighted continued improvement in audit quality. The report concluded that the review of audit quality provided evidence of compliance with auditing standards and the Code of Audit Practice, together with evidence of good levels of qualitative performance. Key findings were that ICAS did not identify any concerns with audit opinions and that auditors had taken improvement action to address any quality issues raised in prior year. The report shows that public audit in Scotland is well placed to meet the challenges arising from current reviews of the auditing profession.

29. The Quality of Public Audit in Scotland annual report 2020/21 was presented to the May 2021 meeting of the Audit Committee. The Audit Quality and Appointments team have concluded that across the range of evidence used to assess audit quality the conclusion is that the quality of audit work is good in PABV and

accountancy firms with improvement required and planned in Audit Scotland where the financial audit quality results do not meet the required quality standards. An improvement plan has been developed to address the findings.

30. The Chair of the Audit Committee also attended three meetings of the Audit Quality Committee as an observer in 2020/21.

## **Risk management**

31. Audit Scotland's Risk Management Framework was reviewed and approved by the Audit Committee on 3 March 2021. In accordance with the framework the committee reviewed the Risk Register at each of its five meetings.
32. Each year the Audit Committee also agrees a schedule of risk interrogations which consider one or more of the risks on the register in greater detail. Due to the challenges and work pressures of operating amidst a worldwide pandemic, the committee considered only one detailed risk interrogation on digital security. In March 2021, the committee agreed to temporarily suspend risk interrogations until there was capacity to re-introduce these.
33. The Audit Committee considered quarterly reports on data incidents and noted the corrective actions proposed by Audit Scotland to reduce further incidents. It also received detailed six-monthly updates on digital and cyber security risks.

## **Governance statement**

34. The Audit Committee considered a report on the effectiveness of the systems of internal control. There were no matters arising from Audit Scotland's business groups which would require to be raised specifically in the Accountable Officers governance statement.
35. Internal auditors provided Audit Scotland with reasonable assurance that there are no major weaknesses in the internal control system for the areas reviewed in 2020/21.
36. It is the Audit Committee's opinion, based on our scrutiny and oversight of the work of Audit Scotland, that the Accountable Officer and Board can take assurance that there are sound systems of internal control in place within Audit Scotland to support the achievement of the organisation's policies, aims and objectives as set out by the Audit Scotland Board.
37. On the basis of the work reviewed and progress made during 2020/21, the Audit Committee can advise the Board that, in its opinion, the internal control systems in Audit Scotland are effective.

## **Acknowledgements**

38. The Chair of the Audit Committee thanks the members of the Audit Committee for their input during 2020-21, a year which presented unprecedented challenges due to the Covid-19 pandemic.

## **Recommendation**

39. The Board is invited to consider and approve the 2020/21 Annual report from the Chair of the Audit Committee.

## Purpose

1. This report informs the Audit Scotland Board that the Remuneration and Human Resources Committee (Remco) has completed a review of the past twelve months performance of Remco and identified the future priority areas for 2021/22.
2. The report is provided to the Board for approval.

## Background

3. The review of Remco past performance and the identification of future priorities was considered at the May 2021 meeting, in accordance with the Terms of Reference.
4. This process follows good practice for the operation of remuneration committees. The Chair provides a separate report to the Audit Scotland Board and Accountable Officer following discussion by Remco members.

## Progress update

5. The Remco Terms of Reference contain the core schedule of activities and states that the committee should meet three times each year. During 2020/21, Audit Scotland's Remco met on four occasions. Key items of business considered by Remco are shown below:
  - talent management and succession planning
  - consideration of Audit Scotland's commitment and plan to strengthen diversity, equality and inclusion (gender pay gap report, annual diversity reporting and plans under our public sector equality duties)
  - approval of the 2020 pay award, its implementation and outturn
  - approval of the parameters in support of the 2021 pay award, the negotiations with the Public & Commercial Services (PCS), including the latest public sector pay policy in Scotland and the implications of this upon our own pay settlement and budget
  - supporting the Accounts Commission for Scotland in relation to Audit Scotland's support arrangements for the Commission
  - approval of updates to Audit Scotland local government in Scotland pension policy statement to reflect the latest regulations published by the Scottish Public Pensions Agency (SPPA)
  - final update from Audit Scotland following the review of Career Development Gateways (CDG), this being a novel and important element of Audit Scotland's organisational development and reward strategy from 2017/18
  - supporting the recruitment of the interim Controller of Audit and interim Director of Performance Audit and Best Value
  - annual review and assurance in connection with the expenses of the Auditor General for Scotland
  - annual review of Remco past performance and the setting of future priorities

- regular updates about our business and workforce as we have managed the impact of Covid-19.
6. All this work has been achieved in accordance with good employment practice and is consistent with public sector policy guidance affecting organisations such as Audit Scotland.

## Priority areas from September 2020

7. In September 2020, Remco agreed to adopt the HR&OD Manager's recommendation of the following list of items which Remco wished to schedule for consideration across the upcoming agenda of business for 2020/21:
- diversity, equality and inclusion, building upon the forward plan contained in the HR&OD Manager's report to Remco on 2 September 2020. This has been and will continue to be subject to ongoing consideration by Remco
  - Audit Scotland's future pay and reward strategy. This has been addressed by Remco and the 2021/22 award was approved at the 12 May 2021 meeting
  - the mental, emotional health, wellbeing and resourcing arrangements across Audit Scotland's workforce in light of Covid-19 and its impact upon ways of working and productivity. This has been considered as part of the regular updates provided by the Audit Scotland Management Team.

## Future priority areas

8. Following discussion by Remco, the upcoming priorities beyond the normal business set out within the Terms of Reference for 2021/22 will be:
- Audit Scotland's delivery upon its diversity, equality and inclusion programme as set out across [its two employer outcomes under the public sector equality duties](#)
  - the second phase of Audit Scotland's collaboration and negotiation with PCS in relation to the range of issues within the 2021/22 pay and reward package
  - talent management and succession planning, with a particular focus upon Audit Scotland's Management Team, wider Leadership Group and the link to the future recruitment by the Accounts Commission's Controller of Audit (including consideration of flexible working options). This is scheduled for discussion with Remco at the 10 November 2021 meeting
  - ongoing updates on the wellbeing of Audit Scotland's workforce as Scotland emerges into a post-pandemic environment.

## Conclusion

9. The operation of the Remco during 2020/21 has been effective and in accordance with the Terms of Reference. Good governance exists and the committee has continued to challenge and support the effective and efficient operation of Audit Scotland.

## Recommendation

10. Board members are invited to:
- take note and comment upon the work of the committee during 2020/21
  - discuss and agree areas which the committee should take forward as priority areas for 2021/22.

## Next steps

11. The Remco Chair will facilitate the next review of Remco performance at the meeting scheduled in May 2022. A report will then be submitted to the Audit Scotland Board and Accountable Officer in June 2022.

## Purpose

1. This report invites the Board to approve the Policy on the provision of non-audit services by Audit Scotland's external auditor.

## Background

2. The Audit Committee is responsible for developing and monitoring a policy on engaging the external auditor to provide non-audit services, taking into account relevant guidance on the provision of non-audit services by the external audit firm. The Audit Committee considered the policy at its meeting on 12 May 2021 and agreed to recommend it to the Board for approval.
3. The Scottish Commission for Public Audit (SCPA) appoints Audit Scotland's external auditors and may impose contractual restrictions/prohibitions on the external auditor providing non-audit services. In the absence of contractual restrictions, the Audit Committee and Audit Scotland Board are responsible for determining in what circumstances Audit Scotland may engage the external auditor to provide non-audit services.
4. The current policy on the provision of non-audit services was approved in June 2020 and is reviewed annually.

## Review

5. The Financial Reporting Council's (FRC) Ethical Standard has not been revised since this policy was approved in June 2020. The policy remains appropriate and in line with the FRC's Ethical Standard.
6. The Department for Business, Energy & Industrial Strategy has [published its response](#) to the recommendations made by the three independent reviews commissioned by the government in 2018:
  - Sir John Kingman's Independent review of the Financial Reporting Council
  - the Competition and Market Authority's statutory audit market study
  - Sir Donald Brydon's independent review of the quality and effectiveness of audit.
7. The government's response includes support for the requirement for operational separation between the audit and non-audit arms of certain firms. The FRC asked the big four firms to submit their implementation plans by October 2020. The FRC has reviewed these plans and discussed them with the firms individually and is now content for the firms to move to the next stage of implementation.
8. Audit Scotland's external auditor, Alexander Sloan, is not required to separate their audit and non-audit arms.

## Conclusion

9. The policy remains appropriate and in line with the FRC's Ethical Standard.

## Recommendations

10. The Board is invited to approve the unchanged policy.

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Policy on the provision of Non-Audit Services by Audit Scotland's external auditor

<b>Author:</b>	Associate Director – Audit Quality and Appointments
<b>Version:</b>	05
<b>Date:</b>	June 2021, next review June 2022

## Introduction

1. The Audit Committee is responsible for developing and monitoring a policy on engaging the external auditor to provide non-audit services, taking into account relevant guidance on the provision of non-audit services by the external audit firm.
2. The SCPA appoints Audit Scotland's external auditors and may impose contractual restrictions/prohibitions on the external auditor providing non-audit services. In the absence of contractual restrictions, the Audit Committee and Audit Scotland Board are responsible for determining in what circumstances Audit Scotland may engage the external auditor to provide non-audit services.
3. The Financial Reporting Council's Ethical Standard 2019 categorises non-audit services as "audit related services" (which includes work normally expected to be undertaken by an external auditor such as grant claim certification) and "other non-audit services" (which includes management consultancy and tax work).

## Scope

4. This policy applies to Audit Scotland.

## Policy

5. It is important that Audit Scotland's external auditors are independent and seen to be independent in the work that they undertake. It is therefore not appropriate for them to provide any non-audit work that might be perceived to create a conflict of interest with their role as external auditors.

## Implementation

6. Audit Scotland may engage the external auditors to provide work classified as "audit related services" by the Ethical Standard.
7. Audit Scotland shall notify the Chair of the Audit Committee before any such work is undertaken and notify the Audit Committee at their next available meeting.
8. Audit Scotland shall not engage the external auditors to provide work classified as "other non-audit services."

## Purpose

1. This report invites the Board to approve our Counter Fraud Policy as part of the scheduled policy review cycle.

## Background

2. Our Counter Fraud Policy is scheduled for its biennial review in June 2021.
3. All colleagues acknowledge that they have read and understood the policy as part of the annual completion of the 'Fit and Proper' form. All new staff are given time during induction to read Audit Scotland's policies, they also complete and return a 'Fit and Proper' form as part of the pre-employment process.

## Policy review

4. The Counter Fraud Policy has been reviewed and was considered by Audit Scotland's Management Team on 25 May 2021. Following this discussion, only minor changes are proposed to the policy which are shown in track changes at Appendix 1.

## Recommendation and next steps

5. Board members are invited to consider and approve the updated Counter Fraud Policy.

## Appendix 1

Counter Fraud Policy (see accompanying attachment).

## Counter Fraud Policy

Owned and maintained by:	Human Resources & Organisational Development
Date checked/created:	June 2021
Next review date:	June 2023

1. This policy sets out our approach to preventing, investigating and reporting fraud. All ~~staff~~employees must ensure they are familiar with this policy. Audit Scotland takes a ~~zero tolerance~~zero-tolerance approach to fraud including bribery and corruption.
2. Fraud is a common law offence in Scotland and therefore does not have a legal definition. However, the [Fraud Act 2006](#) provides a useful definition which should be referred to. A person commits a fraud if they intend to make a gain for themselves or another, cause loss to another or to expose another to a risk of loss by:
  - dishonestly making a false representation;
  - dishonestly failing to disclose to another person information which they are under a legal duty to disclose; or
  - dishonestly abusing a position that they occupy in which they are expected to safeguard, or not to act against, the financial interests of another person.
3. Audit Scotland requires a standard of absolute honesty and integrity from its ~~staff~~employees. Trust is an essential part of this process and there is no room for dishonesty, either within Audit Scotland or with its clients or stakeholders. This approach has been endorsed strongly by Audit Scotland's Board, which requires that all fraud investigations be reported to it via the Audit Committee.
4. Audit Scotland subscribes to the principles outlined in the Scottish National Fraud Initiative (NFI) instructions and the associated privacy notices. We will include data on our ~~staff~~employees as part of the NFI exercise. Further information on the National Fraud Initiative is available from our intranet and external website. This policy should be read in conjunction with:
  - Audit Scotland's Code of Conduct
  - Scheme of Delegation and Financial regulations
  - Information security management policy and Information Acceptable Use policy
  - Whistleblowing Policy
  - Disciplinary Policy
  - Grievance Policy
  - Ethical Standards Policy.

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5. Copies of these documents are located in Audit Scotland's Staff Handbook within [ishare](#) and are also available from [the Human Resources & Organisational Development team](#).
  6. This policy requires Audit Scotland employees to report any instance of suspected fraud to their Director or Audit Director. Where [staffemployees](#) do not understand any aspect of the policy, they should seek clarification from their Director or Audit Director.
  7. All [staffemployees](#) are required to read and agree to Audit Scotland's Code of Conduct annually. This includes disclosing any potential conflicts of interest. The Compliance Partner/Compliance Manager is responsible for reviewing all disclosures and addressing any conflicts that arise.
  8. Educational information may be issued to [staffemployees](#) from time to time by Audit Scotland concerning fraud prevention by way of briefing notes, training programmes or ad-hoc advice. The Board and Management Team strongly support the counter fraud efforts of Audit Scotland. Please ensure you take note of any guidance issued and raise any queries or concerns with your line manager.
  9. It is important to be clear that, as an employee of Audit Scotland, you have stewardship responsibilities for any property and information of Audit Scotland and/or the bodies we audit entrusted to you and under your control. This property and information must be safeguarded from inappropriate access, loss or theft.
  10. It must also be recognised and accepted that fraud is possible in our organisation. If this is not recognised or accepted, then it is unlikely that fraud will be identified even if it is evident. Symptoms of fraud are frequently viewed as administrative errors because [staffemployees](#) cannot believe that a colleague could possibly have committed such an act, particularly where affiliation has developed over a long period of time. Therefore, you should consider the following to help reduce the risk of any impropriety:
    - Identify property for which you have responsibility e.g. computers, flashdrives, audit files (including those in archive), departmental expenditure, supplies and company cars.
    - Identify risks associated with safeguarding this property and information. Ask yourself:
      - How could this property or information be misused or improperly used?
      - If this property or information were misused or misappropriated, how would I know?
      - What controls exist to prevent or detect inappropriate use or loss of property or information?
      - What additional controls are necessary to ensure the property or information is adequately protected from loss?
      - Is the cost of these additional controls reasonable in relation to the risk involved?
    - Establish a positive control environment in your department. It is important to demonstrate control consciousness – interest and concern for internal control should be

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communicated to all [staffemployees-members](#). Ensure that an adequate system of internal control exists within your department. The key points to consider are:

- separation of duties
- physical safeguards over property
- proper documentation and authorisations
- adequate supervision e.g. independent checking of key transactions.

11. Audit Scotland aims to recruit honest employees. The degree of background checking is dependant on the level of accessibility to significant Audit Scotland assets. Certain information available from background and security checks is classified as personal, sensitive and / or confidential. This means that access to this information is restricted and it must be held in a secure manner. Human Resources lead on security and background checks<sup>1</sup> which is why you should speak with them prior to any formal checks being undertaken.

### **What should you do if you suspect fraud or corruption, or that ‘something is wrong’?**

12. [StaffEmployees](#) are often the first to realise there may be something seriously wrong. However, they may not express their concerns because they feel to speak up would be disloyal to colleagues or to Audit Scotland. [StaffEmployees](#) may also fear harassment or victimisation so feel it is easier to ignore the concern rather than report what may just be a suspicion of malpractice.
13. Audit Scotland’s Whistleblowing Policy is intended to encourage [staffemployees](#) to report concerns via Audit Scotland’s procedures rather than overlooking a problem. The Board is committed to acting on all reports of suspected fraud and corruption both from within Audit Scotland and across the public sector.
14. Be assured that there will be no recriminations against [staffemployees](#) who report reasonably held suspicions. Victimising or deterring [staffemployees](#) from reporting any concerns is a serious disciplinary matter. Any contravention of this policy should be reported in accordance with Audit Scotland’s Disciplinary and Grievance Policies.
15. Abuse of this policy by raising malicious allegations could be regarded as a disciplinary matter.
16. If you have good reason to suspect a colleague, contractor or other person of fraud or an offence involving Audit Scotland or an audited body you should discuss it first with your manager. If you suspect your manager, you should go to the next most senior person above them in accordance with Audit Scotland’s approach in the Disciplinary and Grievance Policies. [AlternativelyAlternatively](#), you have the option to:
- Discuss the matter confidentially with the Chief Operating Officer; or
  - Advise the Chief Operating Officer anonymously of your concerns.

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<sup>1</sup> Some security vetting and background checks for employees involved with certain clients or work are undertaken by external bodies instead of our HR team. Senior management in each business group should liaise with the HR & OD Manager prior to any such checks being commissioned.

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17. You may find it helpful to read Audit Scotland's Whistleblowing Policy which provides further information.
  18. If you and your manager decide between you that your suspicion may be justified, the matter must be reported to the Chief Operating Officer. Audit Scotland will then take the appropriate action, as follows:
    - Implement its Fraud Response Plan.
    - Refer the matter to the Audit Committee.
    - Refer the matter to the Police, if appropriate.
    - Report back to the Audit Committee in all cases.
  19. Do not approach the individual(s) about whom you have concerns and do not discuss the matter with anyone else.

## Purpose

1. This report informs the Board of the annual review of our internal controls to support the achievement of the organisation's policies, aims and objectives. It forms part of the suite of assurance reports in support of the Accountable Officer's governance statement in the annual report and accounts.
2. The report also provides the Certificates of Assurance on our internal controls from each of Audit Scotland's business groups.

## Background

3. Management Team agreed to adopt the internal control checklist and certificate of assurance process in 2011 to support the Accountable Officer's governance statement.
4. On 17 March 2020, all Audit Scotland colleagues began working from home due to the Covid-19 pandemic and continue to do so. It is recognised that having the whole organisation working remotely for this sustained period of time potentially places challenges on internal controls. To mitigate any risks arising from this style of working Corporate Governance and Digital Services ensured effective guidance and communications was provided throughout 2020-21. Audit Scotland reviewed the impact of Covid-19 on internal controls and it is clear they remained effective.
5. The Board is invited to consider the certificates of assurance to determine whether they raise any issues which should be drawn to the attention of the Audit Committee or the Audit Scotland Board at their meetings on 2 June 2021 with the Annual Accounts and governance statements. These were reviewed by Management Team on 27 April 2021.

## Considerations

6. Business groups reviewed their internal controls between 8 to 26 March 2021 with the aid of the internal control checklist. Based on the review and checklist findings the business group Directors completed and approved their business group's Certificate of Assurance.
7. Business group Directors reported that generally the controls in their areas have been and are working well. The responses, including evidence and detailed action points where relevant are available on SharePoint.
  - [Audit Services](#)
  - [Corporate Service](#)
  - [Performance Audit and Best Value.](#)

## Recommendations

8. The Board is invited to note the Audit Scotland certificate of assurance as part of the annual assurance process.

# CERTIFICATE OF ASSURANCE



To Audit Scotland's Accountable Officer

## ANNUAL ACCOUNTS 2020/21 ASSURANCE FOR THE GOVERNANCE STATEMENT

1. I am aware that, as Director for **Performance Audit and Best Value**, you are required to sign a governance statement for the annual accounts for 2020/21. To assist you in that process, I can confirm that I have received and reviewed the required assurances from my own Assistant Directors/senior managers.
2. Based on that review, and my own knowledge of internal control matters in my business group I can confirm that these controls have been, and are, working well. There are, in my opinion, no significant matters arising in my area of responsibility which would require to be raised specifically in the governance statement.

Name of Director: Fraser McKinlay

Business Group: Performance Audit and Best Value

A handwritten signature in black ink, appearing to read "Fraser McKinlay".

Signature:

Date: 29 March 2021

# CERTIFICATE OF ASSURANCE



To Audit Scotland's Accountable Officer

## ANNUAL ACCOUNTS 2020/21: ASSURANCE FOR THE GOVERNANCE STATEMENT

1. I am aware, as Director for the **Audit Services Group**, that you are required to sign a governance statement for the annual accounts for 2020/21. To assist you in that process, I can confirm that I have received and reviewed the required assurances from my own Assistant Directors/senior managers.
2. Based on that review, and my own knowledge of internal control matters in my business group I can confirm that these controls have been, and are, working well. There are, in my opinion, no significant matters arising in my area of responsibility which would require to be raised specifically in the governance statement.

Name of Director: Fiona Kordiak

Business Group: Audit Services

Signature:

A handwritten signature in black ink that reads "Fiona Kordiak".

Date: 26 March 2021

# CERTIFICATE OF ASSURANCE



To Audit Scotland's Accountable Officer

## ANNUAL ACCOUNTS 2020/21: ASSURANCE FOR THE GOVERNANCE STATEMENT

1. I am aware that, as Director for **Corporate Services Group**, you are required to sign a governance statement for the annual accounts for 2020/21. To assist you in that process, I can confirm that I have received and reviewed the required assurances from my own Assistant Directors/senior managers.
2. Based on that review, and my own knowledge of internal control matters in my business group I can confirm that these controls have been, and are, working well. There are, in my opinion, no significant matters arising in my area of responsibility which would require to be raised specifically in the governance statement.

Name of Director: Diane McGiffen

Business Group: Corporate Services Group

Signature:

A handwritten signature in black ink that reads "Diane McGiffen".

Date: 15 April 2021



**Alexander Sloan**  
Accountants and Business Advisers

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# Audit Scotland

## Audit summary report

### for the year ended 31 March 2021

.....  
180 St Vincent Street  
**Glasgow**  
G2 5SG

Telephone  
0141 204 8989

.....  
50 Melville Street  
**Edinburgh**  
EH3 7HF

Telephone  
0131 228 7979

.....  
[www.alexandersloan.co.uk](http://www.alexandersloan.co.uk)  
[info@alexandersloan.co.uk](mailto:info@alexandersloan.co.uk)

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## Scope

As the External Auditor we are required by legislation to report to the Scottish Commission for Public Audit (the ‘Commission’) our findings from the annual audit of the Accounts of Audit Scotland. The purpose of this report is to summarise for the Commission the key issues arising from our audit of the Accounts for the year ended 31 March 2021.

## Acknowledgements

We would like to thank the management and staff of Audit Scotland for their assistance and co-operation during the audit.

# Audit Opinion

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The scope of an external audit is set by the Financial Reporting Council. The main objective of the audit is to form an opinion as to whether the Accounts of Audit Scotland give a true and fair view of the state of affairs of Audit Scotland at 31 March 2021 and of its net resource outturn for the year, and confirm that the Accounts are prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and Directions by Scottish Ministers.

## Responsibilities

The responsibilities of Audit Scotland and ourselves as auditors are set out within the audit report.

## Letter of Representation

Our audit opinion is based on the signing of the letter of representation and the accounts by the Accountable Officer and no further significant events arising up to the point of signing the audit report. The letter of representation has been sent to Audit Scotland for approval by the Accountable Officer.

## Fraud

Although we are required under International Standards on Auditing to consider fraud when carrying out our audit, the purpose of our audit is not the detection of fraud. Responsibility for the prevention and detection of fraud rests with the Accountable Officer who should not rely wholly on the external audit function to discharge these responsibilities.

## Scope of Audit

Our audit report is made solely to the Scottish Commission for Public Audit, as a body, in accordance with Section 25 of the Public Finance Accountability (Scotland) Act 2000. Our audit work is undertaken so that we might state to the Scottish Commission for Public Audit those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scottish Commission for Public Audit for our audit work, for the audit report, or for the opinions we form.

# Audit Independence and Ethics

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We can confirm that we have complied with the FRS ethical standards and the ethical safeguards as set out in the Audit Plan.

## Audit Plan

The Audit Plan for the period ended 31 March 2021 sets out any matters that we are required to inform you of under the Financial Reporting Council (FRC) Ethical Standard and International Standard on Auditing (UK) 260: “Communication with those charged with governance”. We can confirm that as far as we are aware there are no changes to these matters or any further issues that may reasonably be thought to bear on the objectivity and independence of the audit team.

## Ethical Assurance

We can specifically confirm:

- the firm is not dependent on the audit fees;
- the firm is not owed significant overdue fees;
- there is no actual or threatened litigation between the firm and Audit Scotland;
- no benefits have been received by the audit team which are not modest;
- the firm does not have any mutual business interest with Audit Scotland or the Scottish Commission for Public Audit;
- no members of the audit team have any personal or family connections with Audit Scotland, the Scottish Commission for Public Audit or their officers.

At the conclusion of the audit we have also conducted a review of our independence and objectivity. In our professional opinion, our independence and objectivity has not been compromised and the firm has acted in accordance with the FRC Ethical Standard.

## Key Audit Issues

We have set out below how we have dealt with the key audit issues and risks during the course of the audit.

Risks identified during audit planning	Resolution
<p><b>Management Override of Controls</b> International Standard on Auditing (UK) 240 requires us to treat management override of financial controls as a significant risk.</p>	<p>Our audit work did not identify any material override of financial controls.</p>
<p><b>Revenue Recognition</b> ISA (UK) 240 requires the auditor to presume that there are risks of fraud in revenue recognition.</p>	<p>Our audit work did not identify any material misstatement of revenue.</p>
<p><b>Key Accounting Estimates</b> As in previous years, the financial statements of Audit Scotland for the year ended 31 March 2021 include a number of key estimates. Key estimates include provisions and pension assumptions as well as work in progress which is considered below.</p>	<p>We have reviewed supporting documentation and assumptions in respect of the key accounting estimates and are satisfied that the provisions are not materially misstated.</p>
<p><b>Work In Progress</b> As set out in our planning letter our audit involved a detailed review of the work in progress balance.</p>	<p>We have reviewed Audit Scotland's work in progress and are satisfied that the balance is not materially misstated.</p>
<p><b>Covid-19 Pandemic</b> There is a risk that the operations and finances of Audit Scotland could be adversely impacted as a result of the Covid-19 outbreak.</p>	<p>We have discussed the impact of Covid-19 with senior management of Audit Scotland. Based on the work carried out we are satisfied there is no impact on the audit report.</p>

## Qualitative Aspects of the Financial Statements

We have considered the key qualitative aspects of the financial statements and are satisfied these are reasonable.

Qualitative Aspects	Audit Findings
<p><b>Accounting Policies</b></p> <p>FReM requires that entities should review their accounting policies regularly to ensure they are appropriate to its particular circumstances for the purposes of giving a true and fair view. As part of the audit we consider the appropriateness of these policies.</p>	<p>We have reviewed the significant accounting policies and are satisfied that they are reasonable and appropriate to Audit Scotland's circumstances.</p>
<p><b>Accounting Estimates and Judgements</b></p> <p>FReM requires that entities should use estimates and judgements appropriate to its particular circumstances for the purposes of giving a true and fair view. As part of the audit we consider the appropriateness of these estimates and judgements.</p>	<p>We have reviewed the significant accounting estimates and judgments and are satisfied that they are reasonable and appropriate to Audit Scotland's circumstances.</p>
<p><b>Timing of Transactions</b></p> <p>Audit Scotland are responsible for having accounting systems in place which accurately record financial transactions. During the audit we consider whether transactions have been recorded within the correct period.</p>	<p>No material recording issues were identified during the course of the audit.</p>
<p><b>Going Concern</b></p> <p>The Accountable Officer is responsible for assessing whether Audit Scotland is a going concern for 12 months from the date of signing of the audit report. As auditors we review the Accountable Officer's assessment and whether we believe it is appropriate.</p>	<p>During our audit we have considered Audit Scotland's assessment that the organisation is a going concern. Based on discussions with the Management team, review of budgets and as there is no expectation that funding will be withdrawn, we are satisfied that the organisation's assessment is appropriate.</p>

# Qualitative Aspects of the Financial Statements (continued)

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Qualitative Aspects	Audit Findings
<b>Disclosures</b> Audit Scotland is responsible for the preparation of their financial statements. We consider whether they are presented in accordance with Financial Reporting Manual (FReM).	We did not identify any material disclosure errors within Audit Scotland's financial statements.

## Adjustments to the Financial Statements

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We have considered the impact on the audit report of any potential adjustments identified during the course of the audit.

### Scope

During the course of our audit we may identify potential adjustments to the financial statements. All potential adjustments, which are not trivial, are discussed with the Accountable Officer. The decision as to whether to adjust the financial statements lies with the Accountable Officer as responsibility for the financial statements lies with the Accountable Officer. As auditor, when preparing our audit report, we will consider whether the financial statements are materially misstated.

## Internal Controls

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We can confirm that we have complied with the FRC Ethical Standard and the ethical safeguards as set out in the Audit Planning document.

### Scope

During the audit we will consider if we have identified any control weaknesses, from our work, which are of sufficient importance to be brought to the attention of the Scottish Commission for Public Audit. It should be noted that the matters dealt with in this report came to our attention only during the normal course of our audit work and not as a result of a special review of Audit Scotland's systems, procedures and controls. The findings in this report are not designed to be a complete record of weaknesses in your system.

### Responsibility

Overall responsibility for maintaining adequate financial reporting systems and systems of internal control, as well as for the prevention and detection of fraud, irregularities, and other errors, rests with the Accountable Officer.

### Management

Please note that any control weaknesses noted are not intended to reflect in any way on the integrity or competence of any member of Audit Scotland's staff from whom we have received every assistance and co-operation.

### Findings

We are pleased to note there are no control weaknesses for us to report following the audit.

## Other Matters

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### Future Issues

Please see our website [www.alexandersloan.co.uk](http://www.alexandersloan.co.uk) for further issues that may impact Audit Scotland.

## Internal Audit

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As part of our audit work we have reviewed the Internal Audit Reports on the controls within Audit Scotland and held regular meetings with Audit Scotland's Internal Auditors.

Having an effective working relationship with the Internal Auditors has helped us to gain a greater understanding of Audit Scotland and its control environment.

## Contacts

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Should you require any further information regarding any matter raised in the report, then please contact one of your key contacts as set out below:

Contact	Phone	Email
Steven Cunningham <b>Partner</b>	0141 204 8989	steven.cunningham@alexandersloan.co.uk
Jillian So <b>Manager</b>	0131 228 7979	jillian.so@alexandersloan.co.uk



**Alexander Sloan**  
Accountants and Business Advisers

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[www.alexandersloan.co.uk](http://www.alexandersloan.co.uk)

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Alexander Sloan is registered to carry on audit work and regulated for a range of investment business activities by the Institute of Chartered Accountants of Scotland.