



**Papers and minutes of the
Audit Scotland Board**

2017

Friday 20 January 2017, 10.00am

Audit Scotland offices, 102 West Port, Edinburgh EH3 9DN

Item 7: 02/2017

Present:

I Leitch (Chair)
C Gardner
H Logan
D Sinclair

Apologies:

Russel Griggs

In attendance:

D McGiffen, Chief Operating Officer
R Frith, Assistant Auditor General
M Walker, Assistant Director, Corporate Performance and Risk
G Diamond, Senior Manager, Performance Audit and Best Value
F McKinlay, Director of Performance Audit and Best Value
E Boyd, Assistant Director, Quality
A Cairns, Manager – Benefits, Audit Strategy
F Kordiak, Director of Audit Services Group
K Gibbins, Communications Adviser, Corporate Services
A Clark, Assistant Director, Performance Audit and Best Value
D Hanlon, Corporate Finance Manager
J Webber, Senior Executive Assistant

1. Private meeting

A private meeting was held by the Chair and Board members, prior to the start of the Board meeting. There were no issues raised in addition to those items on the agenda, which had been previously circulated.

2. Welcome and Apologies

The Chair noted that apologies had been received from Russel Griggs.

3. Declarations of Interest

Heather Logan declared her membership of the Audit and Advisory Committee of the Scottish Public Services Ombudsman (SPSO).

4. Chair's report

Ian Leitch advised that since the previous Board meeting he had held regular meetings with Caroline Gardner, Auditor General for Scotland and Diane McGiffen, Chief Operating Officer to discuss business matters of interest, the 2017/18 budget submission and the Scottish Commission for Public Audit meeting in December 2016.

The members welcomed the update.

5. Accountable Officer's report

Caroline Gardner provided a verbal update on her activity since the previous meeting. She advised that there were a number of recent and forthcoming reports to be considered by the Public Audit and Post Legislative Scrutiny Committee of the Scottish Parliament including the Section 22 report The 2015/16 audit of the Scottish Police Authority, the report on the Police Scotland i6 system and a second report on Scottish Rate Income Tax. She also advised of a response being made to the Commission for Parliamentary Reform consultation in February.

Caroline advised of her on-going range of meetings with members of the various committees of the Scottish Parliament.

The Board welcomed the update.

6. Accounts Commission Chair's report

Douglas Sinclair provided an update on the work of the Accounts Commission since the previous meeting. He advised that the Accounts Commission had published Best Value reports on East Dunbartonshire Council which highlighted gaps between ambition and capacity to deliver, and Falkirk Council which identified a funding gap and increasing demands. Douglas invited members to note the findings in the annual overview report which flagged the need for councils to continue to develop skills and capacity to drive forward improvement. He advised of the Local Government in Scotland Financial Overview 2015/16 report which had been considered by the Public Audit and Post Legislative Scrutiny Committee at its meeting on 12 January 2017 and of a recent meeting with the Scottish Government.

Douglas invited members to note the date of the next Accounts Commission Strategy Seminar on 28 and 29 March 2017.

Douglas advised members of the forthcoming retirement of two members of the Commission and of the start of the recruitment process to replace them.

The Board welcomed the update.

7. Review of minutes

Board meeting, 27 October 2016

The Board considered the note of the meeting on 27 October 2016, which had been previously circulated, and confirmed that it was an accurate record of the meeting.

Remco meeting, 15 September 2016

The Board considered the minutes of the meeting of Remco of 15 September 2016, a copy of which had been previously circulated and confirmed these were an accurate record of the meeting, subject to the correction of a typographical error.

Action: Joy Webber, Senior Executive Assistant, to make the necessary amendments and publish the minutes. January 2017

8. Review of actions tracker

The Chair invited members to note the action tracker, which had been previously circulated and welcomed any comments or updates.

Russell Frith provided a verbal update on item ASB19, advising that a copy of the Board report had been shared with Fiona Daley with a request for her views on the audit procurement process. Russell advised that Fiona's key feedback had been to suggest more detailed guidance for the tender assessment panel to help focus the number of areas for discussion at the moderation meeting and that this had been incorporated in the review report. Douglas asked whether the good practice on procurement had been shared with other audit agencies. Russell advised that the experience

had been shared with the National Audit Office, Wales Audit Office and Public Sector Audit Appointments.

9. Review of standing orders

The Chair advised members that legal advice had been received on the board quorum, substitutions and waivers and following further discussion a report would be scheduled for the Board's next meeting on 22 February 2017.

Action: Diane McGiffen, Chief Operating Officer, to schedule a report for the Board meeting in February 2017. February 2017

10. Making a Difference: Digital Audit

Gemma Diamond, Senior Manager, Performance Audit and Best Value and Fraser McKinlay, Director of Performance Audit and Best Value joined the meeting.

Martin Walker introduced the report on Digital Audit, which had been previously circulated and invited Gemma Diamond to present the current position, priorities and next steps.

Gemma Diamond presented on the role that digital plays in the delivery of public services and audit, and how it can be used to influence and improve outcomes across the public sector.

Heather Logan asked about Audit Scotland's capacity to develop digital auditing further and where investment would be prioritised. Martin advised that initial work had focussed on assessing current capacity to identify any gaps in skills.

Gemma advised of the shifting culture around new technologies and how audit was adapting to consider digital strategies when auditing public service strategies. She also highlighted the on-going role of strong leadership, accountability and governance frameworks, which remained core features of audit activity.

Douglas Sinclair advised that he would welcome the opportunity to discuss what the Accounts Commission's Best Value programme should consider and Fraser McKinlay advised there would be a report to the Accounts Commission Performance Audit Committee in February 2017.

The Board welcomed the presentation and discussion and agreed a further update would be scheduled later in the year.

Action: Diane McGiffen, Chief Operating Officer, to schedule a report for a Board meeting later in the year. February 2017

Gemma Diamond, Senior Manager, Performance Audit and Best Value and Fraser McKinlay, Director of Performance Audit and Best Value left the meeting.

11. Securing World Class Audit: Review of Quality Arrangements

Elaine Boyd, Assistant Director, Quality joined the meeting.

Russell Frith introduced the report on Review of Audit Quality, which had been previously circulated and invited Elaine Boyd to provide an update on progress.

Heather Logan queried whether the external audit firms were delivering on the added value and quality elements promised during the procurement exercise and how that would be monitored. Russell advised that Audit Strategy would monitor the delivery of added value.

Douglas Sinclair asked whether performance indicators would be developed for approval by the Auditor General for Scotland, the Accounts Commission and the Board. Russell confirmed that options would be developed for discussion and approval, including an assessment of the role that an external regulator could play in assuring quality and at what cost.

The Board welcomed the update and looked forward to receiving further reports for discussion and approval.

Action: Diane McGiffen, Chief Operating Officer, to schedule a report for the Board meeting in February 2017. February 2017

Elaine Boyd, Assistant Director, Quality left the meeting.

12. Securing World Class Audit: Fraud Arrangements

Anne Cairns, Manager – Benefits, Audit Strategy, joined the meeting.

Russell Frith introduced the report on Fraud Arrangements, which had been previously circulated. Anne Cairns, Manager – Benefits, Audit Strategy invited the Board to note audit activities undertaken in conjunction with other public sector bodies to help in the detection, prevention and investigation of fraud and irregularity in Scotland, of which NFI is a part.

The Chair queried the language on page 9 of the appendix relating to the Auditor's role and on page 16 and it was agreed to set out more clearly the need for auditors to submit information of fraud or irregularity over £5,000.

Heather Logan welcomed the informative paper and asked for clarification on Audit Scotland's role in overseeing fraud at a national level. Russell advised the Board that there was no national regulator although CIPFA play a role as part of their services to local government. He clarified that Audit Scotland's role in fraud is limited to informing bodies of their legal responsibility to report fraud, respond and make recovery.

The Board agreed that the responsibilities should be set out more clearly in the commentary and that it would be good to explore how the digital programme could assist in this work.

Action: Russell Frith, Assistant Auditor General, to make the suggested amendments to the report in terms of responsibilities of reporting fraud. February 2017

Anne Cairns, Manager – Benefits, Audit Strategy, left the meeting.

13. Making a Difference: Demonstrating Value for Money Update

Fiona Kordiak, Director of Audit Services, joined the meeting.

Fiona Kordiak, Director of Audit Services, introduced the report Demonstrating Value for Money Update, which had been previously circulated.

Fiona invited the Board to consider and comment on the report.

The Board welcomed the opportunity to review and comment on the report as drafted and agreed it should set out more clearly the benefits and value for money provided by the in-house audit teams, reflecting the positive developments over the past 18 months.

Fiona advised the Board that the report had been updated to remove some of the more detailed information in an earlier draft shared with them, but recognised the need to set out more in relation to the unique role of Audit Services.

Following discussion, the Board agreed to consider an updated version by correspondence with Heather Logan offering to lead on Board input.

Action: Fiona Kordiak, Director of Audit Services, to liaise with Heather Logan and take on board comments from members before issuing a further draft for their consideration by correspondence. February 2017

Fiona Kordiak, Director of Audit Services, left the meeting.

14. Making a Difference: Update on Parliamentary Engagement

Antony Clark, Assistant Director, Performance Audit and Best Value, and Kirsty Gibbins, Communications Adviser, Corporate Services, joined the meeting.

Antony Clark introduced the Update on Parliamentary Engagement, which had been previously circulated.

Antony presented information on engagement with the Scottish Parliament and invited the Board to note the information on awareness of Audit Scotland by MSPs and on the effectiveness of engagement to date.

Following a detailed discussion, the Board welcomed the update.

It was agreed to clarify the contractual arrangements for receiving survey feedback.

Action: **Kirsty Gibbins, Communications Advisor, Corporate Services, to confirm the terms of the contract and survey arrangements. February 2017**

Antony Clark, Assistant Director, Performance Audit and Best Value, and Kirsty Gibbins, Communications Adviser, Corporate Services, left the meeting.

15. Building a Better Organisation: Best Companies Survey Results

Diane McGiffen introduced the Best Companies Survey Results report, which had been previously circulated.

Diane invited the Board to note the results from the recent staff survey which confirmed Audit Scotland as a One to Watch organisation for the eighth year in succession, despite the challenges of 2016 and the degree of change and uncertainty around roles and reward as the Building a Better Organisation project progresses.

The Board noted the overall results and the forthcoming discussions scheduled with the Leadership Group and colleagues.

16. Q2 Financial Performance Report 2016/17

David Hanlon, Corporate Finance Manager, Corporate Services, joined the meeting.

David Hanlon, Corporate Finance Manager, introduced the Q2 Financial Performance Report 2016/17, a copy of which had been previously circulated.

David invited the Board to note the financial results to September 2016, which had also been considered by the Audit Committee at its meeting on 9 December 2016.

The Board welcomed the positive assurance on financial performance provided by the report.

David Hanlon, Corporate Finance Manager, Corporate Services, left the meeting.

17. Q2 Corporate Performance Report 2016/17

Martin Walker, Assistant Director, Corporate Performance and Risk, introduced the Q2 Corporate Performance Report 2016/17, which had been previously circulated.

Martin Walker invited the Board to note continued strong performance over Q2 and welcomed any questions.

Douglas Sinclair queried whether the success of getting messages in the public domain in corporate objective 2.2 could be effectively measured. Martin agreed to discuss options further with the

Communications team. Douglas also asked whether there was more detail on correspondence received for the Auditor General, Audit Scotland and the Accounts Commission and any key themes arising. Martin advised the Correspondence team provide a quarterly report to Management Team and a copy of this would be shared with members for information.

Heather Logan highlighted that a number of the KPIs had been consistently reported as amber and sought assurance that the actions noted were sufficient in order to improve performance. Martin advised that for most of those KPIs the amber rating reflected revised stretch targets. He also advised that updated controls and actions and a review of the performance reporting system would help link the performance reporting more effectively to the risk register.

Douglas sought and received clarification on sickness absence levels across business groups.

The Board welcomed the report.

Action: Martin Walker, Assistant Director, Corporate Performance and Risk, to consider with the Communications Team the options to measure corporate objective 2.2. March 2017

Action: Diane McGiffen, Chief Operating Officer, to send a copy of the latest quarterly correspondence report considered by Management Team on 17 January 2017. February 2017

18. Q2 Becoming World Class Improvement Programme Report 2016/17

Martin Walker introduced the Q2 Becoming World Class Improvement Programme Report 2016/17, which had been previously circulated.

Martin invited the Board to note the level of activity and progress made to date on the programme, next steps and welcomed any comments or questions.

Heather Logan asked about involvement in the review of Best Value statutory guidance. Douglas Sinclair confirmed that the review is being conducted jointly by COSLA and the Scottish Government and that Fraser McKinlay attends as an observer. Douglas advised he would be happy to have a separate discussion with Heather to clarify this further.

Douglas Sinclair asked how “world class” was being quantified. Diane McGiffen advised of the range of ways in which world class is used to set aspirations and ambitions and of the detailed work being undertaken by Russell Frith and his team to revisit an earlier report on public audit internationally which had established previous benchmarks for world class quality, people and reporting. This would be reported to the Board later in the year.

Following discussion, the Board noted progress to date and welcomed the report.

Action: Russell Frith, Assistant Auditor General, to schedule a report to the Board on established international benchmarks for world class quality, people and reporting. February 2017

19. Audit Scotland Budget Proposal 2017/18

The Chair invited members to note the SCPA report recommending approval of Audit Scotland's 2017/18 budget proposal, which has been previously circulated.

20. Proposed Board Meeting Dates 2017

Diane McGiffen introduced the report Proposed Board Meeting 2017, which had been previously considered and advised Joy Webber would liaise with members after the meeting to check members' availability to confirm new dates for May and June meetings.

Douglas Sinclair requested future meetings commence at 10.15am. The members agreed to future meetings commencing at 10.15am.

Action: Joy Webber, Senior Executive Assistant, to liaise with members regarding their availability. January 2017

21. Review of Openness and Transparency

Martin Walker introduced the Review of Openness and Transparency report, which had been previously circulated.

Martin invited the Board to consider the current arrangements and the proposal to publish Committee papers as part of our commitment to increasing openness and transparency.

The Chair advised that he and Heather Logan had discussed this and that consideration of the Audit Committee papers for the next meeting would be used to inform the progress of this objective.

In addition, the Chief Operating Officer suggested that following feedback on the January Board pack and the February Audit Committee papers and discussion with the Chair of the Audit Committee, a further Board discussion could be scheduled for February. This was agreed.

Action: Diane McGiffen, Chief Operating Officer, to schedule a discussion on next steps in publishing committee papers with the Board at its meeting in February 2017. February 2017

22. Publication of reports

The Board approved all reports for publication with the following exception:

- Item 11 Review of Audit Quality Arrangements (effective conduct of business - free and frank provision of advice/ exchange of views for the purposes of deliberation/ conduct of public affairs and intention of future publication)
- Item 13 Demonstrating Value for Money (effective conduct of business - free and frank provision of advice/ exchange of views for the purposes of deliberation/ conduct of public affairs and intention of future publication)
- Item 14 Update on Parliamentary Engagement (Statutory/security/legal)

Action: Diane McGiffen, Chief Operating Officer, to arrange to publish the reports on the Audit Scotland website alongside the approved minute. February 2017

23. Any other business

There was no further business.

24. Review of meeting

The members took the opportunity to reflect on today's meeting, agreeing they had found the digital strategy and other presentations particularly informative.

25. Date of next meeting

It was noted that the next Audit Scotland Board meeting had been scheduled for 22 February 2017 in the offices of Audit Scotland, 102 West Port, Edinburgh.

Agenda

Friday 20 January 2017, 10.00am

Audit Scotland offices, 102 West Port, Edinburgh EH3 9DN

1. Private meeting
2. Welcome and apologies
3. Declarations of interest

Standing items

4. Chair's report – verbal update
5. Accountable Officer's report – verbal update
6. Accounts Commission Chair's report – verbal update
7. Review of minutes: For approval
 - Board meeting, 27 October 2016
 - Remco meeting, 15 September 2016
8. Review of actions tracker For information
9. Review of standing orders – verbal update For discussion

Strategy and planning

10. Making a Difference: Digital Audit For information
11. Securing World Class Audit: Review of Audit Quality Arrangements For discussion
12. Securing World Class Audit: Fraud Arrangements For information
13. Making a Difference: Demonstrating Value for Money Update For information
14. Making a Difference: Update on Parliamentary Engagement For information
15. Building a Better Organisation: Best Companies Survey Results For discussion

Governance and business management

16. Q2 Financial Performance Report 2016/17 For information
17. Q2 Corporate Performance Report 2016/17 For information
18. Q2 Becoming World Class Improvement Programme Report 2016/17 For information
19. Audit Scotland Budget Proposal 2017/18 For information
 - SCPA Official Report, 21 December 2016
 - SCPA Letter, 13 January 2016

- SCPA Report, 16 January 2017

20. Proposed Board Meetings Dates 2017

For approval

21. Review of Openness and Transparency

For discussion

Conclusion

22. Publication of reports

23. Any other business

24. Review of meeting

25. Date of next meeting

Ref

FORUM	Agenda Item No	Item Title	Action Description	Meeting Date	Due Date	Responsible	Assigned to	Complete/Ongoing	Reported Yes/No	Progress Notes
Board	12(b)	Funding and Fees – 2016 Issues and Work Plan	Board approval of 2017/18 budget and 2016/17 audit fees	26/02/2016	15/09/2016	Russell Frith	Russell Frith	Complete	Yes	The report at item 11 of the agenda was considered by the Board on 15/09/2016.
Board	13	Openness and Transparency: Publication of Board Papers	The Chief Operating Officer to schedule a future agenda item to review the arrangements.	24/03/2016	01/12/2016	Diane McGiffen	Diane McGiffen	Ongoing		An update will come to the Board at its meeting in December 2016. Item 21 on the agenda for 20/01/17 Meeting
ASB5	12	Funding and Fees – Draft Consultation	Russell Frith proposals for developing the work on demonstrating best value in the delivery of audit and the added value provided by the public audit model to be progressed.	03/05/2016	15/09/2016	Russell Frith	Russell Frith	Complete	Yes	Item 9 of today's agenda reports on developments in audit.
ASB12	17	Becoming World Class - Securing World Class Audit - Review of funding and fees	Russell Frith to present further updates and recommendations on the longer-term financial strategy and potential impacts on Audit Scotland and on fees to the Board meetings in August and September 2016	18/08/2016	15/09/2016	Russell Frith	Russell Frith	Complete	Yes	A report was considered by the Board at its meeting on 15/09/2016.
ASB13	10	Q1 Corporate Performance Report	The Assistant Auditor General to prepare a report for a future Board meeting on the levels of reporting and roles on fraud.	18/08/2016	01/12/2016	Russell Frith	Russell Frith	Ongoing		This report will be scheduled for the Board meeting in December 2016. Item 12 on the agenda for 20/01/17 meeting
ASB16	15	Corporate Governance Policies and Code of Conduct Review	The Corporate Governance Manager to review the Financial Regulations, Scheme of Delegation and staff Code of Conduct annually and report to the Board.	18/08/2016	23/08/2017	Alex Devlin	Alex Devlin	Ongoing		Standing Orders reviewed 27/10/16. The next review will be scheduled for Board meeting on 23 August 2017.
ASB17	17	Publication of Board Papers	The Assistant Director, Corporate Performance and Risk to arrange to publish the reports on the Audit Scotland website alongside the approved minute.	18/08/2016	22/09/2016	Martin Walker	Joy Webber	Complete	Yes	The agenda and reports have been published on the Audit Scotland website together with the approved minute since May 2016.
ASB18	16	Proposed Board Meeting Dates 2017	The Chief Operating Officer to propose meeting dates for discussion by members at the September meeting of the Board.	18/08/2016	15/09/2016	Diane McGiffen	Joy Webber	Complete	No	The proposed meeting dates for 2017 will be considered at item 20 on the agenda of 20 January 2017 meeting.
ASB19	10	Securing World Class Audit - Audit Procurement - Post Tender Review	The Assistant Auditor General to invite input from Fiona Daley on the procurement review process.	15/09/2016	27/10/2016	Russell Frith	Russell Frith	Complete		Opinions sought and a verbal update will be provided at Item 8 of today's agenda.
ASB20	10	Securing World Class Audit - Audit Procurement - Post Tender Review	The Assistant Director, Audit Strategy, to bring a report to the Board on the quality review work.	15/09/2016	09/12/2016	Russell Frith	Elaine Boyd	Ongoing		A report is scheduled to come to the meeting of the Board in December 2016. Item on agenda for 20/01/17 meeting.
ASB21	12	Publication of Board Papers	The Assistant Director, Corporate Performance and Risk to arrange to publish the reports on the Audit Scotland website alongside the approved minute.	15/09/2016	30/10/2016	Martin Walker	Joy Webber	Complete	Yes	The agenda and reports have been published on the Audit Scotland website together with the approved minute since May 2016.
ASB22	6	Review of minutes	The Senior Executive Assistant to make the necessary amendments and publish the minute.	27/10/2016	30/10/2016	Joy Webber	Joy Webber	Complete	No	The minutes of the meeting of 15/09/2016 have been published.
ASB23	6	Review of minutes	The Assistant Auditor General to provide more detail around recovery of monies through NFI and how this will be monitored in future.	27/10/2016	20/01/2017	Russell Frith	Russell Frith	Ongoing		This is covered in the report at Item 12 on today's agenda.
ASB23	8	Review of standing orders	The Chief Operating Officer to seek advice on the attendance by the Office or Depute Chair of the Accounts Commission.	27/10/2016	30/11/2016	Diane McGiffen	Diane McGiffen	Complete	No	The advice on attendance by the Office or Depute Chair of the Accounts Commission has been circulated to the Board and a verbal update will be provided at Item 9 of today's agenda.
ASB24	9	Securing World Class udit - Developments in Audit	The Chief Operating Officer to schedule an update report on the Becoming World Class and world class audit.	27/10/2016	20/01/2017	Diane McGiffen	Russell Frith	Ongoing		The Assistant Auditor General will report on this to the Board at its meeting in May as part of the Quality Framework.
ASB25	12	UK & Ireland Supreme Audit Institutions meeting, 4 November 2016	The Chief Operating Officer to report on the meeting of the UK & Ireland Supreme Audit Institutions meeting.	27/10/2016	20/01/2017	Diane McGiffen	Diane McGiffen	Complete	No	Russell Frith will provide a verbal update as part of Item 8 of today's agenda.
ASB26	14	Publication of reports	The Chief Operating Officer to arrange to publish the reports on the Audit Scotland website alongside the approved minute.	27/10/2016	27/01/2017	Diane McGiffen	Joy Webber	Ongoing		The reports and approved minute will be published on Audit Scotland's website at the conclusion of today's meeting.
ASB27	15	Any other business	The Director of Performance Audit and Best Value to report on how the engagement with young people on the forward work programme had developed to the Board in January 2017.	27/10/2016	20/01/2017	Fraser McKinlay	Fraser McKinlay	Ongoing		The Director of Performance Audit and Best Value will bring a report to the Board meeting on 22/02/2017.

AUDIT SCOTLAND BOARD

20 JANUARY 2017

REPORT BY THE ASSISTANT DIRECTOR, CORPORATE PERFORMANCE AND RISK DIGITAL AUDIT

1. Purpose of Report

To invite the Board to consider a presentation on digital audit and discuss the objectives, priorities and next steps.

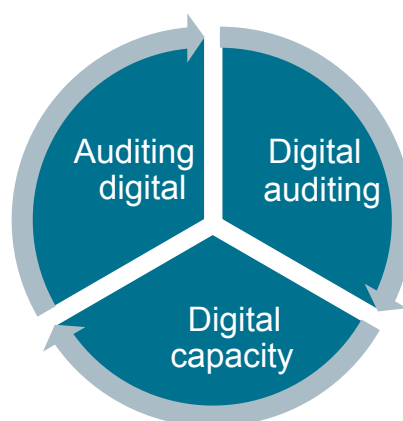
2. Background

On 6 December 2016 Management Team invited colleagues from across business groups to a meeting to discuss areas of shared interest and priorities around 'digital audit'. The wide ranging discussion covered a range of issues including:

- the importance of digital technology as a way in which members of the public access public services
- the role digital plays in supporting improvement, innovation and transformation
- what audit work to date tells us about digital services and technology projects
- what role digital currently plays and might play in the delivery of audit
- what resources we have and might need in the future.

3. Digital audit

We can view 'digital' audit as covering three main areas:



In these areas:

- 'Auditing digital' covers *what we audit*, including audits of services, projects and arrangements which are delivered digitally.
- 'Digital auditing' covers *how we audit*, including the use of digital analysis and analytics tools and techniques to inform and deliver audit work.

- 'Digital Capacity' covers *who is involved* in the above, in terms of resources, skills, experience and culture.

We have a wide range of audit work and development work under way in each of the three areas, including:

- recent and planned performance audits on digital services and statutory reports on IT/ digitally enabled projects
- the delivery of the Information Services strategy, audit intelligence and data analytics projects and data analysis tools accompanying audit reports
- specialist skills working groups and technical and subject expertise.

Some of these have been developed to meet a specific business/ audit need and some have developed as projects within our strategic and business group improvement programmes. All of these are consistent with our strategic objectives and guiding principles, but we recognise that this is a rapidly changing area and presents a wide range of risks and opportunities. We also know that there is more we can do to get the most out of what we currently do, as well as identify areas for development.

The discussion at the Board will inform a broader organisational discussion on this subject and will inform the refresh of the Corporate Plan and the Information Strategy and the development of a Digital Audit Strategy and action plan over the course of the next six months.

4. Recommendation

The Board is invited to consider the presentation and discuss the objectives, priorities and next steps.

AUDIT SCOTLAND BOARD

20 JANUARY 2017

REPORT BY THE ASSISTANT AUDITOR GENERAL

FRAUD ARRANGEMENTS

1. Purpose of Report

This report is for information and sets out a summary of Audit Scotland's work in relation to the prevention and detection of fraud and error in public sector bodies in Scotland.

2. Introduction

Fraud is a hidden crime and therefore there are large gaps in data regarding total fraud losses. Methods to accurately measure fraud on a consistent basis are still in development. However, it was estimated that fraud costs the UK economy around £52 billion in 2013, with public sector fraud estimated at around £20.6 billion.

The primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management. The external auditor's role is set out in auditing standards and Audit Scotland's Code of Audit Practice.

Auditors in the public sector undertake a wider scope audit including reviewing audited bodies' governance and financial management arrangements incorporating action to prevent and detect fraud.

The paper also looks at the activities Audit Scotland has been undertaking; often in collaboration with other the public sector bodies, in order to help improve the prevention, detection and investigation of fraud and irregularity in Scotland. It also describes the various counter fraud arrangements put in place by Scottish public sector organisations.

Once the Board has considered the paper it will be shared with staff and audit firms to provide a summary of current counter fraud arrangements and activity.

3. Recommendation

The Board is invited to note Audit Scotland's fraud arrangements.

AUDIT SCOTLAND BOARD

20 JANUARY 2017

REPORT BY THE ASSISTANT AUDITOR GENERAL

FRAUD ARRANGEMENTS

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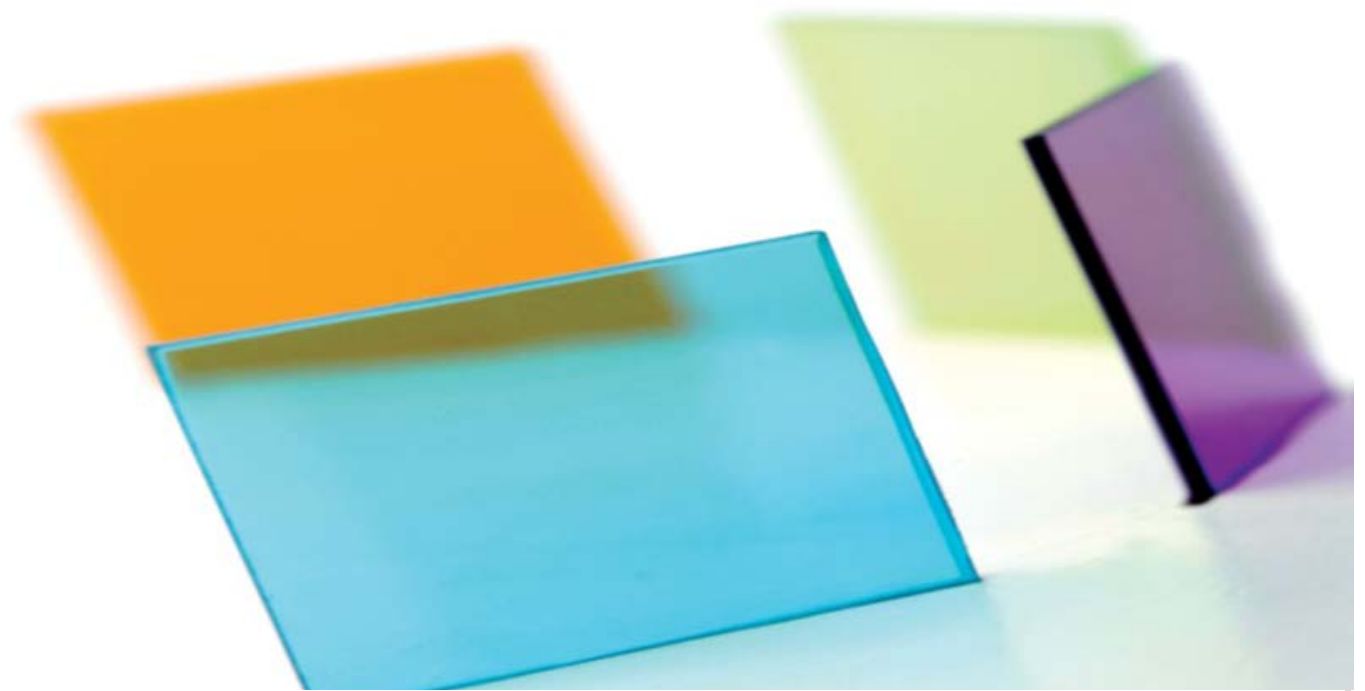
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Once the Board has considered the paper it will be shared with staff and audit firms to provide a summary of current counter fraud arrangements and activity.

3. Recommendation

The Board is invited to note Audit Scotland's fraud arrangements.

Counter fraud



Prepared for the Audit Scotland Board
20 January 2017

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

Contents

Introduction.....	4
Background.....	4
Estimates of fraud	4
Fraud in Scotland	6
Reported public sector fraud in Scotland	6
Auditors' role.....	8
The Scottish Government counter-fraud approach.....	11
The NHS counter-fraud approach.....	12
The local government counter-fraud approach	12
CIPFA Counter Fraud Centre	13
Audit Scotland arrangements to support counter fraud activity	14
National fraud initiative	14
Housing benefit performance audit.....	15
Fraud returns.....	16
Scottish Government counter-fraud conference	17
Liaison and training	17
Looking forward.....	18
New financial powers	18
Local audit work	18
Investigating fraud	18
Appendix 1-Examples of NFI case studies.....	20
Case study 1 -The City of Edinburgh Council	20
Case study 2- Renfrewshire Council	20
Case study 3- Student Awards Agency for Scotland.....	20
Case Study 4- East Dunbartonshire Council.....	21
Appendix 2 - Example from the overpayment recovery section from Dundee City Council's housing benefit risk assessment report.....	22
Appendix 3 - Examples of fraud and irregularities from auditor returns	25
Example 1 -social care	25
Example 2- grant funding	25
Example 3- council tax relief.....	26

Introduction

1. Fraud is a hidden crime. As a result, there are large gaps in data regarding total fraud losses. Methods to accurately measure fraud on a consistent basis are still in development. However, it has been estimated that fraud costs the UK economy between ⁽¹⁾ £52 billion and ⁽²⁾ £193 billion per year, with public sector fraud estimated at between £20.6 billion and £37.5 billion each year.
2. This report looks at the level of public sector fraud in the UK and the activities Audit Scotland has been undertaking, often in collaboration with other the public sector bodies, in order to help improve the prevention, detection, investigation and recovery of fraud and irregularity.

Background

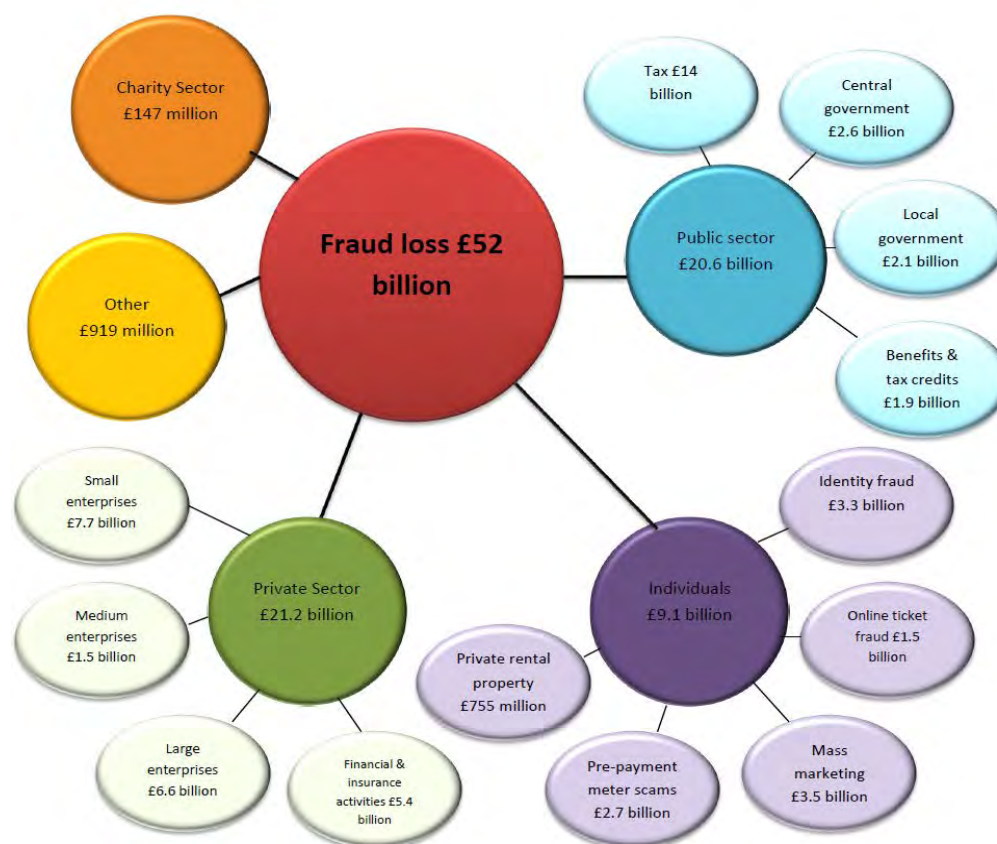
Estimates of fraud

3. The National Fraud Authority's last Annual Fraud Indicator in 2013 estimated that fraud cost the UK economy £52 billion per year. Of this total, £20.6 billion was estimated as the cost to the public sector as shown in exhibit 1 below.

1. National Fraud Authority 2013 Annual Fraud Indicator

2. Experian, PKF Littlejohn & the University of Portsmouth Annual Fraud Indicator 2016.

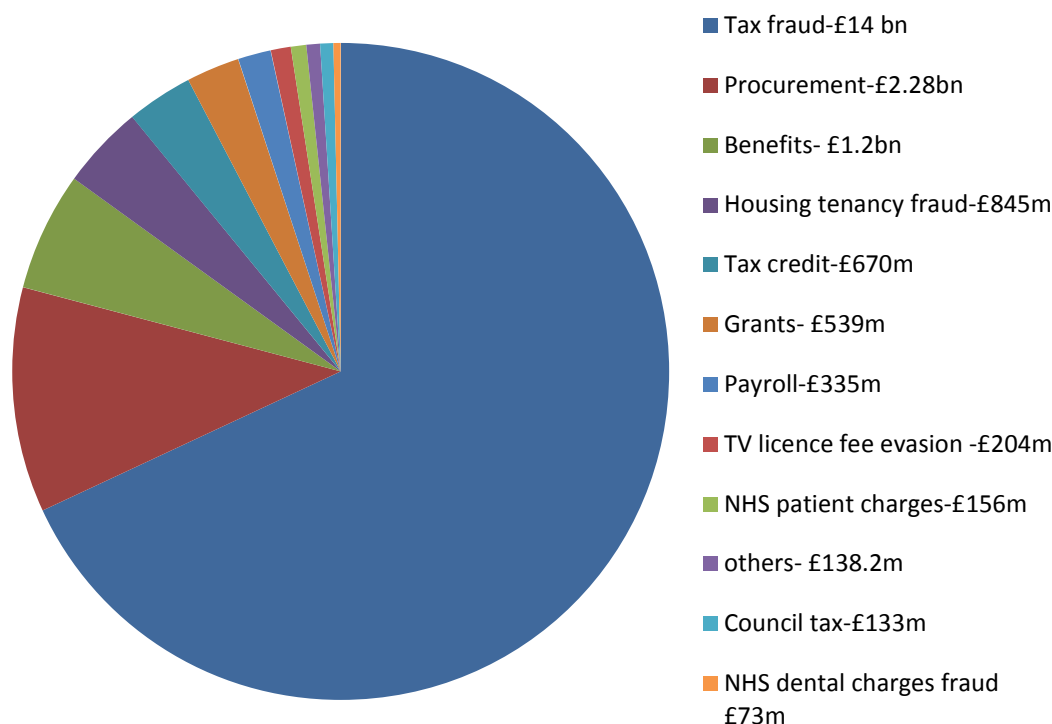
Exhibit 1- Estimated fraud losses



4. The estimated cost to the public sector can be broken down as shown in exhibit 2 below:

Exhibit 2- Breakdown of public sector fraud

UK Public sector fraud £20.6 billion



5. Tax is by far the largest area and is an estimate of undeclared tax.
6. More recently the CIPFA Counter Fraud Centre's [fraud and corruption tracker for 2015/16](#) summarises a survey carried out across UK local authorities and estimated that £271 million worth of fraud has been detected or prevented in 2015/16. The largest value of fraud was identified within housing tenancy (£148.4 million), followed by housing benefit (£36.9 million) and council tax (£22.4 million). The largest area of growth in fraud investigation was found to be in procurement.

Fraud in Scotland

7. Estimating levels of fraud is fraught with difficulty as most estimates start with identified fraud and then extrapolate those results. There is no official estimate of the total level of fraud in Scotland. However, crimes of fraud recorded by Police Scotland totalled 7,400 in 2015/16, the second lowest total since 2006/07. The lack of information regarding total fraudulent activity in Scotland is partially because a number of measures are based at a UK level e.g. tax fraud.

Reported public sector fraud in Scotland

8. In Scotland, Audit Scotland and other public sector bodies have identified the following fraud and irregularity:

-
- The latest [National Fraud Initiative](#) (NFI) report in June 2016 identified £16.8 million of fraud and error across the Scottish public service. This brings the cumulative total of outcomes since NFI began to £110.6 million in Scotland, and £1.39 billion across the UK.
 - The latest exercise in Scotland has led to:
 - 5,939 overpayments being recovered worth approximately £4.6 million;
 - 4,846 council tax discounts reduced or removed;
 - 194 occupational pensions stopped;
 - 3,073 blue badges stopped or flagged for future checks;
 - 868 housing benefit payments stopped or reduced;
 - £2.1million in further savings from the previous NFI exercise in 2012/13.
 - The Scottish Government reported that 125 cases (totalling £249,000) of actual or attempted fraud and five cases of asset loss were identified during 2015/16 within the government and its associated bodies and were dealt with under the Scottish Government's fraud response arrangements.
 - [NHS Counter Fraud Services](#) reported in their [End of Year Report 2015/16](#) a pilot initiative undertaken by the service which focused on preventing fraudulent and incorrect patient claims for exemption from dental treatment costs under the NHS Tax Credit category. Dental practices were visited with the aim of reinforcing the important role that practice staff can play in reducing claims made wrongly by patients. Counter Fraud Services reports that checking patient exemption data identified that over £3.25m was lost nationally to fraud or error in 2014.
 - Local auditors reported £6.5 million of fraud and irregularity in local government and non-departmental public bodies to Audit Scotland during 2015/16. In addition, seven tenancy frauds and two fraudulent school placing requests were identified in local authorities.
 - Some local government internal audit/corporate fraud teams prepare annual reports, for example:
 - The Scottish Borders reported one corporate fraud under £5,000 relating to missing vouchers.
 - North Ayrshire Council's counter fraud team reported the completion of eight internal investigations on employees as well as backdated recoveries in respect of council tax, discretionary housing payments and the Scottish Welfare Fund totalling £12,000 with a further £10,000 of on-going annual cost savings. The team also report that it carried out a review of non-domestic rate empty property relief which resulted in the removal of £60,000 of relief for properties which are no longer empty as well as identifying backdated recoveries of £87,000. The team has also been working with the local Health and Social Care Partnership to recover blue parking badges where there is a suspicion of fraud or misuse and they report that a number of blue badges have been confiscated.

Auditors' role

9. The external auditor's role in relation to fraud is set out in auditing standards and the Code of Audit Practice. The primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management, as set out in [The International Standards on Auditing 240 \(ISA 240\)](#) and shown in exhibit 3.
10. ISA 240, which is followed by Audit Scotland, states that the role of the auditor is to obtain "reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. When obtaining reasonable assurance, the auditor is responsible for maintaining professional scepticism throughout the audit".
11. Auditors are therefore not responsible for the prevention, detection or investigation of fraud. Indeed most fraud is identified through tip offs and the normal operation of internal controls with internal and external audit uncovering a small minority of detected fraud. Audit does however act as a fraud deterrent.
12. Auditors in the public sector undertake a wider scope audit including reviewing audited bodies' governance and financial management arrangements which incorporate action to prevent and detect fraud.
13. Audit Scotland has strengthened the [Code of Audit Practice](#) during 2016. The Code now requires auditors to provide conclusions on the four dimensions of wider-scope public audit: financial sustainability, financial management, governance and transparency, and value for money. The audit work on the dimensions, especially in governance and review of the control environment, requires auditors to make judgements on the suitability and effectiveness of counter fraud arrangements.
14. The Code states that in respect of fraud:

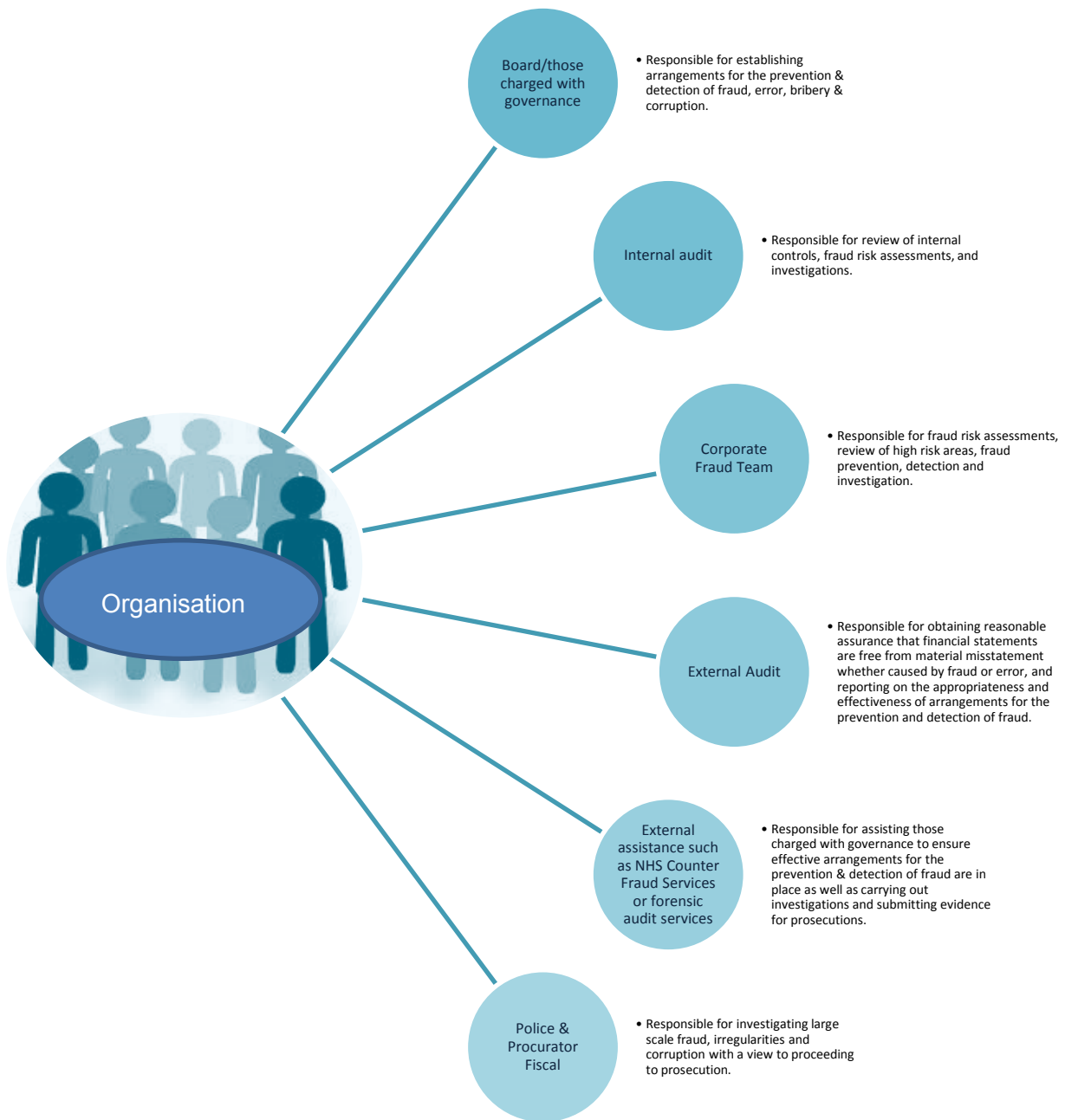
"Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and also to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.

The nature of public sector organisations means that there are specific fraud risks that are relevant to a public sector audit which should be considered when applying ISA 240. These include taxation receipts, welfare benefits, grants and other claims made by individuals and organisations on the public purse.

Audit work would include reviewing, concluding and reporting on areas such as whether the body has established appropriate and effective arrangements for the prevention and detection of fraud and corruption".

15. In addition, [The Financial Reporting Council's Practice Note 10](#) on auditing financial statements of public sector bodies recognises that as most public bodies are net spending bodies e.g. benefits or grant paying bodies, auditors of public sector bodies recognise that the risk of material misstatement due to fraud related to expenditure recognition may be greater than the risk of material misstatements due to fraud related to revenue recognition.
16. In practice this results in auditors carrying out a review of the suitability and effectiveness of counter-fraud arrangements, collation and dissemination of frauds reported by local authorities and non-departmental public bodies and monitoring of NFI activity. Specific tests are included in audit programmes to identify fraudulent or irregular transactions e.g. substantive testing of unusual journal entries, review of segregation of duties and analytical review work.
17. Where the auditor has a duty to give a regularity opinion, fraudulent transactions cannot, by definition, be regular since they are without proper authority. Material levels of fraud will therefore be likely to result in a qualification of the audit opinion.

Exhibit 3: Roles and responsibilities



The Scottish Government counter-fraud approach

18. The Scottish Government's counter fraud strategy states that it has a zero tolerance approach to fraud. The Government hosts the Public Sector Counter Fraud Forum which includes representatives from Audit Scotland as well as members from key public sector bodies including Police Scotland, the Crown Office and Procurator Fiscal Service, NHS Counter Fraud Services, The Scottish Public Pensions Agency, The Student Awards Agency Scotland, Scottish Local Authorities' Chief Internal Auditors Group, and The Scottish Local Authority Investigators' Group. The purpose of the forum is to share counter fraud experiences, good practices and developing approaches to address the emerging risks of fraud.
19. Members work collaboratively on counter fraud activity e.g. The Student Awards Agency and NHS Counter Fraud Services are working together on a data matching exercise reviewing previous dental student awards made to dentists who have now qualified and as part of the terms of the award are required to work in the NHS in Scotland. Initial testing of 70 cases has identified 45 dentists have not complied with the terms of the student award.
20. The Counter Fraud Forum has published "[Protecting Public Resources in Scotland](#)", a Counter Fraud Strategy for the whole of the Scottish Public Sector. This strategy has been endorsed by key partners in the public sector including Audit Scotland. A [Counter Fraud Maturity Model](#) for public bodies has also been published by the forum to allow organisations to assess their counter fraud arrangements against best practice in order to identify areas of weakness and suggestions for improvement.
21. [The Scottish Public Finance Manual](#), issued by the Scottish Ministers to provide statutory guidance to the Scottish Government and other relevant bodies on the proper handling and reporting of public funds, contains a section on the prevention, detection, reporting and handling of fraud.
22. The key points made in the manual are that:
 - Organisations should make a clear commitment to ethical standards in public life and develop a fraud policy statement in order to communicate their approach to fraud.
 - All staff are concerned with the prevention and detection of fraud but the prime responsibility for designing, operating and reviewing control systems rests with the managers involved.
 - Procedures set up to prevent and detect fraud must be carefully followed and monitored.
 - Organisations should put in place avenues for reporting suspicions of fraud.
 - Organisations should draw up fraud response plans to ensure that timely and effective action is taken in the event of a fraud.

The NHS counter-fraud approach

- 23. NHS Counter Fraud Services provides NHS Scotland with a counter fraud service through the prevention, detection and investigation of fraud, embezzlement, theft, corruption and other irregularities against NHS Scotland.
- 24. Counter Fraud Services' states that its aim is to work in partnership with all of the NHS in Scotland in order to support and improve services, ensuring that money is deployed for the public good, in the effective delivery of frontline care.
- 25. Counter Fraud Services have powers to undertake work in other public sector bodies and have recently entered into a pilot Shared Services Agreement with the Scottish Government to provide counter fraud services. The Government hopes that this arrangement will contribute to the development of an effective counter fraud culture in the Scottish Government as well as developing techniques to minimise fraud risks through access to specialist investigation and analytical services.

The local government counter-fraud approach

- 26. In local government, counter-fraud activity has historically been undertaken by internal audit and for benefit services, benefit fraud investigators.
- 27. In 2010, the joint Department for Work and Pensions (DWP)/HM Revenues and Customs (HMRC) fraud and error strategy proposed a Single Fraud Investigation Service to address fraud across all benefits and tax credits, whether administered by DWP, HMRC, or local authorities. The policy objective was to ensure that all types of social security benefit and tax credit fraud are investigated according to a single set of guidance and priorities.
- 28. The transfer of benefit counter-fraud work from local authorities commenced nationally in July 2014 and concluded in March 2016 with 74 Scottish local authority fraud investigation staff transferring to the DWP during this period.
- 29. In response, many councils established "corporate counter-fraud" teams, often located within their internal audit sections. These teams focus on counter-fraud exercises and investigations and have a small number of specially trained, dedicated fraud investigation staff.

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- 30. These corporate counter-fraud teams tend to consist of only two or three officers. However we are starting to see partnership models emerging. For example, in North and East Ayrshire Councils, a three year partnership agreement is in place to deliver counter fraud across both councils.
 - 31. Councils also use external organisations such as credit reference agencies to complement their internal audit and counter-fraud teams' counter fraud activity in areas such as reviewing council tax single person discounts to ensure the discounts are awarded to appropriate people.

CIPFA Counter Fraud Centre

- 32. [The CIPFA Counter Fraud Centre](#) was set up in 2014 and states its aims as being to lead and coordinate the fight against fraud and corruption across local and central government, the health, education and charity sectors. The centre offers training and a range of products and services to help organisations detect, prevent and recover fraud losses.
- 33. The centre leads on the national counter fraud and anti-corruption strategy for local government in England, 'Fighting Fraud and Corruption Locally' and also conducts the annual CIPFA Fraud and Corruption Tracker (CFaCT), the overview of all fraud, bribery and corruption activity throughout the public sector.

Audit Scotland arrangements to support counter fraud activity

34. The following section looks at Audit Scotland's work in respect of reviewing and helping to improve counter fraud arrangements in the public sector across Scotland.

National fraud initiative

35. Audit Scotland conducts data matching for the purposes of preventing and detecting fraud. Scottish public bodies are supported in their counter fraud activities through participation in the NFI. This is a successful data-matching exercise which matches data within and between other public bodies to identify potentially fraudulent transactions or claims and errors. Specific examples from the latest NFI report are included in Appendix 1.
36. Although Audit Scotland leads the NFI in Scotland, it is fundamentally a tool for audited bodies to use in their counter fraud activities. The success of the NFI comes primarily from the public servants who:
- investigate the NFI data matches
 - identify and stop frauds and errors
 - recover overpayments
 - hold fraudsters accountable
 - improve their systems to help prevent fraud and error.
37. The role of external auditors in the NFI is to review and conclude on the effectiveness of the local NFI arrangements. They also provide assurance on the progress being made on the NFI investigations. This allows Audit Scotland to produce a bi-annual report on the outcomes of NFI in Scotland.
38. As previously mentioned, the latest report issued in June 2016 reported that since the previous report in June 2014 outcomes valued at £16.8 million had been recorded. Cumulative outcomes from the NFI in Scotland are now at £110.6 million and represent a significant return to the public finances of Scotland.
39. It is important that once overpayments have been identified appropriate recovery action is taken. As at 31 March 2016, there was £4.6 million of recovery action being taken in 5,939 cases. This is a slight increase in value from the £4.5 million that was being recovered at the end of NFI 2012/13 in March 2014.
40. The identification and monitoring of the on-going recovery of NFI overpayments is difficult. Some of the reported outcomes represent overpayments that will never be recovered as well

as estimated values, for example cancelling a blue badge, recovery of a council house and estimates of what the total overpayment would have been had it not been identified. Some of these outcomes may not easily translate into cash savings, but they are valuable outcomes nonetheless.

41. The monitoring of overpayment recovery is challenging as it is often the case that the identification of one overpayment results in investigations which identify other overpayments for the same person e.g. the identification of housing benefit overpayments often results in the identification of incorrect council tax reduction awards. Audited bodies are not required to identify and monitor the recovery of NFI overpayments in isolation from overpayments identified through other counter fraud activity.
42. Public sector bodies have various recovery options available to them including invoicing and in some cases, recovery from on-going payments e.g. in the case of benefits. However recovery can often be slow due to the affordability of repayments for customers and restrictions to deductions from on-going benefit (for 2015/16, on-going deductions were restricted to £11.10 a week, or £18.50 a week where the overpayment was due to fraud). This means that for large overpayments it can take several years to recover the overpayment.

Housing benefit performance audit

43. The housing benefit performance audits specifically review overpaid housing benefit whether caused by fraud and/or error. Councils should ensure that overpayments are minimised and that when they do occur they are rigorously recovered.
44. Auditors review practices in place in councils to minimise overpayments. These may include:
 - customers being informed at every opportunity and by various methods of their duty to report all changes of circumstances
 - cases prioritised where a change is likely and prompt suspension of benefit where appropriate
 - automation of notifications from the DWP advising of changes to benefits or work status.
45. Auditors evaluate the processes councils use to analyse fraud and claimant error overpayments in order to identify areas for improvement to help minimise future overpayments.
46. A review of overpayment recovery performance measured against in year debt and total outstanding debt is undertaken including comparing performance across all Scottish councils to help inform our judgement on the effectiveness of council recovery processes. Appendix 2 contains a recent example from the overpayment recovery section from a housing benefit audit report.
47. Auditors also review the processes and procedures in place to help ensure that all overpayments are pursued consistently and that councils make good use of all available recovery options including:
 - recovering from on-going housing benefit

- issuing an invoice when the customer is no longer in receipt of benefit
 - working with the DWP's Debt Management Unit to recover overpayments from on-going DWP benefits, where appropriate
 - using the DWP's Customer Information System, and other commercial products, to trace customers who are no longer resident within the local authority area
 - working in partnership with Sherriff Officers to pursue difficult to recover debt.
48. A review has recently been undertaken for the Accounts Commission of housing benefit fraud investigation liaison arrangements between local authorities and the DWP since the responsibility for Housing Benefit counter-fraud work transferred from local authorities to DWP's Fraud and Error Service (FES) from July 2014.
49. The review identified that there is generally good liaison between local authorities and FES however the current process does not provide sufficient assurance that public funds administered by local authorities are being protected as:
- potentially fraudulent claims are not always being dealt with appropriately
 - fraudulent claimants are not always being subject to sanction or prosecution action
 - fraudulent overpayments are not consistently being created and recovered, where appropriate
 - performance against the UK performance indicators is not being routinely recorded, monitored, and reported by FES or local authorities.
50. As there is no standard approach for local authorities to record and monitor the progress of fraud referrals sent to FES, there is a lack of management information nationally and locally.
51. Despite the significant issues identified in this report, we have been advised that DWP and local authorities in Scotland are committed to delivering process improvements and to implementing a structured and regular approach to local liaison.
52. The DWP has advised that it is working on a number of activities to address the issues in order to improve performance and procedures. These activities include the establishment of the HB Fraud Issues Progression Group as a forum to discuss, prioritise and resolve issues and the commissioning of the DWP Performance Development Team to review the end-to-end fraud referral process and the issues associated with the rollout of FES.

Fraud returns

53. Auditors may be required to submit information about instances of fraud and irregularity over £5,000 in value, for local government and non-departmental public bodies to Audit Scotland. Audit Scotland then circulate the details of the reported frauds and irregularities to auditors and audited bodies through the quarterly technical bulletins. Auditors and audited bodies should review information about frauds circulated and consider whether any action is required in relation to their own audits/organisations.
54. Examples of reported fraud and irregularity are shown in Appendix 3.

Scottish Government counter-fraud conference

- 55. An annual counter fraud conference is arranged by the Scottish Government in conjunction with the Counter Fraud Forum and is open to all public sector bodies. This year's event in August 2016 was oversubscribed, with 150 delegates registered from across the public sector.
- 56. Audit Scotland is one of the exhibitors at the conference each year. Our experience is that many delegates ask about NFI, corporate fraud as well as specific examples of reported fraud. Delegates also ask for hints and tips in the prevention and detection of fraud.
- 57. At the close of the 2016 event, a survey of those in attendance showed that almost 80% felt that their knowledge and understanding of fraud issues had increased. Furthermore 75% of those surveyed said they felt the conference had given them more ideas about how their organisation can further develop their approach to counter fraud.

Liaison and training

- 58. Auditors regularly liaise with other counter fraud organisations across Scotland. Audit Scotland liaise with Police Scotland as appropriate, for example Police Scotland has used audit evidence obtained for audit reports prepared under Section 22 of the Public Finance and Accountability (Scotland) Act 2000 and information contained in correspondence received by Audit Scotland to inform investigations.
- 59. Audit Scotland has also been liaising with the Police Scotland Public Sector Counter Corruption Unit sharing experiences and learning. The Counter Corruption Unit not only investigates allegations of fraud and corruption, but also revisits the public sector body concerned, where appropriate, to review systems and controls in order to identify how the fraud/corruption occurred and to make suggestions for improvement. The Unit are currently working on a public sector counter corruption checklist for public bodies in Scotland. This is based on knowledge gained from recent bribery and corruption investigations in Scotland. Audit Scotland has agreed to review this document when complete and provide feedback to Police Scotland before it is formally launched.
- 60. Audit Scotland is regularly represented at public sector counter fraud training and counter fraud forums.
- 61. This has included attendance at a recent three day Police Scotland training course to enhance public sector fraud investigation skills. Representatives from various public sector bodies attended the course covering the impact of serious and organised crime on local authorities, money laundering and financial intelligence. Further courses have been planned due to the popularity and very positive feedback Police Scotland has received regarding this course.
- 62. Audit Scotland also attends other events and meetings as appropriate. For example representatives attended a recent Scottish Local Authority Investigating Officers' Group meeting to discuss recent developments with NFI.

Looking forward

New financial powers

63. The financial powers being devolved to the Scottish parliament will see the requirement for additional counter fraud activity. Audit Scotland has been very active to date and will continue to be so in:
- commenting on draft legislation introduced e.g. in respect of new taxes, to ensure taxes are able to be brought into NFI
 - commenting on the robustness of proposed regulations and rules e.g. for the administration of devolved social security benefits, as they develop to help ensure that there is an appropriate balance between efficient access to benefits and the stewardship of public funds.

Local audit work

64. Auditors currently review the arrangements in place for the prevention and detection of fraud as they are required to do under auditing standards and report findings through the Annual Audit Report.
65. Whilst this approach complies with auditing standards we have identified that there may be scope for adding value through the local audit by asking questions in a different way, for example, by asking bodies:
- What are your fraud risks?
 - Who owns the risks?
 - How confident are you that effective controls are in place to mitigate these risks?
 - How do you demonstrate this by reporting to those charged with governance and more widely?

We will be exploring this with auditors over the next few months.

Investigating fraud

66. If a fraud is suspected at a public body investigations will normally be carried out by one or more of, internal audit, firms who provide forensic audit expertise, the NHS Counter Fraud Service, Scottish Government internal audit and Police Scotland.
67. At present Audit Scotland does not have the capacity to carry out fraud investigations which would meet the evidence gathering requirements for future prosecution. We have previously considered putting some staff through the relevant qualifications but responsibility for responding to suspected fraud rightly lies with management and it is not clear that there is sufficient work where we could add to the current arrangements to make this a priority. When significant frauds have been identified there is the facility for reporting to Parliament or the

Accounts Commission e.g. the Section 22 report on a fraud at the National Library of Scotland.

Appendix 1-Examples of NFI case studies

Case study 1 -The City of Edinburgh Council

A NFI pension match identified a fraud in excess of £15,000 which had taken place for almost 13 years. The match was not a perfect match as a middle initial had been omitted in one of the individual's records. It had previously been picked up by NFI on two separate occasions. Each time the pension officer sent out a Life Certificate for completion and both times the forms were returned duly completed, signed and witnessed. The third time the match was identified through NFI, a more senior pension officer checked it and noticed that the witness signatures on the previous two Life Certificates were by the same person. As a cautionary measure, a stop was put on the pension and photographic evidence requested. No evidence was received. More investigations were undertaken and a death date of 2003 was identified.

The case is now the subject of a police investigation.

Case study 2- Renfrewshire Council

A NFI housing benefit to payroll match identified a case which has been proven as a 'living together' and 'non-commercial tenancy' fraud resulting in £120,000 of housing benefit and council tax benefit having been improperly claimed. The data match showed a female housing benefit claimant to be living and claiming from the same address as a male council employee. The claimant had been claiming housing benefit and council tax benefit at this address since 2010. Investigations identified that the council employee had purchased the property in 2010 and that the claimant and employee appeared to be living as a couple. Previous addresses for the claimant were subsequently examined and it was found that a previous address had been shared with her mother. Further checks into the mother's circumstances showed that the mother and the landlord of this previous address appeared to have been living there as husband and wife. This meant that the claimant's claim for this secondary property for the period 2002 to 2007 was incorrect.

The case against the claimant and the employee has been reported to the Procurator Fiscal for consideration of proceedings; the second case against the mother and her partner has been passed to FES and is on-going.

Case study 3- Student Awards Agency for Scotland

An immigration NFI match identified that a non EU foreign national was given an entry clearance visa to enter the United Kingdom as a visitor. The person was not entitled to work and had no recourse to public funds. The individual applied for student funding as a British National and lied on the application about the right to be in the UK. As a result the person fraudulently gained £11,204 in funding.

The individual pled guilty at trial and was sentenced to 200 hours community pay back.

Recovery action is being taken.

Case Study 4- East Dunbartonshire Council

Five private residential care home resident matches identified that the residents were deceased. Overpayments totalling £89,000, (£45,000 in respect of one resident) were identified and are being recovered. The council has since revised their working practices. Previously the council accepted verbal notifications of the death of care home residents. As a result of the NFI exercise only written notification is now accepted.

Appendix 2 - Example from the overpayment recovery section from Dundee City Council's housing benefit risk assessment report

Overpayments

To protect public funds, councils should take appropriate steps to ensure that overpayments are minimised and that when they do occur they are correctly classified and rigorously recovered.

The Housing Benefit Overpayment Recovery Policy sets out the council's commitment to the recovery of benefit overpayments and acts as a guide to the administration and management of the overpayment recovery process. The aims of the policy are to:

- reduce losses to public funds
- provide revenue for the council
- deter fraud and error
- demonstrate a commitment to the accuracy of payments, and the provision of a quality service to customers.

A key aim of the policy is the prompt identification and correct classification of overpayments to ensure that incorrect benefit is cancelled timeously, and that the council achieves the maximum subsidy available.

The Corporate Debt Recovery team is responsible for the recovery of all council debt and, within this team, one supervisor and seven officers have specific responsibility for the recovery of benefit overpayments.

The Housing Benefit Overpayments Guidance Manual is comprehensive and details the actions to be taken when dealing with an overpayment. When recovering debt, the council makes good use of all available recovery options including:

- issuing an invoice when the customer is no longer in receipt of benefit
- working with the DWP's Debt Management Unit to recover overpayments from ongoing DWP benefits where appropriate
- offsetting an overpayment using a credit on a customer's rent account

- using the DWP's Customer Information System to trace customers who are no longer resident within the local authority area
- working with Sherriff Officers, where appropriate.

The exhibit below illustrates the council's current and previous recovery performance.

Exhibit : Overpayment levels and recovery performance

	2013/14	2014/15	2015/16	2016/17 (to 30.6.16)
Total overpayments c/f	£4,240,108	£4,350,622	£5,008,825	£5,529,980
Total overpayments raised in-year	£2,053,287	£2,581,883	£2,887,801	£542,270
HB debt recovered	£1,460,573	£1,4721,979	£1,860,490	£433,403
% of in-year debt recovered	71%	57%	64%	80%

There is regular quarterly reporting of benefit overpayment recovery performance to senior management set against three internal performance indicators, and every six months an aged debt analysis exercise is carried out to profile outstanding debt and determine further action.

With the exception of checks carried out by the Quality Assurance team, benefit overpayment classifications are not routinely checked for accuracy and therefore the council has reduced assurance that the correct subsidy code is being allocated and that it is maximising the subsidy available from the DWP.

Audit Scotland identified two risks to continuous improvement during the previous risk assessment in that:

- the proposed transfer of benefit overpayments to a corporate debt recovery system in 2014 could have a detrimental effect on the council's benefit overpayment recovery performance if such debt was not treated with the same priority as at present
- there were no targets for the work of the overpayments recovery team and, with the exception of the monthly spreadsheet provided for information only to the Head of Revenues and Customer Services, overpayment recovery performance was not a key performance indicator. It was therefore not routinely monitored or reported as part of the service's performance management regime.

We consider that the first risk has been addressed as the council places significant importance on the recovery of benefit overpayments and has increased the number of officers in the Corporate Debt Recovery team that deal with this type of debt. We were also told that more staff are being cross-trained to deal with benefit overpayments, which should help the service deliver a more generic approach and provide added resilience to the team.

However, we consider that the second risk remains outstanding. Although the council has targets for the recovery of benefit overpayments, and performance is regularly reported to senior management, it is not considered a key indicator within the Corporate Services Service Plan and consequently is not reported to either the Policy and Resources Committee or Scrutiny Committee. In addition, the council has not achieved its internal targets since 2010/11, and therefore we consider that these targets should be reviewed and revised to ensure that they are challenging, but achievable.

Appendix 3 - Examples of fraud and irregularities from auditor returns

Example 1 - social care

A couple defrauded £464,000 in independent living social care payments from a council over a nineteen year period.

A woman claimed independent living payments from 1996 to pay her carer, who was a family friend, on the basis that her husband was pursuing a career in the territorial army.

A social worker reported their suspicions to the council corporate fraud team, whose investigation established that the husband had not been in the territorial army since 1999. It is suspected that the family friend did not provide any care and passed the wages on to the couple, possibly retaining a percentage.

The fraud was possible as no evidence was obtained that the husband was serving in the territorial army. The fraud continued for a long period as social workers were apparently unsure to whom within the council to report their suspicions.

A publicity campaign is on-going within the council to raise awareness of fraud and how to report suspicions to the corporate fraud team.

Example 2 - grant funding

A council was required to repay £4.4 million of European funding due to the failure of an arm's length external organisation (ALEO) to comply with grant conditions. The council is the lead authority for European funding in the area and has ultimate responsibility for ensuring claims are for eligible expenditure and in line with funding terms and conditions. The council claimed £4.4 million of grant in respect of project expenditure incurred by the ALEO.

A condition for the project was that employee costs were eligible only if they related to staff who either worked 100% of their time on the project or, if not, their allocated time was supported by formal signed timesheets at the time the work was undertaken.

During an audit of the project, the Scottish Government identified that ALEO employees who claimed to have spent 100% of their time on the project were also working on other projects. The council's internal audit team then investigated the matter further, and confirmed that grant had been claimed for staff who had neither spent 100% of their time on the project nor had formal signed timesheets.

Failure to ensure the expenditure was eligible resulted in the council being liable to repay the £4.4 million as the ALEO did not have the funds to immediately pay the money back.

Four officers in the ALEO have been suspended and are subject to disciplinary proceedings.

Details of the internal audit investigation have also been passed to Police Scotland.

Example 3 - council tax relief

A council tax officer defrauded over £17,000 from a council by processing council tax reliefs and exemptions to his own bank account. The fraud was perpetrated by the officer transferring historical council tax credits from unrelated dormant accounts into his own council tax account to offset his liability then creating inappropriate exemptions and reliefs to re-create credits in the dormant accounts. The officer then transferred these and other credits into the accounts of council tax payers with similar names to himself before processing refunds, authorised unwittingly by fellow officers, to his own bank account. The fraud was identified after a member of staff identified a mismatch between a council tax payer's name and the name on a bank account refund. Procedures have been reviewed and controls have been strengthened including the introduction of monitoring of historical dormant accounts, an annual audit of officers' council tax accounts and random quality checking. The officer concerned has been dismissed and a police investigation is underway.

AUDIT SCOTLAND BOARD

20 JANUARY 2017

REPORT BY THE CHIEF OPERATING OFFICER

BEST COMPANIES SURVEY RESULTS

1. Purpose of Report

This report updates the Board on the latest results of the Best Companies Survey and highlights next steps. The report provides an early overview of the results, pending the preparation of a detailed edition of Abacus, as in previous years.

2. Background

Audit Scotland first took part in the Best Companies survey in 2009, with those results reported during 2010. We have repeated the survey annually since then and our latest results are reported here. The survey is one way in which we collect feedback from colleagues, and provides an annual temperature check on how colleagues feel about their workplace.

The survey is confidential, and was completed by colleagues in October and November 2016. The survey and results package cost approximately £14,700.

3. Context

Last year, we continued to discuss and develop our approach to becoming a world class audit organisation that improves the use of public money, culminating in the Becoming World Class work streams which will inform our new corporate plan. We made further changes to our skill mix and there were further departures under our VERA (Voluntary Early Release Agreement) scheme. We recruited 27 new colleagues in the past year (including our trainee intake) and we continue to work hard to recruit to our full complement of staff to help us work as efficiently as possible. We continue to place particular emphasis on strengthening our approach to resourcing and wellbeing, following the feedback from previous surveys.

4. Best Companies Results summary

Our overall best company index score is 633, which is our highest since taking part in the survey, and 20 points higher than our score last year. Audit Scotland has also retained its One to Watch status for the sixth year in succession.

Participation in the survey remains very high with 80 per cent (213 out of 267) colleagues taking part.

An Abacus special edition detailing the results of all the survey questions will be published at the end of January 2017, once we have the benchmark data for other participants in the survey. The appendix to this report provides a summary of the feedback from this year's survey results.

Our strongest performing areas are leadership and my company. Fair deal and Wellbeing remain areas which we need to continue to develop, but both have shown significant improvement in the past year.

There is also a dedicated iShare site with all previous Best Companies results and analyses.

5. Next Steps

The Leadership Group has a development event on the 25 January 2017 to consider the messages that emerge from the survey alongside the priorities we currently have and the opportunities for greater progress.

We are beginning the process of local team discussions to explore the results further. This will happen across the business to enable us to take stock of the additional feedback. All this work will continue to inform the building a better organisation strand of work.

6. Recommendation

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

Best Companies

Survey results 2016



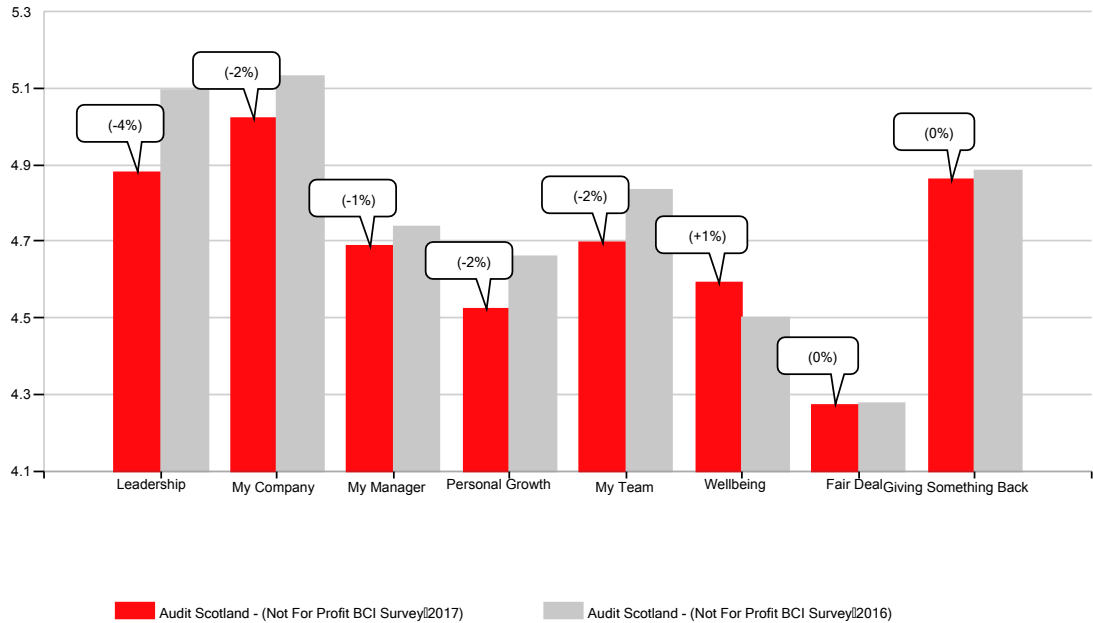
best companies™

 AUDIT SCOTLAND





Overall by Factor



Key messages



76% of us participated, meaning the results are reliable and trustworthy



We're still a best companies '**One to Watch**'



Our highest performing area is 'My Company', for the eighth year running

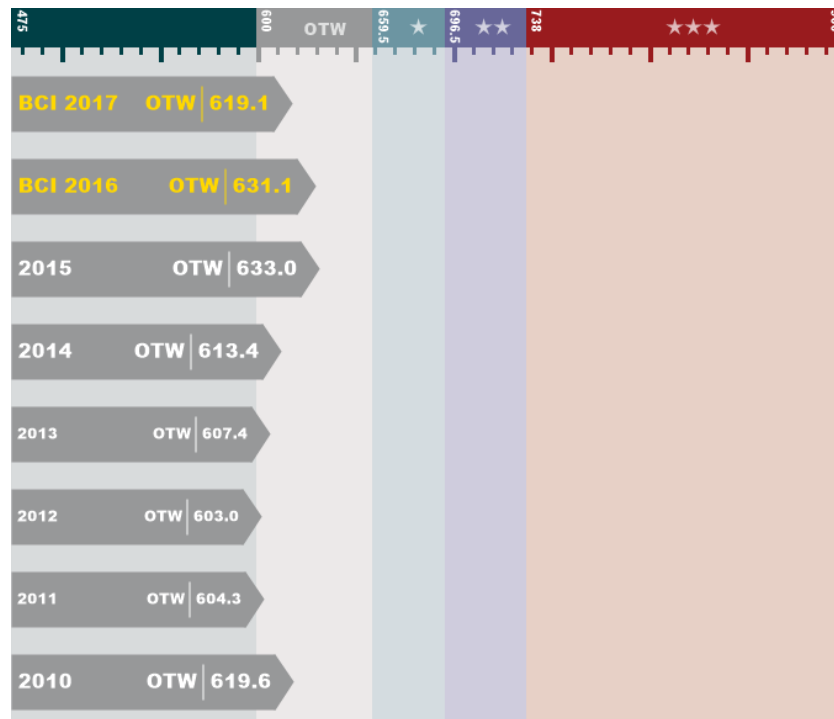


Some shifts within the eight factors, with a dip in Leadership, and an increase to Wellbeing



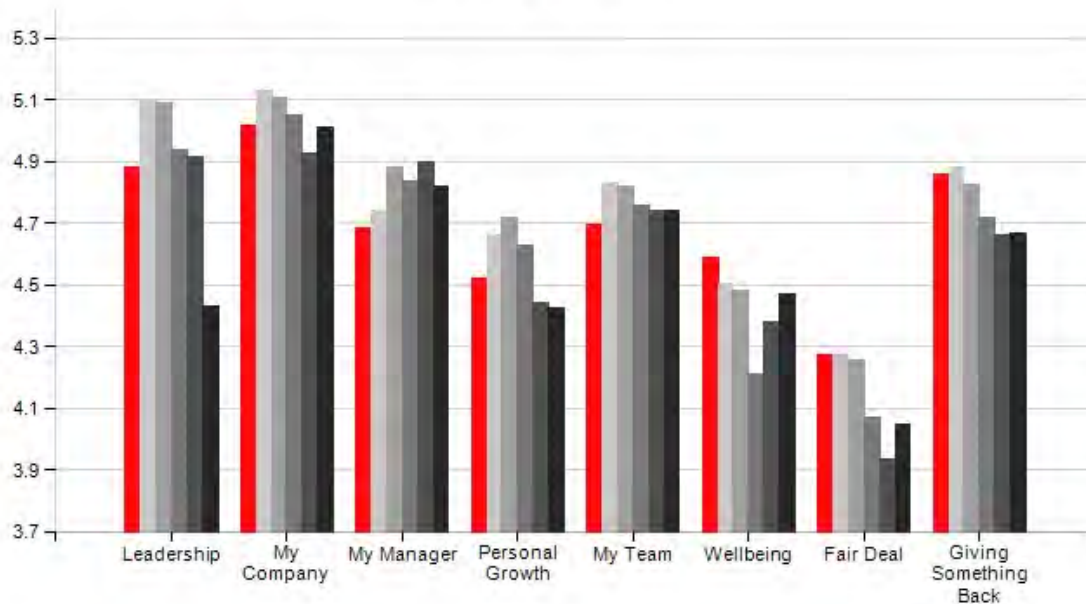
We will be donating £210 to our next charity as a 'thank you' to the 210 colleagues who took the time to complete the survey

Best Companies scores: 2010 – 2017



Best Companies: 6 year trend

Overall by Factor



AUDIT SCOTLAND BOARD

20 JANUARY 2017

REPORT BY THE CORPORATE FINANCE MANAGER

Q2 FINANCIAL PERFORMANCE REPORT 2016/17

1. Purpose

This report is for information and presents the financial results for the six months to September 2016. The financial results have been considered by the Audit Committee at its meeting on 9 December 2016.

2. Background

The finance report for the six months to September 2016 is attached to this paper. The report was discussed by Management Team on Tuesday 8 November 2016.

The paper comprises the following sections.

- Schedule 1 Headline Results and commentary
- Schedule 2 Results Summary
- Schedule 3 Balance Sheet
- Schedule 4 Cash Flow Statement
- Schedule 5 Capital Expenditure and Funding Report
- Schedule 6a ASG Finance Report
- Schedule 6b PABV Finance Report
- Schedule 6c CSG Finance Report
- Schedule 6d BSS & FM Finance Report
- Schedule 7 WTE Staff in Post Summary 2016/17
- Schedule 8a Work in Progress 2015/16 Audit Year
- Schedule 9 2016/17 Financial year – fee income analysis

Information on agency and secondment w.t.e. is now included in schedule 7.

3. Discussion

In the six months to September 2016, Audit Scotland's Net Operating costs were £1,705k which was £220k less than budget.

Fee income earned for audits carried out by our in-house teams was £185k higher than budget and was the main contributor to the Net Operating Cost favourable variance.

Cumulatively WIP levels for chargeable 2015/16 in-house audits are now close to budget (-0.48%) reflecting an acceleration in audit progress since March 2016 when WIP levels were on average 1.90% less than budget. As a result, in-house WIP completion percentages in the six months to September 2016 were 1.42% higher than assumed in the budget and contributed £114k to the favourable variance.

The agreement of fees at levels above the indicative levels included in the budget added a further £62k of income with an additional £9k being earned in respect of additional fees agreed for 2014/15 Local Government charity audits.

Although fee income earned for audit carried out by external firms was £650k greater than budget this has had little impact on the overall variance as fees and expenses payable to the external firms were £608k higher than budget. This recognises the additional audit work carried out by the firms to generate the higher income earned.

There are no matters of concern requiring discussion with the Audit Committee.

Further detailed information on the financial results is provided in the attached report.

4. Virement

There were no instances of budget virement in excess of £20k in the six months to September 2016.

5. Action

The Board is invited to note the financial results for the six months to September 2016.

FINANCE REPORT

Six Months to 30 September 2016

1.1 Headline Results

1. In the six months to September 2016 Audit Scotland's Net Operating Cost at £1,705k was £220k less than budget. The main reasons for the favourable variance were:
- Total income recorded in the six months to September 2016 was £902k higher than the phased budget. Fee income contributed £835k.
 - Expenditure levels were £682k higher than budget. Adverse variances were recorded in respect of fees and expenses paid to external audit firms £608k, own staff costs £27k, agency and secondment expenditure £142k and legal, professional and consultancy costs £34k. These adverse variances were partly offset by lower travel and subsistence expenditure £39k, training and recruitment costs £41k, and depreciation charges £28k. Further details are provide in section 2 below and schedules 6 & 7.
 - A year-end forecasting exercise will commence shortly.

1.2 The summary financial information to September 2016:

£000	Annual Budget	Actual	Budget	Var.	% Var.	Prior Year
Fee Income - In House	7,664	4,921	4,736	185	-3.9%	3,999
Fee Income - Audit Firms	5,795	4,089	3,439	650	-18.9%	3,759
Central Charges	4,718	2,359	2,359	0	0.0%	2,339
Interest	25	18	12	6	-50.0%	19
Other Income	0	61	0	61	-	18
IAS 19 Income	0	0	0	0	-	0
TOTAL INCOME	18,202	11,448	10,546	902	8.6%	10,134
Approved auditors	5,011	3,640	3,032	(608)	20.1%	3,372
Staff salaries and oncosts	14,833	7,441	7,414	(27)	0.4%	7,021
Severance provision	40	0	0	0	-	0
Agency and secondment costs	123	260	118	(142)	120.3%	234
IAS 19 Pension costs	90	0	0	0	-	0
Property costs	935	442	450	8	-1.8%	805
Travel and subsistence	986	417	456	39	-8.6%	448
Legal, professional and consultancy	695	190	156	(34)	21.8%	257
Training and recruitment	662	211	252	41	-16.3%	237
Printing and office costs	291	131	145	14	-9.7%	174
Information technology	368	186	183	(3)	1.6%	200
Audit	60	26	30	4	-13.3%	28
Depreciation	412	177	205	28	-13.7%	84
Other costs	78	32	30	(2)	6.7%	28
EXPENDITURE	24,584	13,153	12,471	(682)	5.5%	12,888
NET OPERATING (COST)	(6,382)	(1,705)	(1,925)	220	-11.4%	(2,754)

FINANCE REPORT

Six Months to 30 September 2016

2. Income and Expenditure Summary (See Headline Table, above, and Sch. 2)**a) Income**

In the six months to September 2016 fee income was £835k higher than budget. In-house fee income was £185k higher than budget while income earned in respect of audits carried out by external audit firms was £650k more than budget.

In-house fee income is derived from work in progress (WIP) completion percentages compiled through access to ASG's Management Information System (MIS) which captures audit day inputs from the Time Recording System.

The phased budgets for fee income have been profiled, mainly, on the basis of actual income levels recorded during the 2015/16 financial year. As the budgets have been based on indicative audit fees, variances will arise as a result of volume and price differences. Volume variances will occur when the WIP percentage reported is either above or below the percentage anticipated in the budget. Price variances will reflect the degree to which the fees have been agreed above, or below, indicative.

In the six months to September 2016 in-house fee income (excluding credits for non-chargeable work) was £185k more than budget. Favourable variances were recorded for all sectors, Local Government +£101k, Health +£4k, Central Government +£78k and Further Education +£2k

Cumulatively WIP levels for chargeable 2015/16 audits are on average 0.48% less than budget but 1.42% higher than the phased budget included in the 2016/17 financial year recognising that WIP levels at March 2016 were on average 1.90% less than budget. As a result chargeable in-house income levels for the six months to September 2016 were £114k more than budget. The agreement of fees at levels above the indicative amounts included in the budget has increased the overall favourable variance, adding £62k to the volume variance.

A further £9k of income was recorded in the six months to September for additional fees agreed in respect of Local Government charity audits for the 2014/15 audit year.

Although in-year WIP is 1.42% higher than budget this will increase as the 2015/16 audits are completed and audit volumes move to a level 1.90% higher than the budget included in the 2016/17 financial year. As a result income will be £155k higher. The agreement of fees at levels above the indicative levels included in the budget will also generate £63k of additional income.

The table below provides an analysis of the in-house fee income variance by sector for 2015/16 audits at September 2016. Information on the forecasted position once the audits are completed is also provided.

2015/16	Volume			Price	Total
	Cumulative WIP %	In-year WIP %	£k	£k	£k
Local Government	0.00	+1.37	+65	+27	+92
Health	0.49	+0.87	+14	-10	+4
FE	-12.01	+1.48	+1	+1	+2
Central Government	-2.02	+2.57	+34	+44	+78
Total – September 2016	-0.48	+1.42	+114	+62	+176
Forecast	-	+1.90	+155	+63	+218

FINANCE REPORT

Six Months to 30 September 2016

Income earned in the six months to September 2016 in respect of audits carried out by external firms was £650k greater than budget – audit progress information is collected from firms on a quarterly basis and so the September results reflect the returns made at the end of the second quarter. The high income levels recorded in-year are in part due to an acceleration in audit WIP completion levels from the low levels recorded at March 2016. At March 2016, WIP levels reported by external audit firms for 2015/16 audits were, on average across all sectors, 7.31% lower than budget generating an adverse income volume variance of £410k.

At September 2016 cumulative WIP completion percentages were on average 1.78% ahead of budget and as a result audit progress in the six months to September 2016 was 9.09% higher than the phased budget included in the 2016/17 financial year. As a result chargeable income levels for the six months to September 2016 were £520k more than budget. The agreement of fees at levels above the indicative amounts included in the budget has increased the overall favourable variance, adding £119k to the volume variance.

Although in-year WIP is 9.09% higher than budget this will reduce as the 2015/16 audits are completed and audit volumes move to a level 7.31% higher than the budget included in the 2016/17 financial year. As a result income will be £410k higher than budget. The agreement of fees at levels above the indicative levels included in the budget will also generate £145k of additional income once all audits are complete.

The table below provides an analysis of the audit firm fee income variance by sector for 2015/16 audits.

2015/16	Volume			Price	Total
	Cumulative WIP %	In year WIP %	£k	£k	£k
Local Government	+1.93	+10.48	+320	-14	+306
Health	+1.95	+5.98	+74	+53	+127
Water	+0.22	+10.56	+18	+13	+31
FE	+7.96	+17.34	+72	+14	+86
Central Government	-1.00	+5.06	+36	+53	+89
Total	+1.78	+9.09	+520	+119	+639
Forecast	-	+7.31	+410	+145	+555

A further £11k of income was recorded for additional audit fees agreed for 2014/15 audits (Health £8k, FE £3k).

Schedule 8 details the cumulative WIP completion percentages for 2015/16 audits in each sector at September 2016. Information is also provided in terms of the budget for 2015/16 audits and a comparator with the position reported at September 2015 (2014/15 audit year). Schedule 9 provides an analysis of total fee income by sector and by provider (in-house and external firms).

Other income was £61k above budget for the year to date, a result of costs recovered for staff seconded to other public sector organisations. Interest received, at £18k, was £6k more than budget.

b) Expenditure

Total expenditure for the six months to September 2016 at £12,153k was £682k more than budget.

FINANCE REPORT**Six Months to 30 September 2016**

The most significant variance related to fees and expenses payable to external audit firms where expenditure was £608k more than budget. Own staff costs were £27k more than budget, agency and secondment expenditure £142k greater than budget and legal, professional and consultancy costs £34k higher. These adverse variances were partly offset by lower travel and subsistence expenditure £39k, training and recruitment costs £41k, and depreciation charges £28k.

Fees and expenses payable to external audit firms were £608k more than budget. Fees paid to external firms were £568k greater than budget, expenses £8k more than budget and VAT recoveries on Local Government work £32k less than budget. Excluding payments made to firms for non-chargeable audits which were £33k less than budget, fees paid to external firms for chargeable audits were £601k more than budget. The increase in audit fee income reported by the audit firms has a 'knock on' effect on the amount of the fees payable to the firms that is recognised in the accounts for the period. As income earned for chargeable audits carried out by external firms was £650k more than budget the fees and expenses associated with the work were also higher than budget.

Staff costs in the six months to September 2016 were £27k higher than budget. The average number of staff employed in the six months to September 2016 at 277.7 w.t.e. was very close to the establishment figure of 278.1 w.t.e. The staff budget for 2016/17 assumed a 3% vacancy factor and therefore the average number of staff employed in the period was 7.7 w.t.e. more than the numbers funded in the budget. The additional cost of employing these staff was partly offset by lower than budgeted average actual salary costs per employee.

In the four months to 30 September 2016, agency and secondment costs were £142k more than budget. The secondment of three staff from other public sector bodies (West Lothian Council, Office for National Statistics, and Scotland's Rural College) to PABV increased costs by £118k and agency expenditure in Corporate Services and BSS was £28k more than budget as a result of the backfill of staff on maternity leave. Agency spend in ASG was £3k less than budget.

Total staff costs to 30 September 2016 including agency and secondment expenditure and net of secondment income was £108k more than budget.

Legal, professional and consultancy expenditure in the six months to September 2016 was £34k greater than phased budget. Increase expenditure was recorded in respect of legal fees for the new Inverness office £8k, the post occupancy review of West Port £9k, design costs associated with the review of our Glasgow office £5k, and agency recruitment fees £9k.

Travel and subsistence expenditure was £39k lower than budget. A small underspend was recorded for the lease car fleet, £8k, with the balance attributable to lower travel expenditure across a range of cost centres £31k.

Training and recruitment costs were £41k below budget. Favourable variances were recorded for training expenditure, including the professional training scheme £46k and conferences and seminars £10k. These variances were partly offset by increased expenditure on professional subscriptions, -£8k, and recruitment, -£7k.

Depreciation charges were £28k less than budget reflecting lower than budgeted capital expenditure in previous years and timing differences in respect of capital investment profiles in the current year.

The 2016/17 budget included a contingency fund of £150k which is controlled by the Management Team. To date £75k has been committed, £27k for project management and £48k for secretarial support and property management in Business Support. A further £40k remains uncommitted from a budget provision held to provide resources to plan for the audit implications of the new financial powers coming to the Scottish Parliament.

FINANCE REPORT

Six Months to 30 September 2016

3. Balance Sheet (See Sch. 3)

At 30 September 2016, net liabilities of £15,605k were recorded in the Balance Sheet. This represented a decrease in net liabilities of £438k from the audited position at 31 March 2016.

Non-current assets have reduced by £164k as result of depreciation charges on our assets being greater than new capital investment in the six months to September 2016.

Current assets have increased by £3,587k. During September we invoiced the final, third, instalment of the 2015/16 audit fees, except for FE bodies where we have invoiced the first, of two, instalments. As a result we have received payments which have increased the cash held at the end of the month by £1,858k, to £3,602k. Trade and other receivables were £1,729k higher than the position at March 2016 due to the increase in debtors as a result of billing.

Trade and other payables increased by £2,949k primarily due to the increased cash balance creditor due to the consolidated fund and the increased levels of deferred income (fee income received in advance of audit work being completed) generated through the WIP calculations.

Deferred liabilities increased by £143k due to movements in the rent free provision for the new Edinburgh office. This provision is being built up over the first 39 months of the lease. The provision for early retirement has reduced by £107k following departures under the latest VERA scheme and monthly payments made for early retirements of former Accounts Commission and Local Government Ombudsmen staff.

4. Cash Flow Statement (See Sch. 4)

In the six months to September 2016 cash balances have increased by £1,858k from £1,744k at 31 March 2016 to £3,602k at 30 September 2016. The increase was due to receipts from fee invoicing and £4,000k drawn down from the Scottish Consolidated Fund. This cash was in excess of our expenditure in the six months to September 2016.

5. Capital Expenditure and Funding Report (See Sch. 5)

Capital investment in the six months to September 2016 totalled £13k. £7k of the expenditure related to IT with the majority for the new card entry system at our Glasgow office. The remaining £6k has been spent procuring furniture for the new office in Inverness.

6. Business Group Summaries (See Sch. 6 a~d)

6.1 In the six months to September 2016 **Audit Services Group** generated a net operating contribution to overheads of £1,763k which was £144k higher than budget.

- Fee income (including credits for non-chargeable work) was £146k higher than budget. Favourable variances across all chargeable audits of £185k (Local Government +£101k, Health +£4k, Central Government +£78k, FE +£2k) were partly offset by an adverse variance for non-chargeable Central Government audits, -£39k.
 - In Local Government, the favourable income position reflects higher than budget in-year WIP completion percentages for 2015/16 audits of +1.37% which increased income by £65k. The impact of agreeing 2015/16 fees at levels above that included in the budget added a further £27k of income.
 - For chargeable Central Government audits, the favourable income variance reflects the impact of agreeing fees at levels above budget £44k (mainly Scottish Police Authority) and higher in-year WIP completion percentages £34k (+2.57%) when compared to budget.
 - The reduced income credits recorded for non-chargeable Central Government 2015/16 audits reflected a suppressed level of in-year WIP -2.69% which reduced income credits by £52k. This was partly offset by the impact of agreeing fees at levels above those included in the budget +£13k.
-

FINANCE REPORT

Six Months to 30 September 2016

- Income earned from secondments was £17k above budget and relates to a member of staff seconded to the Care Inspectorate.
- Further details on income are provided in section 2 above and schedules 8 and 9.
- Gross expenditure at £4,235k was £19k more than budget.
- Own staff costs were £47k more than budget. The average number of staff employed in the six months to September at 149.2 w.t.e. was 1.0 w.t.e. above establishment. The adverse variance was driven by the increased number of staff in post and the 3% vacancy factor assumed in the budget though this was partly offset by lower than budgeted average actual staff costs per employee. Agency costs were £3k less than budget, as 2015/16 audits are completed the need for agency assistance has also diminished. Total staff costs were £44k more than budget.
- Expenditure levels in other categories were in total £25k less than budget with the main contributors being reduced leased car costs £5k and lower travel and subsistence expenditure £14k. The balance of the underspend comprised a number of small variances over a range of cost categories.

6.2 Net expenditure in **PABV** for the six months to September 2016 was £1,906k, £39k higher than budget.

- Total staff costs inclusive of secondment expenditure were £88k more than budget. Three staff seconded into PABV from the Office for National Statistics, West Lothian Council and Scotland's Rural College added £118k to costs. These costs were partly offset by lower own staff costs which were £30k less than budget (average staffing to date at 62.1 w.t.e. compared to an establishment of 63.8 w.t.e.) and £40k of income received for a member of staff seconded to Healthcare Improvement Scotland.
- Other expenditure in the six months to September 2016 was very close to budget +£6k.

6.3 **Corporate Services** net expenditure in the six months to September 2016 at £1,548k was £45k less than budget. The main contributors to the variance are noted below.

- Own staff costs were £13k higher than budget for the period. CSG staffing at 31.7 w.t.e. was just 0.1 w.t.e. above establishment with the adverse cost variance driven by the 3% vacancy factor. Agency staff spend as a result of backfilling staff on maternity leave was £21k more than budget.
- Other expenditure for Corporate Services was £72k less than budget mainly as a result of lower expenditure on staff training and recruitment which was £39k less than budget. Lower depreciation charges contributed a further £28k to the favourable variance.

6.4 **Business Support and Facilities Management**, net expenditure to September 2016 at £872k was £24k more than budget.

- Staff costs, including agency charges, were £5k higher than budget. The average number of staff employed in the year was 19.9 w.t.e., 0.4 w.t.e. above establishment.
- Other expenditure at £494k was £19k higher than budget mainly as a result of legal and professional fees being £22k higher than budget following the post occupancy review of West Port undertaken by haa design, new work related to the proposed alterations in our Glasgow office, and legal fees associated with the Inverness move.

David Hanlon
Corporate Finance Manager
20 October 2016

AUDIT SCOTLAND

FINANCE REPORT

RESULTS SUMMARY: 30 September 2016

Schedule 2

£(000)'s	Annual	Actual	Period	Variance	Actual	Budget	Variance
INCOME							
Fee Income - In House	7,664	1,420	1,256	164	4,921	4,736	185
Fee Income - Audit Firms	5,795	2,025	1,863	162	4,089	3,439	650
Central Charges	4,718	393	393	0	2,359	2,359	0
Rebate	0	0	0	0	0	0	0
Bank interest	25	3	2	1	18	12	6
Other Income	0	11	0	11	61	0	61
TOTAL INCOME	18,202	3,852	3,514	338	11,448	10,546	902
EXPENDITURE							
Commission	177	16	16	0	82	86	4
Board	34	3	3	0	15	17	2
Auditor General	233	18	19	1	110	114	4
Accounts Commission Secretary	93	8	7	(1)	44	46	2
Management Team	615	54	59	5	301	306	5
Audit Strategy	864	40	53	13	336	334	(2)
Approved Auditors	5,012	1,761	1,612	(149)	3,640	3,032	(608)
Audit Services Group	8,474	691	726	35	4,235	4,216	(19)
Performance Audit and Best Value	3,821	338	320	(18)	1,949	1,867	(82)
Corporate Services	3,350	293	272	(21)	1,567	1,605	38
Business Support & Facilities	1,659	184	147	(37)	872	848	(24)
Reserves & Provisions	177	2	0	(2)	2	0	(2)
Contingency & EYF	75	0	0	0	0	0	0
TOTAL EXPENDITURE	24,584	3,408	3,234	(174)	13,153	12,471	(682)
NET OPERATING (COST)	(6,382)	444	280	164	(1,705)	(1,925)	220
SCPA agreed Budget	(6,382)						
Budget Revision - AME pension adjustment	(6,382)						

AUDIT SCOTLAND

FINANCE REPORT

Balance Sheet As at 30 September 2016

Schedule 3

	31 March 2016 (Audited) £ (000)'s	30 Sept 2016 £(000)'s
Non-Current Assets		
Property, Plant and Equipment	1,767	1,611
Intangible Assets	33	25
Total non-current assets	1,800	1,636
Current Assets		
Trade and other receivables	2,661	4,390
Cash and cash equivalents	1,744	3,602
Total current assets	4,405	7,992
Total assets	6,205	9,628
<u>Less: Current Liabilities</u>		
Trade and other payables < 1 year	3,896	6,845
Provision for early retirement < 1 year	444	444
Other provisions < 1 year	33	33
Total current liabilities	4,373	7,322
Non-current assets plus/net current assets/liabilities	1,832	2,306
Non-current liabilities		
Deferred liabilities	(258)	(401)
Provision for Early Retirement	(1,698)	(1,591)
Other provisions	(81)	(81)
Net Funded Pension Liabilities	(15,838)	(15,838)
Total non-current liabilities	(17,875)	(17,911)
ASSETS LESS LIABILITIES	(16,043)	(15,605)
<u>Represented by:</u>		
Taxpayers' Equity		
Net funded pension liabilities	15,838	15,838
General Fund	205	(233)
	16,043	15,605

**Cash Flow Statement
to 30 September 2016**

Schedule 4

£(000)'s

Cashflows from operating activities

Net Operating cost	(1,705)
<i>Adjustment for non cash items:</i>	
- Depreciation	177
- Pension scheme - net revenue (debit)	
(Increase)/Decrease in trade and other receivables	(1,729)
(Decrease)/Increase in trade/other payables/deferred liabilities	3,093
(Decrease)/Increase in provisions for early retirement	(107)
(Decrease)/Increase in other provisions	0
Adjustment for cash balance due to the Consolidated Fund	(3,602)

Net cashflow from operating activities

(3,873)

Cashflows from investing activities

Purchase of property, plant and equipment	(13)
Purchase of intangible assets	0
Less / (add) movement in accrued expenditure	
	(13)

Cashflows from financing activities

Opening cash balance payable to the Consolidated Fund	1,744
From Consolidated Fund (supply)	4,000
	5,744

Net increase / (decrease) in cash and cash equivalents in the period

1,858

Cash and cash equivalents at the beginning of the period

1,744

Cash and cash equivalents at the end of the period

3,602

Net cash requirement

Cashflows from financing activities	5,744
(Increase)/ decrease in cash	(1,858)
	3,886

Capital Expenditure and Funding Report
As at 30 September 2016

Schedule 5

	Leasehold Buildings £(000)'s	Furniture & Fittings £(000)'s	Computer Hardware £(000)'s	Computer Software £(000)'s	TOTAL £(000)'s
ASSETS					
Cost					
At 1 April 2016	1,270	251	869	725	3,115
Reclassified in year	0	0	0	0	0
Additions for year	0	6	7	0	13
Disposals for year	0	0	0	0	0
As at 30 September 2016	1,270	257	876	725	3,128
Depreciation					
At 1 April 2016	128	34	461	692	1,315
Reclassified in year	0	0	0	0	0
Charge for Year	67	25	77	8	177
Disposals for year	0	0	0	0	0
As at 30 September 2016	195	59	538	700	1,492
Net Book Value					
As at 30 September 2016	1,075	198	338	25	1,636
Analysis of Asset Financing					
Owned	1,075	198	338	25	1,636

AUDIT SCOTLAND

FINANCE REPORT

ASG FINANCE REPORT: to 30 September 2016

Schedule 6a

£(000)'s	Annual Budget	Period	Period Budget	Variance	YTD	Budget YTD	Variance YTD
INCOME							
LG Audits	4,588	991	842	149	3,047	2,946	101
Health Audits	1,530	331	305	26	1,010	1,006	4
CG Audits	1,509	94	108	(14)	855	777	78
CG Audits (non-chargeable)	1,963	358	379	(21)	1,060	1,099	(39)
FE Audits	38	4	1	3	9	7	2
Fees for Additional Audits	0	0	0	0	0	0	0
TOTAL FEE INCOME	9,628	1,778	1,635	143	5,981	5,835	146
Secondments Income	0	3	0	3	17	0	17
Other Income	0	0	0	0	0	0	0
OTHER INCOME	0	3	0	3	17	0	17
TOTAL INCOME	9,628	1,781	1,635	146	5,998	5,835	163
DIRECT COSTS							
Salaries	5,772	485	481	(4)	2,935	2,886	(49)
National Insurance	630	53	53	0	317	315	(2)
Superannuation	1,002	83	84	1	497	501	4
Superannuation Lump Sum	40	3	3	0	20	20	0
Class 1A NI	40	3	3	0	20	20	0
Agency Costs and Secondments	75	4	25	21	72	75	3
TOTAL DIRECT COSTS	7,559	631	649	18	3,861	3,817	(44)
EXPENDITURE							
Training & Recruitment	41	2	0	(2)	6	0	(6)
Cars	352	29	29	0	171	176	5
Travel & Subsistence/Relocation	465	27	39	12	181	195	14
Accommodation	0	0	0	0	0	0	0
Other Accommodation Costs	5	1	0	(1)	3	3	0
Printing	5	0	1	1	1	2	1
Communications	0	0	0	0	0	0	0
Stationery & Consumables	7	0	1	1	0	3	3
Postage & Distribution	3	0	0	0	1	2	1
ICT	17	1	4	3	6	9	3
Consultancy	6	0	0	0	0	2	2
Legal/Professional Fees	0	0	0	0	0	0	0
Insurance	0	0	0	0	0	0	0
Corporate Costs	8	0	2	2	3	4	1
Depreciation	0	0	0	0	0	0	0
Miscellaneous	6	0	1	1	2	3	1
TOTAL EXPENDITURE	915	60	77	17	374	399	25
GROSS EXPENDITURE	8,474	691	726	35	4,235	4,216	(19)
NET OPERATING CONTRIBUTION TO OVERHEADS	1,154	1,090	909	181	1,763	1,619	144

AUDIT SCOTLAND

FINANCE REPORT

PABV FINANCE REPORT: to 30 September 2016

Schedule 6b

£(000)'s	Annual Budget	Period	Period Budget	Variance	YTD	Budget YTD	Variance YTD
INCOME							
Bank Interest	0	0	0	0	0	0	0
Secondments Income	0	8	0	8	40	0	40
Other Income	0	0	0	0	3	0	3
Pension Fund Finance Income	0	0	0	0	0	0	0
OTHER INCOME	0	8	0	8	43	0	43
TOTAL INCOME	0	8	0	8	43	0	43
DIRECT COSTS							
Salaries	2,687	222	224	2	1,316	1,343	27
National Insurance	299	24	24	0	145	150	5
Superannuation	465	39	39	0	233	232	(1)
Superannuation Lump Sum	19	2	2	0	9	9	0
Class 1A NI	3	0	0	0	3	2	(1)
Agency Costs and Secondments	0	25	0	(25)	118	0	(118)
TOTAL DIRECT COSTS	3,473	312	289	(23)	1,824	1,736	(88)
EXPENDITURE							
Training & Recruitment	5	0	0	0	2	0	(2)
Cars	32	3	3	0	16	16	0
Travel & Subsistence/Relocation	79	3	8	5	26	40	14
Accommodation	0	0	0	0	0	0	0
Other Accommodation Costs	4	0	0	0	1	2	1
Printing	0	0	0	0	0	0	0
Communications	0	0	0	0	0	0	0
Stationery & Consumables	3	0	0	0	0	2	2
Postage & Distribution	0	0	0	0	0	0	0
ICT	5	0	1	1	1	2	1
Consultancy	210	18	16	(2)	62	64	2
Legal/Professional Fees	0	0	0	0	9	0	(9)
Insurance	0	0	0	0	0	0	0
Corporate Costs	10	2	3	1	8	5	(3)
Depreciation	0	0	0	0	0	0	0
Miscellaneous	0	0	0	0	0	0	0
TOTAL EXPENDITURE	348	26	31	5	125	131	6
GROSS EXPENDITURE	3,821	338	320	(18)	1,949	1,867	(82)
NET OPERATING (COST)	(3,821)	(330)	(320)	(10)	(1,906)	(1,867)	(39)

AUDIT SCOTLAND

FINANCE REPORT

CSG FINANCE REPORT: to 30 September 2016

Schedule 6c

£(000)'s	Annual Budget	Period	Period Budget	Variance	YTD	Budget YTD	Variance YTD
INCOME							
Bank Interest	25	3	2	1	18	12	6
Secondments Income	0	0	0	0	0	0	0
Other Income	0	0	0	0	1	0	1
Pension Fund Finance Income	0	0	0	0	0	0	0
OTHER INCOME	25	3	2	1	19	12	7
TOTAL INCOME	25	3	2	1	19	12	7
DIRECT COSTS							
Salaries	1,229	103	102	(1)	622	612	(10)
National Insurance	131	11	11	0	66	65	(1)
Superannuation	211	18	18	0	107	105	(2)
Superannuation Lump Sum	8	1	1	0	4	4	0
Class 1A NI	0	0	0	0	0	0	0
Agency Costs and Secondments	8	10	1	(9)	25	4	(21)
Severance Costs	0	0	0	0	0	0	0
Untaken Holidays Accrual	0	0	0	0	0	0	0
Adj to Early Retirement Provision	0	0	0	0	0	0	0
TOTAL DIRECT COSTS	1,587	143	133	(10)	824	790	(34)
EXPENDITURE							
Training & Recruitment	554	47	31	(16)	185	224	39
Cars	0	0	0	0	0	0	0
Travel & Subsistence/Relocation	25	(6)	3	9	7	13	6
Accommodation	0	0	0	0	0	0	0
Other Accommodation Costs	17	1	1	0	5	7	2
Printing	8	1	1	0	5	4	(1)
Communications	80	4	7	3	43	40	(3)
Stationery & Consumables	1	0	0	0	0	1	1
Postage & Distribution	5	0	0	0	1	3	2
ICT	376	39	33	(6)	185	188	3
Consultancy	60	18	8	(10)	32	25	(7)
Legal/Professional Fees	100	10	9	(1)	53	50	(3)
Insurance	71	6	6	0	35	36	1
Corporate Costs	11	0	2	2	3	4	1
Depreciation	412	30	34	4	178	206	28
Miscellaneous	43	0	4	4	11	14	3
TOTAL EXPENDITURE	1,763	150	139	(11)	743	815	72
GROSS EXPENDITURE	3,350	293	272	(21)	1,567	1,605	38
NET OPERATING (COST)	(3,325)	(290)	(270)	(20)	(1,548)	(1,593)	45

AUDIT SCOTLAND

FINANCE REPORT

BSS & FM FINANCE REPORT: to 30 September 2016

Schedule 6d

£(000)'s	Annual Budget	Period	Period Budget	Variance	YTD	Budget YTD	Variance YTD
INCOME							
Bank Interest	0	0	0	0	0	0	0
Secondments Income	0	0	0	0	0	0	0
Other Income	0	0	0	0	0	0	0
Pension Fund Finance Income	0	0	0	0	0	0	0
OTHER INCOME	0	0	0	0	0	0	0
TOTAL INCOME	0	0	0	0	0	0	0
DIRECT COSTS							
Salaries	518	46	44	(2)	266	264	(2)
National Insurance	48	4	4	0	25	24	(1)
Superannuation	88	7	7	0	39	44	5
Superannuation Lump Sum	3	0	0	0	2	2	0
Class 1A NI	0	0	0	0	0	0	0
Agency Costs and Secondments	40	9	7	(2)	46	39	(7)
Severance Costs	0	0	0	0	0	0	0
Untaken Holidays Accrual	0	0	0	0	0	0	0
Adj to Early Retirement Provision	0	0	0	0	0	0	0
TOTAL DIRECT COSTS	697	66	62	(4)	378	373	(5)
EXPENDITURE							
Training & Recruitment	0	1	0	(1)	1	0	(1)
Cars	4	0	0	0	0	2	2
Travel & Subsistence/Relocation	6	1	1	0	5	3	(2)
Accommodation	837	90	75	(15)	417	418	1
Other Accommodation Costs	32	2	3	1	13	16	3
Printing	23	1	2	1	14	11	(3)
Communications	0	0	0	0	0	0	0
Stationery & Consumables	30	9	3	(6)	17	15	(2)
Postage & Distribution	11	1	1	0	3	6	3
ICT	1	0	0	0	0	0	0
Consultancy	10	0	0	0	0	0	0
Legal/Professional Fees	0	13	0	(13)	22	0	(22)
Insurance	7	0	0	0	2	4	2
Corporate Costs	1	0	0	0	0	0	0
Depreciation	0	0	0	0	0	0	0
Miscellaneous	0	0	0	0	0	0	0
TOTAL EXPENDITURE	962	118	85	(33)	494	475	(19)
GROSS EXPENDITURE	1,659	184	147	(37)	872	848	(24)
NET OPERATING (COST)	(1,659)	(184)	(147)	(37)	(872)	(848)	(24)

AUDIT SCOTLAND

FINANCE REPORT

WTE Staff in Post Summary: 2016/17

Schedule 7

	Establishment	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	March	Average
Auditor General	1.0	1.0	1.0	1.0	1.0	1.0	1.0							1.0
Accounts Commission Secretary	1.0	1.0	1.0	1.0	1.0	1.0	1.0							1.0
Management Team	4.0	4.0	4.0	4.0	4.0	4.0	4.0							4.0
Audit Strategy	9.0	8.8	8.8	8.8	8.8	8.8	8.8							8.8
Audit Services Group	148.2	149.0	147.0	149.0	152.0	152.0	146.0							149.2
Performance Audit and Best Value	63.8	60.3	60.3	63.3	63.1	62.7	62.9							62.1
Corporate Resource Group	4.6	3.6	4.6	4.6	4.6	4.6	4.6							4.4
Human Resources	5.2	5.2	5.4	5.4	5.4	5.2	5.4							5.3
IT Services Group	9.0	9.0	9.0	9.0	8.0	8.0	8.0							8.5
Communications	9.8	9.8	9.8	9.8	9.8	9.8	9.8							9.8
Corporate Planning & Projects	3.0	3.0	3.0	4.0	4.0	4.0	4.0							3.7
Corporate Services	31.6	30.6	31.8	32.8	31.8	31.6	31.8	0.0	0.0	0.0	0.0	0.0	0.0	31.7
Business Support & Facilities	19.5	19.9	19.9	19.9	19.7	19.7	20.7							19.9
TOTAL AUDIT SCOTLAND (Exc Commission)	278.1	274.6	273.8	279.8	281.4	280.8	276.2	0.0	0.0	0.0	0.0	0.0	0.0	277.7
%age of Establishment	100.0%	98.7%	98.4%	100.6%	101.2%	100.9%	99.3%							99.9%
Board	4.0	3.0	3.0	3.0	3.0	3.0	3.0							3.0
Commission	12.0	12.0	12.0	12.0	12.0	12.0	12.0							12.0
TOTAL	294.1	289.6	288.8	294.8	296.4	295.8	291.2	0.0	0.0	0.0	0.0	0.0	0.0	292.7
Agency and Secondments (w.t.e.)														
Agency estimate		1.3	1.9	4.3	10.6	12.7	5.9							6.1
Secondments to Audit Scotland		3.0	3.0	3.0	3.0	3.0	3.0							3.0
Secondments from Audit Scotland		-1.0	-1.0	-2.0	-2.0	-2.0	-2.0							-1.7
		3.3	3.9	5.3	11.6	13.7	6.9	0.0	0.0	0.0	0.0	0.0	0.0	7.4

AUDIT SCOTLAND

FINANCE REPORT

WORK IN PROGRESS 2015/16 AUDIT YEAR

SCHEDULE 8a

AUDIT COMPLETION PERCENTAGES

	2015/16 AUDIT YEAR					
	14/15 AY ACTUAL Sept 2015 %	Cumulative				In year variance Sept 2016 %
		ACTUALS March 2015 %	Sept 2016 %	BUDGET Sept 2016 %	VARIANCE Sept 2016 %	
In House Teams						
Local Government	91.20	34.92	97.77	97.77	0.00	1.37
Health	80.37	36.26	100.00	99.51	0.49	0.87
FE colleges	37.40	16.16	32.46	44.47	-12.01	1.48
Central Government	83.81	32.44	82.86	84.87	-2.02	2.57
Total Chargeable	87.12	34.57	94.72	95.21	-0.48	1.42
Non Chargeable	67.90	31.83	85.17	80.06	5.12	-2.69
Total In House	83.36	34.02	92.84	92.24	0.60	0.61
Approved Auditors *						
Local Government	95.04	21.91	96.46	94.53	1.93	10.48
Health	100.00	27.24	100.00	98.05	1.95	5.98
Water	100.00	20.00	100.00	99.78	0.22	10.56
FE colleges	31.16	3.36	43.29	35.33	7.96	17.34
Central Government	93.65	23.38	92.06	93.06	-1.00	5.06
Total Chargeable	91.01	21.88	92.66	90.88	1.78	9.09
Non Chargeable	100.00	7.04	75.00	99.93	-24.93	13.08
Total Approved Auditors	91.21	21.58	92.48	91.07	1.41	9.36
* To be reported quarterly						

AUDIT SCOTLAND

FINANCE REPORT

2016/17 FINANCIAL YEAR - FEE INCOME ANALYSIS £000

SCHEDULE 9

As at 30 September 2016

	Prior year adjustments			2015/16 Audit Year			2016/17 Audit Year			2016/17 Financial Year to Date			Variance analysis		
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Volume	Price	Total
In-house Teams															
Local Government	9	0	9	3,038	2,946	92	0	0	0	3,047	2,946	101	65	36	101
Health	0	0	0	1,010	1,006	4	0	0	0	1,010	1,006	4	14	(10)	4
FE colleges	0	0	0	9	7	2	0	0	0	9	7	2	1	1	2
Central Government	0	0	0	855	777	78	0	0	0	855	777	78	34	44	78
Total In-house teams	9	0	9	4,912	4,736	176	0	0	0	4,921	4,736	185	114	71	185
Approved Auditors															
Local Government	0	0	0	2,260	1,954	306	0	0	0	2,260	1,954	306	320	(14)	306
Health	8	0	8	956	829	127	0	0	0	964	829	135	74	61	135
Water	0	0	0	150	119	31	0	0	0	150	119	31	18	13	31
FE colleges	3	0	3	180	94	86	0	0	0	183	94	89	72	17	89
Central Government	0	0	0	532	443	89	0	0	0	532	443	89	36	53	89
Total Approved Auditors	11	0	11	4,078	3,439	639	0	0	0	4,089	3,439	650	520	130	650
Total															
Local Government	9	0	9	5,298	4,900	398	0	0	0	5,307	4,900	407	385	22	407
Health	8	0	8	1,966	1,835	131	0	0	0	1,974	1,835	139	88	51	139
Water	0	0	0	150	119	31	0	0	0	150	119	31	18	13	31
FE colleges	3	0	3	189	101	88	0	0	0	192	101	91	73	18	91
Central Government	0	0	0	1,387	1,220	167	0	0	0	1,387	1,220	167	70	97	167
Total Fees	20	0	20	8,990	8,175	815	0	0	0	9,010	8,175	835	634	201	835
Central Charges	0	0	0	2,359	2,359	0	0	0	0	2,359	2,359	0	0	0	0
TOTAL	20	0	20	11,349	10,534	815	0	0	0	11,369	10,534	835	634	201	835

AUDIT SCOTLAND BOARD

20 JANUARY 2017

REPORT BY THE ASSISTANT DIRECTOR, CORPORATE PERFORMANCE AND RISK

Q2 CORPORATE PERFORMANCE REPORT 2016/17

1. Purpose of Report

This report provides the Board with an overview of Audit Scotland's performance during quarter two (Q2) of 2016/17.

2. Background

The report seeks to provide both an 'at a glance' overview of performance and more detailed data and analysis. We monitor and report on performance using nine corporate objectives. Our assessments on the objectives are informed by 20 key performance questions (KPQs), which in turn are informed by 44 Key performance indicators (KPIs). The report seeks to provide assurance about progress against our objectives and to identify any areas which require particular attention.

- Appendix 1 provides a summary of our performance on the nine corporate objectives and the supporting KPQs and KPIs over time.
- Appendix 2 provides detailed information on each of the objectives, KPQs and KPIs, including narrative on current performance and a forward look on future issues and risks.

We use a red, amber green (RAG) 'traffic light' assessment for each of the objectives, KPQs and KPIs where:

- **Red** = Not progressing/significant additional management action required.
- **Amber** = Progressing and additional management action planned.
- **Green** = On target/no need for additional management action.

3. Performance headlines Q2

The Q2 indicators present a positive picture overall and this is consistent with the previous quarterly reports. We continue to deliver high quality audits substantially on time and within our overall revenue budget. The headlines include:

Outputs and outcomes

- Several reports published in Q2 gained significant attention and media coverage and social media activity and downloads continue to increase.
- 124 audit reports published.

Processes

- 98% of audit reports delivered to schedule in Q2.
- Local Government audits (including joint boards) all completed to schedule.
- Expenditure on audits varied slightly across the business groups but overall delivered within budget.
- We introduced new approaches to public engagement in Q2.

- The new Local Government extranet is now live and ISO 27001 certification has been successfully completed.

Resourcing

- In the six months to September 2016 Audit Scotland's net operating cost at £1,705k was £220k less than budget.
- Trainees passed 92 per cent of professional examinations sat in Q2.

The overall positive assessment of our performance is consistent with the messages in the suite of 2015/16 annual performance reports published in June 2016.

4. Performance review Q2

Five of the nine corporate objectives are assessed as 'green':

- 2.1 We conduct relevant and timely audits of the way the public sector manages and spends money.
- 2.2 We report our findings and conclusions in public.
- 3.1 We systematically improve the quality and impact of our work.
- 3.3 We develop new and improved products to maximise the impact of audit.
- 3.6 We work together to deliver excellent audits.

Four objectives are assessed as 'amber':

- 2.3 We identify risks and make clear and relevant recommendations for improvement and follow these up.
- 3.2 We seek out and manage information and intelligence to deliver excellent audits.
- 3.4 We maximise our efficiency and effectively manage our resources to reduce the costs of audit.
- 3.5 We empower and support our people to be engaged, highly skilled and perform well.

None of the objectives are assessed as 'red'.

5. Areas requiring attention

Developments in the areas requiring attention are being managed through the Becoming World Class (BWC) improvement programme. A BWC progress report is also on the agenda for today's management team meeting.

We anticipate that developments planned in a number of areas will improve the performance assessments.

6. Conclusion and recommendations

The Board is invited to review the performance report and consider whether any additional management attention is required.

Performance Management Framework: Overview

Appendix 1

Performance Management Framework Overview										Appendix 1																	
Objective	2015-16				2016-17								2015-16				2016-17										
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	KPQ				Q1	Q2	Q3	Q4	KPI				Q1	Q2	Q3	Q4	Q1	Q2	Q3
2.1 To conduct relevant and timely audits of the way the public sector manages and spends money.	G	G	G	G	G	G			2.1.1 To what extent are audits delivered on time?	G	G	G	G	G	G			2.1.1.1 Audit progress vs. schedule	G	G	G	G	G	G			
									2.1.2 To what extent are audits delivered on budget?	G	G	G	G	G	G			2.1.2.1 Audit costs vs. budget	G	G	G	G	G	G			
									2.1.3 To what extent are relevant audits being delivered?	G	G	G	G	G	G			2.1.2.2 Audit costs vs. benchmarks	G	G	G	G	G	G			
									2.1.4 To what extent are audits world class?	A	A	A	A	A	A			2.1.3.1 Manager's assessment	G	G	G	G	G	G			
																		2.1.3.2 No of significant missed issues	G	G	G	G	G	G			
2.1.4.1 Quality assessment world class	A	A	A	A	A	A			2.1.4.2 Feedback	G	G	G	G	G	G												
2.2 To report findings and conclusions in public.	G	G	G	G	G	G			2.2.1 To what extent are reports published on schedule?	G	G	G	G	G	G			2.2.1.1 Number of reports produced vs. schedule	A	A	A	A	G	G			
									2.2.2 How well are messages getting out?	G	G	G	G	G			2.2.2.1 Media coverage	G	G	G	G	G	G				
																	2.2.2.2 Web analytics	G	G	G	G	G	G				
																	2.2.2.3 Manager's assessment Compliance with plain language	G	G	G	G	G	G				
2.3 To identify risks and make clear and relevant recommendations for improvement and follow these up.	G	A	A	A	A	A			2.3.1 To what extent are there practical, clear and relevant recommendations in everything published?	G	G	G	G	G	G			2.3.1.1 Manager's assessment that recommendations are clear, SMART, linked to findings, practical and have checklists where appropriate.	G	G	G	G	G	G			
									2.3.2 To what extent have recommendations led to improvements?	A	A	A	A	A	A			2.3.1.2 % of recommendations accepted	G	G	G	G	G	G			
																		2.3.2.1 Manager's assessment (have recommendations been acted upon/have they gone to the governing body of the audited organisation?)	A	A	A	A	A	A			
2.3.2.2 Findings from impact reports	A	A	A	A	A	A																					
3.1 To systematically improve the quality and impact of audit work	G	G	G	G	G	G			3.1.1 To what extent are we improving the way we are working?	G	G	G	G	G	G			3.1.1.1 Internal quality review findings	G	G	G	G	G	G			
																		3.1.1.3 Manager's assessment of improvement activities	G	G	G	G	G				
3.2 To seek out and manage information and intelligence to deliver excellent audits.	A	A	A	A	A	A			3.2.1 To what extent is the knowledge people need, gathered, organised and accessible?	A	A	A	A	A	A			3.2.1.1 Staff survey/focus group feedback	A	A	A	A	A	A			
																		3.2.2 To what extent are appropriate knowledge resources built?	A	A	A	A	A	A			

Objective	2015-16				2016-17					2015-16				2016-17					2015-16				2016-17					
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	KPQ	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	KPI	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
3.3 To develop new and improved products to maximise the impact of audit.	A	A	A	A	G	G			3.3.1 To what extent are new products and services developed?	A	A	A	A	G	G			3.3.1.1 Manager's assessment (review of recent innovations)	A	A	A	A	G	G				
									3.3.2 How well are products and study programmes suitable and appropriate for emerging issues?	A	A	A	A	A	A			3.3.2.1 Manager's assessment	A	A	A	A	A	A				
3.4 To maximise efficiency and effectively manage resources to reduce the costs of audit.	A	A	A	A	A	A			3.4.1 To what extent is efficiency improving?	A	A	A	A	A	A			3.4.1.1 Costs vs. shrinking budget	G	G	G	G	G	G				
																		3.4.1.2 Cost per audit (against benchmark)	Y	Y	Y	Y	Y	Y				
																		3.4.1.3 Workforce costs	G	G	G	G	G	G				
																		3.4.1.4 Estate costs	G	G	G	G	G	G				
																		3.4.1.5 Costs of travel	G	G	G	G	G	G				
																		3.4.1.6 Carbon footprint	G	G	G	G	G	G				
																		3.4.1.7 Benchmarking data on finance, IT, HR, Communications and estate	Y	Y	Y	Y	Y	Y				
																		3.4.1.8 IT network downtime	G	G	G	G	G	G				
																		3.4.1.9 Internal audit feedback	A	A	A	A	A	A				
																		3.4.1.10 % productive/chargeable time vs. targets by grade	G	G	G	G	G	G				
3.5 To empower and support people to be engaged, highly skilled and perform well.	A	A	A	A	A	A			3.5.1 To what extent have we got empowered and engaged people?	A	A	A	A	A	A			3.5.1.1 Best Company survey results	G	G	G	G	G	G				
									3.5.2 To what extent are people remaining to be highly skilled?	G	G	G	G	G	G			3.5.2.1 % completion of personal development plans	G	G	G	G	G	G				
									3.5.3 To what extent are people performing well?	G	G	G	G	G	G			3.5.3.1 Performance feedback ranks (PAD Score/evaluation)	G	G	G	G	Y	Y				
																		3.5.3.2 360 degree feedback	A	A	A	A	A	A				
																		3.5.3.3 Attendance levels	G	G	G	G	G	G				
																		3.5.3.4 Staff Turnover	G	G	G	G	G	G				
									3.5.4 We will understand and support diversity within the workforce	G	G	G	G	G	G			3.5.4.1 Equalities	G	G	G	G	G	G				
3.6 To work together to deliver excellent audits.	G	G	G	G	G	G			3.6.1 To what extent is there communicating and collaborating across organisational departments?	G	G	A	A	A	A			3.6.1.1 Best Company survey results	G	G	A	A	A	A				
									3.6.2 To what extent are career paths offered across the organisation?	G	G	G	G	G	G					3.6.2.1 Manager's assessment	G	G	G	G	G	G		
																				3.6.2.2 % promotions per year	G	G	G	G	G	G		
																				3.6.2.3 % side-ways moves per year	G	G	G	G	G	G		
																				3.6.2.4 No. internal/external secondments	G	G	G	G	G	G		

Corporate objective – 2.1 We conduct relevant and timely audits of the way the public sector manages and spends money

Key Performance Questions:	Q1 RAG	Q2 RAG	Q3 RAG	Q4 RAG	PERFORMANCE HEADLINE:
To what extent are audits delivered on time?	G	G			124 audits/ reports were delivered to schedule in Q2. This included all local government audits (inc the Health and Social Care Integration Joint Boards). Expenditure on audits was 2.3% below budget.
To what extent are audits delivered on budget?	G	G			
To what extent are relevant audits being delivered?	G	G			
To what extent are audits world class?	A	A			

Narrative:

On time: 124 audits/reports were delivered in Q2 and two audits have been rescheduled (see table at page 9 for details).

All Local Government Audits (including joint boards) were completed by the statutory deadline of 30 September. This is the second year that ASG produced the annual audit reports (AARs) at the same time as signing the audit opinion. This is the first year ASG have audited Health and Social Care Integration Joint Boards (IJBs) and all 31 IJBs audits were completed by the 30 September deadline date. Although the statutory deadline for central government bodies is 31 October, 37 of the 53 central government reports were completed earlier than that deadline in Q2.

Two audits were rescheduled from Q2 – the Angus Council Best Value report was published on 4 October (Quarter 3). The Accounts Commission had requested additional information at its meeting in August and reconsidered the report in September. The report was published on 4 October. The How Councils Work: Roles and Responsibilities outputs were due to be released during Q2. Following agreement with the Chair of the Commission these outputs will now be released throughout the remainder of the year in the run up to next year's local government elections.

During Q2 the Supporting Scotland's Economic Growth and Higher Education performance audits were published. Both of these audits were delivered over their original budget resulting in the overall PABV audit programme coming in 10.2 % over budget in Q2. The reasons for the audits being over budget included increased complexity in the scope of the audit, changes in audit team mid audit, and additional data analysis requirements not covered within the original scope and audit budget.

On budget:

Business group's expenditure on audits varied slightly across the business groups but overall was delivered under budget.

Business Group	2016/17			
	Budget	Actual	£ Variance	% Variance
ASG	9,851,008	9,485,720	365,288	-3.7
AST	85,999	84,380	1,619	-1.9
PABV	1,102,781	1,214,748	111,967	+10.2
Total	11,039,788	10,784,848	254,940	-2.3

Forward look:

- Currently we have 195 audit/reports scheduled for 2016/17. This number will increase when the scheduling of Housing Benefit work is concluded (HB work transferred to ASG with effect from October 2016).
- Q3 marks the beginning of the new five year audit cycle. The process of auditors moving to their new client bodies is progressing smoothly.
- The forward work programme for performance audit and best value audit work is currently being refreshed. Proposals for changes / additions will be considered by the Accounts Commission and Auditor General in December.

Key risks / Issues:

- 'Failure to deliver our vision', 'Failure of focus and scope', 'Failure of capacity', 'Failure of impact and influence', 'Failure of reputation'.

Performance details: Audit products planned for the year 2016/17:

The business group activity is shown below. For ASG this includes the annual certifications but does not include other products such as annual audit plans, controls and governance reports and annual audit reports, other reports / returns required by the annual planning guidance. Including these, ASG's total external-facing outputs are in excess of 1,000. For Audit Strategy - housing benefit work including risk assessments and follow ups, thematic studies and welfare reform updates; for PABV performance, Best Value, CPP, overview, how councils work and statutory reports.

Business Group	Planned	Completed (YTD)	
ASG (15/16 audits)	149	130	87%
AST*	tbc	13	X%
PABV	31	10	32%

* HB work is transferring to ASG with effect from October 2016 and the forward schedule is under review.

Audit Costs Q2 2016/17

Year to end of Q2 (costs relate to completed audits).						Last quarter comparator	Average cost per audit day by business group																								
Business group	Number Audits Completed YTD	Budget £	Actual £	Variance £	Variance %	Variance %	<div><p>Average Cost per Audit Day</p><table><caption>Average Cost per Audit Day Data</caption><thead><tr><th>Business Group</th><th>2012/13</th><th>2013/14</th><th>2014/15</th><th>2015/16</th><th>2016/17</th></tr></thead><tbody><tr><td>ASG</td><td>442</td><td>443</td><td>429</td><td>441</td><td>408</td></tr><tr><td>AST</td><td>366</td><td>457</td><td>446</td><td>450</td><td>438</td></tr><tr><td>PABV</td><td>470</td><td>458</td><td>469</td><td>466</td><td>437</td></tr></tbody></table></div>	Business Group	2012/13	2013/14	2014/15	2015/16	2016/17	ASG	442	443	429	441	408	AST	366	457	446	450	438	PABV	470	458	469	466	437
Business Group	2012/13	2013/14	2014/15	2015/16	2016/17																										
ASG	442	443	429	441	408																										
AST	366	457	446	450	438																										
PABV	470	458	469	466	437																										
ASG	130	9,851,008	9,485,720	365,288	-3.7	-5.8																									
AST	13	85,999	84,380	1,619	-1.9	-2.6																									
PABV	10	1,102,781	1,214,748	111,967	+10.2	-0.7																									

Feedback received:

During Q2 we received positive peer review feedback on three performance audit reports (see p 12 for details).

Positive feedback on the HB performance audit has been received from two councils this quarter.

ASG has received examples of positive feedback from audited bodies.

Corporate objective – 2. 2 We report our findings and conclusions in public

Key Performance Questions:	Q1 RAG	Q2 RAG	Q3 RAG	Q4 RAG	PERFORMANCE HEADLINE:
To what extent are reports published on schedule?	G	G			124 reports published in Q2 and download and social media activity continues to increase.
How well are messages getting out?	G	G			

Narrative:

Reporting on schedule

In Q2 we published 124 audit reports on schedule. Two were re-scheduled (see p5 above).

Getting our message out

The press coverage for Q2 saw 410 Audit Scotland and 113 Accounts Commission mentions. The three reports with the highest coverage were 'Audit of higher education in Scottish universities', 'Maintaining Scotland's roads: a follow-up report' and 'Superfast broadband for Scotland: a progress update'.

Opposition leaders referenced the *Social work in Scotland* performance audit report, and quoted a number of statistics from our report during First Minister's questions, leading to a heated exchange with the First Minister. This was shown UK wide on the BBC six o'clock news and featured in an extended item in Reporting Scotland. There was also extensive radio and press coverage of the report.

The **CAP Futures report** continues to be mentioned in the media and in Parliamentary debates on payments to farmers. For example, in his evidence to the Rural Economy and Connectivity committee (21 September), and in a later debate in the Chamber, the Cabinet Secretary for Rural Affairs referred to our audit report on several occasions, and at one point referred to it as a "Rolls Royce audit".

Download and social media activity increased both on the previous quarter and compared to the same quarter last year.

Online activity

Downloads

Comparison with previous years downloads shows an increase.

Total downloads	2016/17	2015/16
Q1	177,392	122,266
Q2	183,206	153,840
Q3		150,044
Q4		179,851
Total		606,001

Social Media

The number of 'engagements' with our Social media activity increased from 1,848 in the previous quarter and the number of re tweets remained consistent with last year's levels.

	2016/17		2015/16	
Month	Engagements*	Re tweets	Engagements	Retweets
Q1	2,104	260	727	262
Q2	3,935	566	388	65
Q3			989	262
Q4			1848	207
Total			3952	796

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

Correspondence

Correspondence cases	Q1	Q2	Q3	Q4	2016/17 YTD	2015/16	2014/15
Number of cases	37	55			92	340	273
Acknowledgement within five working days	100%	98%			99%	90%	61%
Final response within 30 working days	97%	75%			86%	87%	58%

Forward look:

- The new Code of Audit Practice expects greater transparency, in practical terms this means that the volume of financial audit reports available on the website will increase substantially. Work is under way to put appropriate arrangements in place to support this.
- The current publication schedule is shown on page 9. It will continue to change over the coming quarters as the target dates for some audits in the rolling performance audit programme are finalised. It will also be updated to reflect the fact that HB work is transferring to ASG with effect from October 2016 and the forward schedule is under review.
- PABV anticipates a number of statutory reports throughout the year and has planned for these within the resource plan. At this stage these remain 'to be confirmed' until such time as specific work is identified. The numbers and areas identified in the publication schedule are therefore indicative at this stage.
- The National Scrutiny Plan has been included as a Q4 publication. However, the Shared Risk Assessment process is currently under review – should this result in a change to our approach this will be reflected in future reports.

Key risks / Issues:

'Failure of Impact and Influence', 'Failure of capacity'

Performance details:

Publication schedule				
In 2016/17, Audit Scotland plans to publish 195 audits/reports. Variation in the schedule is shown as ✓ = delivered, (QX) = rescheduled to /from quarter identified in the brackets. Statutory reports arising during the year are included in the 'Other' row.				
	Q1	Q2	Q3	Q4
Performance Audit (9)	✓Common Agricultural Policy Futures programme: an update	✓Higher Education ✓Supporting Scotland's economic growth ✓Roads Maintenance ✓Broadband update ✓Social Work		Ferries tendering* Equal Pay* Managing fiscal autonomy* *to be confirmed as 16/17
Best Value (4)	✓South Ayrshire	XAngus (Q3)	Falkirk East Dunbartonshire	
How Councils Work (1)		XRoles and Responsibilities outputs (later in 2016/17)		
Overview (4)		✓Scotland's Colleges	NHS in Scotland Local Government in Scotland – financial overview	Local Government in Scotland - overview
HB Risk Assessment (6)	✓South Ayrshire Council ✓Inverclyde Council	✓East Ayrshire Council ✓East Renfrewshire Council	Aberdeenshire Council Dundee City Council	
HB Follow up (4)	✓East Dunbartonshire Council ✓North Ayrshire Council	✓Clackmannanshire Council ✓East Dunbartonshire Council		
HB Annual Report (1)	✓ HB annual report			
Thematic study (1)	✓HB good practice guide			
ASG Planned audit statutory deadline (149)	✓9 NHS ✓9 CG	84 LG (inc IJBs) 28 CG	16 CG 2 FE	1 CG
Other (15)	✓National Fraud Initiative ✓Position report on S106 charity accounts ✓Good practice note - Improving the quality of NHS annual report and accounts – governance statements.	✓ S22 Scottish Government Consolidated Accounts ✓Scotland's new financial powers Sept 16	3 x health s22 <i>tbc</i> 2 x central government s22 <i>tbc</i>	National Scrutiny Plan 2 x local government s102 <i>tbc</i> 3 x College s22 <i>tbc</i>
Total scheduled (195)	29	98	59	11
Total delivered	29	124		

Corporate objective – 2.3 We identify risks and make clear and relevant recommendations for improvement and follow these up

Key Performance Questions:	Q1 RAG	Q2 RAG	Q3 RAG	Q4 RAG	PERFORMANCE HEADLINE:
To what extent are there practical, clear and relevant recommendations in everything published?	G	G			Clear recommendations are included in all published reports. We are not aware of any recommendations being rejected in this quarter.
To what extent have recommendations led to improvements?	A	A			

Narrative: (Note: We raised the assessment benchmark for this objective in Q1 2015/16).

Identifying risks:

Risks and appropriate responses continue to be managed on an ongoing basis through the risk management framework. Management Team considered the 6 monthly Public Sector Risk and Assurance Framework report at its meeting on 20 September.

Practical, clear and relevant recommendations and percentage of recommendations not accepted:

We are not aware of any recommendations from audit reports issued in Q2 that have been rejected.

Recommendations have been acted upon:

All four housing benefit work recommendations were accepted by councils this quarter. For the two risk assessments completed this quarter 83% of previously identified risks had been addressed. Recommendations from previous audit reports are followed up as part of the audit process.

Forward look:

- Extensive risk assessment work is taking place as part of the new audit appointments.

Key risks / Issues:

- Audited bodies do not always implement recommendations according to the agreed timetable, which can result in repeat recommendations.
- Insufficient progress with measuring the impact of our audits could undermine our credibility with a wide range of stakeholders.
- 'Failure of relevance', 'Failure of impact and influence'

Performance details:

Dimensions of Public Audit	Examples where our work has had impact
Financial sustainability	The roads follow up report highlighted that current levels of expenditure were insufficient to maintain the proportion of trunk roads in acceptable condition. The Scottish Government subsequently allocated an additional £15 million from its Economic Stimulus Fund (to be spent by the end of 2016/17) to facilitate accelerated capital spending on trunk road maintenance.
Value for money	The Scottish Government has recently introduced a new assurance process, in the form of 'stop-go' gates, to strengthen its ICT assurance framework. This is linked to the recommendations within our Managing ICT performance audit.

Financial management	<p>ISD Scotland has published guidance on improving data collection for equality and diversity monitoring, citing our 2013 <i>Managing NHS Waiting Lists</i> audit as an important driver behind this development.</p> <p>Audit Scotland was invited to contribute to the Scottish Government's review of the enterprise and skills agencies in July 2016 - this reflected recent and ongoing performance audit work on economic development, higher education and colleges. SG has now published the first stage report, in which we are referenced.</p> <p>The <i>Social Work in Scotland</i> audit team gave a presentation on the audit to the social work strategic group chaired by the relevant minister, and included senior civil servants and chief executives of all the key social work bodies.</p>
Governance and transparency	<p>Audit Scotland has been invited to contribute to induction events for college board members. This is linked to our work over the past few years in the FE sector, and on governance and accountability.</p> <p>Audit Scotland was invited to contribute to the development of an online remuneration and governance training module for college board members. We submitted comments in August 2016.</p> <p>Promotion of the NFI report at the Scottish Government Counter Fraud Conference and Scottish Local Authorities Investigators Group has resulted in at least one council signing up to purchase the 'application checker' module of NFI and several other audited bodies trialling the "application checker" prior to deciding whether or not to purchase. Application checker is a data matching service to help prevent fraud at the point of application. One council ran four taxi driver licence applicants through the application checker and discovered three had no right to be in the UK. The same council also reported that a taxi driver applicant was found to have a tenancy with another council, not the address on the licence application. As a result the tenancy was recovered although his taxi licence was granted.</p>

Corporate objective – 3.1 We systematically improve the quality and impact of our work

Key Performance Questions:	Q1 RAG	Q2 RAG	Q3 RAG	Q4 RAG	PERFORMANCE HEADLINE:
To what extent are we improving the way we are working?	G	G			A major review of our quality arrangements is under way and a peer review of performance audit reports has provided positive feedback.

Narrative:

A new Assistant director of Audit Quality was appointed in Q2, to lead a review of quality arrangements across Audit Scotland. The appointment is for one year, reporting to the Assistant Auditor General. The new AD will be presenting initial thoughts to Management Team by the end of November. This work will be managed with one organisation in mind. People and culture will be the main driver for improving quality and the new AD will be exploring ways of doing this with colleagues and other stakeholders.

PABV participates in a reciprocal peer review arrangement with the National Audit Office (NAO) and Wales Audit Office (WAO). During Q2 we received feedback on the Major Capital Investment in Councils; Model of Health and Social Care; and Health and Social Care Integration performance audits. The feedback was positive overall and also included some recommendations for further development. These included suggestions around report layout, use of exhibits and the presentation of recommendations/ key messages. The feedback has been considered by the PABV Quality Group and is being incorporated into the Audit Management Framework.

The arrangements in support of the new approach to the audit of Best Value have been finalised and are being communicated to appointed auditors.

TSU issued a consultation on 'Applying ISA (UK) 700 (Revised June 2016) to Scottish public bodies' in Q2. The consultation requested auditors' views on the application of ISA (UK) 700 to the audits of public bodies in Scotland. It also covered the other standards to the extent that they impact on ISA (UK) 700. The consultation obtained auditor's views on aspects of applying the ISAs where there is a choice (e.g. the year of application and location of the auditor's responsibilities paragraph).

ASG's Professional Standards and Quality Improvement (PSQI) team have worked with colleagues on improving quality standards. This work involved responding to the findings of quality reviews conducted by ICAS in several ways, including developing training packages for senior audit team members and improving the format of the annual audit plan templates to ensure it complies with good practice.

Forward look:

- The new Code of Audit Practice came into force in October 2016.
- The results of TSU consultation will inform the preparation of model independent auditor's reports for each sector.
- ASG's PSQI are looking at a number of ways of improving quality and maximising the efficiency of the audit work. This includes a refresh of the audit guide and audit programmes for compliance with the new COAP and international standards on auditing. The PSQI reviewing the format and content of Annual Audit Reports.

Key risks / Issues:

- 'Failure of quality', 'Failure of impact and influence'

Corporate objective – 3. 2 We seek out and manage information and intelligence to deliver excellent audits

Key Performance Questions:	Q1 RAG	Q2 RAG	Q3 RAG	Q4 RAG	PERFORMANCE HEADLINE:
To what extent is the knowledge people need, gathered, organised and accessible?	A	A			The new Local Government extranet is now live and ISO 27001 certification has been successfully completed.
To what extent are appropriate knowledge resources built?	A	A			

Narrative:

Ongoing knowledge management and intelligence activity in Q2 included:

- The new Local Government extranet site is now live. This provides a central audit intelligence facility for local government, including financial audit, Best Value and local government related sector intelligence. The extranet is available to Audit Services appointed auditors, the audit firms and the PABV team.
- ISO 27001:2013 Stage 2 audit successfully completed and 27001 Certification awarded.
- Audit Intelligence project phase 1 is now complete, this includes core datasets and data around changing models of health and social care. Phase 2 is under-way and is focussing on outcome and financial data.
- A review of our records management practices has taken place and improvements are being implemented.

Forward look:

- Audit Intelligence Knowledge Cafes will take place in Q3 as well as an extended session involving Management Team and other colleagues on Digital Audit.
- Phase 2 of the Audit Intelligence project continues.
- ASG are examining the greater use of digital auditing within audit work and are conducting pilots at three audit clients and have also liaised with staff from KPMG and the National Audit Office on making better use of digital auditing.

Key risks / Issues:

- Failure to gather and share information may lead to issues being missed.
- Tools to gather and share information are not fully utilised.
- 'Failure to deliver our vision', 'Failure of relevance' 'Failure of innovation'.

Corporate objective – 3. 3 We develop new and improved products to maximise the impact of audit

Key Performance Questions:	Q1 RAG	Q2 RAG	Q3 RAG	Q4 RAG	PERFORMANCE HEADLINE:
To what extent are new products and services developed?	G	G			We have introduced new approaches to public engagement in Q2.
How well are products and study programmes suitable and appropriate for emerging issues?	G	G			

Narrative:

- PABV launched [CheckSee](#) this summer, a public engagement project with young people. A group of 15-20 year olds from [Rathbone Scotland](#) took part in workshops at the charity's HQ and at West Port, facilitated by Young Scot. We learned a lot about young people's experiences of education, training and employability schemes and they shared lots of ideas about what we should focus on in our upcoming audit work in these areas. We will deliver a knowledge café on the learning from CheckSee and how it might be applied to other audits later this year.
- The Early Learning and Childcare audit trialled a new approach to public engagement. This included seeking the views of parents and carers and the results are informing scope of the audit and the approach we may take.
- As part of the PABV ongoing programme development work we facilitated a round table session with key equality groups and stakeholders. This will help to ensure equality and diversity issues are reflected where possible within our overall work programme and within individual audits.
- In September we published a briefing paper on [Scotland's new financial powers](#).
- We have used Tableau to provide a web based tool for the public to access the supplements to the Superfast Broadband update, and the Scotland's Colleges overview report. During the quarter work we have also been preparing financial exhibits using Tableau to support the new Local Government Financial Overview reporting.

Emerging issues:

We are not aware of any significant missed issues. Business Group management teams, and Audit Scotland Management Team, continue to monitor audit risk and emerging issues. Where appropriate we will undertake additional audit work, with provision made in our resource and publication plans for a number of statutory reports across all sectors.

Forward look:

- The Local Government Financial overview report will be published during in November. This is the first time we have produced this output as part of a two stage approach to the Local Government in Scotland overview.

Key risks / Issues:

- 'Failure of impact and influence, 'Failure of innovation'.

Corporate objective – 3. 4 We maximise our efficiency and effectively manage our resources to reduce the costs of audit

Key Performance Questions:	Q1 RAG	Q2 RAG	Q3 RAG	Q4 RAG	PERFORMANCE HEADLINE:
To what extent is efficiency improving?	A	A			In the six months to September 2016 Audit Scotland's Net Operating Cost at £1,705k was £220k less than budget.

Narrative

In the six months to September 2016 Audit Scotland's Net Operating Cost at £1,705k was £220k less than budget. The main reasons for the favourable variance were:

- Total income recorded in the six months to September 2016 was £902k higher than the phased budget. Fee income contributed £835k.
- Expenditure levels were £682k higher than budget. Adverse variances were recorded in respect of fees and expenses paid to external audit firms £608k, own staff costs £27k, agency and secondment expenditure £142k and legal, professional and consultancy costs £34k. These adverse variances were partly offset by lower travel and subsistence expenditure £39k, training and recruitment costs £41k, and depreciation charges £28k.

The [consultation on Fees and Funding](#) started in July. The results were considered by the Board in August and were taken into account in producing the revised Fee Strategy paper discussed by the Board in September alongside the 2017/18 Budget proposal.

Forward look:

- The fee strategy and budget will be submitted to SCPA in Q3.
- Development of an efficiency review programme
- Refined resource allocation arrangements to support the new audit appointments.
- Internal audit on VFM will be considered by the Audit Committee on 9 December 2016.
- A year-end forecasting exercise will commence in Q3.

Key risks / Issues:

- 'Failure to achieve value for money' – Risk Interrogation to the Audit Committee 09 December 2016.

Performance details:

Cost vs. budget:

Net operating (cost) to June 2016

£000	Q1	Q2	Q3	Q4
Actual	(986)	(1,705)		
Budget	(1,267)	(1,925)		
Variance	281	220		

Business group Net operating (cost)/surplus summary 6 months to September 2016 (£'k)

The table below shows net operating cost/surplus for each business group.

	ASG	AST	PABV	CSG
Actual	1,763	336	1,906	2,420
Budget	1,619	334	1,867	2,441
Variance + = favourable, - = unfavourable	+144	-2	-39	-21

Capital expenditure:

The capital expenditure in the six months to the end of September totalled £13k, £7k of the expenditure related to IT with the majority for the new card entry system at our Glasgow office. The remaining £6k has been spent procuring furniture for the new office in Inverness.

Staff:

Staff costs in the six months to September 2016 were £27k higher than budget. The average number of staff employed in the six months to September 2016 at 277.7 w.t.e. was very close to the establishment figure of 278.1 w.t.e. The staff budget for 2016/17 assumed a 3% vacancy factor and therefore the average number of staff employed in the period was 7.7 w.t.e. more than the numbers funded in the budget. The additional cost of employing these staff was partly offset by lower than budgeted average actual salary costs per employee.

	Q1	Q2	Q3	Q4
2016/17 establishment w.t.e:	278.1	278.1		
Average number of staff employed in 2016/17 w.t.e:	276	277.7		
No. of staff at end of quarter w.t.e:	279.8	276.2		

Estate:

Property costs in the year to September 2016 were £8k less than budget.

£000	YTD- Q1	YTD- Q2	YTD- Q3	YTD- Q4
Actual spend	206	442		
Budget	224	450		
Prior year spend	389	805	1,245	1,297

Costs of travel:

Expenditure on travel and subsistence was £39k lower than budget. A small underspend was recorded for the lease car fleet, £8k, with the balance attributable to lower travel expenditure across a range of cost centres £31k.

£000	YTD- Q1	YTD- Q2	YTD- Q3	YTD- Q4
Actual spend	198	417		
Budget	209	456		
Prior year spend	217	448	624	858

IT network up time Q2:

IT uptime was 99.9% compared to 98.23% in the previous quarter. The main reasons for loss of uptime in Q2 were:

- Power cuts in the Glasgow office and minor connection drops at WAN sites.
- One ISP issue during the quarter meant the Ayrshire WAN site was down for a day while an issue at the exchange was resolved.

	IT uptime	Working hours lost	Average time lost per person
Q1	99.9	22	7 minutes
Q2	99.9	7	2 minutes
Q3			
Q4			

IT Incident management summary

- 90.2% (555/616) of incidents were accepted within the response time SLA.
- 99.3% (609/616) of requests were closed by an Analyst within the fix time SLA
- An average of 3.2 incidents were logged per user (Number of staff 298).

Internal Audit recommendations:

There was three Internal Audits Completed in Q2. For all 4 Internal audits completed to date the level of assurance in both design and operational effectiveness are rated as substantial and includes seven recommendations as shown in the table below.

Year	Total no. of Audits	Total number of recommendations	High	Medium	Low
2016/17 (YTD)	4	7	0	0	7
2015/16	7	15	0	3	12

Business group productivity:

Business group productivity, within each business group, remains broadly consistent with productivity/ planning assumptions.

	2016/17				2015/16		
	ASG	AST	PABV		ASG	AST	PABV
Q1	60%	93%	68%		73%	88%	65%
Q2	78%	93%	69%		75.9%	91.5%	72.6%
Q3					54%	89%	66%
Q4					69%	91	67%

Corporate objective – 3. 5 We empower and support our people to be engaged, highly skilled and perform well

Key Performance Questions:	Q1 RAG	Q2 RAG	Q3 RAG	Q4 RAG	PERFORMANCE HEADLINE:
To what extent have we got empowered and engaged people?	A	A			BABO projects continue to make good progress on reward and recognition, leaning and development and wellbeing.
To what extent are people remaining to be highly skilled?	G	G			
To what extent are people performing well?	Y	Y			
We will understand and support diversity within the workforce	G	G			

Narrative:

BABO:

- 3D – we have completed the 3D review and the findings were shared with colleagues in September 2016, along with the updated 3D form and guidance.
- Reward and recognition – IES have completed their analysis of Audit Scotland's current pay and benefits structure and presented pay options against the new four level organisation structure to the BABO board.
- Time, place and travel – substantial review work has been done and proposals have been developed. A working group is taking these forward.
- Wellbeing - Within the context of work on becoming 'Carers Positive' accredited, the Audit Scotland peer group have been engaging with other accredited employers to learn how we can raise awareness of carer's in the workplace, and collate relevant and useful information that can support our carers. It is hoped that the principles of Time, Place, and Travel will also complement this support strand, giving both team members and managers scope to work more flexibly. Work has also begun on the procurement process for appointing our new occupational health and wellness checks provider.
- Office accommodation – the new Inverness Office is up and running and the move went smoothly. Work has continued on developing proposals to make improvements to the Glasgow office.

L&D:

- The PDGG continued to monitor the L&D plan for 2016/17, and delivery against the plan is currently sitting at over 50%.
- In advance of the new audit appointments, we have delivered over 75% of the Client Relationship Management workshops and feedback so far is positive.
- Work on the self-directed learning pilot in PABV continues and a number of those involved (16) have begun their development. This includes creative writing for business, leadership training, agile project management, data visualisation, and volunteering with Third Sector organisations amongst other chosen paths. The deadline for completion has been extended from December 2016 to March 2017 to allow further time for development (and tie in with spend before end of financial year). One example of how this learning has already been shared is the *creative writing for business* workshop delivered by two participants to colleagues (after attending workshops themselves).

Forward look:

BaBO:

- Three communications packages on Reward are being shared with colleagues in October 2016 in advance of the Reward workshops on 31 October, 1 November, 7 November and 11 November.
- Work is underway to roll out Learning & Innovation Groups (LIG's) as part of the wider approach to changing our personal development. These groups are based on taking an action learning approach, which focuses on practical and experiential learning.

L&D:

- As well as continuing to deliver on the core corporate and technical L&D offering for the balance of 2016/17, the next main piece of work will be developing content and speakers for some of the core BABO Personal Development themes for Team Members, Managers and Leaders.

Equalities:

- We will publish fuller reports on progress with our equalities outcomes and how we are mainstreaming equalities within Audit Scotland in April 2017, as required by The Equality Act 2010.

Best Companies:

- The 2016/17 Best Companies survey takes place in Q3 with results likely to be available December 2016.

Key risks / Issues:

- We don't adequately plan for the achievement of the Healthy Working Lives Silver award.
- 'Failure of capacity', 'Failure to operate as one organisation'.

Performance details:**Engaged staff:****Learning and development opportunities in Q2:**

- 19 events and 196 attendees.
- Mix of knowledge cafes (e.g. around new financial powers, Scottish Parliament), technical training, conferences, lunch and learn (TED talks), management development (Holyrood Summer School) and organisational development (Future of Work events).
- The table below lists the types of L&D events, number of delegates and places over the last quarter:

	No of Events	No of Attendees
Technical Training	1	14
Knowledge Cafes	3	64
Learning and development	11	102
Health and safety	1	7
Management development	1	3
Organisational development	2	6

Highly skilled – exam results

There were a total of 26 exams taken in Q2, 11 of the 13 on Financial Reporting passed with two resits to be taken in June 2017. All 13 of the Taxation exams were passed.

	Exams taken	Exams passed	% pass rate
Q1	15	15	100
Q2	26	24	92.3
Q3			
Q4			

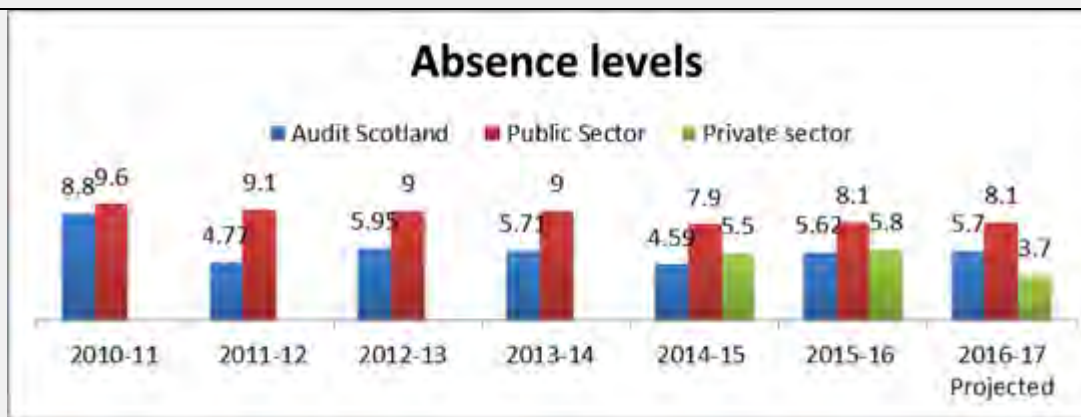
Annual Appraisals

The annual appraisal system (known as PAD) was replaced by a conversation based check in meeting called the Development Discussion Document (3D) for 2015/16. The 3D process has been modified in Q2 and new guidance will be issued in Q3 alongside workshops for colleagues.

Absence levels:

Absence levels within the quarter remain low at an average of 1.37 days per person. This has slightly increased from 1.03 in Q1 and remains slightly above the rate of absence for the equivalent quarter last year (2015/16). Business groups report that absence is being managed within existing resources with no significant impact on performance.

	Q1 days	Q2 days	Q3 days	Q4 days	ytd days	15/16 total
ASG	1.16	1.69			2.85	6.11
Audit Strategy	0	2.60			2.6	2
CSG	1.11	0.48			1.59	4.74
PABV	0.81	1.26			2.07	3.42
Audit Scotland 16/17	1.03	1.37			2.4	
Audit Scotland 15/16	0.89	0.98	1.49	2.05	5.62	
Audit Scotland 14/15	1.12	0.87	0.99	1.31	4.59	
Audit Scotland 13/14	1.6	1.14	1.57	1.40	5.99	



Staff turnover:

Across Audit Scotland, all leavers for Q2 equates to 3.41% compared with 0.68% for resignations only. All leavers include VERA, and end of fixed-term contractors, i.e. Student placements. Audit Scotland regularly accommodates student placement every Summer and 2016 was no different with 5 placements spread across ASG/PABV. As their placement ended in Q2 – this has attributed to the high (non resignation) turnover figure. Staff turnover remains below the 2015 CIPD benchmark.

2016/17	Q1	Q2	Q3	Q4	YTD	2015/16	CIPD benchmark
Resignations %	1.03	0.68			1.71	5.37	5.5
All Leavers %	1.37	3.41			4.78	8.24	13.6

Equalities

The completion rate for information on protected characteristics increased to 93% in Q2.

Corporate objective – 3. 6 We work together to deliver excellent audits

Key Performance Questions:	Q1 RAG	Q2 RAG	Q3 RAG	Q4 RAG	PERFORMANCE HEADLINE:
To what extent is there communicating and collaborating across organisational departments?	A	A			Colleagues across business groups continue to work collaboratively on audit work and improvement projects.
To what extent are career paths offered across the organisation?	G	G			

Narrative:

One organisation working continues with opportunity to communicate and collaborate across Audit Scotland and examples in Q2 include:

- Continued work to align the respective resource plans for ASG and PABV. Colleagues from both business groups met with the Resource Manager for one of the audit firms to view their resource management system and assess its suitability for joined up resource planning within Audit Scotland.
- BaBO Job design project – Following feedback and staff focus groups working versions of the staff profiles went to Management Team on 31 May for approval. The role profiles are designed to describe the purpose of the zone and some of the key responsibilities. They will be reviewed in the future to see if they need further amendments and staff update sessions are scheduled to start in October 2016.
- Colleagues from local audit teams and PABV worked jointly on Annual Audit Reports, and Best Value work. This joint working was particularly helpful given the shift towards integrated local government audit under the new approach to the audit of Best Value.
- Our work around new financial powers and constitutional change involves colleagues from across the organisation working jointly both as part of the steering, and operational groups, but also as part of business as usual.

Career paths and secondments

During Q2 there were 16 filled vacancies (9 internal permanent/acting up and 7 external appointments). The filled vacancies table below shows all vacancies filled over the last three years. There are 116 (42%) staff with flexible contracts, some of which include mobility across the organisation. This compares with 38 (14%) in Q1 2015/16. There were no new and eight existing secondments in Q2.

All filled vacancies

2016/17 YTD	2015/16	2014/15	2013/14
30	67	52	50

Forward look:

- The new audit appointments will come into effect in October 2016.
- BaBO work shops will continue throughout the year to engage with staff in a number of initiatives including role profiles.
- Colleagues from ASG and PABV are jointly developing reporting templates for the new approach to auditing Best Value.
- Best Companies Survey results are expected in December 2016.

Key risks / Issues / Learning points / Action Points:

- 'Failure to operate as one organisation'

AUDIT SCOTLAND BOARD

20 JANUARY 2017

REPORT BY THE ASSISTANT DIRECTOR, CORPORATE PERFORMANCE AND RISK

Q2 BECOMING WORLD CLASS IMPROVEMENT PROGRAMME 2016/17

1. Purpose of Report

To invite the Board to consider the progress made to date on the Becoming World Class (BWC) improvement programme and the planned actions.

2. Background

During 2014, we carried out an extensive review of the expectations people have of public audit. This, along with consultation with colleagues and an analysis of our operating environment, informed the principles and themes in Public Audit in Scotland, our Corporate Plan 2015-18, and our BWC strategic improvement programme.

The last BWC update report was considered by the Board on 18 August 2016.

3. Progress on the BWC improvement programme

We continue to make good progress on the programme, particularly in the context of a full programme of audit work. Progress headlines since the last report include:

- *Securing World Class Audit* – where we have:
 - Consulted on fees and funding, concluded the fees strategy and 2017/18 budget and developed a communications strategy and phasing options.
 - Established the new audit appointments (including resourcing, information and intelligence transfer, risk assessment, IT resources, accommodation and stakeholder engagement).
 - Completed a review of the audit procurement process.
 - Reviewed the current quality framework and developed proposals for the scope and objectives of the quality review.
- *Building a Better Organisation (BaBO)* – where we have:
 - Developed and consulted extensively on the reward and recognition framework (including pay, career progression and the car scheme).
 - Received approval from the Human Resources and Remuneration Committee for the Management Team to begin formal negotiation with the PCS union for the implementation of a new reward structure.
 - Developed a flexible approach to time place and travel and the associated principles and guidance.
 - Confirmed the continued use of the 3D personal development process and reviewed the learning and development strategy and plan.
 - Produced the 2017/18 workforce plan.
 - Completed the Best Companies Survey 2016 and published the results.


- Successfully completed the Inverness office relocation project and made progress on the Glasgow office improvements.
- *Making a Difference – where we have:*
 - Supported the Accounts Commission in the engagement on, and development of, the new approach to Best Value and developed the framework, guidance and information resources.
 - Secured Auditor General and Accounts Commission approval on the rolling five year work programme 2017/18 - 2021/22.
 - Successfully implemented phase 1 of the Parliamentary engagement strategy (including contributions to committee planning days, briefings of subject committees and participation in the tri-partite review of Holyrood's budget scrutiny processes).
 - Developed new products/outputs including briefings, web resource hubs, interactive data graphics and an animation.
 - Developed a wide range of engagement activity to inform audit programme development.

The appendix provides additional information on each of the BWC workstreams.

4. Recommendation

The Board is invited to note the progress made to date and the next steps.

Appendix

 SECURING WORLD CLASS AUDIT	<p>Our objective is to ensure that public audit in Scotland: • applies the highest professional and ethical standards • is efficient, proportionate and risk based • is informed by an excellent understanding of the strategic and operational context • responds effectively to changing circumstances and emerging issues • reports clearly and authoritatively • follows the public pound wherever it is spent • promotes transparency, accountability and Best Value.</p>	
Project/ initiative/ product	Status update	Next steps
Code of Audit Practice (COAP)	<p>The new code was published 26 May 2016. The code came into effect in October 2016 and applies to all audit work. The supporting audit planning guidance was published on 16 November 2016.</p>	<p>Delivery of audits under the new code.</p>
Fees and funding	<p>The Board approved the fee strategy and the 2017/18 budget proposal at its meeting on 15 September 2016. Management Team and the Board considered options on the phasing of fee changes and the communications strategy for audited bodies and other stakeholders at subsequent meetings. The SCPA considered the 2017/18 budget at its meeting on 21 December 2016 and agreed to write to the Finance Committee with its views on the submission. The 2015/16 fee letters were issued in December.</p>	<p>The Board will consider the SCPA official report at its meeting on 20 January 2017.</p>
Procurement and appointments	<p>The Board considered a post project review report at its meeting on 15 September 2016. The new audit appointments took effect from October 2016.</p> <p>There has been extensive work including; audit team allocations, resourcing, information and intelligence transfer, IT resources, accommodation, stakeholder engagement and reporting templates.</p>	<p>Ongoing engagement and quality monitoring and mid term review of the audit appointments.</p>
Review of Audit Quality	<p>An Assistant Director has been appointed to lead this project. Work to date has included; a review of the existing quality frameworks, engagement with a wide range of stakeholders and the development of an overall framework for the project.</p> <p>On 22 November 2016 Management Team considered a report and presentation on proposals for the scope, objectives and methodology for the review.</p>	<p>The key milestones are:</p> <ul style="list-style-type: none"> • Report to the Board on 20 January 2017. • Development work and implementation with a planned go live date of October 2017.



Our objective is to make Audit Scotland a great place to work so that we can attract and retain a highly skilled workforce. We want to make the best use of our resources so that we can deliver audit work that improves the use of public money.

Project/ initiative/ product	Status update	Next steps
How we work together Job Design Reward & Recognition Performance Appraisal	<p>A reward and recognition proposition has been developed and this has been considered by over 200 colleagues over the course of eight workshops.</p> <p>On 9 December 2016 the Human Resources and Remuneration Committee mandated the Management Team to begin formal negotiation with PCS on a new reward structure which includes:</p> <ul style="list-style-type: none"> • a new, broad banded pay structure with three bands replacing the current eight, narrow pay grades • simplifying pay progression by using incremental spine points to replace Contribution Based Pay (CBP) • introducing a new progression feature (currently with a working title of "Gates") to enable workforce agility and incentivise professional development across our workforce • closing the current car lease scheme for any new entrants, and • fixing the new maximum pay rates within each pay band between 2.5% to 4.5% below the current pay grade maxima. <p>The Time place and travel project has involved extensive consultation and developed principles and guidance to support flexible one organisational working.</p> <p>The 2016 Best Companies Survey headline results</p>	<p>The key milestones are:</p> <ul style="list-style-type: none"> • Formal negotiation with PCS union across a series of meetings during January and February 2017. • Work will also continue to create a suite of processes in support of the Gates system. It is planned to present a final set of proposals at the RemCo meeting on 15 March 2017 for approval. • The 3D development process will take place early in 2017. • Further consideration of the Best Company survey results January/ February. • BaBO drop in sessions for colleagues January – March 2017.

Project/ initiative/ product	Status update	Next steps
	were published in a special edition BaBO Abacus 20 December 2016 and Management Team considered a presentation at its meeting on 10 January 2016.	
How we learn and develop Planning careers Developing skills Professional training schemes Becoming better managers and leaders	The PDG has updated the Learning and Development Strategy and plan. An extensive learning and development programme continues, including client relationship management development workshops in September and October to support effective engagement around the new audit appointments.	The key milestones are: <ul style="list-style-type: none"> • 3D meetings to be concluded by March 2017. • Refreshed 2017/18 Learning and Development Strategy and plan scheduled for quarter 1 2017/18.
Wellbeing	The Healthy Working Lives sub group continues to build on the wellness checks through relevant information campaigns, encouraging holistic therapies, increasing mental health awareness, health & safety training and by supporting manager wellbeing through management development. A tendering exercise is under way to secure continuing support from a wellness partner organisation.	The key milestones are: <ul style="list-style-type: none"> • Procurement to conclude by January 2017. • Wellness checks and support available thereafter.
Resourcing	Joint resourcing work is ongoing in a range of areas including the audit of the Scottish Government, the new financial powers groups and meetings of Assistant Director resource leads in ASG and PABV and resourcing groups within each business group. The Human Resources and Remuneration Committee approved the 2017/18 Workforce Plan at its meeting on 9 December 2016.	Ongoing implementation of cross organisational working and joint working. Review of the Best Companies survey results which will offer data on colleague's perspectives on a range of issues including resourcing.
Office accommodation	Edinburgh - the Board considered a report on the West Port move at its meeting on 18 August 2016. The report was published on the website on 9 November. Inverness – the office move was successfully completed on 14 October. Glasgow – consultation has taken place on proposals for improvements in conjunction with haa design.	Issue tender for Glasgow office improvements in January with work expected to commence March 2017.



Our objective is to maximise the difference our audit work makes to public services, the people that they serve, the outcomes that those people experience and the use of public money.

Project/ initiative/ product	Status update	Next steps
Auditing Best Value	<p>The Accounts Commission considered an update report at its meeting on 10 November 2016. This highlighted:</p> <ul style="list-style-type: none"> • Meetings of the Commission's BV working group. • External engagement with chief executives of the first six councils to be audited and with local government forums. • Briefings and guidance for auditors on the Commission's strategic audit priorities and the new BV approach. • A new Local Government extranet for auditors. • Alignment of PABV team members with each audit team. <p>The Commission held three engagement events in November and December. All councils were represented across the three meetings, with most representatives being chief executives, senior officers or council leaders.</p> <p>In addition, the Local Government Minister has written to councils confirming that the review of Best Value statutory guidance is underway. David Martin, Chief Executive of Dundee City Council, will chair the Group, which consists of representatives of the Scottish Government and councils. Audit Scotland, represented by Fraser McKinlay, will sit on the Group as an observer. Its first meeting took place on 24 November 2016. The Group committed to having proposals in place by around June 2017.</p>	<p>The key milestones are:</p> <ul style="list-style-type: none"> • Following the local government elections – first Best Value Assurance Reports will begin to be presented to the Commission in 2017. • September 2017 - the first Annual Audit Reports that will reflect the wider scope of the audit and the new approach to auditing Best Value. • Early 2018 - the Controller of Audit's Annual Assurance and Risks Report to the Commission will be the first to reflect the wider scope of audit and the new approach and the Commission's Strategic Audit Priorities.

Project/ initiative/ product	Status update	Next steps
World Class Programme Development	<p>A key objective of our new approach to programme development has been becoming more externally focused and engaging with a wider and more diverse range of stakeholders and interest groups. Recent external engagement activity has included:</p> <ul style="list-style-type: none"> • Engagement with Young Scot to deliver an engagement pilot called 'CheckSee' to support us in identifying the main issues of importance to young people around education, skills and employability. • A housing and wellbeing roundtable discussion with housing, health and social care stakeholders to consider how housing services need to adapt and transform to become sustainable in the face of unprecedented demographic change. • A cross-public sector roundtable event to discuss how improved public sector estate management can support the transformation of public services.. • Work with a range of equality and human rights groups to identify potential equality-related audit topics and to provide external challenge on the extent to which our work programme proposals adequately reflect equality-related matters. <p>The Auditor General and the Accounts Commission approved the refreshed five year rolling work programme 2017/18 – 2021/22 in December 2016.</p>	<p>We will continue to:</p> <ul style="list-style-type: none"> • develop our programme development approaches in 2017/18 through a series of external engagement events to inform our monitoring of policy and performance and support the development of alternative audit outputs • develop stronger links between our cluster work and related strategic developments such as our New Financial Powers developments work, implementation of the Commission's new approach to auditing Best Value and the Audit Intelligence project.
Communications and engagement strategy	<p>The Board approved the Communications and Engagement Strategy at its meeting on 18 August 2016. The strategy will help support our vision and provides the principles for effective communication in a fast changing environment and is designed to support a culture of innovation.</p>	<p>Implementation of the strategy. Recent examples include; new financial powers infographic, supplements to the Social Work in Scotland, Scotland Colleges and Maintaining Scotland's Roads reports. The roads report was also supported by an interactive graphic on roads condition. We have also developed an animation to explain the key issues around the integration of health and social care.</p>

Project/ initiative/ product	Status update	Next steps
Strategic approach to Parliamentary Engagement	<p>We have now successfully implemented phase 1 of our Parliamentary engagement strategy. This has included:</p> <ul style="list-style-type: none"> • AGS, Chair of the Accounts Commission, and senior staff meeting with key Ministers, Committee Convenors and members. • Senior PABV Managers establishing relationships with clerking teams (including briefings on previous audit work relevant to their subject committees.) • Participation in committee business planning days and work programme development events (Public Audit and Post-Legislative Scrutiny, Health and Sport, Equal Opportunities). • Participation in the Parliament's tri-partite review of Holyrood's budget scrutiny processes. • Briefings for subject committees on relevant recent audit work (e.g. Economy, Jobs and Fair work (Supporting Economic Growth), Rural Economy and Connectivity (Broadband), Health and Sport (NHS overview and changing models of health and social care). • The introduction of routine briefings for Parliamentary staff (Committee Clerks and SPICe staff) on significant audit reports at the time of their publication, including: Supporting Scotland's Economic Growth: the role of Scotland's Enterprise Agencies and Social Work in Scotland. • Responding to a range of committee consultation exercises. 	<p>The next phase of our activity will involve:</p> <ul style="list-style-type: none"> • Consolidating and building on the relationships we have established with clerking teams and committees • Ensuring that our five-year work programmes complements the work of parliamentary committees • Supporting the Public Audit and Post-Legislative Scrutiny Committee and subject committees in delivering high quality parliamentary scrutiny.
Audit Intelligence	<p>The first phase of the Audit Intelligence Project has been completed and we have/ will be hosting a series of knowledge cafes/ briefing events to raise awareness amongst colleagues.</p> <p>The Management Team met with colleagues from across business groups on 6 December 2016 to discuss the audit of digital services, digital auditing and</p>	<p>The key milestone is:</p> <ul style="list-style-type: none"> • Winter 2016/17 – phase II development work focussing on outcomes and financial data to support risk assessments, programme development and audits.

Project/ initiative/ product	Status update	Next steps
	digital capacity. This has provided the foundation for further development work in this area.	
Website content and social media	<p>New outputs have included:</p> <ul style="list-style-type: none"> • New Financial Powers briefing paper – September 2016. • Health & Social Care web resources page including animation. • Interactive graphics including: NHS in Scotland and Maintaining Scotland's Roads • How Councils Work – web resource page re roles and responsibilities. 	<p>Ongoing work on:</p> <ul style="list-style-type: none"> • content development, particularly on blogging, and social media monitoring • the use of blogs and tweets around pending and published reports and parliamentary consideration of reports • developing the 'Supporting Improvement' part of the site including case studies, checklists and exhibits.



OFFICIAL REPORT
AITHISG OIFIGEIL

DRAFT

Meeting of the Scottish Commission for Public Audit

Wednesday 21 December 2016

Wednesday 21 December 2016

CONTENTS

	Col.
SPRING BUDGET REVISION 2016-17	1
BUDGET PROPOSAL 2017-18 AND FEE STRATEGY	3

SCOTTISH COMMISSION FOR PUBLIC AUDIT
2nd Meeting 2016, Session 5

COMMISSION MEMBERS

- *Colin Beattie (Midlothian North and Musselburgh) (SNP) (Chair)
- *Alison Johnstone (Lothian) (Green)
- *John Lamont (Ettrick, Roxburgh and Berwickshire) (Con) (Deputy Chair)
- *Rona Mackay (Strathkelvin and Bearsden) (SNP)
- *Jenny Marra (North East Scotland) (Lab)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Russell Frith (Audit Scotland)
Caroline Gardner (Auditor General for Scotland)
Ian Leitch (Audit Scotland)
Diane McGiffen (Audit Scotland)

LOCATION

The Adam Smith Room (CR5)

Scottish Commission for Public Audit

Meeting of the Commission

Wednesday 21 December 2016

[The Chair opened the meeting at 13:00]

Spring Budget Revision 2016-17

The Chair (Colin Beattie): Good afternoon and welcome to the second meeting of the Scottish Commission for Public Audit in session 5.

We are very tight for time today. I ask all members and witnesses to keep questions and answers concise and to the point. Please also make sure that mobile phones and other electronic devices are turned to silent.

The first agenda item is Audit Scotland's spring budget revision for 2016-17. Members have a copy of the proposed revision. I welcome to the meeting Ian Leitch, chair of the board of Audit Scotland; Caroline Gardner, the Auditor General; Diane McGiffen, the chief operating officer; and Russell Frith, assistant Auditor General.

I invite the Auditor General to make a brief introductory statement.

Caroline Gardner (Auditor General for Scotland): As in previous years, our spring budget revision request relates to pension adjustments. We have requested budget cover of £1.041 million to meet a non-cash pension charge that will arise as a result of accounting adjustments in 2016-17.

The charge is driven by the continuing impact of low discount rates used to value pension liabilities. Those low rates increase the future pension liability forecasts and, in turn, the estimates for the in-year pension service costs that we are required to account for. It is worth emphasising that those movements are notional and do not lead to cash movements.

As we have explained to the commission before, we are not able to plan for those changes in advance, because of the timing of the information that we receive from our actuaries. We get the information once a year and received this information in April 2016, well after our last budget proposal was received by the commission.

As you can see from the information in our submission, the amounts involved are very variable and unpredictable. The Scottish Government has therefore asked us to deal with them through the spring budget annually managed

expenditure process, which is why it is before the commission today.

I am sorry that this is a complicated adjustment; Russell Frith and I will do our best to answer any questions commission members may have.

The Chair: Have you held preliminary discussions with the Scottish Government to confirm that the previously agreed arrangements with HM Treasury remain in place? Have you advised the Scottish Government of the amount of Audit Scotland's requirements?

Caroline Gardner: The answer is yes to both.

The Chair: Do members have any questions about the spring revision?

Alison Johnstone (Lothian) (Green): My question is not specifically on the spring revision, but about the Lothian pension fund in general.

The Auditor General will be aware that pension funds are divesting from fossil fuels and that there are global efforts to decarbonise investments. I believe that about 5 per cent of the Lothian pension fund is invested in fossil fuels. Is Audit Scotland open to reform to better inform pension members of where their pensions are invested? More transparency about that would be helpful.

Caroline Gardner: In broad terms, I am in favour of more transparency on public finances, including pension arrangements. There has been a gradual movement to greater transparency about the investments of the local government schemes, which are the only ones that are funded and therefore invested.

We would be happy to give more information outside the meeting on how that is developing, if that would be useful.

Alison Johnstone: That would be very helpful.

The Chair: If no other member has a question, is there anything that the Auditor General would like to add?

Caroline Gardner: We are content, if the commission members have no further questions.

The Chair: Are members content to agree by correspondence a letter to the Finance and Constitution Committee, summing up our views on Audit Scotland's spring budget revision?

Members indicated agreement.

Budget Proposal 2017-18 and Fee Strategy

13:04

The Chair: We move to agenda item 2. Members have a copy of the budget proposal and the fee strategy in their meeting papers. We have the same witnesses for this agenda item. I invite the chair of the board, Ian Leitch, to make a short introductory statement, to be followed by the Auditor General.

Ian Leitch (Audit Scotland): Good morning, members. We are pleased to present to you our planned budget for next year and our revised fee strategy.

You will be aware we have been reviewing our funding and fee arrangements in order to ensure that they are fit for purpose. We have been through a thorough process, which I have described to this commission and to previous members of it as a consultation with all the bodies that we audit. The fee strategy paper that you have today is the outcome of all that work.

We are implementing the strategy for the 2016-17 audits. The timing is important because it fits with the new round of audit appointments. The procurement exercise was carried out earlier this year and will bring considerable savings.

The review reaffirms and builds on the principles that have previously guided our fee strategy, including the need to ensure fairness and transparency. The revised strategy aims not only to recover fees for our work across the piece, but to balance better those fees in each sector and, where possible, individual bodies.

A key change that we are proposing relates to the funding of national health service performance audit work. In order to bring that into line with the other areas of the Auditor General's remit, we propose that funding for the work should come from the Scottish consolidated fund.

Details of other proposed adjustments are explained in the fee strategy paper.

High-quality audit work remains a priority for Audit Scotland. Our budget proposal supports that goal by identifying resources to implement new quality arrangements. That will help us enhance our assurance on the quality of audit work, promote continuous improvement in audit quality and support professional and technical leadership in public audit.

At the same time as we are committed to quality, we strive for value for money. Our main expenditure is on our workforce, which we continue to manage actively. Staff numbers are

smaller now than they were in 2010. Despite that, we are confident that our on-going investment in staff development, the training of professional trainees and the way that we are changing how we work together will continue to deliver cost effective, efficient world-class audit.

I will hand over to Caroline Gardner, who will give you an introduction on the detail of the budget proposal.

Caroline Gardner: As you will know, the budget proposal was prepared in the context of some uncertainty, in particular, the amount of work that will be required as a result of the full implementation of the Scotland Act 2016 and, of course, any further devolution of powers as a result of the impact of the referendum on the European Union.

The proposal in front of you is based on our known workload. As our audit responsibilities change in the light of those developments, we will obviously discuss further the resource requirements with the commission.

In summary, the proposal will deliver an average real-terms reduction in audit fees of 8.6 per cent for the 2016-17 audit year, which has just started; a 2.6 per cent real-terms reduction in the revenue resource requirement sought from the Scottish consolidated fund; simplified funding arrangements for the NHS performance audit, which Ian Leitch mentioned; a reduction in our gross administrative costs of just over £1 million or 6 per cent of our expenditure budget for the year; and greater transparency in our funding arrangements.

Overall, I am confident that the proposal strikes the right balance between value for money and ensuring the quality of support to the Parliament that we provide.

We are happy to do our best to answer the commission's questions.

The Chair: I will start off. On page 4 of your budget proposal, you note that additional work will arise resulting from the creation of the 30 integration joint boards. The boards will be audited by auditors appointed in the relevant local authorities. That is a considerable increase in work. Will you confirm the oversight arrangements for integration joint boards? In particular, what oversight role will the Public Audit and Post-legislative Scrutiny Committee have in regard to the boards?

Caroline Gardner: The audit arrangements for the new integration joint boards were included in the legislation that established them. They were set up as local authority bodies, and the audit appointments are made under that regime.

All the funds spent by the joint boards will come from local authorities or the NHS. At the moment, we think that that spend is about £8 billion a year, which is a significant amount of public money. The boards provide services that are key to communities across Scotland.

It is an area where the strengths of the public audit model are apparent. The Accounts Commission appoints the auditors to the bodies and can report on problems that occur in the individual bodies. However, because of the significant amount of NHS funding that comes through them, I will also have oversight and can report back to the Public Audit and Post-legislative Scrutiny Committee.

The Public Audit Committee in session four received the first of the reports that we are producing on the progress on setting up the bodies. It noted not only that progress had been made, but that risks remained around governance, budget setting and oversight. We expect to produce the second report in that series during 2017, and it will be reported to the Public Audit and Post-legislative Scrutiny Committee in the usual way, to give you that line of sight on how the money is being spent and what is being achieved with it.

The Chair: Given the funding's hybrid nature, will the Public Audit and Post-legislative Scrutiny Committee have full oversight of the IJBs through your reporting?

Caroline Gardner: It will have full oversight, to the extent that the overall process is being developed and implemented as planned, of what is being achieved by the boards. There are accountability arrangements back from a joint board to both the local authority and the NHS. That line of sight through the NHS gives the committee scrutiny through the work that I do.

We will have to see how that develops in practice over the next few years, as the boards take on their new responsibilities in full. For now, the Public Audit and Post-legislative Scrutiny Committee is being given the proper degree of oversight.

John Lamont (Ettrick, Roxburgh and Berwickshire) (Con): My question also relates to page 4 of your budget proposal and your assumption about the extent and timing of work required as a result of the Scotland Act 2016. You mention elsewhere that an allowance has been made for planning for the implications of the EU referendum result and that about £100,000 has been set aside for those purposes. Will you explain what the cash payments account for? What is the additional resource that you think that you will need to deal with the uncertainties?

Caroline Gardner: As commission members will know, the Scotland Act 2016 is being implemented over a long period. Revenue Scotland, which has been established, will administer the new devolved taxes. We audit Revenue Scotland and no new additional work is required there. We have in place the arrangements for collecting the Scottish rate of income tax—we have the second report published this week by the Comptroller and Auditor General for the UK's spending, Her Majesty's Revenue and Customs audit and my additional assurance. Those arrangements are up and running.

We are still investing in making sure that we understand the implications of the new full devolution of income tax on non-dividend, non-savings income; the assignment of VAT revenues to Scotland; and, in particular, the new social security powers, where we know that there will be a social security agency but it is not yet up and running. There will need to be a good deal of interaction between that social security agency and the Department for Work and Pensions as there will be about £2.7 billion of payments coming through those arrangements annually, which is a significant sum and a high volume of transactions. We are investing in making sure that we understand the Government's plans for delivering that and the audit work that is needed. I can come back to you with a clear picture of what that audit work will require.

The £100,000 pays for an assistant director who we have tasked with leading our thinking in the area. The money accounts for the full cost of the post and for his and his team's development. It is to ensure that we are thinking through the audit implications, managing them well, building up our expertise and coming to you with a credible plan for the resources that we need for the longer term as that thinking develops.

Since June, we have asked the assistant director to take on responsibility for the implications of the EU referendum. We do not know what that will mean for Scottish public finances—that is, what funding will be devolved to Scotland and what audit arrangements will be needed. We will do that in a joined-up way.

John Lamont: I want to be clear about the £100,000. You said that that is the cost of the salary of the new appointment, but you also mentioned investing in further research or investigations. Do you anticipate an additional cost beyond the £100,000 to invest in the additional research and understanding of what the referendum outcome will mean?

13:15

Caroline Gardner: We think, at this point, that the £100,000 covers our costs of developing and planning for it. That is the full cost of the director's post plus the associated costs for training, development and travel. We know that there will be an additional cost of audit, once it is clearer how the new social security powers and some smaller things, such as the Crown Estate, will be used. We want to come to you with a credible, properly worked-up plan, rather than guesstimates about what it might involve. That is why we are investing for now.

John Lamont: Will that come later?

Caroline Gardner: Absolutely, in future budgets.

Jenny Marra (North East Scotland) (Lab): I will jump back to ask a supplementary to question 1. Auditor General, you state in your budget proposal, on page 4, that the IJBs will be audited by the auditors of the relevant councils. I assume that those will be auditors of local authorities who are used to auditing councils. What experience will they have of auditing the NHS? From where I sit, the budgeting and expenditure arrangements for the IJBs are quite complex. A number of councils and health boards are still trying to get to grips with that, so the audit will be very important. Are there people who have joint experience? How can Audit Scotland, and we, be confident of their skills to do it properly?

Caroline Gardner: You are right that they are complex new bodies and they have significant responsibilities. The legislation that established the integration joint boards set them up as local authorities and, therefore, they are within the local authority audit regime. Most of the auditors whom the Accounts Commission appoints to carry out local authority audits also do NHS work. Russell Frith can keep me straight on the number of those.

In any case, one of the central costs of Audit Scotland is in providing guidance and support to all our audit teams, to make sure that they have access to the expertise and information that they need, to provide opportunities for them to share their experience and insights, and to make sure that we get consistency in the audit work that is carried out throughout the sector. We monitor it closely, and you will see elsewhere in the submission a reference to our investment in the quality of audits. The starting point is that all our auditors should be capable of doing this. Audit Scotland provides the extra support where it is needed.

Russell Frith (Audit Scotland): Of the five firms that we use in local authority work, on top of our own staff, three are also auditing the NHS in the new round of appointments. Of the other two,

one firm has previous NHS audit experience and, as it happens, so do the staff from the other one.

The other point that I would make is that, wherever possible, we have appointed the audit of the main council and the health board in a given area to the same auditor. That is not possible across Scotland, but, as an example, the auditor of Dumfries and Galloway Council is also the auditor of Dumfries and Galloway health board, and is therefore also auditing the IJB there. In that way, the external auditor has complete oversight across the IJB arrangements.

Jenny Marra: That will be fundamental to Parliament's ability to scrutinise the effectiveness of the IJBs, so I will watch that with interest.

On page 5, you note that "Other administrative costs" have decreased from £9,558,000 in the current year to £8,376,000 in 2017-18. Throughout the document, it is confirmed that the bulk of the estimated savings will arise from savings in fees that are paid to appointed auditors, which are the private sector firms that Russell Frith referred to, following the recent procurement project.

Although the commission welcomes such significant savings, is it possible that audit firms will conduct audits with less-qualified staff in order to accommodate the reductions in their fee income? Could that lead to an increased risk of poor audit quality for the bodies audited by the firms? I know that you have set aside £100,000 to support an enhanced quality regime but, given the adjustment to fees, can you explore that?

Ian Leitch: The board probed that question, because it is a matter of concern. Russell Frith will give you the detail, but we are satisfied that, by enhancing our quality regime and putting in additional resource, we can check to ensure that the competitive fees that we got in the procurement round will not result in a poorer audit service. We are bolstering that so that we can do more checks on that work.

Russell Frith: Our quality expectations were made clear to the firms before the tender round. As Ian Leitch said, we are investing in enhanced audit quality arrangements to ensure that we can continue to give assurance to the Auditor General, the Accounts Commission and indeed the Scottish Commission for Public Audit about maintaining and improving the quality of audit. It is absolutely right that we see the discounts that were offered as potentially posing a risk to audit quality. We are aware of that and we plan to ensure that that does not happen.

Jenny Marra: I am struck by the fact that Audit Scotland is having to set aside £100,000 for the quality regime, when firms such as KPMG and Ernst & Young are taking handsome fees for the audit of our public sector. Should it not be

incumbent on the firms that earn those fees to ensure quality internally, so that that does not come at the expense of the public purse?

Caroline Gardner: You are absolutely right to ask that question. The starting point is that all the auditors that we appoint, whether they are from the firms or our in-house teams, are required to meet the international standards on auditing, the ethical standards that apply and the code of audit practice, which the Accounts Commission and I agree for the wider scope of the audit work that we do. We are always seeking to get the balance right between the quality, which we cannot compromise, and best value for the public purse.

We have robust arrangements for quality, but they provide us with different information about the in-house teams and the firms. For the in-house teams, we commission the Institute of Chartered Accountants of Scotland to carry out an independent review of a sample of audit work every two years, and we get that information back directly. For the firms, either ICAS or, on a UK basis, the Financial Reporting Council carries out a review of their work, although not of the work that is done specifically for us. Therefore, we have less information about the firms, although we have the assurance that they are meeting the professional standards that are required.

My view and that of the Accounts Commission, after discussion with the board, is that because we are seeing continuing reductions in the tenders from the firms in the competitive market—we welcome the cost savings that come from that—we should recycle some of those savings into making sure that we have truly comparable information across all the people who are carrying out audit work for us. In that way, we will have the assurance that we need that we are fulfilling our responsibilities, as will the Scottish Commission for Public Audit.

A fine balance is involved. It is worth noting that the £100,000 that we have put into the submission this year, on which we are asking for your support, is for reviewing the arrangements. We do not necessarily expect that to be the cost going forward, but it is the cost of a project to review the position and to ensure that we have consistent information across the piece and that we are getting the balance between cost and quality right.

Jenny Marra: So you hope that the £100,000 figure might reduce in time.

Caroline Gardner: I do not want to prejudice the results of the review, but it is the one-off cost of reviewing how we assure quality and of putting in place arrangements for the future.

Jenny Marra: You say that the £100,000 is recycled money from cost savings in the commissioning of firms.

Caroline Gardner: As Ian Leitch said in his opening statement, at the beginning of 2016, we went through a significant tender round, as we do once every five years. The results of that were competitive and gave us a reduction in the amounts that we will pay to firms overall over the next five years. As I said, we think that it is appropriate to recycle some of that into the arrangements that we have for assuring and driving up quality over the piece during the five-year period.

Jenny Marra: Will the quality regime extend to in-house teams as well?

Caroline Gardner: That is one of the things that I am keen for us to do. At the moment, we have different information about the in-house teams and the firms, and there should be a level playing field. We are also looking at how we assure the quality of the performance audit work, which is what the Public Audit and Post-legislative Scrutiny Committee sees most directly. All of that will be on a common basis.

The Chair: To come in on the back of Jenny Marra's comments, there must be a concern, with fees going down, about maintaining the quality of service. I will share my experience of public audit, which is that there was a perception in the case of Coatbridge College, probably Edinburgh College and certainly—it appears from the information last week—NHS Tayside that internal and external auditors were not exactly on the ball in some respects, and that is a worry.

Caroline Gardner: That would be a significant worry for me, too. As I said, we have quality arrangements in place and I am satisfied that the auditors that we appoint are all meeting the requirements that we place on them. That is clearly not quite the same thing as the impression that you take from them when they appear before you as witnesses. There may be more that we can do to support them to perform as well as they can in that setting.

As you will be aware from your former life, chair, there is also something about the gap between expectations of what auditors might do and what they are actually appointed to do. We need to do what we can to close that gap and to explain that auditors are not there to seek out fraud or poor behaviour but to provide assurance on the way in which public money is being spent. We need to keep an eye on that. That range of issues is behind the investment that we want to make in quality assurance.

Alison Johnstone: Page 8 notes a new approach to best value across all 32 councils. I would be grateful if you could explain the new approach to assessing best value in our local

authorities and what has changed from the previous approach.

Caroline Gardner: I need to start with the caveat that the Accounts Commission is responsible for assessing best value in local authorities and that it is not my responsibility as the Auditor General. However, I have a responsibility as the accountable officer for Audit Scotland. I ask Diane McGiffen to talk about the best-value issue from the steering group's perspective.

Diane McGiffen (Audit Scotland): The new approach looks at the best-value auditing of local authorities and maps that out over a five-year period, which is the lifetime of the audit appointments. The previous approach, which the Accounts Commission wished to move away from, meant that on a risk-assessment basis local authorities would receive a best-value audit once every three or five years, but some authorities had not had a full best-value audit for quite some time. The Accounts Commission was seeking a regime that helps to provide on-going assurance about the achievement and delivery of best value from authorities through the audit process on an annual basis. In some years during the new five-year appointments, there will be an added element to the best-value reporting.

We have therefore remodelled a range of the work that we do in local government auditing. The Accounts Commission recently ran three roadshow events with local authorities to set out to chief executives and council leaders the new approach, and we are starting to roll out the first year of the new approach. The first reporting from the first authorities that are having the deeper best-value audit in year 1 will be later in 2017.

Over the five-year appointment, the coverage of best-value issues through local authority audits will be clearer and more comprehensive. There is on-going dialogue between the Accounts Commission and the Scottish Government about the framework for best-value principles and the guidance that the Scottish Government issues, against which we audit. Our audit teams and the firms that are appointed to deliver best-value audits have been working together to roll out the new programme.

We could certainly provide the commission with further supplementary information, if it wishes, and we could also share with it the presentations that were recently given to council leaders and chief executives.

The Chair: It would be good if you could do that.

Alison Johnstone: The new approach seems like a more efficient process that will give greater clarity.

Diane McGiffen: That is what we hope for.

Rona Mackay (Strathkelvin and Bearsden) (SNP): I will focus on Audit Scotland's business restructuring proposals, which you outline on page 8. You state that the plan is to reduce the head count of administrative support staff and to realign skills and resources. You are looking for a budget of £100,000 to fund that transition. Will you explain how the £100,000 will be paid, given that it is an additional resource and the work is not being met from existing resources?

Caroline Gardner: The background is the move that we made in 2015 from two offices in Edinburgh to a single office. We previously had two offices, each of which was on five floors and had lots of different rooms, but we now have one office that is all on a single footprint, with much more efficient ways of working and better use of technology. Together with the ways in which we are changing our staffing and how people work more widely in Audit Scotland, that means that we need quite different administrative support from what we needed previously.

13:30

Against the backdrop of a policy of no compulsory redundancies, we have designed the structure that we think that we need to support our business, which has involved going through a process of supporting our existing staff to apply for roles in the new structure. We are looking for the provision in the 2017-18 budget that you mentioned to enable us to redeploy the staff who were not matched into jobs in the new structure. We expect the redeployment to take place over a period, as staff move on and vacancies arise and so on. That captures the bridging point between where we are and where we hope to end up. Diane McGiffen has led on the work and might want to add something.

Diane McGiffen: No—you have given a pretty comprehensive account. We are pretty far down the road—

Rona Mackay: I was just going to ask you to give me an idea of the timescale for all this.

Diane McGiffen: We have completed the transferring, matching and interviewing of colleagues, and people now have their new roles. There is a supplementary team of four people who we are looking to redeploy.

Rona Mackay: Will you reassure us that work that used to be done by such people will not now be done by more senior staff, which would be inefficient, given the jobs that the senior people are supposed to be doing?

Diane McGiffen: Absolutely. As the Auditor General said, one of the biggest drivers has been

the relocation to a single floor on a single site of teams that were previously dispersed. That in itself generates lots of efficiencies. In addition, the use of technology in the business, by audit teams and support services, has made many tasks that were previously delivered by business support services redundant.

We continually look to maximise efficiency, and it would not be efficient for us to displace work so that it went to our audit teams—those teams would be the first people to tell us that. We are seeking the opportunity to have projects and support that add greater value to audit teams in delivering their work. However, what that looks like has changed significantly since the teams were established and it is time for us to resolve that.

Rona Mackay: You said that there will be no compulsory redundancies. Did you offer voluntary redundancy?

Diane McGiffen: We have offered voluntary redundancy in the process and we will offer a voluntary early release scheme later, which we expect to be pretty modest.

Rona Mackay: Do you have guideline figures for that?

Diane McGiffen: We will launch the voluntary early release scheme in the new year, and we can report back on that. The restructuring process is very recent and we are still in dialogue with colleagues but, when we get to the conclusion, we can certainly share the information with the commission.

The Chair: I remind people to keep their questions and answers fairly tight. I bring in Jenny Marra.

Jenny Marra: I note that you said that before you brought me in.

The Chair: That was a coincidence.

Jenny Marra: Auditor General, page 13 of your budget proposal says that you are putting more work to the in-house team rather than to appointed auditors, which will generate an efficiency saving of £196,000. How did that decision arise? Does it suggest that in-house teams are less expensive than firms or does Audit Scotland feel that it gets less value for money from the firms than it used to get?

Caroline Gardner: The reason is neither of those, in relation to that figure. As we said, we went through a large procurement exercise to make audit appointments for the next five years, and as part of that we sought tenders from the firms in each of the sectors that we audit.

Such a process starts with an indication of the audits that will go to firms in each sector, and once we know which firms have been successful by

making bids that strike the right balance between price and quality, we invariably find that there are conflicts of interest—for example, if a firm is the internal auditor for a council, it cannot also be the external auditor. At that stage, Russell Frith and his team enter into a tortuous process of discussion to ensure that we know about all the conflicts of interest and can avoid them by making audit appointments that do not generate them.

This time, at the end of that process, an additional £196,000-worth of work that we had expected to go to the firms went to the in-house teams, without any increase in those teams' resources to take it on. We are confident that they can cover that through smarter working, the use of technology, which we have talked about, and the investments that we are making in one organisation working. In effect, we are generating an extra £196,000-worth of efficiencies as a result of the fine tuning of the audit appointments at the end of the process compared with what we expected at the start of it.

Jenny Marra: Are conflicts such as the internal auditor being the same as the external auditor, which you mentioned, more common than they used to be?

Caroline Gardner: I do not know. Does Russell Frith have a view on that?

Russell Frith: I think that they are slightly more common, as there are probably more public bodies that have firms as their internal auditors than was the case a decade ago.

Jenny Marra: Was such work being done in-house a decade ago?

Russell Frith: More bodies were doing it in-house.

Jenny Marra: To follow up on Rona Mackay's question, does the situation that you have described suggest that Audit Scotland found itself with surplus capacity, which is why you have pulled some work back in-house?

Caroline Gardner: I would say not. Again, Russell Frith might want to comment.

As part of your lead-in to that question, you asked whether our in-house teams are cheaper than the firms. In practice, they are not—they are slightly more expensive. The commission has explored that issue in the past. That is partly because we ask more of our in-house teams. They are more closely involved, for example, in providing support to Parliament, and they provide intelligence to us about what is happening across public services.

Over the life of the audit appointment, we try to make sure that the in-house teams can demonstrate that their costs are coming down to

the average of the firms' costs or that we can quantify the added value that we are getting from having an in-house team. It is a question of having the balance of gradually increasing the efficiency and quality of the in-house team against the benchmark that we have for the firms.

Alison Johnstone: In appendix 1, on page 17, the budget for "Audit support—external fees" is forecast to fall by 27 per cent from £586,000 in 2016-17 to £426,000 in the following year. The actual expenditure on that was £273,000 in 2015-16 and £311,000 in 2014-15. Given the historical levels of expenditure, are you content that the proposed budget is realistic?

Caroline Gardner: Yes. I will ask Russell Frith to talk you through why that is the case.

Alison Johnstone: That would be helpful.

Russell Frith: The biggest significant component of the variation in the figures across the piece is the cost of the national fraud initiative. That exercise costs us approximately £200,000 and takes place every second year. The figure is £586,000 for the current year because we will make that payment this year. The figure will drop again next year and will go back up in 2018-19.

Alison Johnstone: That is clear and makes sense.

The Chair: In appendix 1, the budget for information technology is forecast to increase by 18 per cent; in fact, the entire capital budget of £200,000 relates to IT. Will you give us a bit more information about that? I seem to remember that, about three years ago, there was also a fairly stiff charge for IT.

Caroline Gardner: I ask Diane McGiffen to talk you through that.

Diane McGiffen: The resilience and reliability of our IT are critical to the business. The more our colleagues who carry out auditing in public bodies travel around and work across Scotland, the greater is the resilience that we need in the IT service to keep them able to work and to access secure networks and so on. Much of the additional cost that is shown in appendix 1 relates to on-going improvements to resilience and security.

This year, we invested a lot in achieving our ISO accreditation, to ensure that we hold data in a very secure way, and we were pleased to get that. We are continuing to invest in equipment that enables our teams to work from anywhere and at any time. The investment is the on-going investment in IT resilience and security.

The Chair: If members have no other questions on the budget, I will ask one or two myself.

Can you remind me what the corporation tax on page 5 is for?

Russell Frith: We receive a small amount of interest income from money that is in a commercial bank account, and that is taxable.

The Chair: On the same page and the next page, you address the proposed change to the funding of the NHS performance audit. That is quite a significant change. On the face of it, it seems reasonable if it brings the funding into line with what is happening elsewhere. However, does it constitute a technical increase in the NHS budget?

Caroline Gardner: I do not think so. In any case, it is a very small amount—£475,000 a year. For historical reasons, performance audit in the NHS is the only part of our performance audit work to which the audited body makes a contribution. Currently, the boards pay 40 per cent and the Scottish consolidated fund pays the other 60 per cent. As part of the review of the transparency and consistency with which we do this, we identified it as an area in which we had the chance to improve and simplify the process for you. It is, however, right at the margins and is cost neutral for us.

Colin Beattie: It is cost neutral for Audit Scotland, but my concern is that, if we are moving a cost away from the NHS to be met by the consolidated fund, does that technically constitute an increase in the NHS budget?

Caroline Gardner: I think that it would actually mark a very small—minuscule in the scheme of things—saving to NHS budgets. I do not imagine that the Scottish Government would want to reallocate the funding away from the NHS. It is one of the things that contribute to the reduction in the audit fees that you will see in the audit proposal for that sector.

The Chair: I suppose that the commission's concern is that, if it does constitute an increase in the NHS budget, however technically, we can recommend it if it is appropriate but we might have to get more advice on it. I will ask the clerks to clarify that and get back to commission members on it, so that we are clear about where the powers on that lie when we make our decisions.

Caroline Gardner: I think that that would be useful but, for clarity, I confirm that it would be a reduction in the NHS budget and absolutely at the margins. It would reduce the boards' audit fees by more than would otherwise be the case.

The Chair: I am just checking to see whether there is anything that the commission wants to address that has not come up already.

Is the current VAT arrangement with HMRC, which is mentioned on page 10, secure? Two or three years ago, there was a bit of correspondence and I shared some difficulties with

VAT. Is that arrangement now 100 per cent secure?

Caroline Gardner: The agreement that we reached with HMRC two or three years ago remains in place and we have no reason to think that it will not remain in place.

The Chair: How does it affect IJBs, given their hybrid funding?

Caroline Gardner: They are local government bodies; therefore, they fall within the local government regime.

The Chair: Even if the funding comes from the NHS, the VAT position is still secure.

Caroline Gardner: Yes, because they are local government bodies.

Russell Frith: Yes. The bodies themselves are local government bodies.

The Chair: They are not under the control of the Scottish Parliament.

Russell Frith: That is correct.

The Chair: Unless members have any other questions, I propose that we move on. Are members content that we send a letter to the Finance and Constitution Committee reporting our views on the budget proposal, subject to the clerks coming back to us on the technical question about the NHS?

Members indicated agreement.

The Chair: The next item is the fee strategy. I will start with the key messages on page 4. The fee strategy proposes a fundamental change in how performance audits in the NHS are funded. How was the 60:40 split arrived at for the funding of NHS performance audits and how does Parliament funding the work better reflect both the nature of the work and the requirements of stakeholders? In other words, why was it put in that way in the first place?

13:45

Caroline Gardner: It goes back to the establishment of Audit Scotland in 1999-2000, when Audit Scotland brought together the work that had previously been done for the National Audit Office in Scotland and for the Accounts Commission in Scotland—at that point the Accounts Commission covered both local government and the NHS. At that time, all the performance audit for local government and the NHS was funded through audit fees within the Accounts Commission's regime. When Audit Scotland was formed, it became clear that the local government regime would continue at arm's length but that the performance audit in the NHS would have a benefit to the Parliament as well as

to the NHS boards. Therefore, the decision was taken at that point that it made sense to share the costs between them, and 60:40 was an estimate of where the benefits might lie. As always with such things, there is nothing terribly scientific behind that.

Our experience of carrying out the fee review over the past year or so has been that it is now an outlier—it is the only area where the costs are split between the Scottish consolidated fund and audit fees—that is inconsistent with the way in which all the other audit performance work that is carried out for the Parliament is done. It is difficult to explain to people and means that the fees in different sectors move at different rates for reasons that have very little to do with the work that is done for individual bodies.

It seems to us that, if the commission is happy to support it, what is proposed would be quite a straightforward way of simplifying the funding and fee arrangements, making them more transparent and making it clear that performance audit is one of the key parts of the support that we provide to the Parliament in overseeing the use of public money.

The short answer to your question is that it happened a long way back in the mists of time.

Alison Johnstone: On page 7 of the fee strategy, Audit Scotland notes that

"Revised and enhanced auditing standards ... have increased the minimum amount of work required to conduct a fully standards compliant audit",

but goes on to say that

"Developments in technology in both accounting and auditing ... have streamlined audits of the largest bodies."

On the face of it, those statements appear to be contradictory. Can you explain how the increased amount of work associated with revised and enhanced auditing standards matches up with streamlined audits? How are you doing it?

Caroline Gardner: I will ask Russell Frith to talk you through that.

Russell Frith: First, the international standards on auditing were completely revised a few years ago. The International Auditing and Assurance Standards Board increased the number of mandatory steps that are required to complete any audit, which has tended to push up the costs of smaller audits. Equally, some of the changes to the standards have meant that slightly less work has to be done on some of the larger audits. Previously, the amount of work was more proportional to the size of the body—that balance has changed.

Bringing in technology has enabled us to carry out audits more consistently and efficiently. For

example, having the working papers as electronic files means that managers can access the files from anywhere, so they can carry out a review at any time and do not have to go out on site and review paper files. Furthermore, the files are accessible to the entire team. Those are some of the ways in which we are able to carry out audits more efficiently, while still meeting the higher standards.

Alison Johnstone: Thank you. That is clear.

Rona Mackay: Again on page 7, Audit Scotland notes that there are

‘increased expectations in auditing or reviewing governance statements, remuneration reports and strategic reports/management commentaries.’

Can you explain what those expectations are and how and why they have increased?

Russell Frith: In the private sector, partly in response to the financial crisis a few years ago and some of the earlier corporate failures—such as Enron—the standards of corporate reporting and governance increased, particularly for listed companies. Successive Governments have taken the view that they want to bring the higher standards in the corporate sector into the public sector. Over recent years, that has meant that, for example, governance statements have come in for all public sector bodies, separate remuneration reports, which did not use to exist, have been created and are subject to audit, and there have been significant developments in management commentaries and strategic reports—in other words, the front end of the annual report—which are now subject to more audit review than they were previously.

It all stems from trying to enhance standards, originally in the private sector and then by successive Governments bringing them into the public sector.

Jenny Marra: On page 8, Audit Scotland notes that audit fees should be set with the objective of recovering the full cost of audit in each sector. However, Audit Scotland states that some costs will be pooled within each sector.

At the commission’s meeting in December 2015, Audit Scotland was asked whether there would be a move to fees being set

“for the individual audited bodies both within and across sectors?”—[*Official Report, Scottish Commission for Public Audit*, 10 December 2015; c 5.]

At that meeting, the Auditor General advised the commission that the issue was still being considered by the board.

Again on page 8, Audit Scotland notes that it has

“reviewed and revised the costs of individual audits using information on the actual cost of delivering the audits in recent years”.

We acknowledge the improvements that arise from a closer balance between fees and related expenditure within each sector, but are there plans to ensure that individual bodies are billed only for the audit service they receive?

Caroline Gardner: The statutory requirement that we work under is to recover our costs each year across all of our work. We have always complied with that.

Within the fee review, the board has agreed, as we have previously discussed with the commission, that we can increase both transparency and accountability by narrowing the requirement to make sure that each sector recovers the costs of audit. The new arrangements will do that year on year.

We have looked closely at the question of individual bodies. It is not quite as straightforward as the question suggests. We have rebased the audit fees to make sure that they more closely reflect the cost of doing the audit in each body, depending on its size and complexity. We have reviewed the arrangements by which we apportion the costs that do not apply to the cost of an individual audit—the cost of the audit strategy, the support to auditors that we were talking about earlier, property and IT costs—to sectors and to individual audits. We will therefore see some rebasing of audit fees for the audit appointments that have just started.

We think that the costs would outweigh the benefits were we to go through a process at the end of each year to review how much we had spent on each audit and to refund and invoice based on the actual amounts spent for individual bodies. Instead, the audit fee will be kept under review during the life of the appointment. If there are improvements in the audited body or reductions in what they are asked to do that mean that its fee should come down, there is scope for that to happen. Equally, there is scope for an increase where we feel that that is required.

We are not looking to recover the cost at the level of the individual body each year. We have focused on doing that at sector level, matched with much greater transparency for individual audited bodies about what they are paying for. Bodies can see the breakdown in the fee strategy, where there will be four lines showing the direct cost of audit, the pooled costs, performance audit and the overhead costs for which they are making a contribution. Bodies get much more transparency. The sector will balance overall and individual fees will move across the life of the audit appointment, depending on our experience of doing that audit.

The Chair: I will ask one other question. We have had very substantial fee reductions over the past four or five years. This year, Audit Scotland is reducing fees again, by 6.7 per cent. On page 4, in the key messages, it states that you are expecting

“further real terms reductions in fee levels for 2017/18 and 2018/19 audits”.

Is that not a huge challenge to achieve, given the expansion of the work that is coming down the line? Are there not lots of dangers in that?

Caroline Gardner: I need to be very clear that the proposal relates to the work that is already known to us. As we have clear information about the new responsibilities that we will have, we expect that there will be new resource requirements. We will come back with a clear proposal for those to the commission.

We take seriously our responsibility to make sure that we are providing the best value for money that we can to the public sector in Scotland and to the Scottish consolidated fund. We have been able to make savings through the procurement round, through things such as the property moves that we have made and through our continuing efforts to ensure that our workforce is the right shape and size for the work that we do. We will carry on doing those things and passing on the benefits. That is entirely separate from the resources that we will need to take on new responsibilities. It is more appropriate to treat those separately, rather than to blur them into one, for the accountability that we owe to the Parliament.

The Chair: If members have no more questions, is there anything that the witnesses wish to add?

Caroline Gardner: If there are no more questions, we are content to leave it there.

Ian Leitch: I am content.

The Chair: In that case, I close this meeting of the Scottish Commission for Public Audit. Thank you for your attendance.

Meeting closed at 13:55.

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Official Report
Room T2.20
Scottish Parliament
Edinburgh
EH99 1SP

Email: official.report@parliament.scot
Telephone: 0131 348 5447
Fax: 0131 348 5423

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SCOTTISH COMMISSION FOR PUBLIC AUDIT

Bruce Crawford MSP
Convener
Finance and Constitution Committee
The Scottish Parliament
Edinburgh
EH99 1SP

Scottish Commission for Public Audit
Room T3.40
The Scottish Parliament
Edinburgh
EH99 1SP
Tel: 0131 348 5205
Email: scpa@scottish.parliament.uk

13 January 2017

Dear Bruce,

AUDIT SCOTLAND BUDGET PROPOSAL 2017-18

The Scottish Commission for Public Audit (SCPA) considered Audit Scotland's budget proposal for 2017-18 at its meeting on 21 December 2016. The Commission took oral evidence from Audit Scotland at this meeting.

In line with the agreement between the Commission and your Committee, please find enclosed a copy of the Commission's report on Audit Scotland's budget proposal, which will be published on 16 January 2017. As you will see, the Commission is recommending that Audit Scotland's request for a resource requirement of £6,513K in 2017-18 be approved by the Parliament.

The Commission also considered Audit Scotland's fee strategy, which accompanies the budget proposal, at the meeting on 21 December. The fees strategy proposes a change to the funding of NHS performance audit work whereby all the funding for such work would be obtained from the Scottish Consolidated Fund. At present, the funding of such work is split 60% from the SCF and 40% from health boards. The Commission agreed to this proposal and to the wider fee strategy.

Lastly, the Commission also considered Audit Scotland's Spring Budget Revision for 2016-17. The revision requested budget cover of £1.041 million to meet a non-cash pension charge that arises as a result of accounting adjustments in 2016-17. The Commission agreed to the Spring Budget Revision.

I am happy to discuss any of the above or your Clerk may wish to discuss with the Secretary to the SCPA.

I am copying this letter to the Auditor General for Scotland for her information.

Yours sincerely

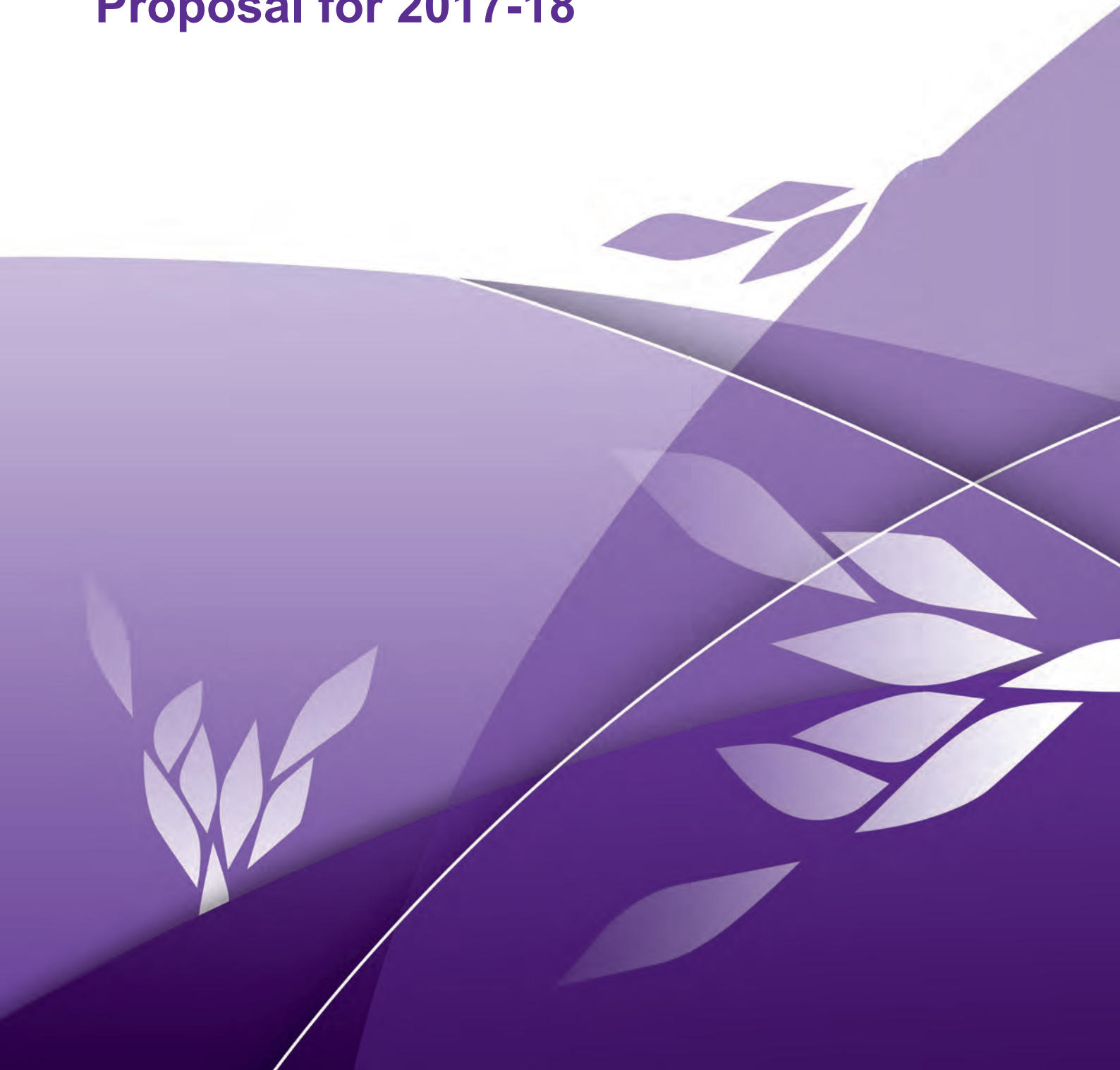
A handwritten signature in black ink, appearing to read 'Colin Beattie', with a large, stylized initial 'C' and 'B'.

COLIN BEATTIE MSP

Chair, Scottish Commission for Public Audit

Scottish Commission for Public Audit

Audit Scotland's Budget Proposal for 2017-18



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Contents

Introduction	1
Budget Proposal and Fees Strategy	2
Overview	2
Resource Expenditure: new areas of work	3
Quality of Audit work	4
Efficiency Savings	5
Business restructuring	6
Information Technology	7
Income and Fee Strategy	7
Conclusion	10
Annexe A	12
Extracts from the minutes of the Scottish Commission for Public Audit and associated written and supplementary evidence	12
Written evidence	12

Scottish Commission for Public Audit

The Scottish Commission for Public Audit is not formally a parliamentary committee. The Commission was established under Section 12 of the Public Finance and Accountability (Scotland) Act 2000 and is made up of 5 MSPs.

The main areas of responsibility of the Commission are to:

- a. examine Audit Scotland's proposals for the use of resources and expenditure and report on them to the Parliament;
- b. Audit Scotland;
- c. lay before the Parliament and publish a copy of Audit Scotland's accounts and the auditor's report on them;
- d. Audit Scotland on such terms and conditions as
the SCPA determines;
- e. appoint one of these three members to preside at meetings of Audit Scotland.



<http://www.parliament.scot/parliamentarybusiness/101154.aspx>



scpa@parliament.scot



0131 348 5205

Commission Membership



Chair
Colin Beattie
Scottish National Party



Deputy Chair
John Lamont
Scottish Conservative
and Unionist Party



Alison Johnstone
Scottish Green Party



Rona Mackay
Scottish National Party



Jenny Marra
Scottish Labour

Introduction

1. Section 11(9) of the Public Finance and Accountability (Scotland) Act 2000 requires that Audit Scotland prepares proposals for its use of resources and expenditure and sends these proposals to the Scottish Commission for Public Audit (~~the~~ Commission"). The Commission then examines the proposals and reports to Parliament on them.
2. As Audit Scotland's budget forms part of the total Scottish budget, the Commission particularly directs this report to the Finance and Constitution Committee in order to assist that Committee in its wider scrutiny of the Draft Budget for 2017-18.
3. Audit Scotland submitted its budget proposal for 2017-18 and associated fee strategy on 7 December 2016 in recognition of the timescale for scrutiny of the 2017-18 Scottish budget. The Commission took oral evidence on the budget proposal and fee strategy at its meeting on 21 December 2016. Specifically, the Commission took evidence from Ian Leitch, Chair of the Board of Audit Scotland; Caroline Gardner, Auditor General for Scotland; Russell Frith, Assistant Auditor General and Diane McGiffen, Chief Operating Officer for Audit Scotland.

Budget Proposal and Fees Strategy

Overview

4. Audit Scotland's budget proposal for 2017-18 is £6,531K which represents an overall cash reduction of £51K (-0.8%) on the approved 2016-17 budget. The Audit Scotland budget proposal was accompanied by a fee strategy which recommends that the funding of NHS performance audit work should come entirely from the Scottish Consolidated Fund (SCF). At present, 60% of this work is funded from the SCF and 40% by NHS boards. The fee strategy is considered later in this report. Excluding this proposed additional cost to the SCF and the cost of the biennial National Fraud Initiative (NFI) which was funded in 2016-17, Audit Scotland state that—

” the revenue support sought in 2017-18 on a comparable basis has been reduced by 5.4%. In real terms (2016-17 prices) this represents a 7.0% reduction”¹.

5. The gross administrative costs proposals for 2017-18 are £1,060K which represents a 4.3% reduction, in cash terms, on the 2016-17 budget. Within this total, staffing costs are proposed to be £122K higher, or 0.8%, than the 2016-17 budget. Audit Scotland primarily attribute this increase as being due to an assumed pay increase for staff of 2%.
6. The increase in staffing costs is offset by other administrative costs being £1,182K, or 12.4%, lower than the 2016-17 budget. This reduction is a consequence of a procurement exercise to appoint external firms to carry out audit for the next five years. This has resulted in the fees and expenses being paid to external audit firms being £1,060K lower than the 2016-17 budget. The Auditor General summarised the budget proposal in the following terms—

” —The proposal will deliver an average real-terms reduction in audit fees of 8.6 per cent for the 2016-17 audit year, which has just started; a 2.6 per cent real terms reduction in the revenue resource requirement sought from the Scottish consolidated fund; simplified funding arrangements for the NHS performance audit;... a reduction in our gross administrative costs of just over £1 million or 6 per cent of our expenditure budget for the year; and greater transparency in our funding arrangements”².

7. Audit Scotland's budget proposal highlights new areas of audit work, arising from legislative change, which will impact on the work of Audit Scotland in 2017-18. This includes audit of 30 Integrated Joint Boards (IJB) created under Public Bodies (Joint Working) (Scotland) Act 2014; audit work in relation to Revenue Scotland as new tax powers come into force; and, work in relation to the financial aspects of the Scotland Act 2016. In addition, Audit Scotland emphasised that the budget proposal had been prepared in the context of a number of uncertainties.

These uncertainties include the scale of work required as a consequence of the Scotland Act 2016 and the impact of the recent European referendum result. The Auditor General commented on these uncertainties in the following terms—

” —The budget proposal was prepared in the context of some uncertainty, in particular, the amount of work that will be required as a result of the full implementation of the Scotland Act 2016 and, of course, any further devolution of powers as a result of the impact of the referendum on the European Union. The proposal in front of you is based on our known workload. As our audit responsibilities change in the light of those developments, we will obviously discuss further the resource requirements with the commission”³.

8. The Commission welcomes the work that Audit Scotland has undertaken to achieve efficiency savings and recognises the commitment of Audit Scotland to obtaining value for money whilst safeguarding the quality of audit. The Commission notes the uncertainties highlighted by Audit Scotland which provide a wider context to the budget proposal and looks forward to discussing these issues with Audit Scotland in due course.

Resource Expenditure: new areas of work

9. The Commission sought clarification with regard to the areas of new work and the uncertainties highlighted by Audit Scotland in their budget proposal with the witnesses from Audit Scotland. In response to questioning with regard to the audit arrangements for IJBs the Auditor General stated—

” —All the funds spent by the joint boards will come from local authorities or the NHS. At the moment, we think that spend is about £8 billion a year, which is a significant amount of public money. It is an area where the strengths of the public audit model are apparent. The Accounts Commission appoints the auditors to the bodies and can report on problems that occur in the individual bodies. However, because of the significant amount of NHS funding that comes through them, I will also have oversight and can report back to the Public Audit and Post-legislative Scrutiny Committee”⁴.

10. With regard to constitutional change, the budget proposal notes that the 2016-17 budget included £100K under workforce to provide support for the assessment of any additional work arising from the new financial powers. The budget proposal states that this resource will continue to be required in the 2017-18 budget and in projections for the following two years to take account of constitutional change arising from the Scotland Act 2016 and the European referendum result. The Commission queried how the additional resource in this area would be utilised. The Auditor General commented on this issue that—

” —The £100,000 pays for an assistant director who we have tasked with leading our thinking in the area. The money accounts for the full cost of the post and for his and his team's development. It is to ensure that we are thinking through the audit implications, managing them well, building up our expertise and coming to you with a credible plan for the resources that we need for the longer term as that thinking develops. Since June, we have asked the assistant director to take on responsibility for the implications of the EU referendum. We do not know what that will mean for Scottish public finances – that is, what funding will be devolved to Scotland and what audit arrangements will be needed. We will do that in a joined-up way”⁵.

11. The Commission understands the need for forward planning to deal with constitutional change. However, the Commission wishes to receive further information on the £100K being utilised in this area. Specifically, the Commission seeks clarification as to whether the assistant director is required to undertake his previous responsibilities or whether these have been reallocated.

Quality of Audit work

12. As noted above, Audit Scotland's other administrative costs budget is forecast to decrease by 12.4% which is largely a result of a procurement exercise to appoint external firms to carry out audit work which has resulted in the fees and expenses being paid to these external firms being budgeted to be £1,060K lower the fees and expenses budget for such work in the 2016-17 budget. The Commission raised concerns that whilst such significant savings are welcome this could result in a risk of poorer quality audit work being undertaken. The Audit Scotland budget proposal notes that a review of Audit Scotland's quality arrangements is currently underway and that the budget proposal for 2017-18, and projected for two further years, of £100K to support an enhanced quality regime.

13. The Chair of the Audit Scotland board responded to the concerns raised by the Commission by observing that—

” —The board probed that question, because it is a matter of concern. ... we are satisfied that, by enhancing our quality regime and putting in additional resource, we can check to ensure that the competitive fees that we got in the procurement round will not result in a poorer audit service. We are bolstering that so we can do more checks on that work”⁶.

14. The Assistant Auditor General elaborated further on this issue as follows—

” —Our quality expectations were made clear to the firms before the tender round. We are investing in enhanced audit quality arrangements to ensure that we can continue to give assurance to the Auditor General, the Accounts Commission and indeed the Scottish Commission for Public Audit

about maintaining and improving the quality of audit. It is absolutely right that we see the discounts that were offered as potentially posing a risk to audit quality. We are aware of that and we plan to ensure that does not happen”⁷.

15. The Commission sought reassurance that the quality regime would also be applied to the in-house audit work carried out by Audit Scotland. The Auditor General responded—

” —That’s one of the things that I am keen for us to do. At the moment, we have different information about the in-house teams and the firms, and there should be a level playing field. We are also looking at how we assure the quality of the performance audit work, which is what the Public Audit and Post-legislative Scrutiny Committee sees most directly. All of that will be on a common basis”⁸.

16. Lastly, the Chair of the Commission also raised concerns in this area, particularly with regard to the work of internal and external auditors in relation to Coatbridge College, Edinburgh College and NHS Tayside. The Auditor General responded to the concerns raised by stating—

” —We have quality arrangements in place and I am satisfied that the auditors that we appoint are all meeting the requirements that we place on them. That is clearly not quite the same thing as the impression that you take from them when they appear before you as witnesses. There may be more that we can do to support them to perform as well as they can in that setting”⁹.

17. The Commission notes the reassurances provided by Audit Scotland but continues to have significant concerns about the impact of a reduction in fees upon the quality of audit work which has been heightened by experience of recent audit work in relation to the three examples cited above. Accordingly, the Commission seeks further detail in relation to what measures Audit Scotland is putting in place to ensure quality including how the £100K budget for this purpose will be allocated. The Commission gives notice that this is an issue which it intends to take further evidence on.

Efficiency Savings

18. The budget proposal highlights three areas of efficiency savings and cost reductions which result in a reduction of 6.5% in gross expenditure as compared to the 2016-17 budget. This reduction accrues from three areas. Firstly, a reduction in staffing costs of £542K. Staffing costs account for 64% of Audit Scotland’s proposed expenditure in 2017-18. A combination of a Voluntary Early Release Arrangements programme implemented in 2016-17, a restructuring of administrative services (considered below) and a reassessment of workforce

requirements within financial and performance audit teams is anticipated to reduce costs by £542K. Secondly, an audit procurement exercise (discussed above) is expected to realise a reduction in fees paid to external firms of £864K. Lastly, a further outcome from the audit procurement exercise is that the volume of audit work allocated in-house has increased. This work will be accommodated without additional resource which is expected to result in an efficiency saving of £196K. This results in total efficiency savings of £1,602K.

19. The Commission questioned how in-house audit teams could undertake work previously carried out by external firms without any additional resource being required. The Auditor General commented—

” —An additional £196,000 worth of work that we had expected to go to the firms went to the in-house teams, without any increase in those teams' resources to take it on. We are confident that they can cover through smarter working, the use of technology, which we talked about, and the investments that we are making in one organisation working. In effect, we are generating an extra £196,000 worth of efficiencies as a result of the fine tuning of the audit appointments at the end of the process compared with what we expected at the start of it”¹⁰.

Business restructuring

20. The 2017-18 Audit Scotland budget includes proposals to restructure administrative support arrangements in order to deliver longer term savings. A budget of £100K has been allocated to fund the transition to a new structure. The Commission sought further information on the rationale for this process and reassurance that genuine efficiency savings will be realised and not result in administrative tasks being passed to other members of Audit Scotland staff. The Auditor General summarised the context for the restructuring exercise as follows—

” —The background is the move that we made in 2015 from two offices in Edinburgh to a single office. We previously had two offices, each of which was on five floors and had lots of different rooms, but we now have one office that is all on a single footprint, with much more efficient ways of working and better use of technology. Together with the ways in which we are changing our staffing and how people work more widely in Audit Scotland, that means that we need quite different administrative support from what we needed previously.

Against the backdrop of a policy of no compulsory redundancies, we have designed the structure that we think that we need to support our business, which has involved going through a process of supporting our existing staff to apply for roles in the new structure. We are looking for the provision in the 2017-18 budget that you mentioned to enable us to redeploy the staff who were not matched into jobs in the new structure”¹¹.

21. With regard to ensuring that genuine efficiencies would be generated from the restructuring exercise, Diane McGiffen, Chief Operating Officer, stated—

” —We continually look to maximise efficiency, and it would not be efficient for us to displace work so that it went to our audit teams – those teams would be the first people to tell us that. We are seeking the opportunity to have projects and support that add greater value to audit teams in delivering their work. However, what that looks like has changed significantly since the teams were established and it is time for us to resolve that”¹².

Information Technology

22. The 2017-18 budget proposal seeks an increase in expenditure on information technology from £367K in 2016-17 to £436K in 2017-18. Audit Scotland's entire proposed capital budget of £200K for 2017-18 is allocated for expenditure on information technology. The Commission queried the increase in expenditure in this area. Audit Scotland responded in the following terms—

” —The resilience and reliability of our IT are critical to the business. The more our colleagues who carry out auditing in public bodies travel around and work across Scotland, the greater is the resilience that we need in the IT service to keep them able to work and to access secure networks and so on. Much of the additional cost that is shown in appendix 1 relates to on-going improvements to resilience and security.

This year, we achieved a lot in achieving our ISO accreditation, to ensure that we hold data in a very secure way, and we were pleased to get that. We are continuing to invest in equipment that enables our teams to work from anywhere and at any time. The investment is the on-going investment in IT resilience and security”¹³.

Income and Fee Strategy

23. The Audit Scotland budget proposal is accompanied by a fee strategy which supports the budget proposal. Audit Scotland is responsible for setting audit fees which accounts for around 75% of the organisation's total income. Audit Scotland conducted a review of funding and fee setting arrangements in 2016. As part of the review process, Audit Scotland consulted with audited bodies and other stakeholders. The fees strategy document summarised the outcomes of this consultation as being that respondents—

” —Agreed that audit fees should be set with the objective of recovering the full cost of audit in each sector;

Supported the principle that an audited body should pay the same fee irrespective of who is appointed to deliver the audit;

Agreed that some costs therefore be pooled across each sector”¹⁴.

24. The principal change proposed in the fee strategy is that whilst the consultation found that the arrangements for most of Audit Scotland's work were appropriate and well understood, respondents to the consultation considered that —here was scope to reconsider the funding of NHS performance audit work"¹⁵. At present, NHS performance work is funded 60% from the SCF and 40% by NHS boards. This funding structure differs from all the other sectors within the remit of the Auditor General where all performance audit costs are funded from the SCF. The Auditor General observed that the background to the funding arrangements for NHS performance audit work dated back to the establishment of Audit Scotland. The Auditor General commented—

” —At that time, all the performance audit for local government and the NHS was funded through audit fees within the Accounts Commission regime. When Audit Scotland was formed, it became clear that the local government regime would continue at arm's length but that the performance audit in the NHS would have a benefit to the Parliament as well as to the NHS boards. Therefore, the decision was taken at the point that it made sense to share the costs between them, and 60:40 was an estimate of where the benefits might lie.

Our experience of carrying out the fee review over the past year or so has been that it is now an outlier – it is the only area where the costs are split between the Scottish consolidated fund and audit fees – that is inconsistent with the way in which all the other audit performance work that is carried out for the Parliament is done. It is difficult to explain to people and means that the fees in different sectors move at different rates for reasons that have very little to do with the work that is done for individual bodies.

It seems to us that, if the commission is happy to support it, what is proposed would be quite a straightforward way of simplifying the funding and fee arrangements, making them more transparent and making it clear that performance audit is one of the key parts of the support that we provide to the Parliament in overseeing the use of public money.

The short answer to your question is that it happened a long way back in the mists of time"¹⁶.

25. The Chair of the Commission recognised that the impact to Audit Scotland of the proposed change to the treatment of NHS performance audit work would be cost neutral. However, the Chair questioned whether such a change would result in an increase in the NHS budget, and thereby to the SCF, and therefore would not be something that the Commission would be competent to agree to if it resulted in an increase to the SCF. The cost to the SCF would be in the region of £495K. The Auditor General responded that—

” —I think that it would actually mark a very small – miniscule in the scheme of things – saving to NHS budgets. I do not imagine that the Scottish

Government would want to reallocate the funding away from the NHS. It is one of the things that contribute to the reduction in the audit fees that you will see in the audit proposal for that sector”¹⁷.

26. In later written correspondence on this issue, Audit Scotland stated—

” —~~We~~ discussed the principle of requesting parliamentary funding for NHS performance audit work with Scottish Government Health Directorate staff when consulting on the fee strategy, and no concerns were raised.

If the SCPA approves this transfer, the effect would be a reduction of £495,000 in NHS audit fees. We consider it would be a matter for the Scottish Government to determine if any adjustment needed to be made to the allocation to health boards in the context of a total health budget of more than £13bn for 2017-18”¹⁸.

27. The fee strategy seeks to achieve the objective of recovering the full cost of audit within each sector. The Commission queried whether, in addition to full cost recovery within sectors, plans were in place to ensure individual bodies are only billed for the actual audit service they receive. The Auditor General commented on this issue in the following terms—

” —~~We~~ are not looking to recover the cost at the level of the individual body each year. We have focused on doing that at sector level, matched with greater transparency for individual audited bodies about what they are paying for. Bodies can see the breakdown in the fee strategy, where there will be four lines showing the direct cost of audit, the pooled costs, performance audit and the overhead costs for which they are making a contribution. Bodies get much more transparency. The sector will balance overall and individual fees will move across the life of the audit appointment, depending on our experience of doing that audit”¹⁹.

28. The Commission approves the fee strategy including the change to the funding of NHS performance audit work.

29. The Commission encourages Audit Scotland to give further consideration as to how there could be a closer alignment between the fees charged to individual audited bodies and the cost of the actual audit service they receive.

Conclusion

30. The Commission recommends that Audit Scotland's budget proposal for 2017-18, including the request for a total resource requirement of £6,513K, is approved.

¹ [Audit Scotland Budget Proposal 2017-18](#), p.6

² Scottish Commission for Public Audit. [Official Report](#), 21 December 2016, Col.4

³ [Ibid](#)

⁴ Scottish Commission for Public Audit. [Official Report](#), 21 December 2016, Col.5

⁵ Scottish Commission for Public Audit. [Official Report](#), 21 December 2016, Col.6

⁶ Scottish Commission for Public Audit. [Official Report](#), 21 December 2016, Col.8

⁷ [Ibid](#)

⁸ Scottish Commission for Public Audit. [Official Report](#), 21 December 2016, Col.10

⁹ [Ibid](#)

¹⁰ Scottish Commission for Public Audit. [Official Report](#), 21 December 2016, Col.14

¹¹ Scottish Commission for Public Audit. [Official Report](#), 21 December 2016, Col.12

¹² Scottish Commission for Public Audit. [Official Report](#), 21 December 2016, Col.13

¹³ Scottish Commission for Public Audit. [Official Report](#), 21 December 2016, Col.15

¹⁴ [Audit Scotland Fees Strategy](#) , p.8.

¹⁵ [Ibid](#), p.8

¹⁶ Scottish Commission for Public Audit. [Official Report](#), 21 December 2016, Cols.17 - 18

¹⁷ Scottish Commission for Public Audit. [Official Report](#), 21 December 2016, Col.16

¹⁸ E-mail correspondence from Audit Scotland to the Secretary to the Commission, 21/12/16.

¹⁹ Scottish Commission for Public Audit. [Official Report](#), 21 December 2016, Col.20

Annexe A

Extracts from the minutes of the Scottish Commission for Public Audit and associated written and supplementary evidence

2nd Meeting, 2016 (Session 5) Wednesday 21 December 2016

2. **Audit Scotland's Budget Proposal for 2017-18 and Fees Strategy:** The Commission took evidence from—

Ian Leitch, Chair of the Board, Audit Scotland; Caroline Gardner, Auditor General for Scotland; Russell Frith, Assistant Auditor General, and Diane McGiffen, Chief Operating Officer, Audit Scotland.

The Commission agreed to write to the Finance Committee with its views on Audit Scotland's budget proposal.

Written evidence

[Audit Scotland budget proposal 2017-18](#)

[Audit Scotland Fees Strategy](#)



AUDIT SCOTLAND BOARD

20 JANUARY 2017

REPORT BY THE CHIEF OPERATING OFFICER

PROPOSED BOARD MEETING DATES 2017

1. Purpose

This report is to seek the Board's approval for the proposed schedule of meeting dates for 2017. The proposed dates have been scheduled taking account of the Board's request to hold committee meetings on a different date to the Board, scheduled meetings of the Accounts Commission and known parliamentary commitments throughout the year.

The suggested meeting dates for 2017 are listed below.

Audit Committee	Remco	Board
		20 January 2017*
1 February 2017		22 February 2017
	15 March 2017	31 March 2017
17 May 2017	17 May 2017	3 May 2017
7 June 2017 (AR&Accs)		7 June 2017 (AR&Accs)
		23 August 2017
13 September 2017	13 September 2017	27 September 2017
		25 October 2017
15 November 2017	15 November 2017	29 November 2017

* Rescheduled from 1 December 2016

2. Recommendation

The Board is invited to approve the above meetings dates.

AUDIT SCOTLAND BOARD

20 JANUARY 2017

REPORT BY THE ASSISTANT DIRECTOR – CORPORATE PERFORMANCE AND RISK REVIEW OF OPENNESS AND TRANSPARENCY

1. Purpose of Report

The Board is invited review the current arrangements on openness and transparency.

2. Background

At its meeting on 24 March 2016 the Board agreed that board papers would be published alongside meeting agendas and minutes to improve openness and transparency.

The Board also agreed the criteria for instances where board papers would not be published. These were based around the Freedom of Information exemption categories; the summary guidance is attached as appendix 1.

The Board also agreed that it would review the arrangements after six months and the arrangements have now been in place with effect from the May 2016 meeting.

Over the course of the five Board meetings from May 2016 eight of the 48 papers have not been published. Six of these were working papers/draft documents, including reports on the budget and fees strategy and a draft of the Corporate Plan, documents which have since been published. The remaining two papers contained personal information covered by the data protection legislation.

2. Options and considerations

The Board may wish to consider further changes to the arrangements around openness and transparency.

Publication of committee papers

Committee agendas and minutes are already published on the website; the Board may now also wish to consider the publication of committee papers.

Should the same criteria around publishing/not publishing papers were to be applied as for the Board it would appear that the vast majority of Audit Committee papers would be published. This would include the internal audit reports, risk reports and data incident reports.

In the case of the Human Resources and Remuneration Committee an initial review indicates that approximately 75 per cent of papers would most likely not be published. This would be on the basis that a number of papers are drafts/working papers which would subsequently be published and/or be approved by the Board in final form (as above). Some papers would also most likely not be published as they contain

personal information, though some of the information would subsequently be disclosed in the Annual Report and Accounts.

Meeting in public

The Board may wish to consider whether it wishes to meet in public and also whether its committees may also meet in public.

3. Next steps

Subject to the Board decisions an implementation plan will be developed to put in place the necessary supporting processes. For example, if the Board and its committees were to meet in public these might include:

- arrangements to identify items likely to be taken in private
- additional information on the website on attending meetings
- publication of agendas and papers on the website in advance of meetings.

4. Recommendation

The Audit Scotland Board is invited to:

- review the publication of papers to date
- consider the publication of committee papers
- consider whether board and committee meetings should be held in public.

Summary guidance on publication of Board papers

1. In February 2016 the Audit Scotland Board agreed that board papers should be published on the Audit Scotland website alongside the agenda and minutes of the meetings. The Board agreed additional guidance on this at its meeting on 24 March 2016.
2. This guidance offers advice on determining which papers are appropriate for publication.
3. The presumption is that Board papers will be public unless they contain information which falls into one of the following categories:
 - Statutory/ security/ legal: including
 - Personal information
 - Danger to health and safety
 - Danger to security
 - Prohibitions on disclosure
 - Legally privileged information
 - Information provided in confidence
 - Commercial sensitivity
 - Effective conduct of business: including:
 - Prejudicing the free and frank provision of advice/ exchange of views for the purposes of deliberation/ conduct of public affairs
 - Information intended for future publication
4. Even in these circumstances papers may be published subject to specific redactions from the text.
5. The detailed guidance is available [here](#).

Agenda

Wednesday 22 February 2017, 10.15am

Audit Scotland offices, 102 West Port, Edinburgh EH3 9DN

1. Private meeting
2. Welcome and apologies
3. Declarations of interest

Standing items

4. Chair's report – verbal update
5. Accountable Officer's report – verbal update
6. Accounts Commission Chair's report – verbal update
7. Review of minutes: For approval
 - Board meeting, 20 January 2017
 - Remco meeting, 9 December 2016
 - Audit Committee meeting, 9 December 2016
8. Review of actions tracker For information

Strategy and planning

9. Public Audit and Post Legislative Scrutiny Committee Review of NFI – verbal update For information
10. Reviewing the External Operating Environment and Priorities 2017 For discussion

Conclusion

11. Publication of reports
12. Any other business
13. Review of meeting
14. Date of next meeting

Wednesday 22 February 2017, 10.00am

Audit Scotland offices, 102 West Port, Edinburgh EH3 9DN

Present:

I Leitch (Chair)
C Gardner
H Logan
R Griggs

Apologies:

D Sinclair

In attendance:

D McGiffen, Chief Operating Officer
R Frith, Assistant Auditor General
M Walker, Assistant Director, Corporate Performance and Risk
J Webber, Senior Executive Assistant

1. Private meeting

A private meeting was held by the Chair and Board members, prior to the start of the Board meeting. There were no issues raised in addition to those items on the agenda, which had been previously circulated.

2. Welcome and apologies

The Chair advised apologies had been received from Douglas Sinclair because of illness and the members expressed their best wishes to Douglas.

The Chair confirmed that, as set out in the note circulated on 13 January 2017, the meeting was competent to discuss and decide business despite the unavoidable absence of the Chairman of the Accounts Commission.

3. Declarations of interest

Heather Logan advised she had attended her last meeting as a member of the Audit and Advisory Committee of the Scottish Public Services Ombudsman (SPSO) yesterday, Tuesday 21 February 2017.

Russel Griggs advised of his recent appointment by the First Minister to chair a group to review the farm subsidy system and that he was meeting with the audit team to discuss any potential conflicts of interest.

4. Chair's report

Ian Leitch advised that since the previous Board meeting he had held regular meetings with Caroline Gardner, Auditor General for Scotland and Diane McGiffen, Chief Operating Officer to discuss various business matters of interest, and advised that a report on the Board's Standing

Orders would be scheduled for discussion at an early Board meeting, subject to further discussion with the Chair of the Accounts Commission.

The members welcomed the update.

5. Accountable Officer's report

Caroline Gardner provided a verbal update on her activity since the previous meeting. She advised of ongoing activity in relation to the Public Audit and Post Legislative Scrutiny Committee, meetings of the Scottish Parliament's Budget review and of meetings with MSPs and the Cabinet Secretary for Health. She also advised of positive responses to the recent briefing on the NHS workforce and of the forthcoming publications of a report on I6, the Scottish Police Authority's IT system and on potential section 22 reports.

Caroline also advised the Board that Audit Scotland's West Port office was being considered to receive an award from British Council for Offices. She also invited the Board to note the achievement of Sobhan Afzal in achieving the highest results for the ICAS Advanced Finance TPS exam in December 2015.

The Board welcomed the update and asked that their congratulations to Sobhan Afzal on his achievement be noted in the meeting and an invitation extended to him to join them at a forthcoming board meeting.

6. Accounts Commission Chair's report

In the absence of the Chair, there was no update.

7. Review of minutes

Board meeting, 20 January 2017

The Board considered the note of the meeting on 20 January 2017, which had been previously circulated, and confirmed that, subject to a small correction, these were an accurate record of the meeting.

Action: Joy Webber, Senior Executive Assistant, to make the correction to the minutes of the Board meeting 20 January 2017 and publish the approved minute. February 2017

Remco meeting, 9 December 2016

The Board noted the minutes of the meeting of Remco of 9 December 2016, a copy of which had been previously circulated and which would be considered by Remco at its meeting on 15 March 2017.

Audit Committee meeting, 9 December 2016

The Board noted the minutes of the meeting of the Audit Committee on 9 December 2016, a copy of which had been agreed by Committee members as an accurate record of the meeting at their meeting on 1 February 2017.

8. Review of actions tracker

Diane McGiffen, Chief Operating Officer, provided an update on action ASB25 with a summary of discussions at the meeting of the UK SAI Audit Agencies on 4 November 2016 which largely focused on sharing information on the impact of devolved powers and Brexit on the UK and Irish audit offices. Diane also advised of a meeting with the UK SAI Chief Operating Officers and Assistant Auditor Generals on 24 February 2017 which would provide a further update on these issues and other operational matters.

At item ASB27 members noted the invitation to join the Knowledge Café with Young Scot which would consider how the engagement with young people on the forward work programme had developed with a presentation scheduled to come to the Board on 31 March 2017.

The Board noted the updates.

9. Public Audit and Post Legislative Scrutiny Committee Review of NFI

Russell Frith, Assistant Auditor General, advised the Board that the Public Audit and Post Legislative Scrutiny Committee had decided to conduct its first piece of post legislative scrutiny on Section 97 of the Criminal Justice and Licensing (Scotland) Act 2010, which put the National Fraud Initiative (NFI) on a statutory footing. The Committee intends to consider whether any improvements could be made to the NFI and whether

- the policy intentions of putting the National Fraud Initiative in Scotland on a statutory basis have been realised;
- any further policy or legislative changes are required to improve the effectiveness of the National Fraud Initiative.

Russell outlined early discussion that had taken place within Audit Scotland on the proposed responses to the Committee's request for comment. The Board discussed the current remit of Audit Scotland, building on the discussion at the February 2017 meeting on Audit Scotland's role in the prevention and detection of fraud, the impact of the new devolved powers on social security and the value of National Fraud Initiative.

Following discussion, the Board agreed with the proposal that the response should set out the wider context around the auditor's role, the benefits from data matching as well as taking the opportunity to comment on areas which could be strengthened to prevent fraud and support greater recovery of funds, together with the strengths of Audit Scotland continuing to play a lead role in NFI..

The Board noted the deadline for the call for evidence was 31 March 2017.

Action: Russell Frith to circulate to Board members by correspondence a draft response to the Public Audit and Post Legislative Scrutiny Committee on NFI. March 2017

10. Reviewing the External Operating Environment and Priorities 2017

Martin Walker, Assistant Director, Corporate Performance and Risk introduced the report on Reviewing the External Operating Environment and Priorities 2017, which had been previously circulated.

Diane McGiffen invited Board members to consider the high level themes set out in the report as a basis to inform discussion around the external environment within which Audit Scotland operates, to inform the development of the next corporate plan.

During discussion, members discussed the need to ensure Audit Scotland's preparedness to deliver audit work during a time of significant change, and to explore how to examine public bodies preparedness to manage change. Caroline advised the Board of the continuing focus on creating an agile workforce through the Building a Better Organisation programme, to provide flexibility and fleetness of foot.

The members also considered Audit Scotland's role in supporting the work of the Scottish Parliament, particularly in the context of new financial powers.

The Board recognised the benefit of undertaking thematic reviews for the Auditor General and the Accounts Commission, for example the recent joint work on Health and Social Care and agreed Audit Scotland's ability to audit across sectors and deliver integrated reporting was beneficial.

The Chair welcomed the discussion and Caroline advised that Management Team would consider the points raised to draw out the potential impacts of constitutional change, inter-governmental working on devolved powers and exit from the European Union and that there would be further discussion with the Board in March 2017 to inform the Corporate Plan 2017/18

which will also include key themes and strategic priorities from the Accounts Commission' strategy seminar in March 2017.

The Board welcomed the report and discussion.

11. Publication of reports

The Board approved all reports for publication with the following exception:

- Item 10 Reviewing the External Operating Environment and Priorities 2017 (effective conduct of business - free and frank provision of advice/ exchange of views for the purposes of deliberation/ conduct of public affairs and intention of future publication).

12. Any other business

There was no further business.

13. Review of meeting

The members took the opportunity to reflect on the meeting, valuing the opportunity to input to discussions on the external operating environment.

14. Date of next meeting

It was noted that the next Audit Scotland Board meeting was scheduled for 31 March 2017 in the offices of Audit Scotland, 102 West Port, Edinburgh.

Minutes of meeting of the **Audit Committee** of
Audit Scotland held in the offices of
Audit Scotland, at 102 West Port, Edinburgh on
9 December 2016 at 11:30hrs.

PRESENT: H Logan (Chair)
D Sinclair
R Griggs

APOLOGIES: None

IN ATTENDANCE: I Leitch, Chair of Audit Scotland Board
C Gardner, Auditor General for Scotland/Accountable Officer
D McGiffen, Chief Operating Officer
R Frith, Assistant Auditor General
M Walker, Assistant Director, Corporate Performance and Risk
S Murray, Corporate Accountant
A Devlin, Corporate Governance Manager
C Robertson, BDO LLP Internal Auditors
D Jeffcoat, Alexander Sloan External Auditors

<u>Item No</u>	<u>Subject</u>
1.	Private meeting of Audit Committee members and BDO
2.	Welcome and apologies
3.	Declarations of interest
4.	Minutes of meeting 18 August 2016
5.	Review of actions tracker
6.	Audit Committee terms of reference
7.	Standing Orders annual review
8.	Internal audit progress report 2016/17
9.	Internal audit reports – Value for Money, Recruitment and Induction, Core Financials – Purchasing System
10.	Internal audit recommendations - update
11.	Review of risk register
12.	Risk interrogation – Value for Money
13.	Risk interrogations – 2017 schedule
14.	Q2 Financial performance report 2016/17
15.	Business continuity arrangements – annual review 2016
16.	Review of the external auditor's independence and objectivity
17.	Data incident/loss
18.	Proposed Audit Committee dates for 2017
19.	AOB
20.	Review of meeting
21.	Date of next meeting

1. Private meeting of Audit Committee members and BDO

A private meeting was held with BDO, the internal auditors, prior to the start of the meeting. There were no issues raised for the members' attention.

2. Welcome and apologies

There were no apologies.

3. Declarations of Interest

Heather Logan advised that she is a member of the Scottish Public Services Ombudsman Audit and Advisory Committee and that she will demit that role when her current term ends.

4. Minutes

The Audit Committee members reviewed the minutes of the meeting of 18 August 2016, which had been previously circulated.

The Chair asked for an update on item nine in the minutes on the post tender paper to Management Team for consideration. The Assistant Director, Corporate Performance and Risk agreed to provide an update to the Chair outwith the meeting.

The minutes were approved as an accurate record.

Action(s):

- **The Assistant Director, Corporate Performance and Risk to provide an update to the Chair outwith the meeting on the post tender paper. (December 2016)**

5. Review of Actions Tracker

The Audit Committee reviewed progress made on outstanding actions and the dates for implementation of the actions.

The members asked for and received an update from the Assistant Director, Corporate Performance and Risk on his visit to Visit Scotland to view their Corporate Performance and Risk System. Russel Griggs suggested that Visit Scotland could be invited to Audit Scotland to demonstrate their system to the other members of the Board and to Management Team. It was agreed that this would be taken forward through the Audit Scotland Board or Human Resources and Remuneration Committee.

6. Audit Committee Terms of Reference

The Chair invited comments from members on the report submitted by the Corporate Governance Manager, which had been previously circulated. The report advised that no changes were required to the Audit Committee's Terms of Reference since the last report.

The members noted the report.

7. Standing Orders annual review

The Corporate Governance Manager submitted a report on the annual review of Audit Scotland's Standing Orders, which had been previously circulated.

The Audit Committee noted the report.

8. Internal Audit Progress Report 2016/17

Claire Robertson, BDO introduced the internal audit progress report for 2016/17, which had been previously circulated.

Claire advised the members that since the last report to the committee a further three audits had now been completed, one was in progress and one at the draft report stage; all in line with the 2016/17 audit plan.

The members asked if the terms of reference for the Best Value audit had been finalised; they were informed that it had, having incorporated the suggestions of the members and audit field work was underway.

The Chair of the Accounts Commission commented that the style of the report was very clear and helpful.

The Audit Committee welcomed the assurance that the 2016/17 audit plan was on schedule and noted the report.

9. Internal Audit Report – Business Performance Management

Claire Robertson, BDO introduced the internal audit reports that had been completed since the last Audit Committee, which had been previously circulated.

Value for Money

Claire advised the members that substantial assurance had been achieved and that there was only one recommendation made for further improvement. The Chief Operating Office welcomed the report and informed the members that the Leadership Group had recently discussed value for money and that the recommendation would help us going forward.

The Chair invited comments and questions from the members in relation to the audit report. Russel Griggs raised the issue of value for money being related to, but also distinct from efficiencies and savings. The Assistant Director, Corporate Performance and Risk explained that this issue was covered more fully as part of the value for money risk interrogation being considered later in the meeting at item 12.

The Audit Committee noted the report.

Recruitment and Induction

Claire advised the members that substantial assurance had been achieved and that there were two recommendations and one observation made for further improvement. Claire also informed the members that the Human Resources team had been given additional information on current recruitment practices from BDO's knowledge bank.

The Chair invited comments and questions from the members in relation to the audit report. Russel Griggs queried whether the assurance level was correct given the importance of gaining candidate feedback for improving the recruitment process as detailed in one of the recommendations. Claire advised the member that feedback is important but it was not a substantive risk in Audit Scotland's processes and therefore

the Audit Committee members could take comfort that the substantial level of assurance was correct.

The members also queried the extent of the feedback sought from a range of external candidates. The Chief Operating Officer agreed to discuss this with the Human Resources team and report back.

The members noted the report.

Action(s):

- **The Chief Operating Officer to report back to the members on the extent of the feedback sought from external candidates. (February 2017)**

Core Financials – Purchasing System

Claire advised the members that substantial assurance had been achieved and that there was only one recommendation made for further improvement.

The Audit Committee noted the report

10. Internal Audit Recommendations – Update

The Corporate Governance Manager submitted a report on the implementation of internal audit recommendations, which had been previously circulated. The Assistant Director, Corporate Performance and Risk informed the members that the remaining PABV programme development recommendation on page three of the report was now also complete.

The Chair invited questions from the members on the report. Russel Griggs asked if the business performance management recommendation that was due to be implemented by 31 December was going to be completed on schedule. The Assistant Director, Corporate Performance and Risk advised that this action would be delayed to early 2017 due to competing priorities and pressure on resources. The Chair queried if the problem with progress was down to the development of new performance objectives or the software development. The members were informed that it was a small team that was developing both performance measures and software tool and that external consultancy support was being considered to move it forward. The Chief Operating Officer informed the members and that an update would be provided on progress early in 2017 to coincide with the refresh of the Corporate Plan in April 2017. It was agreed that this would be considered by the Board and the VisitScotland methodology mentioned earlier at item 5 would be incorporated within that update.

The Audit Committee noted the report.

Action(s):

The Assistant Director, Corporate Performance and Risk to report back on progress on implementation of the business performance management recommendation. (February 2017)

11. Review of Risk Register

There was submitted a report by the Assistant Director, Corporate Performance and Risk, on the review of Audit Scotland's risk register, which had been previously circulated.

The Chair invited comments on the report from the members. Russel Griggs queried if 2018 for achieving the target risk score of six for Failure of Capacity could be done more

quickly and whether there should be interim dates for reducing the score and tracking progress. The Assistant Director, Corporate Performance and Risk informed the members that he expected the risk score to reduce over the next two years as elements of the improvement programme progressed and that progress was reported quarterly in the Becoming World Class update reports.

The Chair of the Accounts Commission queried whether the wording of the risk – Failure of Capacity also covered skills and capability as Audit Scotland could have numeric capacity but not the right skills and experience in some areas. The Assistant Director, Corporate Performance and Risk agreed to review the wording of the risk to ensure that both aspects were captured.

The Chair of the Audit Committee, referring to the target scores in appendix one in the report, highlighted the interdependences between a number of the risks. The Assistant Director, Corporate Performance and Risk agreed and noted that interdependencies were highlighted in the risk interrogations and that some of the previous and proposed interrogations considered more than one risk.

The Audit Committee noted the report.

Action(s):

- **The Assistant Director, Corporate Performance and Risk to review the wording of risk 13 Failure of Capacity to ensure that both aspects of capacity and capability are covered. (February 2017)**

12. Risk Interrogation – Value for Money

There was submitted a report by the Assistant Director, Corporate Performance and Risk, on the risk interrogation of risk 12 - Failure to achieve value for money, which had been previously circulated.

The Chair invited comments and questions from the members in relation to the report.

The members were satisfied with the report and noted it.

13. Risk Interrogations – 2017 schedule

There was submitted a report by the Assistant Director, Corporate Performance and Risk, on the proposed schedule of risk interrogations for 2017, which had been previously circulated.

The Chair requested that the proposed risk interrogation for May on the Failure to assess the impact of and respond to the EU referendum result be substituted with the Failure of Reputation. The committee noted that the Board would receive frequent update reports on the impact of EU departure negotiations and the new financial powers and fiscal framework and could ensure risk management was in place during those discussions.

The Chair reflected on the fact that risk management had to be considered a live and evolving responsibility and that perhaps, given the extent of interlinked risks now at play, the pattern of interrogations needed to be developed in a different way. She noted that the proposed schedule included addressing linked risks and encouraged the Management Team to consider developing the risk reporting in a way which best assisted them in successfully meeting the Corporate plan objectives.

The Audit Committee approved the 2017 schedule of risk interrogation subject the above amendment.

Action(s):

- **The Assistant Director, Corporate Performance and Risk to amend the May risk interrogation to Failure of Reputation. (February 2017)**

14. Q2 Financial Performance Report 2016/17

Steve Murray, Corporate Accountant joined the meeting.

There was submitted a report by the Corporate Finance Manager on Audit Scotland's Q2 Financial Performance, which had been previously circulated.

The Chair informed the members that she had raised a number of questions and had received answers on the report outwith the meeting and that all members had been copied into the correspondence. The Chair invited comments and questions on the report.

The Chair of the Board requested clarification on the fee income, which was higher than budget and whether previous years' budget forecasting could help ensure that income and budget remained aligned. The Corporate Accountant, the Auditor General and the Assistant Auditor General provided an explanation on the reason for the variances which included the earlier than phased completion of 2015/16 audits by firms and the agreement of fees above budgeted levels. The Audit Committee were advised that the increased income was offset by payments to firms for the work leaving a net positive variance of £42,000 against budget.

The Chair of the Audit Committee asked whether, given the new audit appointments were now in place, the report could show payments to individual firms against the schedule of charges. The Chief Operating Officer suggested that the finance team consider how the information need might be met.

A discussion also took place on the contingency amount in the budget forecast and the cost of secretarial support.

After discussion the Audit Committee noted the report.

Action(s):

- **The Corporate Finance Manager to consider how a comparison between scheduled payments and charges at firm level be shared. (February 2017)**

Steve Murray, Corporate Accountant left the meeting.

15. Business Continuity Arrangements – Annual Review 2016

The Corporate Governance Manager submitted a report on the review of Audit Scotland's business continuity arrangements, which had been previously circulated.

The Audit Committee noted the review.

16. Review of the External Auditor's Independence and Objectivity

The Chief Operating Officer submitted a report on the review of the external auditor's independence, objectivity and value for money, which had been previously circulated.

The Chair of the Audit Committee invited comments from the members on the report.

The Audit Committee members noted the review.

17. Data incident/loss

The Corporate Governance Manager submitted a report on data incidents, which had been previously circulated.

There were no comments on the report and it was noted.

18. Proposed Audit Committee Dates for 2017

The Chief Operating Officer submitted a report on Audit Committee meeting dates for 2017, which had been previously circulated. The Audit Committee members were invited to approve the 2017 meeting dates.

The Audit Committee approved their meeting dates for 2017.

19. Any Other Business

There was no other business.

20. Review of Meeting

The Chair of the Audit Committee invited members to comment on the standard of the papers submitted to them and on the meeting itself.

There were no issues raised.

21. Date of Next Meeting

The next meeting will be held at 10.00am on **1 February 2017** in the offices of Audit Scotland, 102 West Port, Edinburgh.

Ref	FORUM	Agenda Item No	Item Title	Action Description	Meeting Date	Due Date	Responsible	Assigned to	Complete/Ongoing	Reported Yes/No	Progress Notes
	Board	8	Spring Budget Revision	Scottish Commission for Public Audit for a £1,716k Spring	20/11/2014	30/11/2014	Diane McGiffen	David Hanson	Complete		Complete
											This item was considered at the Board meeting on 20/01/2017, with a report scheduled for the Audit Committee at its meeting on 17 May 2017.
	Board	13	Openness and Transparency: Publication of Board Papers	The Chief Operating Officer to schedule a future agenda item to review the arrangements.	24/03/2016	01/12/2016	Diane McGiffen	Diane McGiffen	Complete	No	
ASB13	Board	10	Q1 Corporate Performance Report	The Assistant Auditor General to prepare a report for a future Board meeting on the levels of reporting and roles on fraud.	18/08/2016	01/12/2016	Russell Frith	Russell Frith	Complete	Yes	This report was considered at item 12 of the Board meeting 20/01/17. The report has been updated, published on ishare and shared with the firms on all 06/02/2017.
ASB16	Board	15	Corporate Governance Policies and Code of Conduct Review	The Corporate Governance Manager to review the Financial Regulations, Scheme of Delegation and staff Code of Conduct annually and report to the Board.	18/08/2016	23/08/2017	Alex Devlin	Alex Devlin	Ongoing		Standing Orders reviewed 27/10/16. The next review will be scheduled for Board meeting on 23 August 2017.
ASB18	Board	16	Proposed Board Meeting Dates 2017	The Chief Operating Officer to propose meeting dates for discussion by members at the September meeting of the Board.	18/08/2016	15/09/2016	Diane McGiffen	Joy Webber	Complete	Yes	The proposed meeting dates for 2017 were considered at item 20 of the Board agenda 20/01/2017.
ASB20	Board	10	Securing World Class Audit - Audit Procurement - Post Tender Review	The Assistant Director, Audit Strategy, to bring a report to the Board on the quality review work.	15/09/2016	09/12/2016	Russell Frith	Elaine Boyd	Complete	Yes	A report was considered by the Board at its meeting on 20/01/2017.
ASB23	Board	6	Review of minutes	The Assistant Auditor General to provide more detail around recovery of monies through NFI and how this will be monitored in future.	27/10/2016	20/01/2017	Russell Frith	Russell Frith	Complete	Yes	Russell Frith reported on NFI item 12 on the agenda of the Board meeting 20/01/2017.
ASB24	Board	9	Securing World Class Audit - Developments in Audit	The Chief Operating Officer to schedule an update report on the Becoming World Class and world class audit.	27/10/2016	20/01/2017	Diane McGiffen	Russell Frith	Ongoing		The Assistant Auditor General will report on this to the Board at its meeting in May 2017 as part of the Quality Framework.
ASB25	Board	12	UK & Ireland Supreme Audit Institutions meeting, 4 November 2016	The Chief Operating Officer to report on the meeting of the UK & Ireland Supreme Audit Institutions meeting.	27/10/2016	20/01/2017	Diane McGiffen	Diane McGiffen	Complete	Yes	Diane McGiffen provided a verbal update to the Board on 22 February 2017.
ASB26	Board	14	Publication of reports	The Chief Operating Officer to arrange to publish the reports on the Audit Scotland website alongside the approved minute.	27/10/2016	27/01/2017	Diane McGiffen	Joy Webber	Complete	Yes	The reports and approved minute of the Board meeting on 27/10/2016 has been published on Audit Scotland's website.
ASB27	Board	15	Any other business	The Director of Performance Audit and Best Value to report on how the engagement with young people on the forward work programme had developed to the Board in January 2017.	27/10/2016	20/01/2017	Fraser McKinlay	Fraser McKinlay	Complete	No	The Board will consider a report at item 18 of today's agenda.
ASB28	Board	7	Review of minutes - Remco meeting, 15 September 2016 and Board meeting, 27 October 2016	Joy Webber, Senior Executive Assistant, to make the necessary amendments to the Remco minute and publish the Board minute of 27 October 2016.	20/01/2017	22/02/2017	Joy Webber	Joy Webber	Complete	Yes	The Board minutes of 27/10/2016 have been published and the minutes of Remco have been amended.
ASB29	Board	9	Review of standing orders	Diane McGiffen, Chief Operating Officer, to schedule a report for the Board meeting in February 2017.	20/01/2017	22/02/2017	Diane McGiffen	Diane McGiffen	Ongoing		A verbal update will be provided to the Board under item 8 of today's agenda.
ASB30	Board	10	Making a Difference: Digital Audit	Diane McGiffen, Chief Operating Officer, to schedule a report for a Board meeting later in the year.	20/01/2017	05/05/2017	Diane McGiffen	Martin Walker	Ongoing		An update to the Board has been scheduled for its meeting on 05/05/2017.
ASB31	Board	11	Securing World Class Audit: Review of Quality Arrangements	Diane McGiffen, Chief Operating Officer, to schedule a report for a Board meeting later in the year.	20/01/2017	31/03/2017	Russell Frith	Elaine Boyd	Ongoing		The Board will consider a report at item 16 of today's agenda.
ASB32	Board	12	Securing World Class Audit: Fraud Arrangements	Russell Frith, Assistant Auditor General, to make the suggested amendments to the report in terms of responsibilities of reporting fraud.	20/01/2017	22/02/2017	Russell Frith	Anne Cairns	Complete	Yes	The report on Counter Fraud Arrangements was updated and issued to colleagues on 06/02/2017.
ASB33	Board	13	Making a Difference: Demonstrating Value for Money Update	Fiona Kordiak, Director of Audit Services, to liaise with Heather Logan and take on board comments from members before issuing a further draft for their consideration by correspondence.	20/01/2017	22/02/2017	Fiona Kordiak	Fiona Kordiak	Ongoing		The report has been re-drafted to take on board comments received to date.
ASB34	Board	14	Making a Difference: Update on Parliamentary Engagement	Kirsty Gibbins, Communications Adviser, Corporate Services, to confirm the terms of the contract and survey arrangements.	20/01/2017	22/02/2017	Kirsty Gibbins	Kirsty Gibbins	Complete	Yes	A verbal update will be provided to the Board under item 8 of today's agenda.
ASB35	Board	17	Q2 Corporate Performance Report 2016/17	Martin Walker, Assistant Director, Corporate Performance and Risk to consider with the Communications Team the options to measure corporate objective 2.2.	20/01/2017	31/03/2017	Martin Walker	Martin Walker	Complete	No	The Q2 report scheduled for 31/03/2017 will reflect any new measures to assess the effectiveness of corporate objective 2.2.
ASB36	Board	17	Q2 Corporate Performance Report 2016/17	Diane McGiffen, Chief Operating Officer, to send a copy of the latest quarterly correspondence report considered by Management Team on 17 January 2017.	20/01/2017	22/02/2017	Diane McGiffen	Joy Webber	Complete	Yes	A copy of the Q3 Correspondence Performance Report dated 17/01/2017 has been circulated to Board members for information.
ASB37	Board	18	Q2 Becoming World Class Improvement Programme Report 2016/17	Russell Frith, Assistant Auditor General, to schedule a report to the Board on established international benchmarks for world class quality, people and reporting.	20/01/2017	05/05/2017	Russell Frith	Russell Frith	Ongoing		The Assistant Auditor General will report on this to the Board at its meeting on 05/05/2017 as part of the quality framework.
ASB38	Board	20	Proposed Board Meeting Dates 2017	Joy Webber, Senior Executive Assistant, to liaise with members regarding their availability.	20/01/2017	22/02/2017	Joy Webber	Joy Webber	Complete	Yes	Joy Webber has liaised with and confirmed alternative meeting dates for May and June. Meeting dates have now been confirmed for 5 May and 6 June 2017.
ASB39	Board	21	Review of Openness and Transparency	Diane McGiffen, Chief Operating Office, to schedule a discussion on next steps in publishing committee papers with the Board at its meeting in February 2017.	20/01/2017	22/02/2017	Diane McGiffen	Diane McGiffen	Complete	Yes	The Board received a verbal update at its meeting on 22/02/2017.
ASB40	Board	22	Publication of reports	Diane McGiffen, Chief Operating Office, to arrange to publish the reports on the Audit Scotland website alongside the approved minute.	20/01/2017	22/02/2017	Diane McGiffen	Joy Webber	Complete	Yes	The approved minute and reports have been published on the Audit Scotland website.
ASB41	Board	7	Review of minutes	Joy Webber, Senior Executive Assistant, to make a correction to the minutes of the Board meeting 20 January 2017 and publish the approved minute.	22/02/2017	28/02/2017	Joy Webber	Joy Webber	Complete	No	The Board minutes of 20/01/2017 have been published and the minutes of Remco have been amended.
ASB42	Board	9	Public Audit and Post Legislative Scrutiny Committee Review of NFI.	Russell Frith, Assistant Auditor General, to circulate to Board members by correspondence a draft response to the Public Audit and Post Legislative Scrutiny Committee on NFI	22/02/2017	31/01/2017	Russell Frith	Russell Frith	Complete	No	Draft response was issued by correspondence to members on 23/03/2017.

Agenda

Friday 31 March 2017, 10.00am

Audit Scotland offices, 102 West Port, Edinburgh EH3 9DN

1. Private meeting
2. Welcome and apologies
3. Declarations of interest

Standing items

4. Chair's report – verbal update
5. Accountable Officer's report – verbal update
6. Accounts Commission report – verbal update
7. Review of minutes:
 - Board meeting, 22 February 2017 For approval
8. Review of actions tracker For information
9. Review of Standing Orders Verbal update

Governance and business management

10. Audit Scotland Budget 2017/18 For approval
11. Audit Scotland Annual Report and Accounts For approval
12. Equality Outcomes: Reflecting back and looking forward For approval
13. Q3 Financial Performance Report 2016/17 For information
14. Q3 Performance Report 2016/17 For information
15. Q3 Becoming World Class Improvement Programme Report 2016/17 For information

Strategy and planning

16. Securing World Class Audit: Review of Audit Quality For discussion
17. Making a Difference: Corporate Plan Update 2017/18 For discussion
18. Making a Difference: Public Engagement Work with Young Scot For information

Conclusion

19. Publication of reports

20. Any other business
21. Review of meeting
22. Date of next meeting

Friday 31 March 2017, 10.00am

Audit Scotland offices, 102 West Port, Edinburgh EH3 9DN

Present:

I Leitch (Chair)
C Gardner
H Logan
R Griggs
R Hinds

Apologies:

None

In attendance:

D McGiffen, Chief Operating Officer
R Frith, Assistant Auditor General
M Walker, Assistant Director, Corporate Performance and Risk
J Webber, Senior Executive Assistant
D Hanlon, Corporate Finance Manager
J Gillies, Communications Manager
G Woolman, Chair of Diversity and Equality Group, Assistant Director, Audit Services
E Boyd, Assistant Director, Quality
F McKinlay, Director of Performance Audit and Best Value
T Meldrum, Senior Manager, Performance Audit and Best Value

1. Private meeting

A private meeting was held by the Chair and Board members, prior to the start of the Board meeting. There were no matters raised in addition to those items on the agenda, which had been previously circulated.

2. Welcome and apologies

The Chair welcomed Ronnie Hinds, Acting Chair of the Accounts Commission, to his first meeting of the Board.

There were no apologies.

3. Declarations of interest

There were no declarations of interest.

4. Chair's report

Ian Leitch advised that since the previous Board meeting he had held regular meetings with Caroline Gardner, Auditor General for Scotland and Diane McGiffen, Chief Operating Officer to discuss various business matters of interest. The Chair advised he and Diane McGiffen had met with the legal advisers from BTO on Wednesday 29 March who would seek to finalise their legal advice on board quorum, substitutes and proxies. The Chair advised that this would be discussed at the next Board meeting on 5 May 2017.

The members welcomed the update.

5. Accountable Officer's report

Caroline Gardner provided a verbal update on her activity since the previous meeting. She advised of the weekly meetings of the Public Audit and Post Legislative Scrutiny Committee and invited members to note that an interim convener would be appointed shortly to cover the current convener's maternity leave until October 2017.

Caroline advised that the Police i6 report had been considered by the Justice Sub-Committee on Policing on 30 March 2017.

The Board noted Caroline's continued involvement with the Budget Process Review Group and that the Finance Committee had received briefings in March.

She also advised the Board of forthcoming publications and possible section 22 reports and provided clarification around the statutory process for submitting reports and accounts to the Scottish Government for laying them in the Scottish Parliament.

Caroline invited the Board to note that following pay negotiations, the PCS union were recommending the Audit Scotland reward package to their members and expressed her thanks to Diane McGiffen and the team as well as the PCS representatives for their input.

The Board welcomed the update.

6. Accounts Commission report

Ronnie Hinds, the Acting Chair of the Accounts Commission, thanked Board members for their warm welcome.

Ronnie advised the Board of his first activity as Acting Chair of the Accounts Commission had been at the Commission's Strategy Seminar on 28 and 29 March. He advised of the benefits of hearing from speakers from the Scottish local government, the NAO and the Auditor General for Scotland. Key themes from the seminar included the degree of variation across local government in delivery of service, performance and funding issues; working with other scrutiny bodies; and the need for greater transparency and accountability.

The Board welcomed the update.

7. Review of minutes

Board meeting, 22 February 2017

The Board considered the note of the meeting on 22 February 2017, which had been previously circulated, and confirmed that these were an accurate record of the meeting.

Action: Joy Webber, Senior Executive Assistant, to publish the approved minute of the meeting of 22 February 2017. (April 2017)

8. Review of actions tracker

The Board noted the updates provided.

9. Review of Standing Orders

As referenced in the Chair's report, it was noted that this would be discussed at the next meeting of the Board on 5 May 2017.

Action: The legal advice to be circulated and a discussion scheduled at the next Board meeting on 5 May 2017. (May 2017)

10. Audit Scotland Budget 2017/18

David Hanlon, Corporate Finance Manager, joined the meeting.

David Hanlon, Corporate Finance Manager, introduced the Audit Scotland Budget 2017/18 report, which had been previously circulated.

David invited the Board to note the proposed operational budget for 2017/18 and approve Audit Scotland's revised Budget for 2017/18.

During detailed discussion, Heather Logan sought clarification on the costs associated with the proposed refurbishment of the Glasgow office. David Hanlon advised that the proposed refurbishment would provide increased capacity in the office and offer more flexible working solutions for staff. Diane McGiffen advised that this need had arisen given the geographical impact of the new audit appointments and would be a cost effective way to provide an additional 20 workspaces.

Heather sought clarification on the VERA provision contained within the budget. David also advised that the cost of VERA would be noted as a charge in the accounts.

Ronnie Hinds welcomed the report and sought assurance on the affordability of the new pay proposals model in future years as he had not been involved in previous discussions on the matter. David Hanlon advised the budget model included an assumed increase year on year but that he was confident the model was robust. Diane McGiffen offered to provide further briefings or background reports to Ronnie on the new pay proposals.

Following discussion, the Board approved Audit Scotland's revised Budget for 2017/18.

David Hanlon, Corporate Finance Manager, left the meeting.

11. Audit Scotland Annual Report and Accounts

James Gillies, Communications Manager, joined the meeting.

James updated the Board on plans for the 2016/17 annual report and accounts and invited comments and proposals for this year's content.

James invited the Board to note the feedback received on last year's report from the NAO and the revisions being proposed to include more information on strategic risks and objectives and how those are managed. Heather Logan advised that she would like to review a draft of that section of the report.

Following discussion, the Board welcomed the report, noting the final version was scheduled for approval at the Board meeting on 6 June 2017.

Action: Martin Walker to share the strategic risks and objectives section of the Annual Report and Accounts with Heather Logan. (April 2017)

James Gillies, Communications Manager, left the meeting.

12. Equality Outcomes: Reflecting Back and Looking Forward

Gillian Woolman, Assistant Director LG and Health, joined the meeting.

Gillian introduced the Board to the report Equalities Outcomes: Reflecting back and looking forward, which had been previously circulated.

Gillian invited the Board to consider and approve the Equality outcomes and mainstreaming progress report for 2016/17 and the Equality outcome measures report April 2017.

During discussion, the Board welcomed the reports and acknowledged the work of the Diversity and Equality Steering Group. The Chair reflected that while the reports were proposed as a joint publication for Audit Scotland and the Accounts Commission, there could be a clearer explanation of the respective areas of responsibility. Ronnie Hinds agreed, also noting that the Accounts Commission was fairly represented in the reports which were due to be considered at its meeting in April 2017.

The Board discussed the ability of audit firms to promote diversity and equality, and Russell Frith advised that this formed part of the appointment and could be developed, further noting that each organisation has a duty to employees while recognising the need to consider how equalities features within the audit work under the Code of Audit Practice.

Ronnie Hinds asked about the split of leavers by gender and how this compared to previous years. Gillian Woolman confirmed this was a reversal from the previous year and invited the Board to note that there was an improving trend in individuals disclosing monitoring information.

Following discussion, the Board expressed their thanks to the team and approved both reports subject to the amendments discussed.

Action: Gillian Woolman to update the reports for consideration by the Accounts Commission. (April 2017)

Gillian Woolman, Assistant Director, Audit Services, left the meeting

13. Q3 Financial Performance Report 2016/17

David Hanlon, Corporate Finance Manager, joined the meeting.

David Hanlon introduced the Q3 Financial Performance Report 2016/17, which had been previously circulated.

David invited the Board to note the financial results for the nine months to December 2016.

The Board discussed the end of year projection and noted this was dependent on the level of fee income assessed to 31 March 2017 and the impact of pension provision that would be known by May 2017.

Heather Logan sought clarification on the level of agency costs incurred. David Hanlon advised this related to peak audit work for Audit Services Group and was a reducing cost year on year.

Following discussion, the Board welcomed the report.

David Hanlon, Corporate Finance Manager, left the meeting.

14. Q3 Performance Report 2016/17

Martin introduced the Q3 Performance Report 2016/17 report, a copy of which had been previously circulated.

Martin invited the Board to review the key performance areas and consider whether any additional management attention was required.

The Board welcomed the additional information and data contained in support of the changed status of objective 2.3 *To identify risks and make clear any relevant recommendations for improvement and follow these up*, and more generally the members agreed more clarification around the degree of progress reported for objectives would be helpful.

Turning to objective 3.5 *We empower and support our people to be engaged, highly skilled and perform well*, the Board noted the amber rating for the KPI relating to 360 degree feedback. Diane McGiffen advised this indicator reflected an earlier objective to introduce 360 degree feedback for all colleagues, which had been overtaken with a focus on targeted use of 360

degree feedback and the development of a feedback process. The KPI had been retained for the purpose of openness and transparency but would be revised or deleted at the next review.

The Board noted that the indicator on communication and collaboration across the organisation was amber and Martin advised that feedback from the Best Companies survey suggested this was moving in the right direction and that the amber rating also reflected the 'high bar' which Audit Scotland set. Diane also advised that there were now more opportunities than ever to engage and collaborate with colleagues across the organisation including the Annual Audit Conference, knowledge cafes and roundtable discussions and that there would be continual focus on further shared working.

Following discussion, the Board acknowledged that high stretch targets are set for objectives, that some indicators are more important than others and that a clear process underpins the red/amber/green assessments.

The Board welcomed the discussion on improving the clarity of narrative to support the status of reported objectives.

Action: Martin Walker, Assistant Director, Corporate Performance and Risk, to consider how best to focus the narrative on objectives and performance in future reports. (June 2017)

15. Q3 Becoming World Class Improvement Programme Report 2016/17

Martin Walker introduced the Q3 Becoming World Class Improvement Programme Report 2016/17, which had been previously circulated and invited the Board to consider the sustained progress reported across the three workstreams and the next steps.

The Board welcomed the continued progress and noted that it reflected a clear commitment to continuous improvement. The Board also noted the importance of leadership development and welcomed the new project on leading a better organisation which Fraser McKinlay will steer.

Following discussion, the Board welcomed the report.

16. Securing World Class Audit: Review of Audit Quality

Elaine Boyd, Assistant Director for Quality joined the meeting.

Elaine Boyd introduced the report on the Review of Audit Quality, which had been previously circulated.

Elaine invited the Board to note the update on recent activity in reviewing quality arrangements across all audit work.

The Board discussed the assurance provided from the global comparison of quality arrangements with other international audit organisations and the input received from audited bodies on handover arrangements as well as their view of the value external audit work. It was noted that this would inform the Transparency and Quality report 2016/17. Elaine also outlined the work to consider how to maximise learning and development opportunities in the context of the new appointments and the wider audit scope.

Elaine shared the proposed project timeline which included regular engagement with the Board and Accounts Commission prior to implementation of the revised Quality Framework.

The Board welcomed the report and Heather Logan advised the Audit Committee would welcome a discussion on the Quality Framework at its meeting on 17 May 2017.

Action: Martin Walker to schedule an item for consideration by the Audit Committee meeting on 17 May 2017. (May 2017)

Elaine Boyd, Assistant Director for Quality, left the meeting.

17. Making a Difference: Corporate Plan Update 2017/18

Martin Walker introduced the Corporate Plan Update 2017/18 report, which had been previously circulated.

Martin invited the Board to review the first draft of the Corporate Plan which covered the operating environment, audit and improvement priorities for 2017/18, progress on key priorities and objectives in 2016/17, resources and governance arrangements.

The Board welcomed the refreshed Corporate Plan setting out high level objectives. Martin advised that a report on Audit Scotland's strategic planning was also scheduled for discussion at the Accounts Commission meeting in April 2017.

The Board noted that an updated version of the Corporate Plan 2017/18 was scheduled to come to the meeting of the Board on 5 May 2017 for approval.

18. Making a Difference: Public Engagement Work with Young Scot

Fraser McKinlay, Director of Performance Audit and Best Value, and Tricia Meldrum, Senior Manager, Performance Audit and Best Value, joined the meeting.

Tricia Meldrum introduced the report on Engagement Work with Young Scot, a copy of which had been previously circulated.

Tricia delivered a presentation on the CheckSee project, which was undertaken in partnership with Young Scot. The focus of the project was to capture what matters to young people about education, skills and employability, to identify how Audit Scotland could better engage with young people and other groups as part of the wider public engagement programme to better inform the scope of audit work.

The Board welcomed the presentation and agreed that they would like a further update next year on the impact of how the project, and the commitments made, had progressed.

Action: Diane McGiffen, Chief Operating Officer, to schedule an update report in March 2018. (March 2018)

Fraser McKinlay, Director of Performance Audit and Best Value, and Tricia Meldrum, Senior Manager, Performance Audit and Best Value, left the meeting.

19. Publication of Reports

The Board approved all reports for publication with the following exceptions

- Item 12 Equality Outcomes: Reflecting back and looking forward (future publication).
- Item 17 Corporate Plan Update 2017/18 (effective conduct of business (future publication)).

Action: Joy Webber, Senior Executive Assistant, to arrange to publish the reports on the Audit Scotland website alongside the approved minute. (April 2017)

20. Any Other Business

There was no further business.

21. Review of Meeting

The members took the opportunity to reflect on the meeting, welcoming the discussions on performance reporting and the review of audit quality and hearing more about the opportunities being identified for increasing engagement with the public.

22. Date of next meeting

It was noted that the next Audit Scotland Board meeting was scheduled for 5 May 2017 in the offices of Audit Scotland, 102 West Port, Edinburgh.

Ref	FORUM	Agenda Item No	Item Title	Action Description	Meeting Date	Due Date	Responsible	Assigned to	Complete/Ongoing	Reported Yes/No	Progress Notes
	Board	8	Spring Budget Revision	Scottish Commission for Public Audit for a £1,716k Spring	20/11/2014	30/11/2014	Diane McGiffen	David Hanlon	Complete		Complete
	Board	13	Openness and Transparency: Publication of Board Papers	The Chief Operating Officer to schedule a future agenda item to review the arrangements.	24/03/2016	01/12/2016	Diane McGiffen	Diane McGiffen	Complete	No	This item was considered at the Board meeting on 20/01/2017, with a report scheduled for the Audit Committee at its meeting on 17 May 2017.
ASB13	Board	10	Q1 Corporate Performance Report	The Assistant Auditor General to prepare a report for a future Board meeting on the levels of reporting and roles on fraud.	18/08/2016	01/12/2016	Russell Frith	Russell Frith	Complete	Yes	This report was considered at Item 12 of the Board meeting 20/01/17. The report has been updated, published on ishare and shared with the firms on all 06/02/2017.
ASB16	Board	15	Corporate Governance Policies and Code of Conduct Review	The Corporate Governance Manager to review the Financial Regulations, Scheme of Delegation and staff Code of Conduct annually and report to the Board.	18/08/2016	23/08/2017	Alex Devlin	Alex Devlin	Ongoing		Standing Orders reviewed 27/10/16. The next review will be scheduled for Board meeting on 23 August 2017.
ASB18	Board	16	Proposed Board Meeting Dates 2017	The Chief Operating Officer to propose meeting dates for discussion by members at the September meeting of the Board.	18/08/2016	15/09/2016	Diane McGiffen	Joy Webber	Complete	Yes	The proposed meeting dates for 2017 were considered at item 20 of the Board agenda 20/01/2017.
ASB20	Board	10	Securing World Class Audit - Audit Procurement Post Tender Review	The Assistant Director, Audit Strategy, to bring a report to the Board on the quality review work.	15/09/2016	09/12/2016	Russell Frith	Elaine Boyd	Complete	Yes	A report was considered by the Board at its meeting on 20/01/2017.
ASB23	Board	6	Review of minutes	The Assistant Auditor General to provide more detail around recovery of monies through NFI and how this will be monitored in future.	27/10/2016	20/01/2017	Russell Frith	Russell Frith	Complete	Yes	Russell Frith reported on NFI Item 12 on the agenda of the Board meeting 20/01/2017.
ASB24	Board	9	Securing World Class Audit - Developments in Audit	The Chief Operating Officer to schedule an update report on the Becoming World Class and world class audit.	27/10/2016	20/01/2017	Diane McGiffen	Russell Frith	Ongoing		The Assistant Auditor General will report on this to the Board at its meeting in May 2017 as part of the Quality Framework.
ASB25	Board	12	UK & Ireland Supreme Audit Institutions meeting, 4 November 2016	The Chief Operating Officer to report on the meeting of the UK & Ireland Supreme Audit Institutions meeting.	27/10/2016	20/01/2017	Diane McGiffen	Diane McGiffen	Complete	Yes	Diane McGiffen provided a verbal update to the Board on 22 February 2017.
ASB26	Board	14	Publication of reports	The Chief Operating Officer to arrange to publish the reports on the Audit Scotland website alongside the approved minute.	27/10/2016	27/01/2017	Diane McGiffen	Joy Webber	Complete	Yes	The reports and approved minute of the Board meeting on 27/10/2016 has been published on Audit Scotland's website.
ASB27	Board	15	Any other business	The Director of Performance Audit and Best Value to report on how the engagement with young people on the forward work programme had developed to the Board in January 2017.	27/10/2016	20/01/2017	Fraser McKinlay	Fraser McKinlay	Complete	No	The Board will consider a report at Item 18 of today's agenda.
ASB28	Board	7	Review of minutes - Remco meeting, 15 September 2016 and Board meeting, 27 October 2016	Joy Webber, Senior Executive Assistant, to make the necessary amendments to the Remco minute and publish the Board minute of 27 October 2016.	20/01/2017	22/02/2017	Joy Webber	Joy Webber	Complete	Yes	The Board minutes of 27/10/2016 have been published and the minutes of Remco have been amended.
ASB29	Board	9	Review of standing orders	Diane McGiffen, Chief Operating Officer, to schedule a report for the Board meeting in February 2017.	20/01/2017	22/02/2017	Diane McGiffen	Diane McGiffen	Ongoing		A verbal update will be provided to the Board under item 8 of today's agenda.
ASB30	Board	10	Making a Difference: Digital Audit	Diane McGiffen, Chief Operating Officer, to schedule a report for a Board meeting later in the year.	20/01/2017	05/05/2017	Diane McGiffen	Martin Walker	Ongoing		An update to the Board has been scheduled for its meeting on 05/05/2017.
ASB31	Board	11	Securing World Class Audit: Review of Quality Arrangements	Diane McGiffen, Chief Operating Officer, to schedule a report for a Board meeting later in the year.	20/01/2017	31/03/2017	Russell Frith	Elaine Boyd	Ongoing		The Board will consider a report at Item 16 of today's agenda.
ASB32	Board	12	Securing World Class Audit: Fraud Arrangements	Russell Frith, Assistant Auditor General, to make the suggested amendments to the report in terms of responsibilities of reporting fraud.	20/01/2017	22/02/2017	Russell Frith	Anne Cairns	Complete	Yes	The report on Counter Fraud Arrangements was updated and issued to colleagues on 06/02/2017.
ASB33	Board	13	Making a Difference: Demonstrating Value for Money Update	Fiona Kordiak, Director of Audit Services, to liaise with Heather Logan and take on board comments from members before issuing a further draft for their consideration by correspondence.	20/01/2017	22/02/2017	Fiona Kordiak	Fiona Kordiak	Ongoing		The report has been re-drafted to take on board comments received to date.
ASB34	Board	14	Making a Difference: Update on Parliamentary Engagement	Kirsty Gibbins, Communications Adviser, Corporate Services, to confirm the terms of the contract and survey arrangements.	20/01/2017	22/02/2017	Kirsty Gibbins	Kirsty Gibbins	Complete	Yes	A verbal update will be provided to the Board under item 8 of today's agenda.
ASB35	Board	17	Q2 Corporate Performance Report 2016/17	Martin Walker, Assistant Director, Corporate Performance and Risk to consider with the Communications Team the options to measure corporate objective 2.2.	20/01/2017	31/03/2017	Martin Walker	Martin Walker	Complete	No	The Q3 report scheduled for 31/03/2017 will reflect any new measures to assess the effectiveness of corporate objective 2.2.
ASB36	Board	17	Q2 Corporate Performance Report 2016/17	Diane McGiffen, Chief Operating Officer, to send a copy of the latest quarterly correspondence report considered by Management Team on 17 January 2017.	20/01/2017	22/02/2017	Diane McGiffen	Joy Webber	Complete	Yes	A copy of the Q3 Correspondence Performance Report dated 17/01/2017 has been circulated to Board members for information.
ASB37	Board	18	Q2 Becoming World Class Improvement Programme Report 2016/17	Russell Frith, Assistant Auditor General, to schedule a report to the Board on established international benchmarks for world class quality, people and reporting.	20/01/2017	05/05/2017	Russell Frith	Russell Frith	Ongoing		The Assistant Auditor General will report on this to the Board at its meeting on 05/05/2017 as part of the quality framework.
ASB38	Board	20	Proposed Board Meeting Dates 2017	Joy Webber, Senior Executive Assistant, to liaise with members regarding their availability.	20/01/2017	22/02/2017	Joy Webber	Joy Webber	Complete	Yes	Joy Webber has liaised with and confirmed alternative meeting dates for May and June. Meeting dates have now been confirmed for 5 May and 6 June 2017.

AS839	Board	21	Review of Openness and Transparency	Diane McGiffen, Chief Operating Office, to schedule a discussion on next steps in publishing committee papers with the Board at its meeting in February 2017.	20/01/2017	22/02/2017	Diane McGiffen	Diane McGiffen	Complete	Yes	Th Baord received a verbal update at its meeting on 22/02/2017.
AS840	Board	22	Publication of reports	Diane McGiffen, Chief Operating Office, to arrange to publish the reports on the Audit Scotland website alongside the approved minute.	20/01/2017	22/02/2017	Diane McGiffen	Joy Webber	Complete	Yes	The approved minute and reports have been published on the Audit Scotland website.
AS841	Board	7	Review of minutes	Joy Webber, Senior Executive Assistant, to make a correction to the minutes of the Board meeting 20 January 2017 and publish the approved minute.	22/02/2017	28/02/2017	Joy Webber	Joy Webber	Complete	No	The Board minutes of 20/01/2017 have been published and the minutes of Remco have been amended.
AS842	Board	9	Public Audit and Post Legislative Scrutiny Committee Review of NFI.	Russel Frith, Assistant Auditor General, to circulate to Board members by correspondence a draft response to the Public Audit and Post Legislative Scrutiny Committee on NFI	22/02/2017	31/01/2017	Russell Frith	Russell Frith	Complete	No	Draft response was issued by correspondence to members on 23/03/2017.

AUDIT SCOTLAND BOARD

31 MARCH 2017

REPORT BY THE CHIEF OPERATING OFFICER

AUDIT SCOTLAND BUDGET 2017/18

1. Purpose of Report

- 1.1 This report presents Audit Scotland's proposed operational budget for 2017/18 to the Board for approval.
- 1.2 No changes are proposed to the total budget resource approved by the Scottish Commission for Public Audit (SCPA). However a number of offsetting changes are proposed as follows:
- an increase in salary budgets of £154k is proposed principally to meet the implementation costs of our new reward arrangements
 - a number of reductions are proposed to property costs, travel and subsistence expenditure, training and development costs and recruitment expenditure to part fund the implementation costs of our new reward arrangements. These proposals will in total reduce budget costs by £102k
 - it is proposed that £52k be allocated from the Management Contingency fund to meet the balance of the implementation costs of our new reward arrangements.

The Board are advised that the current reward offer is awaiting formal approval by PCS nationally, which may involve a ballot of their members.

2. Background

- 2.1 The proposed 2017/18 budget is based on that approved by the SCPA on 16 January 2017 and included in the 2017/18 Scottish Budget Bill which was approved by Parliament on 23 February 2017.
- 2.2 The detail of the original budget was discussed and approved at the Audit Scotland Board meeting held on 15 September 2016. At that time the Board noted that the date for the submission of our proposals to the SCPA was not known due to the scheduling of the UK and Scottish budget process. Our submission was made on 7 December 2016 following final Board approval by correspondence in early December 2016.
- 2.3 The budget was prepared following detailed discussions with budget holders and by reference to expenditure trends over the financial years 2014/15 and 2015/16. Additionally, the budget proposals were the subject of scrutiny by Audit Scotland's Management Team.
- 2.4 This paper proposes a number of changes to the SCPA approved budget for 2016/17 to reflect revised assumptions in respect of pay uplifts at 1 April 2017, staffing establishments and to include a number of changes to expenditure budgets. The changes were agreed by Management Team on 14 March 2017.

- 2.5 In total, revenue funding provided by the Scottish Parliament remains at £6.3m and capital funding at £0.2m.

3. Main Budgetary Assumptions

- 3.1 The main budget assumptions used in preparing the 2017/18 SCPA approved budget have been reviewed. No changes are proposed to the assumptions underpinning the operational budget with the exception of the approved amendments to our new staff reward system effective from April 2017. Further details on the main assumptions are noted in paragraphs 3.2 to 3.5 below.

- 3.2 Revised payroll assumptions are as follows:

- The operational budget assumes that a new pay spine grading structure is introduced that incorporates increases to the current grade maximums of 3%. Our plans include proposals to assimilate staff to the new arrangements, subject to pay grade caps, through the placing of staff on the first pay spine point above their current rate of pay. Pay scale points at April 2017 will also be increased by 1% to reflect a cost of living adjustment. Additionally staff who are not at the top of their scale will move up one spine at April 2017. For budget purposes these proposals apply to all staff including leadership group.
- Employer NI contributions - 13.8% (2016/17 13.8%)
- Apprentice levy – 0.5% above £3m per annum (2017/18 - £42k, 2016/17 - nil)
- Vacancy assumption - 2% where applied (2016/17 - 3%)

- 3.3 Employer pension Contributions

Lothian Pension Fund

Current service as % of pay	17.2%	(17.2% in 2016/17)
Past service lump sum	£77k	(£77k in 2016/17)

Principal Civil Service Pension Scheme

Current service as % of pay	20.9% – 24.3%	(20.9% - 24.3% in 2016/17)
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- 3.4 Fee income proposed for the 2017/18 operational budget remains the same as included in the 2017/18 SCPA approved budget and reflects the revised fee and funding arrangements introduced for the 2016/17 audit year.

As a result of the review of our fee and funding arrangements, the impact of the audit procurement exercise and other efficiencies included in the 2017/18 budget, audit fees for 2016/17 audits are on average 6.7% lower than the 2015/16 levels. The changes are variable across sector and by individual audit in each sector. In real terms this represents an average reduction of 8.6%. For budget purposes we have assumed that average fee levels for 2017/18 will increase by 0.5% from the 2016/17 levels. In real terms this represents an average reduction of 1.5%.

Parliamentary Funding

Under our revised Fee Strategy the funding of all NHS performance audit work is now provided from the Scottish Consolidated Fund (SCF) bringing the funding of this work into line with the other areas of the Auditor General's remit.

The inclusion of the full costs of NHS performance audit in the revenue support sought from the Scottish Consolidated Fund added £495k to the funding required in 2017/18. Excluding this additional cost from 2017/18 and the cost of the biennial National Fraud

Initiative (NFI) funded in 2016/17, the revenue support sought from the SCF in 2017/18, on a comparable basis, has been reduced by 5.4%. In real terms (2016/17 prices) this represents a 7.0% reduction.

- 3.5 The budget assumes payments to appointed auditors (firms) for 2016/17 audits will be in line with the new contracts awarded as part of the procurement appointment exercise. Payments to appointed auditors (firms) for 2017/18 audits are assumed to increase by 1% from the 2016/17 levels.

4. 2017/18 Establishment Numbers

- 4.1 During February, Management Team members reviewed their establishments and workforce plans for 2017/18 and as a result a number of changes to the 2017/18 establishment were discussed and agreed at the Management Team meeting held on 14 March 2017.
- 4.2 The establishment (excluding Commission and Board members) included in the SCPA approved budget for 2017/18 was 270.2 w.t.e. The revised proposals are 4.7 w.t.e. higher at 274.9 w.t.e. Details of the staffing establishments are provided in appendix 1.
- 4.3 The table below summarises the proposed changes and further details are noted in paragraphs 4.4 to 4.8 below.

	<u>Total</u>	<u>AD</u>	<u>E</u>	<u>D</u>	<u>B</u>
Management Team	-	-	-	-	-
Audit Strategy	+1.0	+1.0	-	-	-
ASG	-	-	-	-	-
PABV	-	-	-	-	-
CSG	+0.2	-	-1.0	+1.2	-
BSS	+3.5	-	-	-	+3.5
Total	+4.7	+1.0	-1.0	+1.2	+3.5

- 4.4 No changes are proposed to the establishments of the Management Team, ASG and PABV.
- 4.5 In Audit Strategy the establishment has been increased by 1 w.t.e. for one year being the new Assistant Director post that is leading our quality review work. The post which is costed at £86k will be funded from the £100k payroll provision included in our 2017/18 budget to develop an enhanced quality regime.
- 4.6 Although no changes are proposed in PABV, discussions are ongoing to determine backfill arrangements for the 1 w.t.e. grade F member of staff seconded to support planning work on the audit implications of New Financial Powers (NFP). Any agreed backfill will be funded from the £100k payroll provision included in our 2017/18 budget for this work.
- 4.7 Within CSG the proposed total establishment numbers are 0.2 w.t.e. higher than the levels included in the SCPA approved budget. The increase is a result of a minor restructure of the HR department – one grade E post has been deleted, a new grade post established at Grade D and an existing part-time Grade D post increased from

0.6 w.t.e. to 0.8 w.t.e. The changes are cost neutral.

4.8

Following the restructure within Business Support Services (BSS), 3.5 w.t.e. are now allocated to the Secondary Support Team. The budgeted cost for these staff is estimated at £110k which is £10k greater than the £100k payroll provision that was included in our 2017/18 budget to support the implementation of the restructure.

5. 2017/18 Staff Costs

5.1 The SCPA approved 2017/18 staff cost budget has been re-worked to reflect the proposed establishment revisions noted in section 4 above. The budget model has also been updated to reflect the actual staff in post at the end of February 2017 and to include the costs of the revised reward arrangements for pay uplifts and pay progression at April 2017.

5.2 The impact of these changes will increase the staff cost budget for 2017/18 by £154k. Details of the changes are provided in the table below with explanations provided in paragraphs 5.3 to 5.8.

	Staff £k	Provision £k	Total £k
2017/18 SCPA approved budget - staff	14,843	-	14,843
New Financial Powers (NFP)	-	100	100
Business restructuring provision	-	100	100
Enhanced quality regime provision	-	100	100
2017/18 SCPA approved budget - total	14,843	300	15,143
Assimilation costs of new reward system	+154	-	+154
Increased pay progression cost	+21	-	+21
AD quality cost	+86	-86	-
BSS secondary team	+110	-100	+10
Staff in post – scale point change	-31	-	-31
Total adjustments	+340	-186	+154
Adjusted Operational staff cost budget	15,183	114	15,297

5.3 The revised reward arrangements involve a move from a contribution based pay model to a fixed pay scale spine point system. Staff will assimilate to the new arrangements subject to pay grade caps through the placing of staff on the first pay spine point above their current rate of pay. These proposals will add £154k (an average of 1.1%) to the pay bill on 1 April 2017.

5.4 Our SCPA approved budget for 2017/18 assumed pay growth of 2% (cost of living +1%, and contribution based pay of +1%). Under the proposed new reward model pay growth is estimated at 2.15% (again 1% for cost of living plus 1.15% for scale point progression) and will increase pay costs by £21k.

5.5 The cost of the new AD quality review post will increase payroll costs by an additional £86k. This cost will be funded from the provision held for this work.

5.6 Following the restructure of the Business Support Services, 6 staff (5.4 w.t.e.) were

displaced and allocated to the Secondary Team. Subsequently, two members of staff (1.9 w.t.e.) accepted voluntary redundancy terms to leave the organisation – one left at Christmas 2016 and the second person will leave in May 2017. As a result 3.5 w.t.e. remain in the secondary team at an annual staff cost of £110k – these costs will be part funded from the £100k reserve included within our budget to facilitate the BSS restructure.

- 5.7 Salary budgets have been revised to reflect staff currently in post. The impact of this results in a reduction in salary cost budgets of £31k. Benefits have accrued in most areas of the business through staff turnover.
- 5.8 The impact of the above changes, net of those items funded from specific payroll provisions, will add £154k to the staff pay budget. Options to fund these additional costs are discussed in section 6 below.

6. 2017/18 Operational Budget - other revenue expenditure budgets

- 6.1 A high level review has been made of other revenue expenditure categories and a number of changes are proposed to reflect changed circumstances but also to provide funding for the additional payroll costs arising from the implementation of the new reward arrangements.
- 6.2 Changes are proposed in respect of property costs (mainly rates), travel and subsistence, training and development and recruitment costs.
- 6.3 The impact of the revised non domestic property revaluations scheduled for 1 April 2017 are positive for Audit Scotland with the rateable values for our offices at 102 West Port Edinburgh and Nelson Mandela Place Glasgow both reducing. Although there is an increase for our Inverness property the overall position is a net reduction in rates costs of £40k (20%) from that provided in the original 2017/18 budget. It is proposed that part of this saving is used to support increased service charge budgets £5k (mainly at 102 West Port) and to meet the additional costs of the Scottish Living Wage included within our cleaning contract, £5k, with £30k vired to the Management Contingency Fund.
- 6.4 Expenditure on travel and subsistence (excluding cars) has been falling in recent years and in the current year 2016/17 it is expected that costs will be up to £140k less than budget. The forecast level (based on spend to January 2017) for 2016/17 at £440k is £92k less than the available 2017/18 budget and although the new audit appointment round will no doubt increase the need for travel in the coming year the flexibility offered to staff in how they work under our Time Place Travel provisions may partly offset this. Information on actual and forecast expenditure is provided below – 80% of expenditure relates to ASG and 10% to PABV.

2014/15 actual expenditure	£472k
2015/16 actual expenditure	£480k
2016/17 forecast expenditure	£440k
2017/18 budget provision	£532k

Based on the above it is proposed that the 2017/18 operational budget for travel and subsistence be reduced by £32k to £500k.

- 6.5 Our 2017/18 budget includes £270k for training and development activity which averages at £1k per w.t.e. This sum excludes the costs of our professional training

scheme £177k and an allowance for staff to attend conferences £53k. In the past two years expenditure per w.t.e. has been £907 and £936 per w.t.e. and in 2016/17 based on expenditure to January 2017 the year end position is not expected to be more than £900 per w.t.e.. Based on these trends and experiences it is proposed that the training and expenditure budgets for 2017/18 be reduced by £20k to £250k which would provide an average budget of £900 per w.t.e.

- 6.6 The revised reward arrangements and in particular the new 'gate' system of progression is expected to reduce recruitment costs. The impact will be felt at grades B/C, C/D and E/F and with the agreement of the HR and OD Manager it is proposed that a £20k reduction be made to the recruitment budget reducing it from £125k to £105k in 2017/18.
- 6.7 The SCPA approved budget for 2017/18 included a £150k budget contingency that is under the control of the Management Team. Part of the contingency fund will be required to fund the increased costs of implementing the revised reward arrangements. The sums required can be offset by the proposed budget cost reductions discussed in paragraphs 6.2 to 6.6 above. The following funding movements are proposed to maintain the revenue budget within the total sums approved by the SCPA.

	£k	£k
Original contingency fund		150
Additional sources:		
Reduced property cost - rates	30	
Reduced travel and subsistence	32	
Reduced training and development	20	
Reduced recruitment	20	
		102
		252
Allocated to meet additional pay costs		-154
Operational budget – contingency fund		98

- 6.8 A further £114k in respect of payroll reserves will also be available within the operational budget. £100k being the provision to plan for additional work arising from NFP and impact of the EU referendum with £14k being the balance of the quality review provision.
- 6.9 The proposed non-staff expenditure is budgeted at £8.2m and a full analysis of this sum is provided in appendix 2. This appendix also provides details of actual expenditure recorded in 2014/15 and 2015/16, information on the operational budget for the current year 2016/17 and the SCPA approved budget for 2017/18.

7. Budget Summary & comparison with prior years

- 7.1 As noted above total revenue funding provided by the Scottish Parliament remains at £6.3m. The table below summarises the overall changes in income and expenditure

over the four years to March 2018.

	Actual 2014-15 £m	Actual 2015-16 £m	Budget 2016-17 £m	Budget 2017-18 £m
Fee Income	18.1	18.4	18.2	17.2
Net Expenditure	25.2	26.1	24.6	23.5
Net Operating (Cost)	(7.1)	(7.7)	(6.4)	(6.3)

8. Capital Expenditure

- 8.1 The capital expenditure budget for 2017/18 remains at £200k and is unchanged from the SCPA bid.
- 8.2 The table below provides information on the planned areas of investment as presented to the SCPA in December 2016.

	£k
Laptop / Tablets	25
Virtual desktop environment upgrade	30
Software	75
Hardware replacement	70
TOTAL	200

The final programme of capital investment will be dependent on the need for capital funds to refresh and provide increased capacity at our Glasgow office. Tender responses are due on 24 March 2017 and a verbal update will be provided at the Board meeting on 31 March.

9. Recommendation

- 9.1 The Board is invited to note the contents of this paper and approve Audit Scotland's revised Budget for 2017/18.

2017/18 BUDGET - ESTABLISHMENT SUMMARY

		2016 Four Year Plan				
		EST. 2016/17 w.t.e.	In Post 28/02/2017 w.t.e.	Feb-17 2017/18 w.t.e.	SCPA 2017/18 w.t.e.	Change 2017/18 w.t.e.
AGS		1.0	1.0	1.0	1.0	0.0
Directors		4.0	4.0	4.0	4.0	0.0
Assistant Directors		13.0	13.0	14.0	13.0	1.0
Grade	G	37.9	35.4	35.9	35.9	0.0
Grade	F	31.5	28.4	29.5	29.5	0.0
Grade	E	76.8	70.6	71.9	72.9	-1.0
Grade	D	54.1	48.2	56.1	54.9	1.2
Grade	C	13.0	14.0	14.0	14.0	0.0
Grade	B	12.8	13.1	12.5	9.0	3.5
Grade	A	0.0	0.0	1.0	1.0	0.0
Grade	T	34.0	44.0	35.0	35.0	0.0
		278.1	271.6	274.9	270.2	+4.7
Commission		12.0	12.0	12.0	12.0	0.0
Board		4.0	3.0	3.0	3.0	0.0
		294.1	286.6	289.9	285.2	+4.7
AGS		1.0	1.0	1.0	1.0	0.0
Commission Secretary		1.0	1.0	1.0	1.0	0.0
Management Team		4.0	4.0	4.0	4.0	0.0
Strategy		9.0	8.9	8.0	7.0	1.0
ASG		148.2	145.0	145.1	145.1	0.0
PABV		63.8	58.0	61.8	61.8	0.0
CSG		31.6	31.8	31.8	31.6	0.2
Facilities & BSS		19.5	21.8	22.2	18.7	3.5
		278.1	271.6	274.9	270.2	+4.7
Commission		12.0	12.0	12.0	12.0	0.0
Board		4.0	3.0	3.0	3.0	0.0
		294.1	286.6	289.9	285.2	+4.7

AUDIT SCOTLAND BUDGET: 2017/18

<i>£(000)'s</i>	Actual 2014-15	Actual 2015-16	Operational Budget 2016-17	SCPA Budget 2017-18	Proposed Budget 2017-18
Basic Salaries	10,727	10,966	11,295	11,178	11,442
Employer's On costs	2,908	2,966	3,327	3,333	3,409
Agency Staff / secondments	458	332	85	60	60
Payroll provisions	-	-	40	300	114
VERA provision	1	346	-	-	-
Former AGS pension	23	23	23	23	23
Pension Adjustments	722	979	90	90	90
Accounts Commission Members	148	160	161	159	159
	14,987	15,772	15,021	15,143	15,297
Approved Auditors	5,128	5,051	5,012	3,952	3,952
Rent & rates	733	950	535	550	510
Accommodation costs	535	348	400	410	420
Travel & subsistence	878	844	975	946	914
Legal & professional fees	597	557	608	448	448
Stationery & printing	146	209	172	165	165
Training	464	440	537	548	528
Staff recruitment	127	121	125	125	105
Communications (telephone, postage)	59	44	54	46	46
Insurance	87	84	78	75	75
Information technology	335	461	367	436	436
Internal Audit	19	27	30	30	30
External Audit	29	29	30	30	30
Other	62	71	73	68	68
Depreciation	304	271	412	397	397
Management Team Contingency	0	0	150	150	98
	9,503	9,507	9,558	8,376	8,222
GROSS ADMINISTRATIVE COSTS	24,490	25,279	24,579	23,519	23,519
Corporation Tax	8	8	5	5	5
Bank Interest	(41)	(41)	(25)	(25)	(25)
Other / Secondment Income	(60)	(34)	0	0	0
IAS 19 Income	847	937	0	0	0
OTHER INCOME	746	862	(25)	(25)	(25)
NET EXPENDITURE	25,244	26,149	24,559	23,499	23,499
FEES & CHARGES INCOME	(18,143)	(18,454)	(18,177)	(17,168)	(17,168)
NET OPERATING COST	7,101	7,695	6,382	6,331	6,331

AUDIT SCOTLAND BOARD

31 MARCH 2017

REPORT BY THE COMMUNICATIONS MANAGER

AUDIT SCOTLAND ANNUAL REPORT AND ACCOUNTS

1. Purpose

To update the Board on plans for the 2016/17 Audit Scotland annual report and accounts and to seek comments on proposals for this year's content.

2. Background

Last year, for the 2015/16 annual report and accounts, the board agreed the development of a new style for the report, including taking into account aspects of the FReM compliance which had significantly changed.

Feedback on the report has been positive and we are proposing to follow a similar structure and style for the 2016/17 report.

As before, we want to strike a good balance between compliance with FReM requirements and clarity/brevity. As a reminder, recommended characteristics of annual reporting should include:

- plain language
- good use of infographics
- rich in cross-references between different parts of the report and signposting/ links to other documents.

We intend to retain a single document covering performance, governance and the financial statements. The structure will be in three main parts:

- performance report
- accountability report
- financial statements.

The report will be published online and a small number of copies will be printed. A special web page will be created featuring some of the highlights from the report.

3. Report content

Performance report

The annual report working group is proposing highlighting particular aspects of our work under the following headings:

- **Engagement** (including parliamentary, targeted public groups, e.g. Young Scot)
- **New Financial Powers** (our work in this area)
- **New audit appointments** (including auditor/client case studies)

- **High impact performance audit reports that focus on services to the public**
(e.g. police, health & social care, roads)
- **Development of the new Best Value Assurance Reports.**

Accountability report & financial statements

These sections will follow the format of the previous year.

4. Timetable

As in previous years, board members will receive draft text of the report for any comment in early May.

The full Annual Report & Accounts will be reviewed by the Audit Committee and the Board on Tues 6 June; the signing of the accounts by the Accountable Officer on Tues 13 June; and publication of the Annual Report and Accounts on Wed 14 June.

5. Recommendation

The Board is invited to make any comments on the proposal.

AUDIT SCOTLAND BOARD

31 MARCH 2017

REPORT BY THE CORPORATE FINANCE MANAGER

Q3 FINANCIAL PERFORMANCE REPORT 2016/17

1. Purpose

This report presents the financial results for the nine months to December 2016 which was considered by the Audit Committee at its meeting on 1 February 2017.

2. Background

The finance report for the nine months to December 2016 is attached to this paper. The report was reviewed by Management Team during week commencing 23 January 2017.

The paper comprises the following sections.

- Schedule 1 Headline Results and commentary
- Schedule 2 Results Summary
- Schedule 3 Balance Sheet
- Schedule 4 Cash Flow Statement
- Schedule 5 Capital Expenditure and Funding Report
- Schedule 6a ASG Finance Report
- Schedule 6b PABV Finance Report
- Schedule 6c CSG Finance Report
- Schedule 6d BSS & FM Finance Report
- Schedule 7 WTE Staff in Post Summary 2016/17
- Schedule 8a Work in Progress 2015/16 Audit Year
- Schedule 8b Work in Progress 2016/17 Audit Year
- Schedule 9 2016/17 Financial year – fee income analysis

Information on agency and secondment w.t.e. is now included in schedule 7.

3. Discussion

In the nine months to December 2016, Audit Scotland's Net Operating costs were £3,803k which was £366k less than budget.

The results now include income and costs for concluding the 2015/16 financial audits and commencing the 2016/17 audits.

Fee income earned for audits carried out by our in-house teams was £241k higher than budget and was the main contributor to the Net Operating Cost favourable variance.

Income earned for the conclusion of 2015/16 in-house audits was £160k greater than budget with the agreement of fees at levels above the indicative levels held in the budget contributing £139k towards the variance. A further £72k was due to the fact that audit progress at the start of 2016/17 audits was on average 1% more than was assumed in the phased budget. An additional £9k of income relates to additional fees agreed for 2014/15 Local Government charity audits.

Central charges income was £121k higher than budget. Central charges for 2016/17 audits have increased by £0.7m from the 2015/16 fee levels as a result of higher pooled costs and in particular the pooling of the external firm's discounts. As all auditor remuneration has been set to apply the minimum level of discounts offered by firms, the element that relates to audits carried out in house is recovered through increased central charges. As the 2016/17 financial year budget was prepared on the assumption that the new contract values would be at a level equal to the previous values, income for the 2016/17 audit year for central charges will be higher than assumed in the 2016/17 financial year budget.

Although fee income earned for audit carried out by external firms was £528k greater than budget this has had little impact (£22k) on the overall variance as fees and expenses payable to the external firms were £506k higher than budget. This recognises the additional audit work carried out by the firms to generate the higher income earned.

Further detailed information on the financial results is provided in the attached report.

A year-end forecast has been prepared and was initially discussed with Management Team on 29 November 2016. The year-end forecast indicates a potential underspend of £0.5m. A sensitivity analysis of the year-end forecast indicates an underspend in the range £0.3m to £1.1m. A VERA scheme has been launched and the cost of any approved departures will be funded from and will reduce the forecast underspend.

There are no matters of concern requiring discussion with the Board.

4. Virement

There were no instances of budget virement in excess of £20k in the nine months to December 2016.

5. Action

The Board is invited to note the financial results for the nine months to December 2016.

FINANCE REPORT

Nine Months to 31 December 2016

1.1 Headline Results

1. In the nine months to December 2016 Audit Scotland's Net Operating Cost at £3,803k was £366k less than budget. The main reasons for the favourable variance were:
 - Total income recorded in the nine months to December 2016 was £990k higher than the phased budget. Fee income including central charges contributed £890k.
 - Expenditure levels were £624k higher than budget. Adverse variances were recorded in respect of fees and expenses paid to external audit firms £506k, own staff costs £56k, agency and secondment expenditure £209k and legal, professional and consultancy costs £62k. These adverse variances were partly offset by lower travel and subsistence expenditure £87k, training and recruitment costs £59k, and depreciation charges £44k. Further details are provide in section 2 below and schedules 6 & 7.
 - The year-end forecast indicates a forecast underspend within the range £0.3m to £1.1m.

1.2 The summary financial information to December 2016 :

£000	Annual Budget	Actual	Budget	Var.	% Var.	Prior Year
Fee Income - In House	7,664	6,175	5,934	241	-4.1%	6,067
Fee Income - Audit Firms	5,795	4,877	4,349	528	-12.1%	4,603
Central Charges	4,718	3,660	3,539	121	-3.4%	3,509
Interest	25	28	19	9	-47.4%	29
Other Income	0	91	0	91	-	26
IAS 19 Income	0	0	0	0	-	0
TOTAL INCOME	18,202	14,831	13,841	990	7.2%	14,234
Approved auditors	5,011	4,301	3,795	(506)	13.3%	4,138
Staff salaries and oncosts	14,833	11,174	11,118	(56)	0.5%	10,576
Severance provision	40	0	0	0	-	0
Agency and secondment costs	123	329	120	(209)	174.2%	279
IAS 19 Pension costs	90	0	0	0	-	0
Property costs	935	672	675	3	-0.4%	1,245
Travel and subsistence	986	615	702	87	-12.4%	624
Legal, professional and consultancy	695	302	240	(62)	25.8%	380
Training and recruitment	662	414	473	59	-12.5%	427
Printing and office costs	291	191	211	20	-9.5%	270
Information technology	368	289	274	(15)	5.5%	314
Audit	60	39	45	6	-13.3%	43
Depreciation	412	265	309	44	-14.2%	153
Other costs	78	43	48	5	-10.4%	41
EXPENDITURE	24,584	18,634	18,010	(624)	3.5%	18,490
NET OPERATING (COST)	(6,382)	(3,803)	(4,169)	366	-8.8%	(4,256)

FINANCE REPORT

Nine Months to 31 December 2016

2. Income and Expenditure Summary (See Headline Table, above, and Sch. 2)**a) Income**

In the nine months to December 2016 fee income including central charges was £890k higher than budget. In-house fee income was £241k higher than budget, income earned in respect of audits carried out by external audit firms was £528k more than budget and central charges income £121k greater than budget.

In-house fee income is derived from work in progress (WIP) completion percentages compiled through access to ASG's Management Information System (MIS) which captures audit day inputs from the Time Recording System and MKI.

The phased budgets for fee income have been profiled, mainly, on the basis of actual income levels recorded during the 2015/16 financial year. As the budgets have been based on indicative audit fees, variances will arise as a result of volume and price differences. Volume variances will occur when the WIP percentage reported is either above or below the percentage anticipated in the budget. Price variances will reflect the degree to which the fees have been agreed above, or below, indicative.

Fee income now includes income for both the 2015/16 and 2016/17 audit years.

All in-house 2015/16 audits excluding the European Agricultural Fund Audit (EAFA) have been reported as complete. In the nine months to December 2016 in-house fee income (excluding credits for non-chargeable work) for 2015/16 audits was £160k more than budget. Favourable variances were recorded for Local Government +£92k, Central Government +£61k and Further Education +£10k audits. Income recorded for Health audits was £3k below budget.

Cumulatively WIP levels for chargeable 2015/16 audits are on average 1.70% less than budget but 0.20% higher than the phased budget included in the 2016/17 financial year recognising that WIP levels at March 2016 were on average 1.90% less than budget. As a result chargeable in-house income levels for the nine months to December 2016 were £21k more than budget. The agreement of fees at levels above the indicative amounts included in the budget has increased the overall favourable variance by £139k.

Although in-year WIP is 0.20% higher than budget this will increase as the 2015/16 EAFA audit is completed and audit volumes move to a level 1.90% higher than the budget included in the 2016/17 financial year. As a result income will be £155k higher. The agreement of fees at levels above the indicative levels included in the budget will also generate £144k of additional income.

The table below provides an analysis of the in-house fee income variance by sector for 2015/16 audits at December 2016. Information on the expected out-turn position once all the audits are completed is also provided.

2015/16	Volume			Price	Total
	Cumulative WIP %	In-year WIP %	£k	£k	£k
Local Government	0.00	+1.37	+65	+27	+92
Health	0.00	+0.38	+6	-9	-3
FE	0.00	+13.49	+6	+4	+10
Central Government	-7.96	-3.37	-56	+117	+61
Total – December 2016	-1.70	+0.20	+21	+139	+160
Expected out-turn	-	+1.90	+155	+144	+299

FINANCE REPORT

Nine Months to 31 December 2016

Income earned for the start of in-house 2016/17 audits was £72k more than phased budget. Favourable variances were recorded for the Local Government, +£29k, FE, +£10k and Central Government audits, +£43k which were partly offset by a -£10k adverse variance recorded for Health audits. Audit progress at the start of the new 2016/17 audits was on average was 1.00% higher than the budget expectation. The variance reported is all volume related as the client bodies have only received their fee letters and negotiations on fees have yet to be concluded.

The table shows the analysis by sector at December for the 2016/17 audits:

2016/17	Volume		Price	Total
	Cumulative WIP %	£k	£k	£k
Local Government	+0.69	+29	0	+29
Health	-0.64	-10	0	-10
FE	+22.67	+10	0	+10
Central Government	+2.51	+43	0	+43
Total – December 2016	+1.00	+72	0	+72

A further £9k of in-house income was recorded in the nine months to December for additional fees agreed in respect of Local Government charity audits for the 2014/15 audit year.

Audit progress information is collected from firms on a quarterly basis and the December results reflect the returns made at the end of December 2016 and relate to the completion of the 2015/16 audits and the start of 2016/17 audits.

Income earned in the nine months to December 2016 in respect of 2015/16 audits carried out by external firms was £675k greater than budget. All these audits are now declared as 100% complete. The high income levels recorded in-year are in part due to an acceleration in audit WIP completion levels from the low levels recorded at March 2016. At March 2016, WIP levels reported by external audit firms for 2015/16 audits were, on average across all sectors, 7.31% lower than budget generating an adverse income volume variance of £410k.

At December 2016 cumulative WIP completion percentages were on average 1.57% ahead of budget and audit progress in the nine months to December 2016 was 8.88% higher than the phased budget included in the 2016/17 financial year. As a result chargeable income levels for the nine months to December 2016 were £497k more than budget. The agreement of fees at levels above the indicative amounts included in the budget has increased the overall favourable variance by £178k.

Although in-year WIP is 8.63% higher than the phased budget at December 2016 this will reduce as final budgets are released for 2015/16 audits and audit volumes move to a level 7.31% higher than the budget included in the 2016/17 financial year. As a result income will be £410k higher than budget. The agreement of fees at levels above the indicative levels included in the budget will also generate £178k of additional income once all audits are complete.

The table below provides an analysis of the audit firm fee income variance by sector for 2015/16 audits carried out by external firms.

FINANCE REPORT

Nine Months to 31 December 2016

2015/16	Volume			Price	Total
	Cumulative WIP %	In year WIP %	£k	£k	£k
Local Government	+0.88	+9.43	+287	+7	+294
Health	+0.00	+4.03	+50	+53	+103
Water	+0.00	+10.34	+18	+13	+31
FE	+13.48	+22.86	+95	+45	+140
Central Government	+0.62	+6.68	+47	+60	+107
Total	+1.57	+8.88	+497	+178	+675
Expected out-turn	-	+7.31	+410	+178	+588

This quarter we have received the first reports on WIP from the external auditors for their 2016/17 portfolios. In total income recorded was £158k less than budget.

With the exception of FE audits all sectors are showing adverse variances, Local Government - £74k, -1.31%, Health -£48k, -1.57%, Water -£9k, -0.81% and chargeable Central Government - £27k, -0.53%. In the FE sector a small favourable variance of 1k (+0.23%) was reported.

Average WIP levels for the start of 2016/17 audits was 7.44% which was 1.2% below budget expectations and reduced income by £51k.

The success of the procurement process to appoint firms for the next five years at fee levels below the previous contract values has a direct impact on the income that will be earned for 2016/17 audits carried out by firms. As the 2016/17 financial year budget was prepared on the assumption that the new contract values would be at a level equal to the previous values, income for the 2016/17 audit year will be lower than assumed in the budget. The impact of this adverse variance has been identified and is shown separately in the variance analysis below. At the end of December 2016 the impact amounted to £107k.

The table, below, shows the analysis of the income by sector:

2016/17	Volume			Procurement Effect	Price	Total
	Cumulative WIP %	In year WIP %	£k	£k	£k	£k
Local Government	-1.31	-1.31	-34	-40	0	-74
Health	-1.57	-1.57	-15	-33	0	-48
Water	-0.81	-0.81	-1	-8	0	-9
FE	+0.23	+0.23	+1	0	0	+1
Central Government	-0.53	-0.53	-2	-26	0	-28
Total	-1.20	-1.20	-51	-107	0	-158

A further £11k of income was recorded for additional audit fees agreed for 2014/15 audits carried out by external firms (Health £8k, FE £3k).

Central charges income was £121k higher than budget. Central charges for 2016/17 audits have increased by £0.7m from the 2015/16 fee levels as a result of higher pooled costs and in particular the pooling of the external firm's discounts. As all auditor remuneration has been set to apply the minimum level of discounts offered by firms the element that relates to audits carried out in house is recovered through increased central charges. As the 2016/17 financial year

FINANCE REPORT**Nine Months to 31 December 2016**

budget was prepared on the assumption that the new contract values would be at a level equal to the previous values, income for the 2016/17 audit year for central charges will be higher than assumed in the 2016/17 financial year budget.

Schedule 8a details the cumulative WIP completion percentages for 2015/16 audits in each sector at December 2016. Information is also provided in terms of the budget for 2015/16 audits and a comparator with the position reported at December 2015 (2014/15 audit year). Schedule 8b details the cumulative position for the 2016/17 audits. Schedule 9 provides an analysis of total fee income by sector, audit year and by provider (in-house and external firms).

Other income was £91k above budget for the year to date, mainly as a result of costs recovered for staff seconded to other public sector organisations. Interest received, at £28k, was £9k more than budget.

b) Expenditure

Total expenditure for the nine months to December 2016 at £18,634k was £624k more than budget.

The most significant variance related to fees and expenses payable to external audit firms where expenditure was £506k more than budget. Own staff costs were £56k more than budget, agency and secondment expenditure £209k greater than budget and legal, professional and consultancy costs £62k higher. These adverse variances were partly offset by lower travel and subsistence expenditure £87k, training and recruitment costs £59k, and depreciation charges £44k.

Fees and expenses payable to external audit firms were £506k more than budget. Fees paid to external firms were £469k greater than budget, expenses £6k more than budget and VAT recoveries on Local Government work £31k less than budget. Excluding payments made to firms for non-chargeable audits which were £19k less than budget, fees paid to external firms for chargeable audits were £488k more than budget. The increase in audit fee income reported by the audit firms has a 'knock on' effect on the amount of the fees payable to the firms that is recognised in the accounts for the period. As income earned for chargeable audits carried out by external firms was £528k more than budget the fees and expenses associated with the work were also higher than budget.

Staff costs in the nine months to December 2016 were £56k higher than budget. The average number of staff employed in the nine months to December 2016 at 277.7 w.t.e. was 0.4 w.t.e. lower than the establishment figure of 278.1 w.t.e. The staff budget for 2016/17 assumed a 3% vacancy factor and therefore the average number of staff employed in the period was 7.7 w.t.e. more than the numbers funded in the budget. The additional cost of employing these staff was partly offset by lower than budgeted average actual salary costs per employee.

In the nine months to 31 December 2016, agency and secondment costs were £209k more than budget. The secondment of three staff from other public sector bodies (West Lothian Council, Office for National Statistics, and Scotland's Rural College) to PABV increased costs by £170k and agency expenditure in Corporate Services and BSS was £43k more than budget due to the backfill of staff on maternity/paternity leave. Agency spend in ASG was £3k less than budget.

Total staff costs to 31 December 2016 including agency and secondment expenditure and net of secondment income was £177k more than budget.

Legal, professional and consultancy expenditure in the nine months to December 2016 was £62k greater than phased budget. Increase expenditure was recorded in respect of legal fees and property search fees for the new Inverness office £10k, legal fees in support of FOI work and VERA £5k, animation fees for our Health and Social care report £9k, the post occupancy review of West Port £9k, design costs associated with the review of our Glasgow office £5k, procurement support £10k, agency recruitment fees £9k and copyright licensing fees £5k.

FINANCE REPORT**Nine Months to 31 December 2016**

Travel and subsistence expenditure was £87k lower than budget. The underspend was mainly attributable to lower expenditure in ASG £71 and PABV £15k. Expenditure on the leased car fleet matched budget.

Training and recruitment costs were £59k below budget. Favourable variances were recorded for training expenditure £42k, attendance at conferences and seminars £14k, recruitment £7k and professional subscriptions, £17k (this variance is timing related as many staff expense claims for 2017 fees were not received until January 2017). These favourable variances were partly offset by higher expenditure on the professional training scheme -£21k (timing differences in respect of ICAS fees when compared to phased budget).

Depreciation charges were £44k less than budget reflecting lower than budgeted capital expenditure in previous years and timing differences in respect of capital investment profiles in the current year.

The 2016/17 budget included a contingency fund of £150k which is controlled by the Management Team. To date £75k has been committed and spent, £27k for project management, £38k for additional secretarial support to develop services for Assistant Directors and £10k for property management in Business Support. A further £40k remains uncommitted from a budget provision held to provide resources to plan for the audit implications of the new financial powers coming to the Scottish Parliament.

3. Balance Sheet (See Sch. 3)

At 31 December 2016, net liabilities of £14,845k were recorded in the Balance Sheet. This represented a decrease in net liabilities of £1,198k from the audited position at 31 March 2016.

Non-current assets have decreased by £205k as result of depreciation charges on our assets being greater than new capital investment in the nine months to December 2016.

Current assets have increased by £4,618k. Cash balances were in line with the 31 March 2016 figure. Trade and other receivables were boosted by invoicing the first instalment of the 2016/17 audits together with invoices issued to Integrated Joint Boards (IJB's) for health and social care for their 15/16 audits and to the National Audit Office for EAFA work.

Trade and other payables increased by £3,231k primarily due to increased deferred income following the issue of fee invoices for the first instalments for 2016/17 audits.

Deferred liabilities increased by £214k due to movements in the rent free provision for the new Edinburgh office. This provision is being built up over the first 39 months of the lease. The provision for early retirement has reduced by £230k following departures under the latest VERA scheme and monthly payments made for early retirements of former Accounts Commission and Local Government Ombudsmen staff.

4. Cash Flow Statement (See Sch. 4)

In the nine months to December 2016 cash balances have matched the position at 31 March 2016 at £1,743k compared to £1,744k at the year end. The position includes receipts from fee invoicing and £5,000k drawn down from the Scottish Consolidated Fund. This cash was in excess of our expenditure in the nine months to December 2016.

5. Capital Expenditure and Funding Report (See Sch. 5)

Capital investment in the nine months to December 2016 totalled £60k. £43k of the expenditure related to IT due to the purchase of new mobile phones £36k and the new card entry system at our Glasgow office, £6k. £11k was spent on furniture and £6k for fit-out work for the new office in Inverness.

FINANCE REPORT

Nine Months to 31 December 2016

6. Business Group Summaries (See Sch. 6 a~d)

- 6.1 In the nine months to December 2016 **Audit Services Group** generated a net operating contribution to overheads of £1,347k which was £113k higher than budget.
- Fee income (including credits for non-chargeable work) was £45k higher than budget and now includes income for the start of the 2016/17 audits.
 - All in-house 2015/16 audits with the exception of the EAFA have been reported as complete. Fee income (including credits for non-chargeable work) for 2015/16 audits was £18k more than budget. Favourable variances for chargeable audits of £163k (Local Government +£92k, Central Government +£60k, and FE +£11k) were offset by adverse variances for Health -£3k and non-chargeable Central Government audits, -£142k.
 - Local Government 2015/16 audits are now reported as complete and income was £92k greater than budget. This favourable income position reflects in part the recovery of WIP completion levels from the lower levels recorded at March 2016. As a result audit work was 1.36% more than budget in the year to date which has increased income by £65k. The impact of agreeing 2015/16 fees at levels above that included in the budget added a further £27k of income.
 - As audit work on non-chargeable 2015/16 audits was 7.81% ahead of phased budget at March 2016 the amount of audit work carried out in this financial year was correspondingly reduced with a resulting reduction in the level of audit credits recorded - £142k.
 - Income (including credits for non-chargeable work) for the commencement of 2016/17 audits was £18k greater than budget. Favourable variances were recorded for Local Government, +£29k, FE, +£10k and Central Government, +£43k. Adverse variances for Non-chargeable Central Government audits -£54k and Health -£10k partly offset the favourable variances. The reported figures for the new audits and audit progress were on average 0.21% higher than the budget expectation.
 - An additional £9k of income was recorded for additional fees agreed in respect of Local Government charity audits for the 2014/15 audit year.
 - Income earned from secondments was £26k above budget and relates to a member of staff seconded to the Care Inspectorate.
 - Further details on income are provided in section 2 above and schedules 8 and 9.
 - Gross expenditure at £6,289k was £42k less than budget.
 - Own staff costs were £45k more than budget. The average number of staff employed in the nine months to December at 148.9 w.t.e. was 0.7 w.t.e. above establishment. The adverse cost variance was driven by the increased number of staff in post and the 3% vacancy factor assumed in the budget though this was partly offset by lower than budgeted average actual staff costs per employee. Agency costs were £3k less than budget. Total staff costs including agency and net of secondment income were £16k more than budget.
 - Expenditure levels in other categories were in total £84k less than budget with the main contributor being lower travel and subsistence expenditure £71k. A favourable variance of £10k for professional subscriptions included within the training and recruitment cost category is a timing difference. The balance of the underspend comprised a number of small variances over a range of cost categories.
- 6.2 Net expenditure in **PABV** for the nine months to December 2016 was £2,862k, £60k higher than budget.
- Total staff costs inclusive of secondment expenditure were £128k more than budget.
-

FINANCE REPORT**Nine Months to 31 December 2016**

Three staff seconded into PABV from the Office for National Statistics, West Lothian Council and Scotland's Rural College increased expenditure by £170k. This expenditure was partly offset by lower own staff costs which were £42k less than budget (average staffing to date at 61.4 w.t.e. compared to an establishment of 63.8 w.t.e.) and £62k of income received for a member of staff seconded to Healthcare Improvement Scotland.

- Other expenditure in the nine months to December 2016 was very close to budget +£3k.

6.3 **Corporate Services** net expenditure in the nine months to December 2016 at £2,443k was £25k less than budget. The main contributors to the variance are noted below.

- Own staff costs were £21k higher than budget for the period. CSG staffing at 31.9 w.t.e. was 0.3 w.t.e. above establishment with the adverse cost variance driven by increased staff in post and the 3% vacancy factor. Agency staff spend as a result of backfilling staff on maternity/paternity leave was £36k more than budget.
- Other expenditure for Corporate Services was £72k less than budget. The main contributors to this variance were training and recruitment expenditure which was £33k less than budget and depreciation charges which were £44k lower.

6.4 **Business Support and Facilities Management**, net expenditure to December 2016 at £1,297k was £49k more than budget.

- Staff costs, including agency charges, were £28k higher than budget. The average number of staff employed in the year was 20.5 w.t.e., 1.0 w.t.e. above establishment.
- Other expenditure at £743k was £21k higher than budget mainly as a result of legal and professional fees being £23k higher than budget following the post occupancy review of West Port undertaken by haa design, new work related to the proposed alterations in our Glasgow office, and legal and search fees associated with the Inverness move.

David Hanlon
Corporate Finance Manager
23 January 2017

AUDIT SCOTLAND

FINANCE REPORT

RESULTS SUMMARY: 31 December 2016

Schedule 2

£(000)'s	Annual	Actual	Period	Variance	Actual	Budget	Variance
INCOME							
Fee Income - In House	7,664	368	303	65	6,175	5,934	241
Fee Income - Audit Firms	5,795	781	910	(129)	4,877	4,349	528
Central Charges	4,718	514	393	121	3,660	3,539	121
Rebate	0	0	0	0	0	0	0
Bank interest	25	3	2	1	28	19	9
Other Income	0	10	0	10	91	0	91
TOTAL INCOME	18,202	1,676	1,608	68	14,831	13,841	990
EXPENDITURE							
Commission	177	16	16	0	128	129	1
Board	34	2	2	0	23	26	3
Auditor General	233	19	19	0	165	171	6
Accounts Commission Secretary	93	7	7	0	67	70	3
Management Team	615	49	52	3	448	457	9
Audit Strategy	864	61	56	(5)	510	494	(16)
Approved Auditors	5,012	640	737	97	4,301	3,795	(506)
Audit Services Group	8,474	694	716	22	6,289	6,331	42
Performance Audit and Best Value	3,821	316	309	(7)	2,927	2,802	(125)
Corporate Services	3,350	360	340	(20)	2,472	2,487	15
Business Support & Facilities	1,659	141	139	(2)	1,297	1,248	(49)
Reserves & Provisions	177	4	0	(4)	7	0	(7)
Contingency & EYF	75	0	0	0	0	0	0
TOTAL EXPENDITURE	24,584	2,309	2,393	84	18,634	18,010	(624)
NET OPERATING (COST)	(6,382)	(633)	(785)	152	(3,803)	(4,169)	366
SCPA agreed Budget	(6,382)						
Budget Revision - AME pension adjustment	(6,382)						

AUDIT SCOTLAND

FINANCE REPORT

Balance Sheet As at 31 December 2016

Schedule 3

	31 March 2016 (Audited) £ (000)'s	31 Dec 2016 £(000)'s
Non-Current Assets		
Property, Plant and Equipment	1,767	1,575
Intangible Assets	33	20
Total non-current assets	1,800	1,595
Current Assets		
Trade and other receivables	2,661	7,280
Cash and cash equivalents	1,744	1,743
Total current assets	4,405	9,023
Total assets	6,205	10,618
<u>Less: Current Liabilities</u>		
Trade and other payables < 1 year	3,896	7,127
Provision for early retirement < 1 year	444	444
Other provisions < 1 year	33	33
Total current liabilities	4,373	7,604
Non-current assets plus/net current assets/liabilities	1,832	3,014
Non-current liabilities		
Deferred liabilities	(258)	(472)
Provision for Early Retirement	(1,698)	(1,468)
Other provisions	(81)	(81)
Net Funded Pension Liabilities	(15,838)	(15,838)
Total non-current liabilities	(17,875)	(17,859)
ASSETS LESS LIABILITIES	(16,043)	(14,845)
<u>Represented by:</u>		
Taxpayers' Equity		
Net funded pension liabilities	15,838	15,838
General Fund	205	(993)
	16,043	14,845

**Cash Flow Statement
to 30 November 2016**

Schedule 4

£(000)'s

Cashflows from operating activities

Net Operating cost	(3,803)
<i>Adjustment for non cash items:</i>	
- Depreciation	265
- Pension scheme - net revenue (debit)	
(Increase)/Decrease in trade and other receivables	(4,619)
(Decrease)/Increase in trade/other payables/deferred liabilities	3,445
(Decrease)/Increase in provisions for early retirement	(230)
(Decrease)/Increase in other provisions	0
Adjustment for cash balance due to the Consolidated Fund	(1,743)

Net cashflow from operating activities

(6,685)

Cashflows from investing activities

Purchase of property, plant and equipment	(60)
Purchase of intangible assets	0
Less / (add) movement in accrued expenditure	
	(60)

Cashflows from financing activities

Opening cash balance payable to the Consolidated Fund	1,744
From Consolidated Fund (supply)	5,000
	6,744

Net increase / (decrease) in cash and cash equivalents in the period

(1)

Cash and cash equivalents at the beginning of the period

1,744

Cash and cash equivalents at the end of the period

1,743

Net cash requirement

Cashflows from financing activities	6,744
(Increase)/ decrease in cash	1
	6,745

AUDIT SCOTLAND
FINANCE REPORT

Capital Expenditure and Funding Report
As at 31 December 2016

Schedule 5

	Leasehold Buildings £(000)'s	Furniture & Fittings £(000)'s	Computer Hardware £(000)'s	Computer Software £(000)'s	TOTAL £(000)'s
ASSETS					
Cost					
At 1 April 2016	1,270	251	869	725	3,115
Reclassified in year	0	0	0	0	0
Additions for year	6	11	43	0	60
Disposals for year	0	0	0	0	0
As at 31 December 2016	1,276	262	912	725	3,175
Depreciation					
At 1 April 2016	128	34	461	692	1,315
Reclassified in year	0	0	0	0	0
Charge for Year	101	37	114	13	265
Disposals for year	0	0	0	0	0
As at 31 December 2016	229	71	575	705	1,580
Net Book Value					
As at 31 December 2016	1,047	191	337	20	1,595
Analysis of Asset Financing					
Owned	1,047	191	337	20	1,595

AUDIT SCOTLAND

FINANCE REPORT

ASG FINANCE REPORT: to 31 December 2016

Schedule 6a

£(000)'s	Annual Budget	Period	Period Budget	Variance	YTD	Budget YTD	Variance YTD
INCOME							
LG Audits	4,588	188	146	42	3,633	3,503	130
Health Audits	1,530	37	64	(27)	1,239	1,252	(13)
CG Audits	1,509	122	88	34	1,250	1,146	104
CG Audits (non-chargeable)	1,963	(17)	52	(69)	1,435	1,631	(196)
FE Audits	38	21	5	16	53	33	20
Fees for Additional Audits	0	0	0	0	0	0	0
TOTAL FEE INCOME	9,628	351	355	(4)	7,610	7,565	45
Secondments Income	0	3	0	3	26	0	26
Other Income	0	0	0	0	0	0	0
OTHER INCOME	0	3	0	3	26	0	26
TOTAL INCOME	9,628	354	355	(1)	7,636	7,565	71
DIRECT COSTS							
Salaries	5,772	484	481	(3)	4,382	4,329	(53)
National Insurance	630	52	53	1	474	473	(1)
Superannuation	1,002	82	84	2	742	751	9
Superannuation Lump Sum	40	3	3	0	30	30	0
Class 1A NI	40	3	3	0	30	30	0
Agency Costs and Secondments	75	0	0	0	72	75	3
TOTAL DIRECT COSTS	7,559	624	624	0	5,730	5,688	(42)
EXPENDITURE							
Training & Recruitment	41	13	20	7	20	30	10
Cars	352	36	29	(7)	268	264	(4)
Travel & Subsistence/Relocation	465	18	39	21	241	312	71
Accommodation	0	0	0	0	0	0	0
Other Accommodation Costs	5	1	0	(1)	7	4	(3)
Printing	5	0	0	0	2	3	1
Communications	0	0	0	0	0	0	0
Stationery & Consumables	7	0	1	1	3	5	2
Postage & Distribution	3	0	0	0	2	2	0
ICT	17	0	0	0	9	9	0
Consultancy	6	0	0	0	0	4	4
Legal/Professional Fees	0	0	0	0	0	0	0
Insurance	0	0	0	0	0	0	0
Corporate Costs	8	1	2	1	4	6	2
Depreciation	0	0	0	0	0	0	0
Miscellaneous	6	1	1	0	3	4	1
TOTAL EXPENDITURE	915	70	92	22	559	643	84
GROSS EXPENDITURE	8,474	694	716	22	6,289	6,331	42
NET OPERATING CONTRIBUTION TO OVERHEADS	1,154	(340)	(361)	21	1,347	1,234	113

AUDIT SCOTLAND

FINANCE REPORT

PABV FINANCE REPORT: to 31 December 2016

Schedule 6b

£(000)'s	Annual Budget	Period	Period Budget	Variance	YTD	Budget YTD	Variance YTD
INCOME							
Bank Interest	0	0	0	0	0	0	0
Secondments Income	0	7	0	7	62	0	62
Other Income	0	0	0	0	3	0	3
Pension Fund Finance Income	0	0	0	0	0	0	0
OTHER INCOME	0	7	0	7	65	0	65
TOTAL INCOME	0	7	0	7	65	0	65
DIRECT COSTS							
Salaries	2,687	215	224	9	1,977	2,015	38
National Insurance	299	24	25	1	218	225	7
Superannuation	465	39	39	0	350	348	(2)
Superannuation Lump Sum	19	2	2	0	14	14	0
Class 1A NI	3	0	0	0	4	3	(1)
Agency Costs and Secondments	0	18	0	(18)	170	0	(170)
TOTAL DIRECT COSTS	3,473	298	290	(8)	2,733	2,605	(128)
EXPENDITURE							
Training & Recruitment	5	0	3	3	2	3	1
Cars	32	2	3	1	23	24	1
Travel & Subsistence/Relocation	79	6	5	(1)	43	58	15
Accommodation	0	0	0	0	0	0	0
Other Accommodation Costs	4	1	0	(1)	2	3	1
Printing	0	0	0	0	0	0	0
Communications	0	0	0	0	0	0	0
Stationery & Consumables	3	0	0	0	0	2	2
Postage & Distribution	0	0	0	0	0	0	0
ICT	5	0	0	0	2	2	0
Consultancy	210	7	6	(1)	100	97	(3)
Legal/Professional Fees	0	0	0	0	9	0	(9)
Insurance	0	0	0	0	0	0	0
Corporate Costs	10	2	2	0	13	8	(5)
Depreciation	0	0	0	0	0	0	0
Miscellaneous	0	0	0	0	0	0	0
TOTAL EXPENDITURE	348	18	19	1	194	197	3
GROSS EXPENDITURE	3,821	316	309	(7)	2,927	2,802	(125)
NET OPERATING (COST)	(3,821)	(309)	(309)	0	(2,862)	(2,802)	(60)

AUDIT SCOTLAND

FINANCE REPORT

CSG FINANCE REPORT: to 31 December 2016

Schedule 6c

£(000)'s	Annual Budget	Period	Period Budget	Variance	YTD	Budget YTD	Variance YTD
INCOME							
Bank Interest	25	3	2	1	28	19	9
Secondments Income	0	0	0	0	0	0	0
Other Income	0	0	0	0	1	0	1
Pension Fund Finance Income	0	0	0	0	0	0	0
OTHER INCOME	25	3	2	1	29	19	10
TOTAL INCOME	25	3	2	1	29	19	10
DIRECT COSTS							
Salaries	1,229	103	103	0	936	920	(16)
National Insurance	131	11	11	0	100	98	(2)
Superannuation	211	18	18	0	161	158	(3)
Superannuation Lump Sum	8	1	1	0	6	6	0
Class 1A NI	0	0	0	0	0	0	0
Agency Costs and Secondments	8	6	0	(6)	42	6	(36)
Severance Costs	0	0	0	0	0	0	0
Untaken Holidays Accrual	0	0	0	0	0	0	0
Adj to Early Retirement Provision	0	0	0	0	0	0	0
TOTAL DIRECT COSTS	1,587	139	133	(6)	1,245	1,188	(57)
EXPENDITURE							
Training & Recruitment	554	121	108	(13)	362	395	33
Cars	0	0	0	0	0	0	0
Travel & Subsistence/Relocation	25	1	2	1	13	18	5
Accommodation	0	0	0	0	0	0	0
Other Accommodation Costs	17	3	1	(2)	9	10	1
Printing	8	0	1	1	6	6	0
Communications	80	7	7	0	60	61	1
Stationery & Consumables	1	0	0	0	0	1	1
Postage & Distribution	5	(1)	0	1	2	5	3
ICT	376	38	31	(7)	289	280	(9)
Consultancy	60	7	0	(7)	68	54	(14)
Legal/Professional Fees	100	9	8	(1)	85	74	(11)
Insurance	71	6	6	0	52	53	1
Corporate Costs	11	1	3	2	3	8	5
Depreciation	412	29	34	5	265	309	44
Miscellaneous	43	0	6	6	13	25	12
TOTAL EXPENDITURE	1,763	221	207	(14)	1,227	1,299	72
GROSS EXPENDITURE	3,350	360	340	(20)	2,472	2,487	15
NET OPERATING (COST)	(3,325)	(357)	(338)	(19)	(2,443)	(2,468)	25

AUDIT SCOTLAND

FINANCE REPORT

BSS & FM FINANCE REPORT: to 31 December 2016

Schedule 6d

£(000)'s	Annual Budget	Period	Period Budget	Variance	YTD	Budget YTD	Variance YTD
INCOME							
Bank Interest	0	0	0	0	0	0	0
Secondments Income	0	0	0	0	0	0	0
Other Income	0	0	0	0	0	0	0
Pension Fund Finance Income	0	0	0	0	0	0	0
OTHER INCOME	0	0	0	0	0	0	0
TOTAL INCOME	0	0	0	0	0	0	0
DIRECT COSTS							
Salaries	518	53	43	(10)	414	391	(23)
National Insurance	48	5	4	(1)	39	36	(3)
Superannuation	88	7	7	0	60	66	6
Superannuation Lump Sum	3	0	0	0	3	3	0
Class 1A NI	0	0	0	0	0	0	0
Agency Costs and Secondments	40	0	0	0	47	39	(8)
Severance Costs	0	0	0	0	0	0	0
Untaken Holidays Accrual	0	0	0	0	0	0	0
Adj to Early Retirement Provision	0	0	0	0	0	0	0
TOTAL DIRECT COSTS	697	65	54	(11)	563	535	(28)
EXPENDITURE							
Training & Recruitment	0	0	0	0	2	0	(2)
Cars	4	0	0	0	0	3	3
Travel & Subsistence/Relocation	6	1	1	0	7	5	(2)
Accommodation	837	69	75	6	627	628	1
Other Accommodation Costs	32	0	2	2	22	24	2
Printing	23	2	2	0	18	17	(1)
Communications	0	0	0	0	0	0	0
Stationery & Consumables	30	3	3	0	21	23	2
Postage & Distribution	11	1	1	0	6	8	2
ICT	1	0	0	0	0	0	0
Consultancy	10	0	0	0	0	0	0
Legal/Professional Fees	0	0	0	0	23	0	(23)
Insurance	7	0	1	1	3	5	2
Corporate Costs	1	0	0	0	5	0	(5)
Depreciation	0	0	0	0	0	0	0
Miscellaneous	0	0	0	0	0	0	0
TOTAL EXPENDITURE	962	76	85	9	734	713	(21)
GROSS EXPENDITURE	1,659	141	139	(2)	1,297	1,248	(49)
NET OPERATING (COST)	(1,659)	(141)	(139)	(2)	(1,297)	(1,248)	(49)

AUDIT SCOTLAND

FINANCE REPORT

WTE Staff in Post Summary: 2016/17

Schedule 7

	Establishment	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	March	Average
Auditor General	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0				1.0
Accounts Commission Secretary	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0				1.0
Management Team	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0				4.0
Audit Strategy	9.0	8.8	8.8	8.8	8.8	8.8	8.8	8.8	9.8	9.8				9.0
Audit Services Group	148.2	149.0	147.0	149.0	152.0	152.0	146.0	150.2	146.7	148.2				148.9
Performance Audit and Best Value	63.8	60.3	60.3	63.3	63.1	62.7	62.9	60.9	60.0	59.0				61.4
Corporate Resource Group	4.6	3.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6				4.5
Human Resources	5.2	5.2	5.4	5.4	5.4	5.2	5.4	5.4	5.4	5.4				5.4
IT Services Group	9.0	9.0	9.0	9.0	8.0	8.0	8.0	9.0	9.0	9.0				8.7
Communications	9.8	9.8	9.8	9.8	9.8	9.8	9.8	9.8	9.8	9.8				9.8
Corporate Planning & Projects	3.0	3.0	3.0	4.0	4.0	4.0	4.0	4.0	3.0	3.0				3.6
Corporate Services	31.6	30.6	31.8	32.8	31.8	31.6	31.8	32.8	31.8	31.8	0.0	0.0	0.0	31.9
Business Support & Facilities	19.5	19.9	19.9	19.9	19.7	19.7	20.7	21.7	21.7	21.7				20.5
TOTAL AUDIT SCOTLAND (Exc Commission)	278.1	274.6	273.8	279.8	281.4	280.8	276.2	280.4	276.0	276.5	0.0	0.0	0.0	277.7
%age of Establishment	100.0%	98.7%	98.4%	100.6%	101.2%	100.9%	99.3%	100.8%	99.2%	99.4%				99.8%
Board	4.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0				3.0
Commission	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0				12.0
TOTAL	294.1	289.6	288.8	294.8	296.4	295.8	291.2	295.4	291.0	291.5	0.0	0.0	0.0	292.7
Agency and Secondments (w.t.e.)														
Agency estimate		1.3	1.9	4.3	10.6	12.7	5.9	1.7	1.5	1.5				4.6
Secondments to Audit Scotland		3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0				3.0
Secondments from Audit Scotland		-1.0	-1.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0				-1.8
		3.3	3.9	5.3	11.6	13.7	6.9	2.7	2.5	2.5	0.0	0.0	0.0	5.8

AUDIT SCOTLAND

FINANCE REPORT

WORK IN PROGRESS 2015/16 AUDIT YEAR

SCHEDULE 8a

AUDIT COMPLETION PERCENTAGES

	2015/16 AUDIT YEAR					
	14/15 AY ACTUAL December 2015 %	Cumulative				In year variance December 2016 %
		ACTUALS March 2015 %	December 2016 %	BUDGET December 2016 %	VARIANCE December 2016 %	
In House Teams						
Local Government	100.00	34.92	100.00	100.00	0.00	1.37
Health	100.00	36.26	100.00	100.00	0.00	0.38
FE colleges	87.55	16.16	100.00	100.00	0.00	13.49
Central Government	95.40	32.44	92.04	100.00	-7.96	-3.37
Total Chargeable	98.98	34.57	98.30	100.00	-1.70	0.20
Non Chargeable	99.88	31.83	100.00	100.00	0.00	-7.81
Total In House	99.15	34.02	98.63	100.00	-1.37	-1.36
Approved Auditors *						
Local Government	100.00	21.91	100.00	99.12	0.88	9.43
Health	100.00	27.24	100.00	100.00	0.00	4.03
Water	100.00	20.00	100.00	100.00	0.00	10.34
FE colleges	90.91	3.36	100.00	86.52	13.48	22.86
Central Government	99.50	23.38	100.00	99.38	0.62	6.68
Total Chargeable	99.21	21.88	100.00	98.43	1.57	8.88
Non Chargeable	100.00	7.04	100.00	100.00	0.00	38.01
Total Approved Auditors	99.23	21.58	100.00	98.46	1.54	9.49
* To be reported quarterly						

AUDIT SCOTLAND

FINANCE REPORT

WORK IN PROGRESS 2016/17 AUDIT YEAR

SCHEDULE 8b

AUDIT COMPLETION PERCENTAGES

	15/16 AY ACTUAL December 2015 %	2016/17 Audit Year		
		ACTUAL December 2016 %	BUDGET December 2016 %	VARIANCE December 2016 %
In House Teams				
Local Government	10.59	11.56	10.87	0.69
Health	16.73	16.50	17.14	-0.64
FE colleges	0.00	22.67	0.00	22.67
Central Government	15.29	9.77	7.26	2.51
Total Chargeable	12.69	12.15	11.15	1.00
Non Chargeable	9.80	6.11	9.97	-3.86
Total In House	12.12	11.17	10.96	0.21
Approved Auditors *				
Local Government	5.71	7.13	8.44	-1.31
Health	8.77	9.69	11.26	-1.57
Water	14.00	20.00	20.81	-0.81
FE colleges	0.14	0.46	0.23	0.23
Central Government	5.77	6.49	7.02	-0.53
Total Chargeable	6.24	7.44	8.64	-1.20
Non Chargeable	2.36	6.33	10.24	-3.91
Total Approved Auditors	6.16	7.38	8.67	-1.29
* To be reported quarterly				

AUDIT SCOTLAND

FINANCE REPORT

2016/17 FINANCIAL YEAR - FEE INCOME ANALYSIS £000

SCHEDULE 9

As at 31 December 2016

	Prior year adjustments			2015/16 Audit Year			2016/17 Audit Year			2016/17 Financial Year to Date			Variance analysis		
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Volume	Price *	Total
In-house Teams															
Local Government	9	0	9	3,146	3,054	92	478	449	29	3,633	3,503	130	94	36	130
Health	0	0	0	1,010	1,013	(3)	229	239	(10)	1,239	1,252	(13)	(4)	(9)	(13)
FE colleges	0	0	0	43	33	10	10	0	10	53	33	20	16	4	20
Central Government	0	0	0	1,083	1,022	61	167	124	43	1,250	1,146	104	(13)	117	104
Total In-house teams	9	0	9	5,282	5,122	160	884	812	72	6,175	5,934	241	93	148	241
Approved Auditors															
Local Government	0	0	0	2,388	2,094	294	186	260	(74)	2,574	2,354	220	253	(33)	220
Health	8	0	8	956	853	103	93	141	(48)	1,057	994	63	35	28	63
Water	0	0	0	150	119	31	27	36	(9)	177	155	22	17	5	22
FE colleges	3	0	3	447	307	140	2	1	1	452	308	144	97	47	144
Central Government	0	0	0	594	487	107	23	51	(28)	617	538	79	45	34	79
Total Approved Auditors	11	0	11	4,535	3,860	675	331	489	(158)	4,877	4,349	528	447	81	528
Total															
Local Government	9	0	9	5,534	5,148	386	664	709	(45)	6,207	5,857	350	347	3	350
Health	8	0	8	1,966	1,866	100	322	380	(58)	2,296	2,246	50	31	19	50
Water	0	0	0	150	119	31	27	36	(9)	177	155	22	17	5	22
FE colleges	3	0	3	490	340	150	12	1	11	505	341	164	113	51	164
Central Government	0	0	0	1,677	1,509	168	190	175	15	1,867	1,684	183	32	151	183
Total Fees	20	0	20	9,817	8,982	835	1,215	1,301	(86)	11,052	10,283	769	540	229	769
Central Charges	0	0	0	2,771	2,771	0	889	768	121	3,660	3,539	121	0	121	121
TOTAL	20	0	20	12,588	11,753	835	2,104	2,069	35	14,712	13,822	890	540	350	890

* Price variance includes the reduction in income to be earned as as result of procurement savings on work carried out by external firms

AUDIT SCOTLAND BOARD

31 MARCH 2017

REPORT BY THE ASSISTANT DIRECTOR CORPORATE PERFORMANCE AND RISK

Q3 PERFORMANCE REPORT 2016/17

1. Purpose of Report

This report provides the Board with an overview of Audit Scotland's performance during quarter three of 2016/17.

2. Background

The report seeks to provide both an 'at a glance' overview of performance and more detailed data and analysis. We monitor and report on performance using nine corporate objectives. Our assessments on the objectives are informed by 20 key performance questions (KPQs), which in turn are informed by 44 Key performance indicators (KPIs).

The report seeks to provide assurance about progress against our objectives and to identify any areas which require particular attention.

- Appendix 1 provides a summary of our performance on the nine corporate objectives and the supporting KPQs and KPIs over time
- Appendix 2 provides detailed information on each of the objectives, KPQs and KPIs, including narrative on current performance and a forward look on future issues and risks.

We use a red, amber green (RAG) 'traffic light' assessment for each of the objectives, KPQs and KPIs where:

- **Red** = Not progressing/significant additional management action required.
- **Amber** = Progressing and additional management action planned.
- **Green** = On target/no need for additional management action.

3. Performance headlines Q3

The Q3 indicators present a positive picture overall and this is consistent with the previous quarterly reports. We continue to deliver high quality audits substantially on time and within our overall revenue budget. The headlines include:

Outputs and outcomes

- 31 audit reports delivered in Q3.
- Reports published in Q3 included
 - NHS in Scotland 2016 which gained significant attention and media coverage
 - The local government financial overview report, three Best Value audit reports and a How Councils Work report on roles and relationships
 - Three statutory section 22 reports on SPA, NHS24 and NHS Tayside.

Processes

- All audits scheduled for publication in Q3 reported in the quarter
- Two audits rescheduled from Q2 were published in Q3.
- Expenditure on audits varied slightly across the business groups but overall was delivered within 1% of the budget.

Resourcing

- In the nine months to December 2016 Audit Scotland's Net Operating cost at 3,803k was £366k less than budget.
- 'One to watch' status was retained in the Best Companies survey, though the overall score was down slightly from last year
- Sickness absence levels remain low at an average of 1.27 days per person.

The overall positive assessment of our performance is consistent with the messages in the suite of 2015/16 annual performance reports published in June 2016.

4. Performance review Q3

Six of the nine corporate objectives are assessed as 'green':

- 2.1 We conduct relevant and timely audits of the way the public sector manages and spends money.
- 2.2 We report our findings and conclusions in public
- 2.3 To identify risks and make clear and relevant recommendations for improvement and follow these up.
- 3.1 We systematically improve the quality and impact of our work.
- 3.3 We develop new and improved products to maximise the impact of audit.
- 3.6 We work together to deliver excellent audits.

The assessment for 2.3, on making clear and relevant recommendations for improvement and following these up, has moved from amber to green. A revised approach to gathering information on, the response to, and the outcome of recommendations has led to more evidence being available on the positive impact of the audit work at national and local level. This is illustrated on pages 11 and 12.

Three objectives are assessed as 'amber':

- 3.2 We seek out and manage information and intelligence to deliver excellent audits.
- 3.4 We maximise our efficiency and effectively manage our resources to reduce the costs of audit.
- 3.5 We empower and support our people to be engaged, highly skilled and perform well.

None of the objectives are assessed as 'red'.

5. Areas requiring attention

Developments in the areas requiring attention are being managed through the Becoming World Class (BWC) improvement programme. The Q3 Becoming World Class progress report is on today's agenda as item X.

We anticipate that developments planned in a number of areas will impact on the performance assessments.

6. Conclusion and Recommendations

The Board is invited to review the performance report and consider whether any additional management attention is required.

Performance Management Framework: Overview
Appendix 1

Performance Management Framework Overview										Appendix 1																
Objective	2015-16				2016-17				KPQ	2015-16				2016-17				KPI	2015-16				2016-17			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
2.1 To conduct relevant and timely audits of the way the public sector manages and spends money.	G	G	G	G	G	G	G	G	2.1.1 To what extent are audits delivered on time?	G	G	G	G	G	G	G	2.1.1.1 Audit progress vs. schedule	G	G	G	G	G	G	G		
									2.1.2 To what extent are audits delivered on budget?	G	G	G	G	G	G	G	2.1.2.1 Audit costs vs. budget	G	G	G	G	G	G	G		
									2.1.3 To what extent are relevant audits being delivered?	G	G	G	G	G	G	G	2.1.3.1 Manager's assessment	G	G	G	G	G	G	G		
										2.1.4 To what extent are audits world class?	A	A	A	A	A	A	A	2.1.4.1 Quality assessment world class	A	A	A	A	A	A	A	
									2.1.4.2 Feedback	G	G	G	G	G	G	G										
2.2 To report findings and conclusions in public.	G	G	G	G	G	G	G	G	2.2.1 To what extent are reports published on schedule?	G	G	G	G	G	G	G	2.2.1.1 Number of reports produced vs. schedule	A	A	A	A	G	G	G		
									2.2.2 How well are messages out?	G	G	G	G	G	G	2.2.2.1 Media coverage	G	G	G	G	G	G				
																2.2.2.2 Web analytics	G	G	G	G	G	G	G			
																2.2.2.3 Manager's assessment	G	G	G	G	G	G	G			
																Compliance with plain language	G	G	G	G	G	G	G			
CHANGED ASSESSMENT 2.3 To identify risks and make clear and relevant recommendations for improvement and follow these up.	G	A	A	A	A	A	A	G	2.3.1 To what extent are there practical, clear and relevant recommendations in everything published?	G	G	G	G	G	G	G	2.3.1.1 Manager's assessment that recommendations are clear, SMART, linked to findings, practical and have checklists where appropriate.	G	G	G	G	G	G	G		
									2.3.2 To what extent have recommendations led to improvements?	A	A	A	A	A	A	G	2.3.1.2 % of recommendations accepted	G	G	G	G	G	G	G		
																	2.3.2.1 Manager's assessment (have recommendations been acted upon/have they gone to the governing body of the audited organisation?)	A	A	A	A	A	A	A	G	
																	2.3.2.2 Findings from impact reports	A	A	A	A	A	A	A	A	
3.1 To systematically improve the quality and impact of audit work	G	G	G	G	G	G	G	G	3.1.1 To what extent are we improving the way we are working?	G	G	G	G	G	G	3.1.1.1 Internal quality review findings	G	G	G	G	G	G	G			
																3.1.1.3 Manager's assessment of improvement activities	G	G	G	G	G	G	G			
3.2 To seek out and manage information and intelligence to deliver excellent audits.	A	A	A	A	A	A	A	A	3.2.1 To what extent is the knowledge people need, gathered, organised and accessible?	A	A	A	A	A	A	A	3.2.1.1 Staff survey/focus group feedback	A	A	A	A	A	A	A		
									3.2.2 To what extent are appropriate knowledge resources built?	A	A	A	A	A	A	A	3.2.1.2 Manager's assessment	A	A	A	A	A	A	A		

3.3 To develop new and improved products to maximise the impact of audit.	A	A	A	A	G	G	G	3.3.1 To what extent are new products and services developed?	A	A	A	A	G	G	G	3.3.1.1 Manager's assessment (review of recent innovations)	A	A	A	A	G	G	G
								3.3.2 How well are products and study programmes suitable and appropriate for emerging issues?	A	A	A	A	A	A	A	3.3.2.1 Manager's assessment	A	A	A	A	A	A	A
3.4 To maximise efficiency and effectively manage resources to reduce the costs of audit.	A	A	A	A	A	A	A	3.4.1 To what extent is efficiency improving?	A	A	A	A	A	A	A	3.4.1.1 Costs vs. shrinking budget	G	G	G	G	G	G	G
																3.4.1.2 Cost per audit (against benchmark)	Y	Y	Y	Y	Y	Y	Y
																3.4.1.3 Workforce costs	G	G	G	G	G	G	G
																3.4.1.4 Estate costs	G	G	G	G	G	G	G
																3.4.1.5 Costs of travel	G	G	G	G	G	G	G
																3.4.1.6 Carbon footprint	G	G	G	G	G	G	G
																3.4.1.7 Benchmarking data on finance, IT, HR, Communications and estate	Y	Y	Y	Y	Y	Y	Y
																3.4.1.8 IT network downtime	G	G	G	G	G	G	G
																3.4.1.9 Internal audit feedback	A	A	A	A	A	A	A
																3.4.1.10 % productive/chargeable time vs. targets by grade	G	G	G	G	G	G	G
3.5 To empower and support people to be engaged, highly skilled and perform well.	A	A	A	A	A	A	A	3.5.1 To what extent have we got empowered and engaged people?	A	A	A	A	A	A	A	3.5.1.1 Best Company survey results	G	G	G	G	G	G	G
								3.5.2 To what extent are people remaining to be highly skilled?	G	G	G	G	G	G	G	3.5.2.1 % completion of personal development plans	G	G	G	G	G	G	G
								3.5.3 To what extent are people performing well?	G	G	G	G	G	G	G	3.5.2.2 % pass rates for trainees	G	G	G	G	G	G	G
																3.5.3.1 Performance feedback ranks (PAD Score/evaluation)	G	G	G	G	Y	Y	Y
																3.5.3.2 360 degree feedback	A	A	A	A	A	A	A
																3.5.3.3 Attendance levels	G	G	G	G	G	G	G
																3.5.3.4 Staff Turnover	G	G	G	G	G	G	G
								3.5.4 We will understand and support diversity within the workforce	G	G	G	G	G	G	G	3.5.4.1 Equalities	G	G	G	G	G	G	G
3.6 To work together to deliver excellent audits.	G	G	G	G	G	G	G	3.6.1 To what extent is there communicating and collaborating across organisational departments?	G	G	A	A	A	A	A	3.6.1.1 Best Company survey results	G	G	A	A	A	A	A
								3.6.2 To what extent are career paths offered across the organisation?	G	G	G	G	G	G	G	3.6.2.1 Manager's assessment	G	G	G	G	G	G	G
																3.6.2.2 % promotions per year	G	G	G	G	G	G	G
																3.6.2.3 % side-ways moves per year	G	G	G	G	G	G	G
																3.6.2.4 No. internal/external secondments	G	G	G	G	G	G	G

Corporate objective – 2.1 We conduct relevant and timely audits of the way the public sector manages and spends money

Key Performance Questions:	Q1 RAG	Q2 RAG	Q3 RAG	Q4 RAG	PERFORMANCE HEADLINE:
To what extent are audits delivered on time?	G	G	G		In Q3 we published 31 audits (185 in the year to date). Audits are currently being delivered within 1 percent of the budget.
To what extent are audits delivered on budget?	G	G	G		
To what extent are relevant audits being delivered?	G	G	G		
To what extent are audits world class?	A	A	A		

On time:

31 audits/reports were delivered in Q3 with a total of 185 year to date. Details of the reports published are available in the table on page 9.

All of the scheduled work was completed in the quarter. Two reports rescheduled from Q2 (How Councils work – Roles and working relationships and the Angus Best Value report) were also published in Q3.

The Angus Council Best Value report originally due to be published in August, was considered by the Accounts Commission at its August meeting. At that meeting further information was requested from the audit team, with the final report approved in September and published on 4 October (Q3).

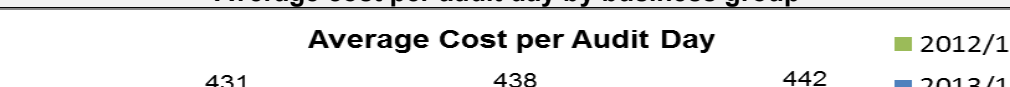
Relevant:

The How Councils Work - roles and working relationships follow up report was published in November. Alongside the main report are a number of resources for councils and elected members, including a summary of the report key headlines, a good practice checklist and summaries of round table discussions that informed the final report. The Improvement Service has indicated that it may use some of the resources from this work within its elected member induction material for new councillors elected in May 2017.

The Housing Benefit audit work moved to ASG in October 2016 but was monitored in Audit Strategy in Q3. Three HB risk assessments and one thematic study were delivered as planned with and within budget in Q3.

On budget:

Business group's expenditure on audits varied slightly across the business groups but overall was delivered 0.8% over budget.

Business Group	2016/17				Average cost per audit day by business group																													
	Budget	Actual	£ Variance	% Variance	Average Cost per Audit Day																													
ASG	6,331,000	6,289,000	42,000	-0.7	 <table><caption>Average Cost per Audit Day Data</caption><thead><tr><th>Business Group</th><th>2012/13</th><th>2013/14</th><th>2014/15</th><th>2015/16</th><th>2016/17</th></tr></thead><tbody><tr><td>ASG</td><td>442</td><td>443</td><td>429</td><td>441</td><td>431</td></tr><tr><td>AST</td><td>366</td><td>457</td><td>446</td><td>450</td><td>438</td></tr><tr><td>PABV</td><td>470</td><td>458</td><td>469</td><td>466</td><td>442</td></tr></tbody></table>						Business Group	2012/13	2013/14	2014/15	2015/16	2016/17	ASG	442	443	429	441	431	AST	366	457	446	450	438	PABV	470	458	469	466	442
Business Group	2012/13	2013/14	2014/15	2015/16							2016/17																							
ASG	442	443	429	441							431																							
AST	366	457	446	450							438																							
PABV	470	458	469	466	442																													
AST	160,627	156,913	3,714	-2.3																														
PABV	1,490,073	1,598,484	108,411	+7.3																														
Total	7,981,700	8,044,397	62,697	+0.8																														

PABV audits have been delivered 7.3% over agreed budget, this is down from 10.2% in the previous quarter. The overspend for the year to date can be largely be attributed to overspends on the Colleges Overview, Higher Education and Supporting Scotland's Economic Growth reports. The scope and requirements of these audits were more complex than originally envisaged, requiring audit plans to be revised. In one audit there was also a change of manager mid audit, resulting in additional costs.

The Supporting Scotland's Economic Growth audit chose to incorporate members of the local audit teams at the enterprise agencies into the audit team. This improved the audit and was a positive example of one organisation working but also resulted in the final audit cost being higher than originally planned.

Forward look:

- The moratorium for the local government election has been confirmed as starting on 13 March 2017. This starts earlier and covers a longer period than is normally the case. We are considering the implications of this for our publication plan, particularly reports due to publish between March and May 2017.
- The Accounts Commission and Auditor General are consulting externally on the proposals set out within the rolling work programme refresh. The programme is due to be formally approved in March.
- Going forward into the 2016/17 audit year, ASG has 139 audit client bodies which require a statutory audit opinion.

Key risks / Issues:

- The draft accounts and supporting working papers for the 2016 EAFA audit were submitted to Audit Scotland in late January, well after the agreed date of November 2016. There have also been the well documented and serious problems with the CAP Futures IT system which have impacted upon the audit process. As a result the EAFA audit team will not be able to meet the 15 February target for the submission of the accounts to Brussels. The European Commission has granted the Paying Agency an extension until 1 March 2017 and the audit team is making every effort to meet that date. However any problems encountered during the audit could potentially have a further impact on the completion date.
- Audit Scotland is currently rolling out a revised approach to the audit of best value in local authorities. As we have many new audit client bodies being audited by new audit teams there is a potential risk that planned outputs may be delivered behind schedule.

Performance details: Audit products planned for the year 2016/17:

The business group activity is shown below. For ASG this includes the annual certifications but does not include other products such as annual audit plans, controls and governance reports and annual audit reports, other reports / returns required by the annual planning guidance. Including these, ASG's total external-facing outputs currently are in excess of 1,000. For Audit Strategy - housing benefit work including risk assessments and follow ups, thematic studies and welfare reform updates; for PABV performance, Best Value, CPP, overview, how councils work and statutory reports.

Business Group	Planned	Completed (YTD)	
ASG (15/16 audits)	150	149	99%
AST*	17	14	82%
PABV	18	14	78%
Other	15	8	53%

Feedback received:

Teams have recorded many examples on where we have had a positive impact. Some examples include:

- A new central government body was not as prepared as they might have been for either the accounts preparation or audit process. The body appreciated the professionalism of the auditors in developing good lines of communications with the client officers whilst still maintaining their audit independence. This has given auditors a good foundation for future audit work.
- Feedback on the HB performance audit has been received from two councils this quarter. Comments have been positive e.g. "The level of expertise exhibited by the benefits auditor provided a rigorous but fair challenge to the service."

Corporate objective – 2. 2 We report our findings and conclusions in public

Key Performance Questions:	Q1 RAG	Q2 RAG	Q3 RAG	Q4 RAG	PERFORMANCE HEADLINE:
To what extent are reports published on schedule?	G	G	G		In Q3 we published 31 reports including three statutory reports. Reports gained significant parliamentary interest and media coverage.
How well are messages getting out?	G	G	G		

Reporting on schedule

During Q3 59 reports were scheduled and 31 were published. This is due to a number of the Central Government audits being completed ahead of schedule in Q1 and Q2. In the year to date ASG have published 175 audits on or ahead of schedule time and are due to publish the final audit in Q4. All HB reports were issued as planned. Two reports (Angus BV and HCW – role & responsibilities) that were due to be published in Q2 were published in Q3.

Previous quarterly reports highlighted the Equal Pay and Ferry Services in Scotland performance audits as provisional Q4 16/17 or early 17/18 publications. Scoping and planning work refined the timescales for both audits which are now under way. The Equal Pay audit is scheduled for late Spring and the Ferry Service audit for late Summer.

Getting our message out

Media coverage for the *NHS in Scotland overview report* received unprecedented coverage across UK print and digital media channels. On publication the report was trending higher on Twitter than several well known UK wide television programmes. The nature of the reports findings and the high profile coverage afforded to them saw the Cabinet Secretary for Health and Sport issue a ministerial statement.

As well as media coverage in Q3 there were a number of other events to support getting the messages out including:

- Supporting the *Accounts Commission's* engagement activity for the new approach to the audit of Best Value. This included roadshows events for councils and a session with COSLA.
- TSU had a session at the *CIPFA technical event* to LA practitioners on the findings from 2015/16 audit and look ahead to 2016/17.
- The Audit Manager for the *Higher Education performance audit* was invited to present the audit findings and recommendations to: the Scottish Universities Secretaries Group, Aberdeen University Senior Management Group, Dundee University Finance and Risk Committee, Stirling University Court and a KPMG HE Sector event. The Higher Education report findings were also discussed at HE Sector group meetings of Directors of Finance and Chairs of Court.
- The Audit Manager for the *Changing Models of Health and Social Care audit* delivered a presentation on the reports findings to a Holyrood conference. The Audit Manager also presented key issues to the West Dunbartonshire Health and Social Care Partnership audit committee. As part of our promotion of the health and social care webpage we put out a post about the case studies supplement to the report. This prompted lots of shares and positive comments, one user tweeted us to say they were going to use it as part of educating mental health nursing students.
- The *NFI report* was presented to the Public Audit and Post Legislative Scrutiny Committee (PAPLS) this quarter.

The press coverage for Q3 saw 577 Audit Scotland and 108 Accounts Commission mentions. The majority of coverage in Q3 was for the NHS in Scotland 2016 report.

There also coverage of the Scottish Government accounts and other previous reports that gained coverage in Q3 were on; our Common Agricultural Futures Update, Prestwick Airport, NHS in Scotland 2015, Social Work in Scotland, Scotland's Colleges 2016, and Sheriff Courts Efficiency.

Online activity

Downloads

Comparison with previous years downloads shows an increase.

Total downloads	2016/17	2015/16
Q1	177,392	122,266
Q2	183,206	153,840
Q3	182,163	150,044
Q4		179,851
Total		606,001

Social Media

The number of 'engagements' with our Social media activity increased from 1,848 in the previous quarter and the number of re tweets remained consistent with last year's levels.

Month	2016/17		2015/16	
	Engagements*	Re tweets	Engagements	Retweets
Q1	2,104	260	727	262
Q2	3,935	566	388	65
Q3	4,909	689	989	262
Q4			1848	207
Total			3952	796

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

Correspondence in 2015/16.

Audit Scotland handles a wide range of correspondence from members of the public, elected representatives and organisations. Although we have no statutory duty to investigate issues of concern or respond to correspondence, we do so under our Code of Audit Practice. The Q3 performance is shown in the table below:

Correspondence cases	Q1	Q2	Q3	Q4	2016/17 YTD	2015/16	2014/15
Number of cases	37	55	27		92	340	273
Acknowledgement within five working days	100%	98%	96%		99%	90%	61%
Final response within 30 working days	97%	75%	89%		86%	87%	58%

Forward look:

- The moratorium for the local government election has been confirmed as starting on 13 March 2017. This starts earlier and covers a longer period than is normally the case. We are considering the implications of this for our publication plan, particularly reports due to publish between March and May 2017.
- ASG will review HB work programme in light of a member of staff retiring in Q3.

Key risks / Issues:

Corporate risk register: – failure of impact and influence, failure of capacity.

Publication schedule

In 2016/17, there are plans to publish 198 audits/reports. Variation in the schedule is shown as ✓ = delivered, (QX) = rescheduled to /from quarter identified in the brackets. Statutory reports arising during the year are included in the 'Other' row.				
	Q1	Q2	Q3	Q4
Performance Audit (9)	✓Common Agricultural Policy Futures programme: an update	✓Higher Education ✓Supporting Scotland's economic growth ✓Roads Maintenance ✓Broadband update ✓Social Work		Managing new financial powers Ferries tendering (Q2 2017/18) Equal Pay (Q1 2017/18)
Best Value (4)	✓South Ayrshire	XAngus (Q3)	✓Falkirk ✓East Dunbartonshire ✓Angus (Q2)	
How Councils Work (1)		XRoles and relationships outputs (later in 2016/17)	✓Roles and relationships outputs (Q2)	
Overview (4)		✓Scotland's Colleges	✓NHS in Scotland ✓Local Government in Scotland – financial overview	Local Government in Scotland – performance and challenges overview
HB Risk Assessment (6)	✓South Ayrshire Council ✓Inverclyde Council	✓East Ayrshire Council ✓East Renfrewshire Council	✓Aberdeenshire Council ✓Dundee City Council ✓South Lanarkshire Council	Fife Stirling East Dunbartonshire
HB Follow up (4)	✓East Dunbartonshire Council ✓North Ayrshire Council	✓Clackmannanshire Council ✓East Dunbartonshire Council		
HB Annual Report (1)	✓ HB annual report			
Thematic study (1)	✓HB good practice guide		✓Review of fraud & error liaison arrangements	
ASG Planned audit statutory deadline (150)	✓9 NHS ✓11 CG	✓84 LG (inc IJBs) ✓27 CG	✓16 CG ✓2 FE	1 CG
Other (15)	✓National Fraud Initiative ✓Position report on S106 charity accounts ✓Good practice note - Improving the quality of NHS annual report and accounts – governance statements.	✓ S22 Scottish Government Consolidated Accounts ✓Scotland's new financial powers Sept 16	✓ S22 The 2015/16 audit of the Scottish Police Authority ✓ NHS 24: Update on management of an IT contract ✓ NHS Tayside: Financial sustainability	NHS workforce statistics - new National Scrutiny Plan 2 x local government s102 <i>tbc</i> 3 x College s22 <i>tbc</i>
Total scheduled (200)	27	98	59	14
Total delivered	31	123	31	

Corporate objective – 2.3 We identify risks and make clear and relevant recommendations for improvement and follow these up

Key Performance Questions:	Q1 RAG	Q2 RAG	Q3 RAG	Q4 RAG	PERFORMANCE HEADLINE:
To what extent are there practical, clear and relevant recommendations in everything published?	G	G	G		Changes to the arrangements for capturing improvements offer good evidence of improvements arising from national and local work.
To what extent have recommendations led to improvements?	A	A	G		

Narrative:

Identifying risks:

Following extensive portfolio monitoring and risk assessment work the Accounts Commission and the Auditor general approved the rolling five year work programme in December 2016, subject to external consultation with key stakeholders.

A large part of our audit work is focussed on identifying the risks faced by the audited bodies. All annual audit plans contain an appendix which highlights the risks faced by our audit clients. These risks are then followed up and the action taken to mitigate against the risk are reported upon with the annual audit reports. We ensure that the responses given by client officers to address the risks are adequate to address the concerns and that our reports and hence the risks are considered at the appropriate level.

Practical, clear and relevant recommendations and percentage of recommendations not accepted:

In a ministerial statement in response to the NHS in Scotland overview report, the Cabinet Secretary for Health and Sport called our report a 'balanced view' and accepted our recommendations 'in full'. We are not aware of any recommendations being rejected.

Recommendations have been acted upon:

We ensure that the recommendations made in our annual audit reports are acted upon by carrying out follow-up audits. Examples include:

- In one NHS audit the audit team raised matters in relation to the appropriateness of accruals throughout the 5 year audit appointment, a number resulted in adjustment. In the first year of the appointment the accruals reduced by £11.7m due to our challenging of whether there was a constructive obligation or not. By year five the reduction in accruals (due to lack of evidence) was £0.3m (although there were other types of errors as well). This area was given a lot of attention by auditors and was highlighted to staff at the audited body, especially management accountants, and included a presentation and Q&A session. We believe that our audit work has improved the robustness of financial reporting.
- During a 2014/15 annual audit the team reviewed governance arrangements and made 24 recommendations. The team reported that there was a need to implement a more formal governance structure in terms of processes and support systems. The Chief Executive initiated a review. The 2015/16 audit concluded that the body now had effective overarching governance arrangements which provide an appropriate framework for organisational decision making
- All HB recommendation accepted this quarter. With, 17/19 (89%) of previously identified risks found to have been addressed.

Forward look:

- The first year of a new five year cycle gives us the opportunity to focus on gaining an understanding of the most significant risks faced by the audit clients that we have not recently audited. The changing of and audit teams to continuing clients ensure that we maintain our objectivity when it comes to considering the risks faced by our audit clients.

Key risks / Issues:

- Audited bodies do not always implement recommendations according to the agreed timetable, which can result in repeat recommendations.
- Insufficient progress with measuring the impact of our audits could undermine our credibility with a wide range of stakeholders.
- Corporate risk register - failure of legitimacy and relevance, failure of impact and influence, failure to deliver the vision.

Performance details:

Examples where our work has had a positive impact

Financial management

Central Government (CG) audit of SPA and Police Scotland – the 2014/15 audit resulted in a modified opinion and reported on weaknesses in financial management. This resulted in an s22 report being issued by the AGS. A further S22 was issued in December 2016. Finance structures and roles have been reviewed, interim CFOs have been appointed and reporting lines have been amended.

Local Government (LG) audit - the team highlighted concerns about budget setting and service delivery, particularly the recurring underspends on the HRA where the 2013/14 annual audit report stated 'budget setting for the HRA is fundamentally unsound'. A new Head of Service undertook a fundamental review of the budget and the outturn for 2014/15 indicated a promising direction of travel. The 2015/16 outturn confirmed this, with a more realistic budget as well as improved service delivery around repairs performance and void re-letting.

CG audit - the audit identified that the lease arrangements for SETS (the system used to administer the devolved taxes) had not transferred from Scottish Ministers to Revenue Scotland. Revenue Scotland took action to regularise the position. The audit team also provided advice on the proper accounting treatment of the lease which was accepted by Revenue Scotland.

CG audit – the audit team provided additional support for a new body in 2015/16. The audit team provided considerable advice and support to the agency's accountant. The accountant appreciated the advice of the auditor and was able to produce a set of accounts that were consistent with accounting standards. Consequently, a clean audit opinion was issued. The agency's management acknowledged the good advice provided by the audit team which was crucial.

CG audit – the audit team had reported in the past, and during 2015/16, on the need to complete reconciliations between the income received and the bank statements. Processes were changed during 2015/16 which resulted in this reconciliation being completed for the first time as part of the financial statements audit. A small difference remained at the year end and further development of the process and procedures will take place.

CG audit - from routine testing and from investigation of correspondence the audit team identified areas for improvement to grant award and monitoring arrangements. The improvements recommended by the audit team have been accepted by management.

We hosted a session at CIPFA technical event to Local Authority practitioners on findings from 2015/16 audit and look ahead to 2016/17 to help improve financial reporting. We also delivered training on financial reporting for auditors new to a sector.

Financial sustainability

The Cabinet Secretary for Health & Sport published a letter on recruitment and retention within the health and social care sector. It states: the need for this (workforce) Plan stems from the Programme for Government commitments in relation to health and social care; and from Audit Scotland recommendation on workforce planning in relation to its recent findings on the public sector workforce, the NHS in 2016 and on health and social care integration'.

The Roads Maintenance report found that that the current levels of expenditure were insufficient to maintain the proportion of trunk roads in an acceptable condition. The Scottish Government has allocated an additional £15 million from its Economic Stimulus Fund to facilitate accelerated capital spending on trunk road maintenance, the expenditure is to be made by the end of 2016/17.

Governance and transparency

The Broadband update report was published on 18 August 2016. Since then there have been 45 PQ's on broadband since publication. In addition Scottish Labour released a press statement using the report to highlight the lack of progress in rural areas and Rhona Grant MSP asked eight PQ's that mentioned our report. Audit Scotland has also received nine separate items of correspondence from individuals concerned about lack of service in their area or experts with strong views on the telecoms industry.

In December 2016 Audit Scotland was invited to give a private briefing to the Scottish Parliament's Education and Skills Committee on the School Education Report, published in June 2014. The briefing session focussed on how councils are implementing the recommendations in the report and the extent to which some of the issues highlighted in 2014 are still being addressed. Members advised that the session very informative and will help inform the committee's future work programme.

LG audit - as part of the group audit the audit team met with the external auditor of one of a council's subsidiaries. This highlighted further investigations by the Scottish Government into European Funding. This highlighted the need to disclose the potential for further funding claw back in the council's Annual Governance Statement. The disclosure improved transparency on an important issue.

CG audit - the audit team offered advice on the preparation of better quality financial statements and working papers. This led to higher quality financial statements and the audit concluded in August rather than in October as had previously been the case.

CG audit - the audit team made recommendations to strengthen governance arrangements including the need to improve - system controls; the effectiveness of the Audit & Risk Committee; transparency of committee and board papers and activity; effectiveness of internal audit and arrangements for the participation in NFI. Much of this has been taken on board and continues as 'works in progress'.

CG audit - the audit team made recommendations to strengthen the control environment in connection with the segregation of duties and user access; payroll starter and leaver details; integrity of HR system; payroll checks; exception reporting; ledger reconciliations; supplier detail checks; payment controls; invoice authorisation; debt write-off; bank reconciliations; treasury & cash management and stock valuation. Follow-up audit work confirmed these were largely implemented. The team also made recommendations to improve governance in connection with the effectiveness of the Audit & Risk Committee; transparency of committee and Board papers and activity; effectiveness of Internal Audit; arrangements for participation in NFI; registers of interest. Much of this has been taken on board, and continues as 'works in progress'.

Value for money

NHS audit - the audit team completed a review of agency staff, nurse bank staff and sickness absence, with a focus on acute services as part of the 2015/16 audit. The audit established that, contrary to board policy, medical agency locums were being used to provide long term cover and that this may not be representing value for money and placing a strain on resources. The report included a number of recommendations to improve controls around the use of agency staff in particular, recommending a review of procedures and controls for booking medical agency locums together with the invoice checking process. The Board has taken forward the recommendations by setting up an Agency Locum Steering Group, involving senior management. The issues raised regarding controls for the booking and payment of agency staff have been discussed with external agency suppliers, with the view to potentially implementing a new software system to improve the process.

LG audit - Following discussions with officers in the early years of the audit engagement the council members agreed to a scheme of amalgamation for a number of trusts (including eight of the nine registered charities) into a single charitable trust. This was subsequently agreed by OSCR, the charities regulator in 2015/16. The council's stated intent is to ensure that funds, £0.530 million, are made available to local communities.

LG audit - historically the council had a poor record in delivering its capital programmes and this resulted in relatively low levels of capital expenditure (both in absolute terms and against budget). The lack of investment in its asset base was compounded by a poor asset management strategy. This was highlighted in the early annual audit reports. In August 2014 the council approved the restructuring of the Property and Risk Service, an increased complement of professional architects and quantity surveyors and the establishment of Capital Asset Management Group to oversee the development and delivery of the council's capital programmes. This has resulted in improved performance with the delivery of a significantly enhanced capital programme.

CG audit – the CG team developing a revised system for assessing procurement performance within public bodies requested Audit Scotland support. This included briefings on recent audit work and recommendations for improvement. Feedback from the CG Team is that this input has been very beneficial for the project. On 9 November, the Scottish Government published The Public Procurement Reform Programme 2006-2016 Achievements and Impacts and Audit Scotland is referenced.

Corporate objective – 3.1 We systematically improve the quality and impact of our work

Key Performance Questions:	Q1 RAG	Q2 RAG	Q3 RAG	Q4 RAG	PERFORMANCE HEADLINE:
To what extent are we improving the way we are working?	G	G	G		The new appointments and the new code of audit practice took effect in Q3. This includes the new approach to auditing best value. Good progress is being made on the quality review and quality assurance.

Examples of quality and improvement work in Q3 include:

- Publication of 2016/17 the audit planning guidance, supplementary guidance on the code on audit dimensions and guidance on auditing 2016/17 LG annual accounts
- An Assistant Director was appointed in October 2016 to lead the review of quality arrangements across all audit work (including the firms). This will include developing a new quality framework, new reporting arrangements and a revised quality and transparency report.
- The arrangements in support of the new approach to the audit of Best Value are now in place. The arrangements will be subject to further refinement and review particularly as the year one Best Value Assurance work progresses.
- ASG has further streamlined its audit approach, this focuses on key controls, leaving more time to carry out wider dimension audit work.
- BIU developed a new audit plan template which is consistent with our corporate reporting style.
- The Professional Standards and Quality Improvement (PSQI) group are undertaking a programme of post sign off quality reviews (cold reviews) of 2015/16 annual audits. The results will be used in Q4 to identify training or practice improvements required in individual teams or across ASG more widely.
- ICAS quality reviews in 2014/15 reported on the need for more consistency with the completion of A03 spreadsheet (used to assess audit risks). Training was carried out across ASG prior to the start of the audit planning for the new round of audits.
- Updating of the Audit Guide to reflect the changes to further streamlining of B (controls) files.
- An ASG impact log has been set up i-share and audit teams are populating this with examples where audit work has made an impact.
- Collaborative working with other UK audit agencies to prepare practice note 10 on applying ISAs to the public sector.
- PABV audit management framework was revised to incorporate a series of equalities prompts and checklists to support programme development and individual audits

Impact

During Q3 we received the results and feedback from our MSP Survey. This highlighted very high levels of awareness of our work amongst MSPs and positive assessments on the work. We also received positive feedback in response to the early work in delivering our Parliamentary Engagement Strategy.

Forward look:

- The quality review project arrangements were presented to the Board and to the Annual Audit Conference in January 2017.
- The outcomes of quality reviews will be formally reported to the engagement leads in Q4. These will set out work done well, areas of for improvement and examples of good practice for sharing more widely.
- Audit Scotland's Annual Audit Conference focused on 'making a difference' and was attended by over 200 colleagues from across all business groups.
- A new interim report template is being developed for rollout to audit teams in Q4.
- Work is in progress in developing a new annual audit report template. BIU are working with colleagues to progress this work so that they are available to audit teams well in advance of the financial statements audit to reduce the pressure on teams during the busy period of financial statements audit.
- BIU are revising final accounts audit programmes for use on financial statements audit and template for reporting the outcomes of quality reviews to include areas of good practice.

Key risks / Issues:

- Corporate risk register – failure of quality, failure of impact and influence, failure of innovation

Corporate objective – 3. 2 We seek out and manage information and intelligence to deliver excellent audits

Key Performance Questions:	Q1 RAG	Q2 RAG	Q3 RAG	Q4 RAG	PERFORMANCE HEADLINE:
To what extent is the knowledge people need, gathered, organised and accessible?	A	A	A		New Local Government extranet launched in Q3 and introductory training on data analytics was delivered ASG.
To what extent are appropriate knowledge resources built?	A	A	A		

Knowledge management and intelligence activity in Q3 included:

- The Launch of the Local Government Extranet for use by audit teams and firms as a means of sharing audit intelligence systematically.
- ASG and PABV colleagues are now using MKI exclusively for Best Value work, ensuring better sharing of, and a consistent approach to managing audit intelligence and evidence.
- A meeting involving management team and colleagues from across the business groups to inform the development of a digital strategy.
- Introductory training on data analytics for ASG colleagues held in Glasgow, Edinburgh, Inverness and Aberdeen. The sessions focussed on audit quality (treating data analytics as a special form of analytical review) and excel analytical tools.
- Knowledge café on Audit Intelligence phase 1.
- Discussions with senior managers with policy portfolios to inform the data collection and analysis as part of phase 2 of the Audit Intelligence project.
- Establishing a private corporate social network to collaborate with colleagues across business groups and with the NAO, WAO and NIAO.
- Intelligence gathering for the Local Government Shared Risk Assessment process with other scrutiny partners.
- PABV colleagues participating in Team Risk Assessment Meetings (TRAM) held by ASG audit teams.

Forward look:

- Development of a Digital Strategy.
- Presentations to the Audit Scotland Board and the Accounts Commission's Performance Audit Committee.
- Training sessions on IDEA (an IT audit tool for extracting and analysing data) is taking place in February 2017. The aim is to hold regular events for ASG staff, delivered both in the form of half-day workshops, and as super-team training / updates.
- ASG are piloting the use of data analytics at a number of audits including; NHS Fife, Fife Council, CNES and the Moray Council
- Further knowledge cafes on Audit Intelligence.

Key risks / Issues:

- Failure to gather and share information may lead to issues being missed.
- Tools to gather and share information are not fully utilised.
- Failure to use data analytics to improve efficiency and effectiveness.
- Corporate risk register – failure to deliver our vision, failure of legitimacy and relevance, failure of impact and influence, failure of innovation.

Corporate objective – 3. 3 We develop new and improved products to maximise the impact of audit

Key Performance Questions:	Q1 RA G	Q2 RAG	Q3 RAG	Q4 RAG	PERFORMANCE HEADLINE:
To what extent are new products and services developed?	G	G	G		We continue to develop new products to maximise the impact of the audit work.
How well are products and study programmes suitable and appropriate for emerging issues?	G	G	G		

New and improved products in Q3 included:

- The first of our new financial local government overview reports was published in Q3. This represents a new approach where the financial aspect of the overview is reported separately to the forward looking aspect of this work. Tableau was used to visually illustrate complex financial information in an engaging and accessible format.
- Transforming health and social care information hub on the website. This brings together a wide range of material on this area and includes reports, supplements, checklists, infographics, case studies, an animation and blogs.
- An on-line survey to inform the audit on self directed support.
- A new audit planning template for audit teams. This has been used on health audits and some initial feedback from audited bodies has been positive.
- Extensive work through the strategic approach to parliamentary engagement including a wide range of meetings, briefings, awareness sessions with MSPs, committees, committee clerking teams and SPICe.
- Supported the Accounts Commission in the engagement on, and development of, the new approach to Best Value and developed the framework, guidance and information resources.
- The Auditor General and the Accounts Commission approved the refreshed five year rolling work programme 2017/18 – 2021/22 in December 2016. A key objective of our new approach to programme development has been becoming more externally focused and engaging with a wider and more diverse range of stakeholders and interest groups.
- We continue to engage in a range of forums and present at conferences and to audited bodies to share our audit messages, examples are shown on page seven.

Forward look:

- Audit Intelligence phase 2 will continue to be developed.
- A new interim audit report has been developed and rolled out to audit teams for use in reporting their findings.
- Annual Audit Report templates are being developed for use in the local government, health and central government sectors as well as templates for IJBs, colleges and pension funds. The new templates are designed to have more of an impact with greater use of info graphics.
- Pension fund audit programmes are being reviewed to ensure that audit work is more relevant to the bodies we audit.

Key risks / Issues:

- Corporate risk register – failure of impact and influence, failure of innovation.

Corporate objective – 3. 4 We maximise our efficiency and effectively manage our resources to reduce the costs of audit

Key Performance Questions:	Q1 RAG	Q2 RAG	Q3 RAG	Q4 RAG	PERFORMANCE HEADLINE:
To what extent is efficiency improving?	A	A	A		In the nine months to December 2016 Audit Scotland's Net Operating Cost at £3,803k was £366k less than budget.

Summary:

In the nine months to December 2016 Audit Scotland's Net Operating Cost at £3,803k was £366k less than budget. The main reasons for the favourable variance were:

- Total income recorded in the nine months to December 2016 was £990k higher than the phased budget. Fee income including central charges contributed £890k.
- Expenditure levels were £624k higher than budget. Adverse variances were recorded in respect of fees and expenses paid to external audit firms £506k, own staff costs £56k, agency and secondment expenditure £209k and legal, professional and consultancy costs £62k. These adverse variances were partly offset by lower travel and subsistence expenditure £87k, training and recruitment costs £59k, and depreciation charges £44k. Further details are provide in section 2 below and schedules 6 & 7.
- The year-end forecast indicates a forecast underspend within the range £0.3m to £1.1m

A risk interrogation on value for money was considered by the Audit Committee at its meeting on 9 December 2016.

Efficiency achievements and objectives for the future we included in the budget submission considered by the SCPA at its meeting on 21 December 2016.

Forward look:

- Best Value of Audit Service Group report to Audit Scotland Board 20 January 2017.
- Development of an efficiency review programme to support the new financial strategy.
- Refined resource allocation arrangements to support the new audit appointments.

Key risks / Issues:

- Corporate risk register: – failure to achieve value for money

Performance details:

Cost vs. budget:

Net operating (cost) to December 2016

In the nine months to December 2016 Audit Scotland's Net Operating Cost at £3,803k was £366k less than budget.

£000	Q1	Q2	Q3	Q4
Actual	(986)	(1,705)	(3,803)	
Budget	(1,267)	(1,925)	(4,169)	
Variance	281	220	366	

Business group Net operating (cost)/contribution to overheads summary 9 months to December 2016 (£'k)

The table below shows net operating cost/surplus for each business group.

	ASG	AST	PABV	CSG
Actual	1,347	(510)	(2,862)	(3,740)
Budget	1,234	(494)	(2,802)	(3,716)
Variance	+113	(-16)	(-60)	-(24)
+ = favourable, - = unfavourable				

Capital expenditure:

Capital investment in the nine months to December 2016 totalled £60k. £43k related to IT for the purchase of new mobile phones and the new card entry system at our Glasgow office. £11k was spent on furniture and £6k for fit-out work for the new office in Inverness.

Staff:

Staff costs in the nine months to December 2016 were £56k higher than budget. The average number of staff employed in the nine months to December 2016 at 277.7 w.t.e. was 0.4 w.t.e. lower than the establishment figure of 278.1 w.t.e. The staff budget for 2016/17 assumed a 3% vacancy factor and therefore the average number of staff employed in the period was 7.7 w.t.e. more than the numbers funded in the budget. The additional cost of employing these staff was partly offset by lower than budgeted average actual salary costs per employee.

	Q1	Q2	Q3	Q4
2016/17 establishment w.t.e:	278.1	278.1	278.1	
Average number of staff employed in 2016/17 w.t.e:	276	277.7	277.7	
No. of staff at end of quarter w.t.e:	279.8	276.2	276.5	

Estate:

Property costs in the year to December 2016 were £3k less than budget.

£000	YTD- Q1	YTD- Q2	YTD- Q3	YTD- Q4
Actual spend	206	442	672	
Budget	224	450	675	
Prior year spend	389	805	1,245	1,297

Costs of travel:

Travel and subsistence expenditure was £87k lower than budget. The underspend was mainly attributable to lower expenditure in ASG and PABV. Expenditure on the leased car fleet matched budget.

£000	YTD- Q1	YTD- Q2	YTD- Q3	YTD- Q4
Actual spend	198	417	615	
Budget	209	456	702	
Prior year spend	217	448	624	858

IT network up time Q3:

IT uptime was 100% compared to 99.9% in the previous quarter.

	IT uptime	Working hours lost	Average time lost per person
Q1	99.9	22	7 minutes
Q2	99.9	7	2
Q3	100	0	0
Q4			

IT Incident management summary

- 99% (800/808) of incidents were accepted within the response time SLA.
- 98.5% (796/808) of requests were closed by an Analyst within the fix time SLA
- An average of 2.75 incidents were logged per user (Number of staff 293).

Internal Audit recommendations:

There were seven internal audits completed year to date with six rated as substantial for both design and operational effectiveness and one rated reasonable. There are a total of 21 recommendations.

Year	Total no. of Audits	Total number of recommendations	High	Medium	Low
2016/17 (YTD)	7	21	0	6	15
2015/16	7	15	0	3	12

Business group productivity:

Business group productivity, within each business group, remains broadly consistent with productivity/ planning assumptions. There is a historic pattern of a decline in ASG productivity in Q3 as the majority of their audits are completed at the end of Q2. This year eight new professional trainees started in Q3; their time is not charged as productive for the first three months from when they join Audit Scotland. The Beginning of the new audit rotation and the drive to improve audit quality included a number of learning and development events in Q3. In particular there was mandatory training for all ASG managers and senior auditors on the use of the A03 spreadsheet (used to plan financial audits).

	2016/17				2015/16		
	ASG	AST	PABV		ASG	AST	PABV
Q1	60%	93%	68%		73%	88%	65%
Q2	78%	93%	69%		75.9%	91.5%	72.6%
Q3	51%	96.5	65%		54%	89%	66%
Q4					69%	91	67%

Corporate objective – 3. 5 We empower and support our people to be engaged, highly skilled and perform well

Key Performance Questions:	Q1 RA G	Q2 RAG	Q3 RAG	Q4 RAG	PERFORMANCE HEADLINE:
To what extent have we got empowered and engaged people?	A	A	A		'Ones to watch' status retained in Best Companies survey results, though some reductions in engagement scores. Extensive colleague engagement through BaBO activity.
To what extent are people remaining to be highly skilled?	G	G	G		
To what extent are people performing well?	Y	Y	Y		
We will understand and support diversity within the workforce	G	G	G		

Best Companies:

The 2016/17 Best Companies survey was launched in October and results were released in December. We retained 'Ones to Watch' status for 2016. The response rate of 74% was down compared to the 83% for last year. Performance across each of the eight Best Companies themes showed an increase in one area (wellbeing) remained level in two (fair deal and giving something back) and a dropped in five. The survey results have been shared with colleagues through the Best Companies [ishare page](#) and in a special BABO edition of [abacus](#).

Organisation wide results were considered by Management Team in December 2016 and Leadership Group and the Board in January 2017. Analysis of and meetings on the results at business group level are taking place in Q4 along with Knowledge Cafes.

BABO:

- BaBO reward road shows took place in Q3 and the BaBO programme board are working with colleagues and the HR&OD team to further develop answers to the important questions such as how the 'development gates' will work, fine tuning the role profiles and making sure the April 2017 implementation is a good experience for all.
- Time Place Travel (TPT) has been introduced and an initial survey on people's thoughts on how it will impact on how they work has been completed. Results are being analysed. The Autumn PABV team meeting included a session on TPT and the practical implications of this for our people and work.

Wellbeing:

- We are currently going through the procurement process for appointing our new occupational health and wellness checks provider, with a view to securing a new contract by February 2017.
- Within the context of work on becoming 'Carers Positive' accredited, the Audit Scotland peer group have met. The group have engaged with other accredited employers to learn how we can raise awareness of carer's in the workplace, and collate relevant and useful information that can support our carers. It is hoped that the principles of Time, Place, Travel will also complement this, giving both team members and managers scope to work more flexibly.

L&D:

- In advance of the new audit appointments, a total of 13 'Client Relationship Management' workshops were delivered (approx. 160 people). Feedback was positive, particularly around the area of developing a 'world class mind-set'. The most positive feedback came from the Professional Trainee group. It has been agreed that this training is relevant and appropriate for all new starters with Audit Scotland, including future Trainee cohorts too.
- Work on the self-directed learning pilot in PABV continues and a number of those involved (16) have begun their development. The deadline for completion was extended from December 2016 to March 2017 to allow further time for development (and tie in with spend before end of financial year). One example of how this learning has already been shared is participants attending a Creative Writing workshop and then delivering training to other colleagues. Each participant is considering the potential for colleagues across the wider organisation to benefit from their development activity.

Forward look:**BaBO:**

- Reward workshops have been completed, the proposed option was well received and is now being progressed.
- Work is underway on revising the Role Profiles and designing the Career Development Gates process.
- Phased implementation of reward and pay package to start in April 2017.
- Permanent qualified Auditor roles recruitment campaign is scheduled to launch in Q4 (January).

L&D:

- As well as continuing to deliver on the core corporate and technical L&D offering for the balance of 2016/17, the next main piece of work continues to be developing content and speakers for some of the core BABO Personal Development themes for Team Members, Managers and Leaders.

Best Companies:

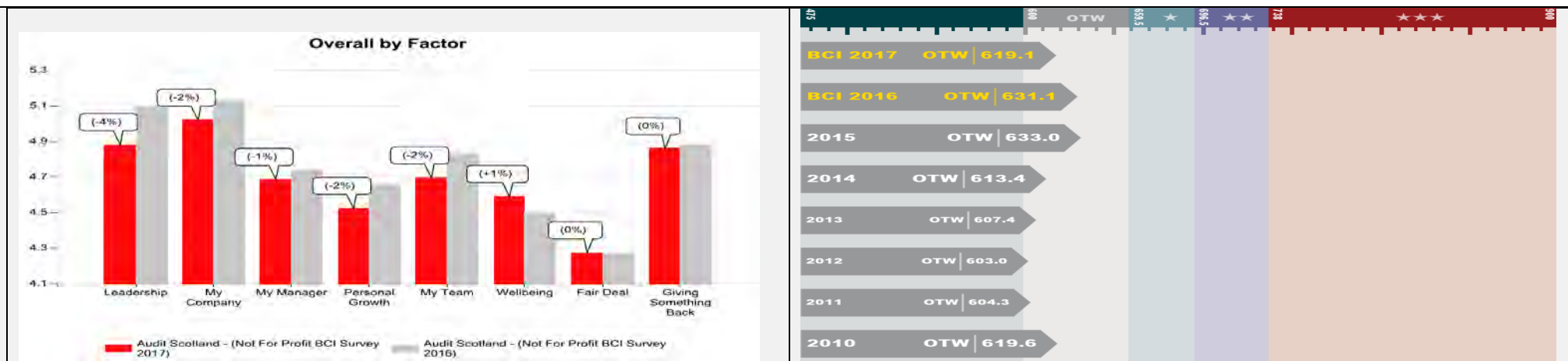
- The more detailed results from the Best Companies survey shared with the Leadership Group on 25 January 2017.
- Two knowledge cafés are in the diary for 30 January (Edinburgh) and 2 February (Glasgow), which are an opportunity for colleagues to come along and discuss any aspect of the Best Companies results.
- Following the outcome of both the Leadership Group meeting and the two knowledge cafés, some priority areas to develop will be agreed and progressed.

Key risks / Issues:

- We do not carefully manage staff communications / expectations around BaBO – how we work together e.g. We do not adequately keep communication channels open in the spirit of asking staff to help us create future ways of working (co-creation).
- We do not adequately plan for the achievement of the Healthy Working Lives Silver award.
- Corporate risk register: failure of capacity, failure to operate as one organisation.

Performance details:**Best Companies:**

Audit Scotland received the results of the 2016/17 Best Companies survey late in Q3 and staff and business groups have been considering the results in Q4. Overall the survey shows that Audit Scotland remains in the 'one to watch' category. In the eight categories all of the summary scores are above four (indicating more positive than negative responses). Compared to last year the score increased by 1% in one category, there was no change in two categories and a drop in five categories of between 1% and 4%.



Learning and development opportunities in Q3: The table below table lists the types of L&D events as well as the number of delegate places.

	No. of Events	No. of Attendees
Health & Safety	1	6
Knowledge Cafes	1	43
Learning & Development	11	127
Management Development	0	0
Organisational Development	14	239
Technical Training	7	107
	34	522

Exam results

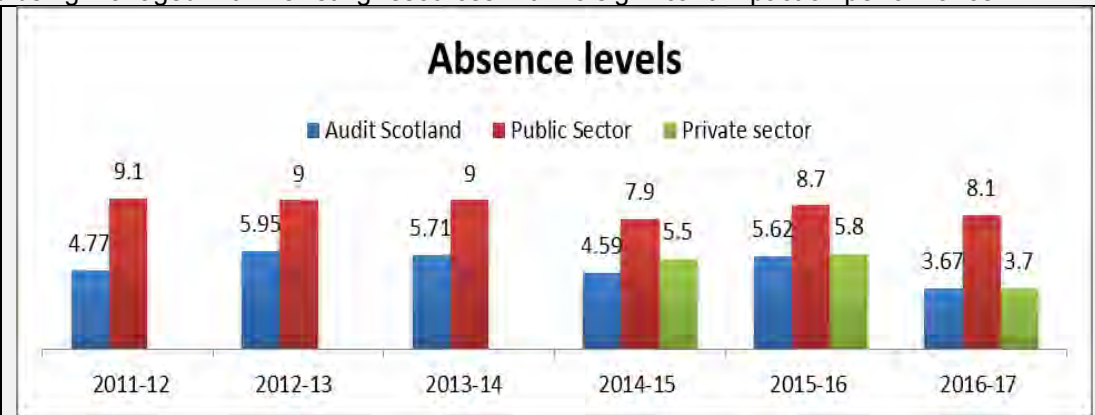
In Q3, nine Trainees sat their final Test of Professional Expertise examinations for the ICAS qualification. The eight who passed and are now exam qualified and eligible to apply for permanent qualified Auditor roles with Audit Scotland and a recruitment campaign is scheduled to launch in Q4 (January).

	Exams taken	Exams passed	% pass rate
Q1	15	15	100
Q2	26	24	92.3
Q3	9	8	88.8
Q4			

Absence levels:

Absence levels remain low at an average of 1.27 days per person. This has slightly decreased from 1.37 in Q2 and remains slightly below the rate of absence for the equivalent quarter last year (2015/16). Business groups report that absence is being managed within existing resources with no significant impact on performance.

	Q1 days	Q2 days	Q3 days	Q4 days	ytd days	15/16 total
ASG	1.16	1.69	1.13		3.98	6.11
Audit Strategy	0	2.60	2.0		4.6	2
CSG	1.11	0.48	0.64		2.23	4.74
PABV	0.81	1.26	2.11		4.18	3.42
Audit Scotland16/17	1.03	1.37	1.27		3.67	
Audit Scotland15/16	0.89	0.98	1.49	2.05	5.62	
Audit Scotland14/15	1.12	0.87	0.99	1.31	4.59	
Audit Scotland13/14	1.6	1.14	1.57	1.40	5.99	

**Staff turnover:**

Across Audit Scotland, all leavers for Q3 equates to 6.87% and is consistent with last year's levels. All leavers include VERA, and end of fixed-term contractors, i.e. Student placements. Audit Scotland regularly accommodates student placement every summer and 2016 was no different with placements spread across ASG/PABV. The placements ended in Q3 contributed to the turnover figure. Staff turnover remains below the 2015 CIPD benchmark.

2016/17	Q1	Q2	Q3	Q4	YTD	2015/16	CIPD benchmark
Resignations %	1.03	0.68	1.39		3.1	5.37	5.5
All Leavers %	1.37	3.41	2.09		6.87	8.24	13.6

Equalities

An external equalities and diversity consultant reviewed and evaluated our Reward work, assessing us against our public sector equality duties. They concluded our Reward proposals should help eliminate discrimination and advance equality.

Corporate objective – 3. 6 We work together to deliver excellent audits

Key Performance Questions:	Q1 RAG	Q2 RAG	Q3 RAG	Q4 RAG	PERFORMANCE HEADLINE:
To what extent is there communicating and collaborating across organisational departments?	A	A	A		The new approach to auditing Best Value is now in place. This will support a step change in one organisational working.
To what extent are career paths offered across the organisation?	G	G	G		

Narrative:

One organisation working continues with the opportunity to communicate and collaborate across Audit Scotland and examples in Q3 include:

- The new audit appointments came into effect in October 2016.
- Recruitment of 8 new trainees in October 2016. Shared across ASG and PABV.

The new approach to the audit of Best Value is now in place, with colleagues from across ASG and PABV working closely as part of integrated teams. Audit plans are being developed for all councils, with a particular emphasis on those councils subject to a year one Best Value Assurance Report (BVAR). Teams from across the two audit business groups are currently working together to undertake the work required to deliver the six BVARs.

We continue to develop one organisation resourcing, both for financial audit and the delivery of the overall rolling work programme. We are also developing a core 'team' of digital specialists from across the organisation, including our Information Services team within Corporate Services. They will focus on both the audit of digital but also the use of digital approaches to auditing.

Career paths and secondments

Seven members of staff benefited from a new career opportunity this quarter, through a permanent promotion or fixed-term acting up opportunity and there were 10 external appointments. Two new secondments were recorded this quarter and six existing secondments remain in place. 126 (46%) members of staff now have flexible contracts.

All filled vacancies

2016/17 YTD	2015/16	2014/15	2013/14
47	67	52	50

Forward look:

- BaBO work shops will continue throughout the year to engage with staff in a number of initiatives including role profiles

Key risks / Issues:

Corporate risk register - failure to operate as one organisation

AUDIT SCOTLAND BOARD

31 MARCH 2017

REPORT BY THE ASSISTANT DIRECTOR, CORPORATE PERFORMANCE AND RISK

Q3 BECOMING WORLD CLASS IMPROVEMENT PROGRAMME REPORT 2016/17

1. Purpose of Report

To invite the Board to consider the progress made to date on the Becoming World Class (BWC) improvement programme and the planned actions.

2. Background

The BWC strategic improvement programme is a key enabler for achieving our vision to be a world class audit organisation.

The quarter 2 BWC update report was considered by the Board on 20 January 2017.

3. Progress on the BWC improvement programme

We continue to make good progress on the programme, particularly in the context of a full programme of audit work. Progress headlines since the last report include:

- *Securing World Class Audit* – where the:
 - audit appointments using the revised Code of Audit Practice are under-way
 - SCPA recommended to the Finance and Constitution Committee that the 2017/18 budget be approved and the Parliament passed the Budget (Scotland) Bill at Stage 3 on 23 February 2017.
 - review of quality is under-way and progressing well.
- *Building a Better Organisation (BaBO)* – where:
 - Following negotiations with PCS, the proposed BaBO Reward and pay award package was presented to the Remuneration & Human Resources Committee on 15 March. Remco were briefed that agreement in principle has been reached with PCS on both BaBO and Reward.
 - the contract for the wellbeing partner has been awarded and health checks are under-way
 - the tender for the Glasgow office improvements has been issued.
- *Making a Difference* – where:
 - audits using the new approach to auditing Best Value are progressing well and the first audit will be reported in May 2017
 - feedback from MSPs indicates that the strategic approach to parliamentary engagement having a positive effect
 - we are developing a Digital Audit strategy, focussing on audits with a digital focus, harnessing digital technology to support the audit process


and present audit conclusions and insight and reviewing the digital capacity we need for both of these.

The appendix provides additional information on each of the BWC workstreams.

4. Recommendation

The Board is invited to note the progress made to date and the next steps.

Appendix


 SECURING WORLD CLASS AUDIT	<p>Our objective is to ensure that public audit in Scotland: • applies the highest professional and ethical standards • is efficient, proportionate and risk based • is informed by an excellent understanding of the strategic and operational context • responds effectively to changing circumstances and emerging issues • reports clearly and authoritatively • follows the public pound wherever it is spent • promotes transparency, accountability and Best Value.</p>	
Project/ initiative/ product	Status update	Next steps
Code of Audit Practice (COAP)	<p>The new code came into effect in October 2016 and applies to all audit work.</p> <p>This project is now complete.</p>	Delivery of audits under the new code.
Fees and funding	<p>The SCPA considered the 2017/18 budget at its meeting on 21 December 2016. It published its report on 16 January and wrote to the Finance and Constitution Committee recommending approval of the budget. The Board considered the SCPA official report at its meeting on 20 January 2017. The Parliament passed the Budget (Scotland) Bill at Stage 3 on 23 February 2017.</p> <p>A comparison report on indicative and agreed fees 2015/16 was considered by the Management Team on 17 January 2017 and the Audit Committee on 1 February.</p>	Monitoring of fees.
Procurement and appointments	The new audit appointments are now operational. This project is now complete.	Ongoing engagement and quality monitoring and mid term review of the audit appointments.
Review of Audit Quality	<p>Scope development and review work is under way and was discussed at the Annual Audit Conference on 18 January. The scope and work to date was also considered by the Board at its meeting on 20 January 2017 and the Accounts Commission at its meeting on 9 February 2017.</p> <p>Discussions with partners in the firms have also been taking place.</p>	<p>An update report will be considered by the Board at its meeting on 31 March 2017.</p> <p>Development work and implementation with a planned go live date of October 2017 including the high level quality framework and the detailed quality monitoring arrangements which underpin it.</p>



Our objective is to make Audit Scotland a great place to work so that we can attract and retain a highly skilled workforce. We want to make the best use of our resources so that we can deliver audit work that improves the use of public money.

Project/ initiative/ product	Status update	Next steps
How we work together Job Design Reward & Recognition Performance Appraisal	<p>A reward and recognition proposition has been developed and this has been the subject of extensive consultation through workshops and several drop-in sessions. Following negotiations with PCS, the proposed BaBO Reward and pay award package was presented to the Remuneration & Human Resources Committee on 15 March. Remco were briefed that agreement in principle has been reached with PCS on both BaBO and Reward.</p> <p>The Time place and travel principles are being rolled out across the teams in business groups.</p> <p>The 2016 Best Companies Survey headline results were published in December 2016 and have been considered by the Management Team, the Leadership Group and the Board. Business group meetings are taking place to share the results in more detail.</p> <p>3D development discussions are taking place across business groups.</p>	<p>The key milestones are:</p> <ul style="list-style-type: none"> • Conclude negotiations with PCS by the end of March 2017 • The second round of 3D to be completed by the end of March 2017. • Career development gates in place by October 2017.
How we learn and develop Planning careers, developing skills, professional training schemes, becoming better managers and leaders	<p>The PDG has updated the Learning and Development Strategy and plan. An extensive learning and development programme continues.</p>	<p>Refreshed 2017/18 Learning and Development Strategy and plan scheduled for quarter 1 of 2017/18.</p>
Wellbeing	<p>The procurement process for the Wellbeing partner has been concluded and the Healthy Working Lives sub group continues to build on the wellness checks through information campaigns and training.</p>	<p>Wellness checks currently available to all colleagues and are taking place.</p>
Office accommodation	<p>Glasgow – consultation has taken place on proposals for improvements in conjunction with haa design.</p> <p>The tender for the Glasgow office improvements has been</p>	<p>Contract to be awarded in April and an implementation plan will be put in place immediately thereafter.</p>

Project/ initiative/ product	Status update	Next steps
	issued with a closing date of 24 March 2017.	

	Our objective is to maximise the difference our audit work makes to public services, the people that they serve, the outcomes that those people experience and the use of public money.
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Project/ initiative/ product	Status update	Next steps
Auditing Best Value	<p>The BV audits are under-way, with the first of the six scheduled for 2016/17 nearing completion. Templates for the BV assurance reports have been issued to audit teams. PABV senior managers have been designated as link managers to appointed auditors. Teams from the early audits have developed audit tools and are providing support to colleagues on the later audits.</p> <p>Audit teams are currently determining the five year BV workplans for all councils as part of the planning cycle for all audits.</p> <p>At its meeting on 9 March the Accounts Commission considered an update report and agreed the six audits for year two of the programme.</p> <p>The Accounts Commission' steering group continues to meet to inform and monitor developments.</p> <p>The working group leading the review of the statutory guidance continues, the group last met on 10 March 2017. The Group is committed to having proposals in place by Summer 2017.</p>	<p>The key milestones are:</p> <ul style="list-style-type: none"> • The first Best Value Assurance Reports will begin to be presented to the Commission in 2017 following the LG elections. Six reports will be considered between May 2017 and January 2018. • September 2017 - the first Annual Audit Reports that will reflect the wider scope of the audit and the new approach to auditing Best Value. • Early 2018 - the Controller of Audit's Annual Assurance and Risks Report to the Commission will be the first to reflect the wider scope of audit and the new approach and the Commission's Strategic Audit Priorities.
World Class Programme Development	<p>The Auditor General and the Accounts Commission approved the refreshed five year rolling work programme 2017/18 – 2021/22 in December 2016. Consultation on the programme has taken place over the early months of 2017.</p> <p>Following consideration of the consultation feedback the Auditor General and the Accounts Commission agreed the programme in March 2017.</p>	<p>We will continue to:</p> <ul style="list-style-type: none"> • develop programme development approaches in 2017/18 through a series of external engagement events to inform our monitoring of policy and performance and support the development of alternative audit outputs. • develop stronger links between our cluster work and related strategic developments such as our New

Project/ initiative/ product	Status update	Next steps
		Financial Powers developments work, the implementation of the new approach to auditing Best Value and the Audit Intelligence project.
Communications and engagement strategy	<p>The Board approved the Communications and Engagement Strategy at its meeting on 18 August 2016.</p> <p>We are continuing to develop a variety of engagement activity. The 2017 Self-directed support audit is looking at what impact changes to social care delivery have had on people's lives. We launched an online survey and digital engagement campaign called #MySDSStory to get the views of SDS users, carers and families on this very question. The campaign was supported by dozens of health and social care organisations and received 35,000 views on social media. There have been 109 complete responses to the survey which will inform the audit work.</p> <p>On 8 March we hosted a knowledge café with Young Scot, the national youth information and citizenship charity, to share and discuss the results of our pilot project to improve Audit Scotland's engagement with young people. The project was a positive experience for all involved. It will inform future programme development activity and improve audit procedures, not only in terms of better involving young people in our work and understanding their views, but through applying similar techniques with other sections of the community.</p>	<p>Implementation of the strategy.</p> <p>Engagement activity will inform the Self Directed Support audit which is scheduled to publish in Summer 2017.</p> <p>A report on the Young Scot pilot project will be considered by the Board at its meeting on 31 March 2017.</p>
Strategic approach to Parliamentary Engagement	We have now successfully implemented phase 1 of our Parliamentary engagement strategy. On 20 January the Board considered an update report , including the results of a survey of MSPs which offered positive assurance. A stocktake is under way to inform phase 2.	<p>The next phase of our activity will involve:</p> <ul style="list-style-type: none"> • Consolidating and building on the relationships we have established with clerking teams and committees. • Ensuring that our five-year work programmes complements the work of parliamentary committees • Supporting the Public Audit and Post-Legislative Scrutiny Committee and subject committees in delivering high quality parliamentary scrutiny.
Digital audit	Work is under-way to develop a digital audit strategy. The Board considered a presentation at its meeting on 20 January 2016.	<p>The next steps include:</p> <ul style="list-style-type: none"> • Ongoing work in the audit intelligence and audit

Project/ initiative/ product	Status update	Next steps
	<p>The Accounts Commission's PAC and FAAC considered similar presentations at the meetings on 23 February.</p> <p>The second phase of the Audit Intelligence project is progressing; this is focussing on financial and outcomes data and data to support two performance audits.</p> <p>The audit analytics project is also progressing. This includes the development of audit analytics tests and analyses to support the financial audit.</p> <p>Our engagement with the UK and ROI audit agencies is increasing in this area.</p>	<p>analytics projects.</p> <ul style="list-style-type: none"> • Development of the Digital Audit Strategy by June 2017.

AUDIT SCOTLAND BOARD

31 MARCH 2017

REPORT BY ASSISTANT DIRECTOR FOR QUALITY

REVIEW OF AUDIT QUALITY

1. Purpose

This report provides an update on the review of audit quality arrangements across all audit work which commenced in October 2016.

2. Background

In reviewing and revising our existing quality framework, our goal is to:

- provide assurance to the Auditor General, the Accounts Commission and Audit Scotland Board about the quality of all types of audit work carried out on their behalf; and
- support continuous improvement in the quality and value for money of audit work.

3. Recent Progress

Recent activity has focussed on:

Developing an Audit Quality Vision to support the direction of the review

A draft vision statement which reflects our world class ambition has been compiled to provide clarity on our goals. The draft focusses on achieving quality through investment in our people, processes and products.

Quality Framework

A draft document has been prepared. We are seeking the views of colleagues at the Quality Summit taking place on 21 March 2017 as part of the management team meeting.

Capturing current arrangements for quality activity for all audit work

There are a number of processes and procedures in place to facilitate quality arrangements across Audit Scotland and the firms.

These are summarised below:

- The new wider scope audit requirements quality arrangements are currently in development. Arrangements to support the new approach to auditing best value are still to be developed taking into account the increasing links to annual audit work and the role of the appointed auditor.
- There is a need to establish the scope and volume of future quality monitoring arrangements alongside the governance structure to support effective scrutiny.

- Contractual arrangements for the bi-annual quality monitoring reviews conducted by ICAS on the work performed by Audit Services have now expired. External arrangements for the firms do not specifically cover public sector audit work.
- We require to agree and procure external quality monitoring arrangements for both Audit Scotland and the firms across all audit work. Discussions have taken place with ICAS, FRC and ICAEW to explore ideas and options prior to entering the procurement stage.

Communication with Accounts Commission, Audit Scotland Board and the Auditor General for Scotland

A key objective of our revised Audit Quality arrangements is that they will meet the needs of the Audit Scotland Board, the Auditor General and the Accounts Commission. We are involving the Auditor General and Accounts Commission through updates and discussions to ensure that their requirements are fully understood and incorporated into the revised arrangements. These discussions will take place in parallel with Board updates and discussions.

Communication with Firms

We have now met with all of the appointed firms and discussed the overall approach to developing an Audit Quality Framework that applies to all of our audit work and supporting monitoring arrangements. We have discussed the likelihood of introducing external quality monitoring arrangements that provide direct assurance over all audit work to the Auditor General, the Audit Scotland Board and the Accounts Commission. The meetings were informative as we were able to explore quality arrangements within each of the firms and also establish whether there was coverage of the public sector audit work commissioned by the Auditor General and the Accounts Commission.

Communication with Audited Bodies

We are in the process of conducting client interviews to seek feedback on the audit handover arrangements and also ascertain the value of external audit work. Early interviews have indicated generally good relationships between auditors and audited bodies with some useful suggestions for further improvement. The output from these interviews will be included in the 2017 Transparency and Quality Report.

Outcome of Staff Survey

The staff survey results are now available and highlight that:

- 92% of staff feel that they are encouraged to deliver high quality audit work;
- 63% felt they had sufficient time and resources to deliver quality audits; and
- 62% felt they received enough training and development to enable them to deliver quality audits.

We have established a people and culture group and will work closely with the PDGG to take forward the findings from the survey.

Review of other Audit Agencies

The review fieldwork has now been completed and the report will be finalised by 30 April 2017.

4. Proposed Timeline for Audit Quality Reports

The Quality Framework document will set out the high level principles and policies for audit quality. The Framework needs to be supported by the Audit Scotland Board, the Auditor General and the Accounts Commission in order to be successful. We therefore propose to have an item at both Board and Accounts Commission meetings to discuss a draft Framework and the issues to be considered before bringing back a revised version for approval by all parties.

The proposed timeline for key Board and Accounts Commission involvement:

	Management Team	Audit Scotland Board	Accounts Commission
Draft Quality Framework – Discussion	25 April 2017	5 May 2017	8 June 2017
Review of Other Audit Agencies	25 April 2017	5 May 2017	8 June 2017
2017 Transparency and Quality Report	16 May 2017	6 June 2017	10 August 2017
Finalised Quality Framework	1 August 2017	23 August 2017	10 August 2017

Project Review: High level timelines

Following the Audit Quality Summit (held 21 March 2017), we have revised and extended the overall timeline for the review as follows:

Year 1 Development



Year 2 Implementation



5. Conclusion and Recommendation

The Board is invited to note progress on the quality review and proposed timetable for consideration of the revised Quality Framework.

AUDIT SCOTLAND BOARD

31 MARCH 2017

REPORT BY SENIOR MANAGER, PERFORMANCE AUDIT AND BEST VALUE

PUBLIC ENGAGEMENT WORK WITH YOUNG SCOT

1. Purpose

This report updates the Board on a pilot project of youth engagement, delivered in partnership with Young Scot, the outcomes of that project and future plans.

There will be a short presentation at the meeting to further inform the Board about this work.

2. Background

Audit Scotland commissioned Young Scot to deliver a pilot project aimed at improving our engagement with young people. Young Scot is a national youth charity with a well-established approach to co-design.

This pilot is one of the approaches we have used to improve our engagement with people who use public services. We are committed to improving our public engagement so that our work better reflects the interests of citizens, service user and communities. This will help us have a better user focus when we identify audit topics, develop audit questions and carry out audits. Better public engagement will also help us produce outputs that are more tailored for people who use services, further increasing their impact.

We have a lot of experience of engaging with people as part of our performance audit and best value work, through surveys, focus groups and interviews. This tends to be carried out as part of an audit looking at a particular topic, service or council, where we have already identified the scope of the audit and the issues to investigate. This pilot project aimed to engage with people at an earlier stage, take a broader approach and try out a new way of working. We have no history of engaging with young people as a specific group, and we were keen to pilot this broader approach with young people.

We agreed two aims for the Young Scot project:

- to identify what this group of young people see as important issues around education, skills and employability
- to identify ways that young people could be involved in the audit process.

The pilot involved using Young Scot's co-design approach, and Audit Scotland staff worked closely with Young Scot on the pilot. We paid Young Scot £10,000 to deliver the pilot project. As it was a pilot, part of the project was to test out whether using this approach to public engagement could address the aims set out above.

The project took place over summer 2016. It involved four workshops with a group of 21 people aged 16-20, and a final session involving the young people and ten Audit Scotland staff. It resulted in clear recommendations for what the young people saw as important issues to consider through our audit work, and clear suggestions for how they

could be involved in the audit process. At the final session, the young people fed back their conclusions and recommendations, and they asked the Audit Scotland staff to agree and make commitments in response.

The young people decided that the areas where they would most like to see improvement related to college courses, gaining work experience, and apprenticeships. They identified a range of difficulties and suggested improvements. These insights will help inform the scoping for future audit work. The group also identified three areas where young people could be involved in the audit process: deciding on what areas to audit; looking for audit evidence; and reporting. They had a number of helpful and practical suggestions relating to each of these stages.

Audit Scotland staff made 10 commitments to the young people, and we are currently working to take these forward:

- consider opportunities for young people to be on our audit teams
- more work experience and modern apprenticeships at Audit Scotland
- involving young people when tailoring our outputs - podcasts, videos, highlighting what it really means to them
- provide support by funding young people's involvement; pay travel expenses
- consider how to involve young people in the justice, education and lifelong learning (JELL) cluster, where we monitor what's happening in the areas of education & lifelong learning
- introduce standing or ad hoc young person's panels or advisory groups
- have more person-centred recommendations – find the real stories
- use real stories to create greater impact
- tell people what we have done and how we used their feedback and suggestions
- have smaller audits looking at issues young people care about.

The pilot was successful in meeting its aims, and demonstrated that this approach can work. It resulted in very clear feedback from the young people involved, and insightful recommendations about how they could be involved in the audit process. This was a positive experience for the staff involved, and gave them a better understanding of the issues discussed, which is helping inform future audit work. It will also help us to better involve young people, and other people who use public services, in our work, increasing its impact. We have a number of areas in our work programme where we will be able to apply the learning that came out of this pilot. The project was also a positive experience for the young people themselves, and we saw them grow in confidence over the period of the project.

We are taking forward the outcomes and learning from the pilot to build on our public engagement work, and embed a wider range of approaches across our work. This approach was successful in exploring the issues that one group of young people saw as priorities. We will build on that first step to improve how we work with that age group, for example through working with a standing youth advisory panel, supported by Young Scot. This pilot also demonstrated the value of working with a specialist partner in the third sector to help access groups of people that are harder for us to reach. Many of the outcomes and learning points from the pilot are also applicable to different groups of people, such as older people, and we will build on this work as we improve our engagement with other groups.

3. Recommendation

The Board is invited to note the report.

Agenda

Friday 5 May 2017, 10.00

Audit Scotland offices, 102 West Port, Edinburgh EH3 9DN

1. Private Meeting
2. Welcome and apologies
3. Declarations of interest

Standing Items

4. Chair's report – verbal update
5. Accountable Officer's report – verbal update
6. Accounts Commission Acting Chair's report – verbal update
7. Review of minutes: For approval
 - Board meeting, 31 March 2017
8. Review of actions tracker For information
9. Standing orders legal advice For discussion

Strategy and Planning

10. Making a Difference: Corporate Plan 2017/18 For approval
11. Making a Difference: Publication Schedule and Forward programme For information

Governance and Business Management

12. 2016/17 Annual Report: Freedom of Information and Environmental Information For information
13. 2016/17 Annual Report: Complaints Handling For information
14. Information Security Management Policy For approval

Conclusion

15. Publication of reports
16. Any other business

17. ICAS Prize Winner Sobhan Afzal
18. Review of meeting
19. Date of next meeting

Friday 5 May 2017, 10.00am

Audit Scotland offices, 102 West Port, Edinburgh EH3 9DN

Present:

I Leitch (Chair)
C Gardner
H Logan
R Griggs
R Hinds

Apologies:

None

In attendance:

D McGiffen, Chief Operating Officer
R Frith, Assistant Auditor General
M Walker, Assistant Director, Corporate Performance and Risk
F McKinlay, Director of Performance Audit and Best Value
A Clark, Assistant Director, Performance Audit and Best Value
A Devlin, Corporate Governance Manager
D Robertson, Digital Services Manager
S Afzal, Auditor, Performance Audit and Best Value
F Kordiak, Director of Audit Services Group
J Webber, Senior Executive Assistant

1. Private meeting

A private meeting was held by the Chair and Board members, prior to the start of the Board meeting. There were no matters raised in addition to those items on the agenda, which had been previously circulated.

2. Welcome and apologies

There were no apologies.

3. Declarations of interest

There were no declarations of interest.

4. Chair's report

Ian Leitch advised members that Douglas Sinclair, former Chair of the Accounts Commission and Board member has sadly passed away. The Board paid tribute to the enormous contribution that Douglas had made to public life in Scotland in his many roles over many years and for his significant contribution to the Audit Scotland Board. The Board expressed their condolences to Douglas' family and friends.

Ian Leitch provided a verbal update to members, advising of meetings with Caroline Gardner, Auditor General for Scotland, and Diane McGiffen, Chief Operating Officer, on general matters relating to the governance of Audit Scotland.

The Chair also advised of meetings with the legal advisers about the advice received on our Standing Orders, which members would consider at item 9.

The members welcomed the update.

5. Accountable Officer's report

Caroline Gardner provided a verbal update on her activity since the previous meeting including engagement with and attendance at the Public Audit and Post Legislative Scrutiny Committee. She advised that Jackie Baillie had been appointed as acting Convenor. Caroline also updated members on the recent meeting of the Scottish Parliament's Budget Review Group, which had considered responses to its recent public consultation. Caroline reminded the Board about the forthcoming David Hume Institute Seminar on Scotland's Budget Explained at Audit Scotland on Thursday 11 May at our Edinburgh office, at which she was delivering a keynote speech.

Caroline advised that the five year rolling work programme had been published, and of a recent event for parliamentary staff hosted by Audit Scotland.

Caroline also advised of the successful outcome from negotiations with the PCS Union on the pay reward and strategy for colleagues and advised of progress on the role profiles for the Leadership Group which would be considered by the Remuneration & Human Resources Committee in October 2017. Caroline invited the Board to note that this work formed part of a wider leadership development conversation being led by Fraser McKinlay.

Caroline advised the Board of an accident at the Edinburgh office in which a member of staff had been injured as a result of a fall and that the Health, Safety and Wellbeing Committee would be reviewing the incident. The Board expressed their best wishes for a speedy recovery.

The Board welcomed the update.

6. Accounts Commission report

Ronnie Hinds, the Acting Chair of the Accounts Commission, provided a verbal update on the most recent meeting of the Accounts Commission and a consultation response on borrowing and treasury management.

Ronnie also advised of a recent meeting he had attended with the Improvement Service and the intention to build on the existing working relationships with the service.

The Board welcomed the update.

7. Review of minutes

Board meeting, 31 March 2017

The Board considered the note of the meeting on 31 March 2017, which had been previously circulated, and confirmed that these were an accurate record of the meeting, subject to the following amendments.

- Item 4, insert 'the' in the fourth line before 'legal advisers'.
- Item 16, insert 'of' in the third para of item 16 before '...external audit work.'

8. Review of actions tracker

The Board noted the updates provided on the action tracker, noting a duplicate action at ASB31 and ASB48. Diane McGiffen advised that additional financial information would be included once year end accounting was completed (item ASB33) and a further report would be presented to the Board in June 2017.

Action: The Chief Operating Officer to arrange for the updated Demonstrating Value for Money report to be circulated to the Board in June 2017. (June 2017)

9. Standing orders - legal advice

Ian Leitch invited members to consider the Note of Advice received from BTO Solicitors on the requirements for establishing a quorum and options on representation at meetings of Audit Scotland.

During discussion, Board members considered the issue around the attendance of members to enable meetings to be quorate.

Ronnie Hinds advised of the Accounts Commission's interest and the Board agreed that the Acting Chair could share the advice with Commission members, noting this should be considered in the private session of their next meeting given the privileged status of legal advice.

The Board also accepted intimation of waiver referred to in the legal advice could be done by email.

Following discussion and acceptance by the Board of the legal advice Diane McGiffen advised that she would update the Standing Orders and present a revised report for approval by the Board at its meeting on 6 June 2017.

Action: The Chief Operating Officer to circulate to members the summary note of the privileged status of legal advice. (May 2017)

Action: The Chief Operating Officer to update the Standing Orders and present a revised set for approval by the Board at its meeting on 6 June 2017. (June 2017)

10. Corporate Plan 2017/18

Martin Walker, Assistant Director, Corporate Performance and Risk, introduced the Audit Scotland Budget Corporate Plan 2017/18, which had been previously circulated.

Martin invited the Board to consider and approve the updated draft Corporate Plan for 2017/18.

Heather Logan advised that although the report provided comfort around progress, strengths and competency of dealing with risks and challenges, she felt that it could better reflect and capture the achievements linked to the Becoming World Class improvement programme and note the innovative methods and thinking that were necessary to providing the public sector with a quality offering in times of finite resources and additional workloads.

Diane McGiffen welcomed the feedback, advising that the Corporate Plan is a corporate communication tool, and that this was the third and final update with work on the new revised corporate strategy due to start at the end of summer, involving a much deeper strategic review of priority work for the Auditor General for Scotland, the Accounts Commission and Audit Scotland. Diane also advised that the annual report and accounts provides much more detail around our world class aspirations and achievements and that we will look to build on the section around the risk and challenges of resources and how we adapt to the changing operating environment.

Following detailed discussion, the Board welcomed the report and approved the Corporate Plan.

Action: The Assistant Director, Corporate Performance and Risk, to publish the Corporate Plan. (June 2017)

11. Publication schedule and forward programme

Fraser McKinlay, Director, and Antony Clark, Assistant Director, of Performance Audit and Best Value joined the meeting.

Fraser McKinlay, Director of Performance Audit and Best Value introduced the Publication Schedule and Forward Programme, which had previously been circulated.

Fraser invited the Board to note the reports that we plan to publish during 2017/18 and 2018/19 together with the longer term five year rolling work programme.

The Board discussed the comprehensive publication schedule for the next two years and the longer term work programme.

Following discussion, the Board welcomed the report.

Fraser McKinlay, Director, and Antony Clark, Assistant Director, of Performance Audit and Best Value left the meeting.

12. 2016/17 Annual Report: Freedom of Information and Environmental Information

Alex Devlin, Corporate Governance Manager joined the meeting

Alex Devlin, Corporate Governance Manager, tabled an updated version of the report which had been previously circulated on the 2016/17 Annual Report for Freedom of Information and Environmental Information, to include an update on the outcome of one appeal to the Scottish Information Commissioner (SIC).

Alex invited the Board to note the statistics and analysis reported about the 56 requests recorded in 2016/17 for Freedom of Information and Environmental Information.

The Board sought additional information on the nature of FOI requests and the resources involved in responding to them.

Following discussion, the Board welcomed the report.

13. 2016/17 Annual report: Complaints Handling

Alex Devlin, Corporate Governance Manager, presented the 2016/17 Annual Report on Complaints Handling, which had been previously circulated.

Alex invited the Board members to note that the number of complaints received about audit work had risen slightly against previous years, and that the complaints process continues to work well.

Following discussion, the Board noted the report and the assurance provided.

Alex Devlin, Corporate Governance Manager, left the meeting.

14. Information Security Management Policy

David Robertson, Digital Services Manager, joined the meeting.

David Robertson introduced the Information Security Management Policy report, which had been previously circulated.

David invited the Board to consider and approve the revised Information Security Management Policy, a copy of which was tabled with apologies following omission from the papers issued.

The Board considered and approved the revised policy acknowledging the underlying policies, standards, procedures and guidance set out at Appendix 1.

The Board welcomed the report.

David Robertson, Digital Services Manager, left the meeting.

15. Publication of Reports

The Board approved all reports for publication with the following exceptions:

- Item 9 Standing orders legal advice (effective conduct of business - free and frank provision of advice/ exchange of views for the purposes of deliberation/ conduct of public affairs).
- Item 10 Corporate Plan 2017/18 (effective conduct of business - free and frank provision of advice/ exchange of views for the purposes of deliberation/ conduct of public affairs and intention of future publication).

16. Any other business

There was no further business.

17. ICAS Prize winner Sobhan Afzal

Ian Leitch welcomed Sobhan Afzal to the meeting and the Board congratulated Sobhan on achieving the highest mark in the ICAS Advanced Finance TPS exam in the UK, a first for one of Audit Scotland's trainees. The Chair congratulated Sobhan on his recent appointment as an auditor with Audit Scotland, and Sobhan shared his experience of training at Audit Scotland and the work on which he was currently involved.

18. Review of meeting

The members took the opportunity to reflect on the meeting and welcomed the assurance provided by the annual reports on Complaints, Freedom of Information and Environmental Information and the opportunity to meet and learn more from Sobhan Afzal following his recent achievement.

19. Date of next meeting

It was noted that the next Audit Scotland Board meeting was scheduled for 6 June 2017 in the offices of Audit Scotland, 102 West Port, Edinburgh.

Ref	FORUM	Agenda Item No	Item Title	Action Description	Meeting Date	Due Date	Responsible	Assigned to	Complete/Ongoing	Reported Yes/No	Progress Notes
	Board	8	Spring Budget Revision	Scottish Commission for Public Audit for a £1,716k Spring	20/11/2014	30/11/2014	Diane McGiffen	David Hanlon	Complete		Complete
	Board	13	Openness and Transparency: Publication of Board Papers	The Chief Operating Officer to schedule a future agenda item to review the arrangements.	24/03/2016	01/12/2016	Diane McGiffen	Diane McGiffen	Complete	No	This item was considered at the Board meeting on 20/01/2017, further discussion to take place with reference to Audit Committee agenda for 17/05.
ASB13	Board	10	Q1 Corporate Performance Report	The Assistant Auditor General to prepare a report for a future Board meeting on the levels of reporting and roles on fraud.	18/08/2016	01/12/2016	Russell Frith	Russell Frith	Complete	Yes	This report was considered at Item 12 of the Board meeting 20/01/17. The report has been updated, published on ishare and shared with the firms on all 06/02/2017.
ASB16	Board	15	Corporate Governance Policies and Code of Conduct Review	The Corporate Governance Manager to review the Financial Regulations, Scheme of Delegation and staff Code of Conduct annually and report to the Board.	18/08/2016	23/08/2017	Alex Devlin	Alex Devlin	Ongoing		Standing Orders reviewed 27/10/16. The next review will be scheduled for Board meeting on 23 August 2017.
ASB18	Board	16	Proposed Board Meeting Dates 2017	The Chief Operating Officer to propose meeting dates for discussion by members at the September meeting of the Board.	18/08/2016	15/09/2016	Diane McGiffen	Joy Webber	Complete	Yes	The proposed meeting dates for 2017 were considered at item 20 of the Board agenda 20/01/2017.
ASB20	Board	10	Securing World Class Audit - Audit Procurement Post Tender Review	The Assistant Director, Audit Strategy, to bring a report to the Board on the quality review work.	15/09/2016	09/12/2016	Russell Frith	Elaine Boyd	Complete	Yes	A report was considered by the Board at its meeting on 20/01/2017.
ASB23	Board	6	Review of minutes	The Assistant Auditor General to provide more detail around recovery of monies through NFI and how this will be monitored in future.	27/10/2016	20/01/2017	Russell Frith	Russell Frith	Complete	Yes	Russell Frith reported on NFI Item 12 on the agenda of the Board meeting 20/01/2017.
ASB24	Board	9	Securing World Class Audit - Developments in Audit	The Chief Operating Officer to schedule an update report on the Becoming World Class and world class audit.	27/10/2016	20/01/2017	Diane McGiffen	Russell Frith	Ongoing		At its meeting on 31 March 2017, the Board agreed the quality report will be considered by the Audit Committee on 17 May 2017 with a further report to the Board thereafter.
ASB25	Board	12	UK & Ireland Supreme Audit Institutions meeting, 4 November 2016	The Chief Operating Officer to report on the meeting of the UK & Ireland Supreme Audit Institutions meeting.	27/10/2016	20/01/2017	Diane McGiffen	Diane McGiffen	Complete	Yes	Diane McGiffen provided a verbal update to the Board on 22 February 2017.
ASB26	Board	14	Publication of reports	The Chief Operating Officer to arrange to publish the reports on the Audit Scotland website alongside the approved minute.	27/10/2016	27/01/2017	Diane McGiffen	Joy Webber	Complete	Yes	The reports and approved minute of the Board meeting on 27/10/2016 has been published on Audit Scotland's website.
ASB27	Board	15	Any other business	The Director of Performance Audit and Best Value to report on how the engagement with young people on the forward work programme had developed to the Board in January 2017.	27/10/2016	20/01/2017	Fraser McKinlay	Fraser McKinlay	Complete	No	The Board will considered a report and presentation at its meeting on 31/03/17.
ASB28	Board	7	Review of minutes - Remco meeting, 15 September 2016 and Board meeting, 27 October 2016	Joy Webber, Senior Executive Assistant, to make the necessary amendments to the Remco minute and publish the Board minute of 27 October 2016.	20/01/2017	22/02/2017	Joy Webber	Joy Webber	Complete	Yes	The Board minutes of 27/10/2016 have been published and the minutes of Remco have been amended.
ASB29	Board	9	Review of standing orders	Diane McGiffen, Chief Operating Officer, to schedule a report for the Board meeting in February 2017.	20/01/2017	22/02/2017	Diane McGiffen	Diane McGiffen	Ongoing		As agreed by the Board at its meeting on 31 March 2017, this item is scheduled for the meeting on 5 May 2017. Agenda item 9.
ASB30	Board	10	Making a Difference: Digital Audit	Diane McGiffen, Chief Operating Officer, to schedule a report for a Board meeting later in the year.	20/01/2017	05/05/2017	Diane McGiffen	Martin Walker	Ongoing		Digital Audit Strategy being developed to support the Corporate Plan (item 10). Propose that it is considered by the Board at its August Meeting.
ASB31	Board	11	Securing World Class Audit: Review of Quality Arrangements	Diane McGiffen, Chief Operating Officer, to schedule a report for a Board meeting later in the year.	20/01/2017	31/03/2017	Russell Frith	Elaine Boyd	Complete	No	The Board considered a report at its meeting on 31 March 2017. Report to Audit Committee scheduled for 17/05/17.
ASB32	Board	12	Securing World Class Audit: Fraud Arrangements	Russell Frith, Assistant Auditor General, to make the suggested amendments to the report in terms of responsibilities of reporting fraud.	20/01/2017	22/02/2017	Russell Frith	Anne Cairns	Complete	Yes	The report on Counter Fraud Arrangements was updated and issued to colleagues on 06/02/2017.
ASB33	Board	13	Making a Difference: Demonstrating Value for Money Update	Fiona Kordiak, Director of Audit Services, to liaise with Heather Logan and take on board comments from members before issuing a further draft for their consideration by correspondence.	20/01/2017	22/02/2017	Fiona Kordiak	Fiona Kordiak	Ongoing		The report has been re-drafted to take on board comments received to date.
ASB34	Board	14	Making a Difference: Update on Parliamentary Engagement	Kirsty Gibbins, Communications Adviser, Corporate Services, to confirm the terms of the contract and survey arrangements.	20/01/2017	22/02/2017	Kirsty Gibbins	Kirsty Gibbins	Complete	Yes	A verbal update was provided to the Board under item 8 of the meeting on 31/03/2017.
ASB35	Board	17	Q2 Corporate Performance Report 2016/17	Martin Walker, Assistant Director, Corporate Performance and Risk to consider with the Communications Team the options to measure corporate objective 2.2.	20/01/2017	31/03/2017	Martin Walker	Martin Walker	Complete	Yes	The Q3 report considered on 31/03/2017 reflected new measures corporate objective 2.2.
ASB36	Board	17	Q2 Corporate Performance Report 2016/17	Diane McGiffen, Chief Operating Officer, to send a copy of the latest quarterly correspondence report considered by Management Team on 17 January 2017.	20/01/2017	22/02/2017	Diane McGiffen	Joy Webber	Complete	Yes	A copy of the Q3 Correspondence Performance Report dated 17/01/2017 has been circulated to Board members for information.
ASB37	Board	18	Q2 Becoming World Class Improvement Programme Report 2016/17	Russell Frith, Assistant Auditor General, to schedule a report to the Board on established international benchmarks for world class quality, people and reporting.	20/01/2017	05/05/2017	Russell Frith	Russell Frith	Ongoing		The Assistant Auditor General has confirmed this item forms part of the quality framework on which the Audit Committee will consider at its meeting on 17/05/2017.

AS838	Board	20	Proposed Board Meeting Dates 2017	Joy Webber, Senior Executive Assistant, to liaise with members regarding their availability.	20/01/2017	22/02/2017	Joy Webber	Joy Webber	Complete	Yes	Joy Webber has liaised with and confirmed alternative meeting dates for May and June. Meeting dates have now been confirmed for 5 May and 6 June 2017.
AS839	Board	21	Review of Openness and Transparency	Diane McGiffen, Chief Operating Office, to schedule a discussion on next steps in publishing committee papers with the Board at its meeting in February 2017.	20/01/2017	22/02/2017	Diane McGiffen	Diane McGiffen	Complete	Yes	The Board received a verbal update at its meeting on 22/02/2017.
AS840	Board	22	Publication of reports	Diane McGiffen, Chief Operating Office, to arrange to publish the reports on the Audit Scotland website alongside the approved minute.	20/01/2017	22/02/2017	Diane McGiffen	Joy Webber	Complete	Yes	The approved minute and reports have been published on the Audit Scotland website.
AS841	Board	7	Review of minutes	Joy Webber, Senior Executive Assistant, to make a correction to the minutes of the Board meeting 20 January 2017 and publish the approved minute.	22/02/2017	28/02/2017	Joy Webber	Joy Webber	Complete	Yes	The Board minutes of 20/01/2017 have been published and the minutes of Remco have been amended.
AS842	Board	9	Public Audit and Post Legislative Scrutiny Committee Review of NFI.	Russel Frith, Assistant Auditor General, to circulate to Board members by correspondence a draft response to the Public Audit and Post Legislative Scrutiny Committee on NFI	22/02/2017	31/01/2017	Russell Frith	Russell Frith	Complete	No	Draft response was issued by correspondence to members on 23/03/2017.
AS843	Board	7	Review of minutes	Joy Webber, Senior Executive Assistant, to publish the approved minute of the meeting of 22 February 2017.	31/03/2017	30/04/2017	Joy Webber	Joy Webber	Complete	No	The approved minute and reports have been published on the Audit Scotland website.
AS844	Board	9	Review of Standing Orders	Joy Webber, Senior Executive Assistant, to circulate the legal advice and to schedule it for discussion at the next Board meeting on 5 May 2017	31/03/2017	05/05/2017	Joy Webber	Joy Webber	Complete	No	The Board will discuss the advice at Item 9 of today's agenda.
AS845	Board	11	AS Annual Reports and Accounts	Martin Walker, Assistant Director, Corporate Performance and Risk to share the strategic risks and objectives section of the Annual Report and Accounts with Heather Logan.	31/03/2017	30/04/2017	Martin Walker	Martin Walker	Complete	No	The risks and objectives section of the Annual Report and Accounts has been shared with Heather Logan.
AS846	Board	12	Equality Outcomes: Reflecting Back and Looking Forward	Gillian Woolman, Assistant Director LG and Health, to update the reports for consideration by the Accounts Commission.	31/03/2017	30/04/2017	Gillian Woolman	Gillian Woolman	Complete	No	Gillian Woolman presented an updated report to the Accounts Commission at its meeting on 13/04/2017.
AS847	Board	14	Q3 Performance Report 2016/17	Martin Walker, Assistant Director, Corporate Performance and Risk, to consider how best to focus the narrative on objectives and performance in future reports.	31/03/2017	30/06/2017	Martin Walker	Martin Walker	Ongoing		Martin Walker will reflect and update as part of the Q4 report due before the Board on 23/08/2017.
AS848	Board	16	Securing World Class Audit: Review of Audit Quality	Martin Walker to schedule an item for consideration by the Audit Committee meeting on 17 May 2017.	31/03/2017	05/05/2017	Martin Walker	Martin Walker	Complete	No	This item has been scheduled for the meeting of the Audit Committee on 17/05/2017.
AS849	Board	18	Making a Difference: Public Engagement Work with Young Scot	Diane McGiffen, Chief Operating Officer, to schedule an update report in March 2018.	31/03/2017	01/03/2018	Diane McGiffen	Joy Webber	Ongoing		This item will be scheduled for 18 March 2018.
AS850	Board	19	Publication of Reports	Joy Webber, Senior Executive Assistant, to arrange to publish the reports on the Audit Scotland website alongside the approved minute.	31/03/2017	30/04/2017	Joy Webber	Joy Webber	Complete	No	The approved minute and reports have been published on the Audit Scotland website.

AUDIT SCOTLAND BOARD

5 MAY 2017

REPORT BY DIRECTOR OF PERFORMANCE AUDIT AND BEST VALUE

PUBLICATION SCHEDULE AND FORWARD PROGRAMME

1. Purpose of report

This paper updates the Board on the reports that we plan to publish during 2017/18 and 2018/19. It also provides a summary of our longer-term five year rolling work programme.

The Board is invited to note the publication schedule and our forward programme.

2. Publication schedule 2017/18 through 2018/19

Audit Scotland plans to publish at least 51 outputs between May 2017 and March 2019 on behalf of the Auditor General and the Accounts Commission. These are listed in appendix 1 along with indicative publication dates. The list does not include any corporate publications, impact reports, or the anticipated 8 to 10 statutory reports (Section 22 reports or Section 102 reports) which may arise from the annual audits of public bodies.

To increase the impact of our work, we continue to develop a range of alternative outputs from our audits. Recent examples include the use of Tableau data visualisation software for the Auditor General's update on the *roll-out of Superfast Broadband*, and the Accounts Commission's *Local government in Scotland financial overview*. We have also produced briefings on *New financial powers*, and the *NHS workforce*.

As has been the case in recent years, we are publishing more outputs in June and July 2017 because of the publications moratorium (13 March to 4 May) for the local government elections in May. This will also affect the scheduling of reports to the Public Audit and Post Legislative Scrutiny (PAPLS) Committee and relevant parliamentary subject committees from September onwards. Committee Clerks are sighted on our publications plan and are conscious of the timescales for our reports in relation to their committee business planning.

3. Rolling work programme

We have a five year programme of audits¹ that covers all of the work we carry out on behalf of the Accounts Commission and the Auditor General, with the exception of the local annual audit work. Flexibility has been built into the programme to allow us to undertake investigatory work and respond quickly to new and emerging audit risks, working across Audit Scotland and with the firms.

¹ This includes performance audits, Best Value audits, the How Councils Work series, overview reporting, follow-up work, statutory reporting, correspondence and the shared risk assessment (SRA).

Our five year rolling programme for 2017/18 – 2021/22 is set out in the second appendix. Arrangements are in place for regular engagement with the Auditor General and the Accounts Commission to review the programme. As part of the annual refresh of the work programme the Auditor General and Accounts Commission consulted with key stakeholders. The feedback about the programme was positive, providing assurance that the programme is proportionate and focussed on the right areas.

Alongside the routine promotion and engagement activity we undertake relating to our work, we are undertaking a range of activities on behalf of the Auditor General and Accounts Commission to promote the work programme following the recent refresh. This includes the key stakeholder groups with an interest in our work, and the scrutiny of public services more generally.

This activity includes:

- An updated and improved section of the website for the work programme.
- An information flyer with links to further information about our work and the programme. This has been sent to all MSPs, Ministers, council leaders and chief executives, health boards, NPDBs and other relevant stakeholders.
- A range of internal and external promotional activities including blogs, podcast, articles for Abacus and ishare.
- Extensive use of social media to promote our work.
- Briefings for parliamentary clerks, and other key contacts.

An important aspect of our programme development activity has been engaging with stakeholders to discuss significant policy developments and issues of concern across the public sector. The most recent of these events was held on the 2nd May and focused on issues associated with health, housing and well-being. Future topics that will be considered in this way include educational attainment and the potential impact of the Community Empowerment Act on improving public services.

4. Recommendation

The Board is invited to note the publication schedule for the next two years and our longer-term work programme.

Appendix 1: Proposed publications during 2017/18 and 2018/19

The table below summarises reports we plan to publish during the next two years. Indicative publication timescales are included.

Publication	AGS/AC/Joint AGS&AC/AS	Indicative publication date
Lessons learned: A summary from public sector ICT projects	AGS	11 May
National Scrutiny Plan and Local Scrutiny Plans	AC	30 May
Inverclyde Council Best Value Assurance Report (BVAR)	AC	1 June
Common Agricultural Policy Futures Programme: An update	AGS	15 June
Scotland's colleges 2017	AGS	22 June
Housing benefit annual report, and good practice guide	AC	June
Self-directed support pt.2	Joint	13 July
NHS workforce in Scotland	AGS	27 July
Renfrewshire Council BVAR	AC	31 August
Equal Pay in local government	AC	7 September
East Renfrewshire Council BVAR	AC	tbc October
Scotland's ferry services	AGS	19 October
NHS in Scotland 2017	AGS	26 October
Early learning and childcare	Joint	2 November
Financial overview of local government 2017	AC	November
West Lothian Council BVAR	AC	November
Orkney Isles Council BVAR	AC	December
Clackmannanshire Council BVAR	AC	January 2018
East Dunbartonshire Council BV follow-up	AC	Winter 2017/18
Falkirk Council BV follow up	AC	Winter 2017/18
An overview of local government in Scotland 2018: Performance and challenges	AC	Spring 2018
New financial powers 2018	AGS	Spring 2018
Children and adolescent mental health	Joint	Spring 2018
Scottish fire and rescue services follow-up	AGS	Spring 2018
ALEOs	AC	Spring 2018
Forth replacement crossing	AGS	Spring 2018

Publication	AGS/AC/Joint AGS&AC/AS	Indicative publication date
Health and social care integration pt.2	Joint	Spring 2018
National Scrutiny Plan and Local Scrutiny Plans	AC	Spring 2018
City Deals	Joint	Spring/Summer 2018
Community Justice	Joint	Spring/Summer 2018
Scotland's colleges 2018	AGS	Summer 2018
Broadband follow-up	AGS	Summer 2018
NHS workforce pt.2	AGS	Autumn 2018
How Councils Work (topic to be determined)	AC	Autumn 2018
NHS in Scotland 2018	AGS	Autumn 2018
Financial overview of local government 2018	AC	Autumn 2018
Higher education: widening access	AGS	Autumn / Winter 2018
Prisoner healthcare	AGS	Winter 2018
Reforming public services through better asset management	Joint	Winter 2018
Value for money of non-profit distributing models	Joint	Winter 2018
Housing	Joint	Winter 2018
Digital in health and central government	AGS	Spring 2019
An overview of local government in Scotland 2019: Performance and challenges	AC	Spring 2019
Employability	Joint	Spring 2019
New financial powers 2019	AGS	Spring 2019

*A further six Best Value Assurance Reports will be published during 2018/19. The timing of these will be determined in consultation with the relevant appointed auditors for each council.

Appendix 2: Rolling programme 2017/18 to 2021/22

The table below summarises audit work for the next five years. Years three to five of the programme (2019/20 onwards) are indicative.

Proposals for audit work relate to areas of public service reform, risk or public interest. We will continue to monitor developments across the public sector and engage with key stakeholders as we continue to develop the longer-term programme.

	2017/18	2018/19	2019/20	2020/21	2021/22
Performance audits					
Devolution	<ul style="list-style-type: none"> Managing continued devolution of fiscal powers 	<ul style="list-style-type: none"> Managing continued devolution of fiscal powers Employability – transfer of powers 	<ul style="list-style-type: none"> Managing continued devolution of fiscal powers 	<ul style="list-style-type: none"> Managing continued devolution of fiscal powers 	<ul style="list-style-type: none"> Managing continued devolution of fiscal powers
Economy	<ul style="list-style-type: none"> Innovative Financing - City Deals Forth replacement crossing Scotland's ferry services 	<ul style="list-style-type: none"> Value for money of NPD projects 	<ul style="list-style-type: none"> Supporting economic growth – role of local authorities A9 dualling 	<ul style="list-style-type: none"> Innovative Financing - City Deals (2) Supporting economic growth: impact of enterprise and skills review 	<ul style="list-style-type: none"> Development of Scotland's new agriculture and fishing policy post Brexit

	2017/18	2018/19	2019/20	2020/21	2021/22
Policy	<ul style="list-style-type: none"> • Early learning and childcare • Equal pay 	<ul style="list-style-type: none"> • Reforming public services through better asset management • Housing 	<ul style="list-style-type: none"> • Early learning and childcare (2) • Flood risk management • Waste management • Skills planning and investment • School educational attainment 	<ul style="list-style-type: none"> • Housing • Youth justice 	<ul style="list-style-type: none"> • Social security • Early learning and childcare (3) • Criminal justice
Public service reform	<ul style="list-style-type: none"> • Health & social care integration: Part 2 	<ul style="list-style-type: none"> • Community Justice 1 		<ul style="list-style-type: none"> • Health & social care integration 3 	
Performance and outcomes	<ul style="list-style-type: none"> • Children's mental health 	<ul style="list-style-type: none"> • Higher education – widening access: progress review • Prisoner healthcare 	<ul style="list-style-type: none"> • Higher education (finances) 	<ul style="list-style-type: none"> • Higher education • Improving outcomes for looked after children • Impact of investment in the school estate 	<ul style="list-style-type: none"> • Mental health 3
Skills and capacity	<ul style="list-style-type: none"> • NHS workforce 	<ul style="list-style-type: none"> • NHS workforce (2) 		<ul style="list-style-type: none"> • Workforce planning for skills post Brexit • NHS Workforce (3) 	
Digital		<ul style="list-style-type: none"> • Digital progress in central government and health 	<ul style="list-style-type: none"> • Digital progress in local government 	<ul style="list-style-type: none"> • Digital services (learning or justice) 	<ul style="list-style-type: none"> • Progress against digital strategy – 5 years on
Leadership and Scrutiny	<ul style="list-style-type: none"> • Arms-Length External organisations (ALEOs) 				

	2017/18	2018/19	2019/20	2020/21	2021/22
Performance Audit follow up	<ul style="list-style-type: none"> CAP Futures programme Scottish fire and rescue services Self-directed support 2 	<ul style="list-style-type: none"> Broadband 	<ul style="list-style-type: none"> tbc 	<ul style="list-style-type: none"> Commonwealth Games legacy – six years on 	<ul style="list-style-type: none"> tbc
Impact reports <i>Note: the sequencing of impact report publication may be subject to change in response to any significant policy developments that impact on audit recommendations.</i>	<ul style="list-style-type: none"> Roads maintenance Social work in Scotland 	<ul style="list-style-type: none"> The role of Scotland's Enterprise Agencies Equal pay Early learning and childcare City Deals Children's mental health NHS workforce Scotland's ferry services Forth replacement crossing Scottish fire and rescue (f/up) 	<ul style="list-style-type: none"> ALEOs Community Justice Employability – transfer of new powers HE – widening access Digital in central government and health VFM of NPD projects Reforming public services through better Asset Management Housing 	<ul style="list-style-type: none"> Community empowerment NHS workforce 2 Prisoner healthcare Supporting economic growth – role of local authorities A9 duelling Flood risk management Skills planning and investment School education attainment HE finances Waste management 	<ul style="list-style-type: none"> Innovative Financing – City Deals (2) Supporting economic growth: impact of enterprise and skills review Housing Youth justice Higher Education Improving outcomes for looked after children Impact of investment in the school estate
Overview reporting	<ul style="list-style-type: none"> Local government financial overview Local government overview NHS in Scotland Scotland's colleges (narrower focus) 	<ul style="list-style-type: none"> Local government financial overview Local government overview NHS in Scotland Scotland's colleges 	<ul style="list-style-type: none"> Local government financial overview Local government overview NHS in Scotland Scotland's colleges 	<ul style="list-style-type: none"> Local government financial overview Local government overview NHS in Scotland Scotland's colleges 	<ul style="list-style-type: none"> Local government financial overview Local government overview NHS in Scotland Scotland's colleges
How Councils Work		<ul style="list-style-type: none"> To be confirmed 	<ul style="list-style-type: none"> To be confirmed 	<ul style="list-style-type: none"> To be confirmed 	<ul style="list-style-type: none"> To be confirmed

	2017/18	2018/19	2019/20	2020/21	2021/22
Audits of Best Value <ul style="list-style-type: none"> • Leadership and scrutiny • Skills and capacity • Financial outlook • Community engagement • Options appraisal • Service transformation • Public performance reporting 	6 BVARs <ul style="list-style-type: none"> • Inverclyde Council • Renfrewshire Council • East Renfrewshire Council • West Lothian Council • Orkney • Clackmannanshire 	6 BVARs To be confirmed following the 2017/18 SRA process	7 BVARs To be confirmed following the 2018/19 SRA process	6 BVARs To be confirmed following the 2019/20 SRA process	6 BVARs To be confirmed following the 2020/21 SRA process

	2017/18	2018/19	2019/20	2020/21	2021/22
Potential alternative outputs <i>Note:</i> Our list of alternative outputs is subject to regular prioritisation and refinement as part of ongoing programme development work.	<ul style="list-style-type: none"> Digital / ICT "lessons learnt" briefing for PAPLSC Indebtedness and borrowing Educational attainment round table outputs New financial powers support to the Finance Committee Funding gaps in councils Dummy's guide to Agile Workforce planning (analysis of auditor returns) Local government support for public transport Internal audit and scrutiny 	<ul style="list-style-type: none"> Community empowerment: Participation requests / Asset transfer / Service integration and prevention Governance (analysis of auditor returns) Realistic medicine (reducing variation in the NHS) – data analysis and benchmarking 	<ul style="list-style-type: none"> Public sector pensions in Scotland (central government) Public sector pensions (LGPS) Public sector pensions in Scotland (briefing) Climate change and resilience planning National Performance Framework How the budget works Youth justice update 	<ul style="list-style-type: none"> TBC 	<ul style="list-style-type: none"> TBC
Other alternative output options to be kept under review: <ul style="list-style-type: none"> Educational attainment: analysis of Scottish Government investment in addressing the attainment gap. Cyber security (key issues) Key issues for audit committees EU funding analysis – spending and commitments Capital investment: financing commitments Digital roundtable 					

AUDIT SCOTLAND BOARD

5 MAY 2017

REPORT BY THE CORPORATE GOVERNANCE MANAGER

2016/17 ANNUAL REPORT ON FREEDOM OF INFORMATION AND ENVIRONMENTAL INFORMATION

1. Purpose of Report

This is the annual report to the Board on our Freedom of Information (FOI) and Environmental Information Regulations (EIRs) arrangements, requests and performance.

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

The Board is invited to note the contents of this report.

2. Background

Audit Scotland, the Auditor General and the Accounts Commission are subject to the Freedom of Information (Scotland) Act 2002 (FOISA) and the Environmental Information (Scotland) Regulations 2004 (EIRs).

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.

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.

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.

3. FOI/EIR Overview for 2016/17

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

The Knowledge, Information and Technology Governance Group (KITGG) provide oversight of our FOI/EIR arrangements and report their 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.

The FOI/EIR policy was reviewed by the KITGG, re-approved by the Board in September 2016 and staff acknowledged compliance with the policy via the fit and proper form in November 2016.

Approach to requests

It is our policy to be as open and transparent as possible, and therefore our approach to FOI/EIR requests is to treat them as a 'business as usual' activity. This means that where we would normally supply information to those we work with we will continue to do so without treating them as FOI/EIR requests.

For complex 'business as usual' requests and all other requests, which may have to be considered by an FOI panel, these are recorded in our FOI/EIR system.

Where it is appropriate and legal we can apply exemptions and exceptions to the information being requested. Audit Scotland has established a group of senior managers (FOI panel) trained in considering FOI/EIR exemptions and exceptions to complex requests.

The following statistics and analysis are based on our recorded FOI/EIR requests for 2016/17.

Statistics and Analysis

Number of requests received

Audit Scotland recorded 56 FOI and one EIR request this year. These were received in:

	2016/17 requests		2015/16 requests	
	FOI	EIR	FOI	EIR
Q1 (April – June)	12	1	14	0
Q2 (July – September)	14	0	16	0
Q3 (October – December)	17	0	26	0
Q4 (January – March)	13	0	9	0
Total	56	1	65	0

Fifty two FOI requests were addressed to Audit Scotland, three to the Accounts Commission and one to the Auditor General. One EIR was addressed to Audit Scotland.

Type of requester

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

2016/17 requester type	2016/17 requests		2015/16 requests	
	FOI	EIR	FOI	EIR
Media	4	0	10	0
MSP/MP	4	0	3	0
Organisation	21	0	23	0
Members of the public	21	1	25	0
Public body	5	0	2	0
Other	1	0	2	0

Themes emerging from the information being requested are:

- 23% - AS: staff , finance, cars
- 14% - ICT: equipment, contracts
- 24% - AS: reports, draft & correspondence
- 23% - Data held on other organisations
- 7% - AS: governance, policies, procedures
- 9% - Contracts (other than ICT)

Responding to requests

All information requested was released in full on 28(49%) occasions, partially released on 10 (18%) occasions, the information requested was not held by us on 16 (28%) occasions, refused on 1 occasion (2%) and two (3%) were withdrawn.

Cost of administrating and responding to requests

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 training and development job code.

However, 11 members of staff recorded 501 hours for administering our FOI systems and procedures, replying to some requests and dealing with complex requests at FOI panels. This equates to approximately £30,115 using the average hourly rate from the Time Recording System. However, the true 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

FOISA and the EIRs require public bodies to reply to requests within 20 working days and within 40 working days for complex or volumous EIRs. Audit Scotland met this requirement on 55 (96.5%) occasions and failed to meet it on two (3.5%) occasions. This is a slight improvement on last year's 95.3%.

Charging for dealing with requests

Public bodies are able to make certain charges for dealing with FOI and EIR requests. Where this is appropriate we issue a fee notice. We issued no fee notices in 2016/17.

Public bodies are also able to refuse a request where it will cost more than £600 to deal with it. However, 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. No requests were refused by Audit Scotland on excessive cost of compliance this year.

FOI/EIR panels, reviews and appeals

Panels met seven times this year to consider applying exemptions to some or all of the information being requested. In 11 requests, we applied exemptions to the information we held. This included information otherwise accessible, commercial interest and the economy, personal information and the audit function. The most common exemption used was for personal information.

Where an applicant is not satisfied with our initial response to their request they can ask Audit Scotland for a review and in 2016/17 there were two requests for a review. In both cases the review panel upheld the original decision.

If an applicant remains dissatisfied with how we dealt with their request after a review they can make an appeal to the SIC. There was one appeal to the SIC from a dissatisfied applicant this year. The decision of the SIC was received on 19 April 2017; the SIC found that Audit Scotland had not complied with the Freedom of Information (Scotland) Act 2002 by responding late to a request for information. The SIC does not require us to take any further action.

Information requested but not held by Audit Scotland

Audit Scotland issued 16 FOISA section 17 notices this year informing the applicant that the information they were requesting was not held by Audit Scotland, the Auditor General or the Accounts Commission.

Information otherwise accessible

Where the information requested is already publically available eg in the authorities publication scheme/website the public authority does not need to provide it. However, there is a duty to provide advice and assistance, which means informing the requester where the information is published.

Audit Scotland issued two section 25 notices informing the applicant that the information was publically available.

FOI/EIR Training

Audit Scotland staff undertake basic FOI/EIR training when they join Audit Scotland. Refresher training is given as necessary. In addition staff updates are published when changes occur. A staff brief was issued in September 2016 and on FOI Day in March 2017 to remind staff of our FOI/EIR arrangements, performance and changes to legislation.

Maintaining training records is dynamic process due to staff joining and leaving the organisation at any point during the year and at the 31 March 2017 no one had FOI/EIR training outstanding.

4. Recommendation

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

AUDIT SCOTLAND BOARD

5 MAY 2017

REPORT BY THE CORPORATE GOVERNANCE MANAGER

2016/17 ANNUAL REPORT ON COMPLAINTS HANDLING

1. Purpose of Report

This is the annual report to the Board on complaints received by Audit Scotland. 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.

The report on complaints handling concludes that there are no significant issues that should be brought to the attention of the Board.

The Board are invited to note the contents of this report.

2. Background

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 have to adhere.

Audit Scotland, the Auditor General and the Accounts Commission introduced a joint complaints handling process in December 2012. The joint complaints handling process was reviewed and updated in late 2014. A further review of our guides for staff and members of the public was undertaken in January 2017.

A feature of the arrangements is the systematic analysis of the complaints received and reporting on them to Management Team and the Board.

This is the fourth annual report on complaints handling under our new complaints handling procedure.

3. Complaints received

Audit Scotland staff actively engage with the public through a number of channels for example: the inspection period for local government unaudited accounts, the correspondence process, freedom of information requests, our main office receptions, our telephone switchboard, etc. If our interaction with the public is handled well it enhances our reputation and contributes to our goal of becoming world class. However, if handled poorly it may harm our reputation and lead to dissatisfaction and complaints.

Complaints should be dealt with at stage 1, front line resolution within five working days. However, when complaints are more complex or are not resolved at stage 1 they are investigated at stage 2, within 20 working days.

Corporate Services maintains the register of complaints received. The register shows that there were seven complaints received in 2016/17 (4 in 2015/16).

Table 1 below shows the number of complaints received and recorded by quarter and the stage they were dealt at. Table 2 details the number of complaints received during the last three years.

Table 1 – Number of complaints received by quarter in 2016/17

	Received	Stage 1	Stage 2	In progress	Rejected
Q1	4	0	3	0	1
Q2	0	0	0	0	0
Q3	2	1	1	0	0
Q4	1	0	1	0	0
Total	7	1	5	0	1

Table 2 – Number of complaints over the last three years

	Received	Stage 1	Stage 2	Rejected
2016/17	7	1	5	1
2015/16	4	2	2	0
2014/15	13	8	3	2

One (stage 1) complaint resulted from failing to meet published correspondence handling timescales (down from four complaints in 2015/16). Apology issued to the complainant.

Five (stage 2) complaints were due to our audit work/reports/findings/audit process. Two complaints were partly upheld and apologies issued.

One complaint was rejected due to it not being about Audit Scotland. The complainant was advised to contact the relevant public authority.

4. Scottish Public Services Ombudsman (SPSO)

The Scottish Public Services Ombudsman Act 2002 (the Act) provides a framework for matters that can be considered by the SPSO for investigation. This year the SPSO received three appeals about us. The SPSO decided to not investigate two complaints and the third has yet to be determined.

5. Conclusions

Our complaints handling process and procedures work well. We try to resolve complaints at stage 1 with the complainant; however a number will reach the investigation stage. This year there has been a rise in the number of complaints about our audit work: three in relation to Aberdeen City Council and two in relation to Glasgow Clyde College.

6. Recommendation

The Board is invited to note the contents of this report.

AUDIT SCOTLAND BOARD

5 MAY 2017

REPORT BY THE ASSISTANT DIRECTOR, CORPORATE PERFORMANCE AND RISK INFORMATION SECURITY MANAGEMENT POLICY

1. Purpose of report

To invite the Board to consider and approve a revised Information Security Management Policy.

2. Background

The Information Security Management System (ISMS) comprises of policies, procedures and standards that support world class information security. These are structured in a hierarchical manner and devolve responsibility as shown in the diagram in the appendix to the attached policy.

As part of the preparation for our successful ISO 27001:2013 Information Security certification we reviewed and rationalised ISMS.

The attached Information Security Management Policy is the overarching policy for the ISMS. It sets out the principles of information security and the associated roles and responsibilities. All other information security sub-policies, procedures and standards are controlled by this policy and derive responsibility from it. Each level of responsibility must report any policy exceptions and non conformity to its oversight group.

The policy was last approved the Management Team on 12 April 2016 and the Board on 3 May 2016.

The revised policy was reviewed by the Knowledge Information and Technology Review Group on 4 April and the Management Team on 11 April 2017. The revisions made are minor and include the standardisation of text with other policies, references to the Digital Services team and an update to the appendix.

3. Recommendations

The Board is invited to approve the revised Information Security Management Policy.

Information Security Management Policy

Version:	1.3	Status:	For Management Team & Board review
Author/Owner:	Digital Services Manager	Approval/Review:	Audit Scotland Board
Approval Date:		Review Date:	5 May 2017

Introduction

1. This policy sets out Audit Scotland's strategic commitment to Information Security Management.
2. Audit Scotland will ensure the confidentiality, integrity, quality and availability of all the information it holds and processes.
3. Audit Scotland will ensure all the information it holds and processes will meet its contractual, legal and regulatory obligations.
4. This policy is supported by supporting policies, standards, procedures and guidance. These are shown in the diagram at Appendix 1.

Scope

5. This policy is mandatory for all employees, contractors and consultants employed by Audit Scotland. Failure to comply with this policy and supporting information security policies may result in disciplinary action.

Commitments

6. Audit Scotland will take appropriate action to ensure the confidentiality, integrity and quality of all the information it holds and processes.
7. Audit Scotland will produce, maintain and test business continuity plans to ensure the availability of its information and information systems.
8. Audit Scotland will treat information security as a business critical issue.
9. Audit Scotland will ensure that its information is open and not restricted by financial or legal agreements.
10. Audit Scotland will ensure legislative and regulatory requirements are met (including intellectual property rights).

11. Audit Scotland will identify and implement appropriate controls for information assets proportionate to levels of risk.
12. Audit Scotland will communicate all appropriate information security policies to all employees, contractors, consultants, clients and other stakeholders.
13. Audit Scotland will allocate individual accountability for compliance with all appropriate information security policies, standards, guidance and procedures.
14. Audit Scotland will continue to improve its information security management.
15. Audit Scotland will develop, implement and maintain an Information Security Management System (ISMS) in accordance with best practice contained within ISO/IEC 27001:2013 and ISO/IEC 27002:2013.

Responsibilities

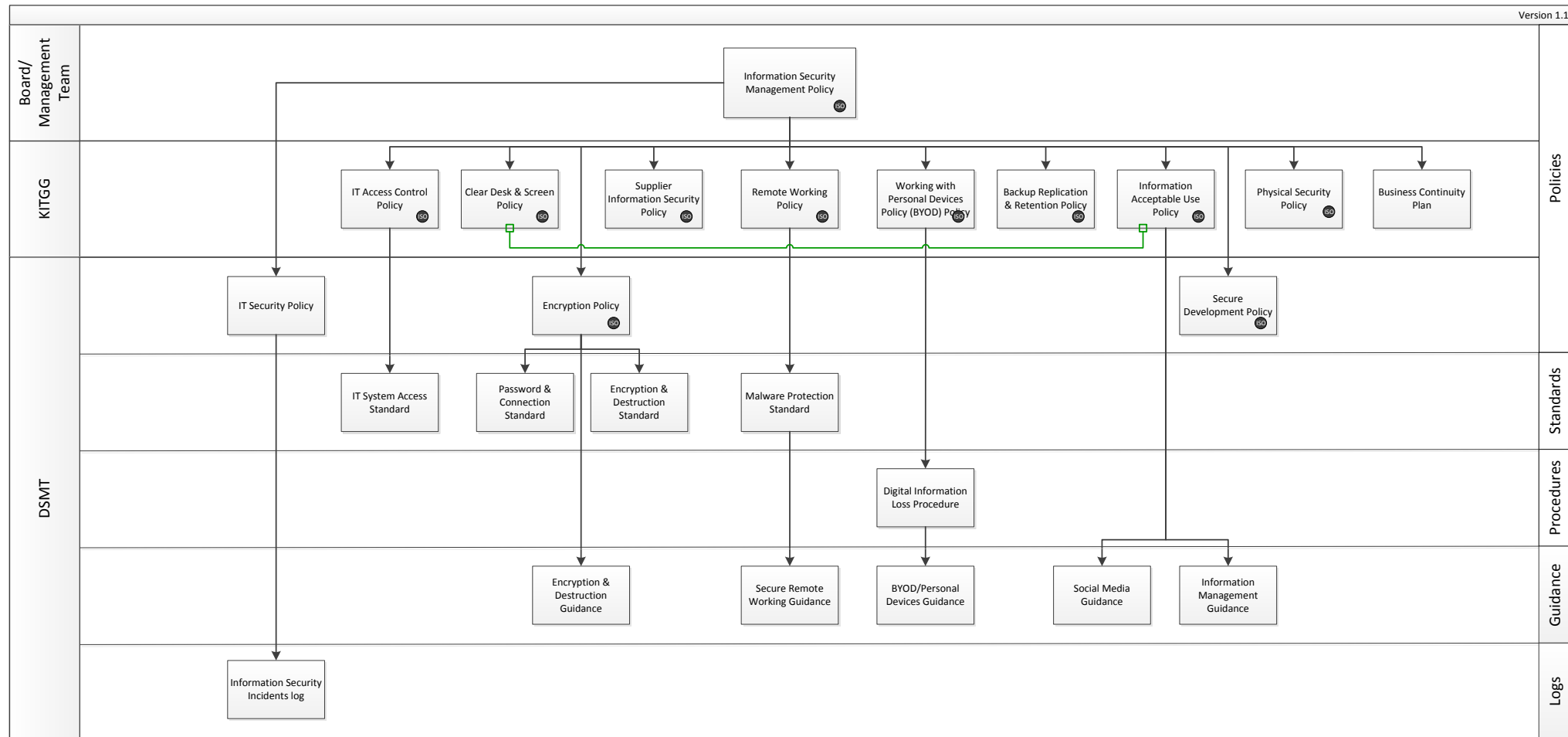
16. Audit Scotland's Board through its Audit Committee has oversight of risks, including information risks.
17. Audit Scotland's Accountable Officer, with support from the Management Team, has overall responsibility for ensuring this policy is effectively implemented and delivered.
18. Audit Scotland's Senior Information Risk Officer is the Chief Operating Officer, who is responsible for the overall management of the organisation's information risks.
19. Audit Scotland's Management Team will implement and manage appropriate controls to enable conformance to information security policies within their own areas of responsibility and will ensure individual accountability for control performance.
20. The Knowledge, Information and Technology Governance Group (KITGG) will support the Accountable Officer, Senior Information Risk Officer and Management Team by assessing and mitigating information security risks and providing assurance.
21. The KITGG will maintain this policy and associated information security policies ensuring they are communicated, reviewed and updated in response to changes in risks faced by Audit Scotland, legislation, and internal operational working practices.
22. The KITGG will ensure all information security policies and our performance in meeting their requirements is monitored and reviewed on an annual basis.
23. The Digital Services Management Team (DSMT) will maintain information security standards, guidance and procedures ensuring they are communicated, reviewed and updated in response to changes in risks faced by Audit Scotland, legislation, and internal operational working practices.

24. The Corporate Governance Manager is responsible for updating Audit Scotland's data protection notification, managing data subject access requests and providing advice to staff.
25. Information Asset Owners must understand what information is held by their business area, and approve the permissions required to access it.
26. All Managers will be responsible for implementing and communicating appropriate information security policies, guidance and procedures.
27. All employees, contractors and consultants employed by Audit Scotland are required to play an active role in the protection of Audit Scotland's assets and treat information security appropriately in order that this purpose can be achieved.

Change Log

Version	Date	Author	Description
1.0	22/03/16	IT Manager	Information Security Management policy drafted for KITGG approval.
1.1	05/04/16	IT Manager	Some minor changes suggested by the KITGG and policy approved. For submission to the Audit Scotland Management Team for approval.
1.2	15/04/16	IT Manager	Minor changes to reflect Audit Management Team comments. Approved by Management Team and for submission to the Audit Scotland Board.
1.2	05/03/16	IT Manager	Approved by the Audit Scotland Board.
1.3	04/04/17	Digital Services Manager	Minor changes made by KITGG and approved. For submission to Management Team and the Board for final approval.

Appendix 1



Agenda

Tuesday 6 June 2017, 11.00am

Audit Scotland offices, 102 West Port, Edinburgh EH3 9DN

1. Private Meeting
2. Welcome and apologies
3. Declarations of interest

Standing Items

4. Chair's report – verbal update
5. Accountable Officer's report – verbal update
6. Accounts Commission Acting Chair's report – verbal update
7. Review of minutes: For approval
 - Board meeting, 5 May 2017
8. Review of actions tracker For information
9. Standing Orders update For approval

Business Management

10. Q4 Corporate performance For information
11. Q4 Becoming world class improvement programme For information
12. Q4 Financial performance For information
13. Draft annual report and accounts For approval

Governance

14. Review of Whistleblowing and Counter Fraud policies For approval
15. 2016/17 annual report from the Chair of the Audit Committee to the Board For approval
16. 2016/17 annual report from the Chair of the Remuneration and Human Resources Committee For approval
17. 2016/17 governance statement on internal control and certificate of assurance For approval

- 18.** 2016/17 Annual report on international work

For approval

Strategy and Planning

- 19.** New financial powers and constitutional change

For information

Conclusion

- 20.** Publication of reports
- 21.** Any other business
- 22.** Review of meeting
- 23.** Date of next meeting

Minutes

Tuesday 6 June 2017, 10.30am

Audit Scotland offices, 102 West Port, Edinburgh EH3 9DN

Present:

I Leitch (Chair)
C Gardner
H Logan
R Hinds

Apologies:

R Griggs

In attendance:

D McGiffen, Chief Operating Officer
R Frith, Assistant Auditor General
M Walker, Assistant Director, Corporate Performance and Risk
J Webber, Senior Executive Assistant
A Clark, Assistant Director, Performance Audit and Best Value
M Taylor, Assistant Director, Audit Services
R Seidel, Audit Manager, Performance Audit and Best Value

1. Private meeting

A private meeting was held by the Chair and Board members, prior to the start of the Board meeting. There were no matters raised in addition to those items on the agenda, which had been previously circulated.

2. Welcome and apologies

The Board noted Russel Griggs' apologies for today's meeting.

3. Declarations of interest

There were no declarations of interest.

4. Chair's report

Ian Leitch provided a verbal update to members, advising of meetings with Caroline Gardner, Auditor General for Scotland, and Diane McGiffen, Chief Operating Officer, on general business matters.

The members welcomed the update.

5. Accountable Officer's report

Caroline Gardner invited the Board to note the summer is a particularly busy time for the audit teams with a large number of audits due to be signed off by 30 June for the health sector and 30 September for local government, including integrated joint boards.

Caroline advised members that the publications programme had not been significantly impacted by the election moratorium and advised of the forthcoming publication of the Common Agricultural Policy (CAP) Futures Programme report on 15 June 2017 and Further Education Colleges report scheduled for 22 June 2017.

Turning to internal business matters, Caroline advised of work underway to finalise role profiles for the Leadership Group, consider the impact of the elections and longer term planning of resources to support the audit responsibilities arising from the Scottish Government's new financial powers, would also be discussed under Item 19 of today's agenda.

Following discussion, the Board welcomed the update.

The Board observed one minute's silence at 11.00am to pay respect to those affected by the London Bridge terror attack.

6. Accounts Commission report

Ronnie Hinds, the Acting Chair of the Accounts Commission, provided a verbal update on the useful briefing session with the Local Government Committee on 31 May 2017 on the key messages reported in the Accounts Commission's annual overview reports on financial and performance challenges facing councils in Scotland.

Ronnie invited the Board to note the improved performance reported in the Best Value report on Inverclyde Council which had been considered by the Accounts Commission on 11 May 2017. Ronnie commented despite the Council's changing financial and demographic circumstances and reduced resources that collaborative work between the councillors and officers over the past ten years had seen significant improvements made.

The Board welcomed the update.

7. Review of minutes

Board meeting, 5 May 2017

The Board considered the minutes of the meeting on 5 May 2017, which had been previously circulated, and confirmed that these were an accurate record of the meeting.

8. Review of actions tracker

The Board noted the updates provided by the action tracker and Diane McGiffen advised that the report due under action ASB51 at today's meeting would be scheduled for the Board meeting in August 2017.

9. Standing orders update

The Board referred to the discussion at the Audit Committee earlier that day and approved the Standing Orders subject to the amendments previously agreed at that meeting.

10. Q4 Corporate performance 2016/17

Martin Walker, Assistant Director, Corporate Performance and Risk, introduced the Audit Scotland Q4 Corporate Performance 2016/17, which had been previously circulated.

Martin invited the Board to note Audit Scotland's performance for the quarter and the summary of performance for the year to March 2017.

The Board welcomed the report and the progress reported and agreed that future reports should set out more consistently on setting out more clearly the actions being undertaken to progress indicators with an amber status.

Action ASB55: The Assistant Director, Corporate Performance and Risk, to review the format of the report to ensure actions to address amber indicators are clearly identified. (September 2017)

11. Q4 Becoming world class improvement programme

Martin Walker, Assistant Director, Corporate Performance and Risk, introduced the Audit Scotland Q4 Becoming World Class Improvement Programme, which had been previously circulated.

Martin invited the Board to consider the progress made to date on the programme and welcomed any comments.

Heather Logan queried whether, as part of the audit quality review, audit firms should be asked to report annually on the added value elements of the commitments made in their respective tenders as part of the audit procurement process.

Following discussion, the Board agreed and Russell Frith undertook to consider this as part of the audit quality review.

Action ASB56: The Assistant Auditor General to consider annual reporting by the audit firms as part of the audit quality review programme. (August 2017)

12. Q4 Financial performance 2016/17

The Board noted the Q4 Financial Performance Report, which had been previously circulated and discussed at the earlier meeting of the Audit Committee.

13. 2016/17 Annual report from the Chair of the Audit Committee to the Board

The Board referred to the earlier discussion at the Audit Committee and approved the annual report from the Chair of the Audit Committee to the Board.

14. 2016 /17 Annual report from the Chair of the Remuneration and Human Resources Committee

The Board noted the 2016/17 Annual Report from the Chair of the Remuneration and Human Resources Committee, a copy of which had been circulated.

15. 2016/17 Governance statement on internal control and certificate of assurance

The Chair invited members to note the Governance statement on internal control and certificate of assurance which had been considered at the earlier Audit Committee meeting.

The Board welcomed the assurance provided and noted the certificate of assurance.

There were no further comments and the Board approved the certificate.

16. Draft annual report and accounts – Year End 31 March 2017

The Board approved the draft annual report and accounts which had been previously circulated and discussed at the earlier meeting of the Audit Committee and recommended that the Auditor General for Scotland, as Accountable Officer for Audit Scotland, sign the accounts on 13 June 2017.

Action ASB57: The Auditor General to sign the annual report and accounts 2016/17. (13 June 2017)

17. Review of whistleblowing and counter fraud policies

The Board noted the discussion and recommendation from the Audit Committee that the Board approve the Whistleblowing and Counter Fraud policies as previously circulated, and approve the policies.

18. 2016/17 Annual report on international work and international strategy 2017-20

Antony Clark, Chair of the International Steering Group, joined the meeting.

Antony Clark, Chair of the International Steering Group, introduced the 2016/17 Annual report on international work, which had been previously circulated.

Antony invited the Board to consider and approve the International Annual Report for 2016/17 and the International Strategy for 2017-20.

The Chair invited members to consider the report and they commended the style and format of the reports which clearly set out the international approach and strategy.

During discussion the Board noted the key learning points and benefits for Audit Scotland of international engagement including improvements to quality processes and strengthening value for money focus. The Board noted the positive feedback received from delegations following international visits and the number of requests received to host these events before inviting the group to consider reporting on the longer term benefits and impact of these engagements in the next annual report.

Following discussion, the Board welcomed the discussion and approved the 2016/17 annual report and the international strategy 2017-20.

Action ASB58: The Chair of International Steering Group to consider the longer term impact of international work in future reporting. (June 2018)

Antony Clark, Chair of the International Steering Group, left the meeting.

19. New financial powers and constitutional change

Mark Taylor, Assistant Director, Audit Services Group, and Rebecca Seidel, Audit Manager, Performance and Best Value joined the meeting.

Mark Taylor, Assistant Director, introduced the New Financial Powers and Constitutional Change report, which had been previously circulated.

Mark invited the Board to consider the update provided on key developments surrounding further financial devolution and constitutional change, including Audit Scotland's organisational arrangements.

The Board noted the update provided, recognised the volume of work underway and the need to seek to influence and respond to issues arising. Mark advised the Board of fast tracking work on resourcing, skills and budget planning to support the new social security audit, the impact of Brexit and information gathering to create the audit framework and process.

Following discussion, the Board welcomed the report.

Mark Taylor, Assistant Director, Audit Services Group and Rebecca Seidel, Audit Manager, left the meeting.

20. Publication of Reports

The Board approved all reports for publication with the following exceptions:

Item 13 – Draft Annual Report and Accounts (information intended for future publication).

21. Any Other Business

The Board acknowledged the work of colleagues in providing annual assurance and reports to the meetings of the Audit Committee and Board and thanks all those involved for their efforts.

Arising from discussion at the private meeting of the Board, members asked for an updated report on Board openness and transparency to be scheduled for the August meeting.

Action ASB59: The Chief Operating Officer to schedule a report on openness and transparency for the Board meeting on 23 August 2017. (August 2017)

22. Review of Meeting

The members agreed the meeting had been conducted efficiently.

23. Date of Next Meeting

It was noted that the next Audit Scotland Board meeting was scheduled for 23 August 2017 in the offices of Audit Scotland, 102 West Port, Edinburgh.

Ref	FORUM	Agenda Item No	Item Title	Action Description	Meeting Date	Due Date	Responsible	Assigned to	Complete/Ongoing	Reported Yes/No	Progress Notes
	Board	8	Spring Budget Revision	Scottish Commission for Public Audit for a £1,716k Spring	20/11/2014	30/11/2014	Diane McGiffen	David Hanlon	Complete		Complete
											This item was considered at the Board meeting on 20/01/2017, further discussion to take place with reference to Audit Committee agenda for 17/05.
	Board	13	Openness and Transparency: Publication of Board Papers	The Chief Operating Officer to schedule a future agenda item to review the arrangements.	24/03/2016	01/12/2016	Diane McGiffen	Diane McGiffen	Complete	Yes	
ASB16	Board	15	Corporate Governance Policies and Code of Conduct Review	The Corporate Governance Manager to review the Financial Regulations, Scheme of Delegation and staff Code of Conduct annually and report to the Board.	18/08/2016	23/08/2017	Alex Devlin	Alex Devlin	Ongoing		Standing Orders reviewed 27/10/16. The next review will be scheduled for Board meeting on 23 August 2017.
ASB24	Board	9	Securing World Class Audit - Developments in Audit	The Chief Operating Officer to schedule an update report on the Becoming World Class and world class audit.	27/10/2016	20/01/2017	Diane McGiffen	Russell Frith	Ongoing		At its meeting on 31 March 2017, the Board agreed the quality report will be considered by the Audit Committee on 17 May 2017 with a further report to the Board thereafter.
ASB29	Board	9	Review of standing orders	Diane McGiffen, Chief Operating Officer, to schedule a report for the Board meeting in February 2017.	20/01/2017	22/02/2017	Diane McGiffen	Diane McGiffen	Complete	No	As agreed by the Board at its meeting on 31 March 2017, this item is be scheduled for the meeting on 5 May 2017. Agenda item 9.
ASB30	Board	10	Making a Difference: Digital Audit	Diane McGiffen, Chief Operating Officer, to schedule a report for a Board meeting later in the year.	20/01/2017	05/05/2017	Diane McGiffen	Martin Walker	Ongoing		Digital Audit Strategy being developed to support the Corporate Plan. Draft Digital Strategy to be considered by the Board at its meeting in August.
ASB31	Board	11	Securing World Class Audit: Review of Quality Arrangements	Diane McGiffen, Chief Operating Officer, to schedule a report for a Board meeting later in the year.	20/01/2017	31/03/2017	Russell Frith	Elaine Boyd	Complete	No	The Board considered a report at its meeting on 31 March 2017. Audit Committee considered a report on 17/05/17.
ASB32	Board	12	Securing World Class Audit: Fraud Arrangements	Russell Frith, Assistant Auditor General, to make the suggested amendments to the report in terms of responsibilities of reporting fraud.	20/01/2017	22/02/2017	Russell Frith	Anne Cairns	Complete	Yes	The report on Counter Fraud Arrangements was updated and issued to colleagues on 06/02/2017.
ASB33	Board	13	Making a Difference: Demonstrating Value for Money Update	Fiona Kordiak, Director of Audit Services, to liaise with Heather Logan and take on board comments from members before issuing a further draft for their consideration by correspondence.	20/01/2017	22/02/2017	Fiona Kordiak	Fiona Kordiak	Ongoing		The report has been re-drafted to take on board comments received to date.

ASB37	Board	18	Q2 Becoming World Class Improvement Programme Report 2016/17	Russell Frith, Assistant Auditor General, to schedule a report to the Board on established International benchmarks for world class quality, people and reporting.	20/01/2017	05/05/2017	Russell Frith	Russell Frith	Complete	No	This was covered in the quality framework report considered by the Audit Committee on 17/05/2017.
ASB42	Board	9	Public Audit and Post Legislative Scrutiny Committee Review of NFI.	Russel Frith, Assistant Auditor General, to circulate to Board members by correspondence a draft response to the Public Audit and Post Legislative Scrutiny Committee on NFI	22/02/2017	31/01/2017	Russell Frith	Russell Frith	Complete	Yes	Draft response was issued by correspondence to members on 23/03/2017.
ASB43	Board	7	Review of minutes	Joy Webber, Senior Executive Assistant, to publish the approved minute of the meeting of 22 February 2017.	31/03/2017	30/04/2017	Joy Webber	Joy Webber	Complete	Yes	The approved minute and reports have been published on the Audit Scotland website.
ASB44	Board	9	Review of Standing Orders	Joy Webber, Senior Executive Assistant, to circulate the legal advice and to schedule it for discussion at the next Board meeting on 5 May 2017	31/03/2017	05/05/2017	Joy Webber	Joy Webber	Complete	Yes	The Board will discuss the advice at Item 9 of today's agenda.
ASB45	Board	11	AS Annual Reports and Accounts	Martin Walker, Assistant Director, Corporate Performance and Risk to share the strategic risks and objectives section of the Annual Report and Accounts with Heather Logan.	31/03/2017	30/04/2017	Martin Walker	Martin Walker	Complete	Yes	The risks and objectives section of the Annual Report and Accounts has been shared with the Chair of the Audit Committee.
ASB46	Board	12	Equality Outcomes: Reflecting Back and Looking Forward	Gillian Woolman, Assistant Director LG and Health, to update the reports for consideration by the Accounts Commission.	31/03/2017	30/04/2017	Gillian Woolman	Gillian Woolman	Complete	Yes	Gillian Woolman presented an updated report to the Accounts Commission at its meeting on 13/04/2017.
ASB47	Board	14	Q3 Performance Report 2016/17	Martin Walker, Assistant Director, Corporate Performance and Risk, to consider how best to focus the narrative on objectives and performance in future reports.	31/03/2017	30/06/2017	Martin Walker	Martin Walker	Ongoing		Q4 performance report provides 2016/17 performance summary for each of the strategic objectives.
ASB48	Board	16	Securing World Class Audit: Review of Audit Quality	Martin Walker to schedule an item for consideration by the Audit Committee meeting on 17 May 2017.	31/03/2017	05/05/2017	Martin Walker	Martin Walker	Complete	No	This item was considered at the meeting of the Audit Committee on 17/05/2017.
ASB49	Board	18	Making a Difference: Public Engagement Work with Young Scot	Diane McGiffen, Chief Operating Officer, to schedule an update report in March 2018.	31/03/2017	01/03/2018	Diane McGiffen	Joy Webber	Ongoing		This item will be scheduled for 18 March 2018.
ASB50	Board	19	Publication of Reports	Joy Webber, Senior Executive Assistant, to arrange to publish the reports on the Audit Scotland website alongside the approved minute.	31/03/2017	30/04/2017	Joy Webber	Joy Webber	Complete	No	The approved minute and reports have been published on the Audit Scotland website.
ASB51	Board	8	Review of Actions Tracker	Diane McGiffen, Chief Operating Officer to arrange for the updated Demonstrating Value for Money report to be circulated to the Board in June 2017.	05/05/2017	30/06/2017	Diane McGiffen	Diane McGiffen	Ongoing		A verbal update will be provided to the Board at today's meeting.
ASB52	Board	9	Standing Orders Legal Advice	Diane McGiffen, Chief Operating Officer to circulate to members the summary note of the legal privilege status of legal advice.	05/05/2017	31/05/2017	Diane McGiffen	Diane McGiffen	Complete	No	The summary note was shared with Board members on 30/05/2017.
ASB53	Board	9	Standing Orders Legal Advice	Diane McGiffen, Chief Operating Officer to liaise with BTO Solicitors to update the Standing Orders and provide a summary of the changes for consideration by the Board at its meeting on 6 June 2017.	05/05/2017	06/06/2017	Diane McGiffen	Diane McGiffen	Complete	No	The Standing Orders have been amended and appear at Item 9 of today's agenda.
ASB54	Board	10	Corporate Plan 2017/18	Martin Walker, Assistant Director, Corporate Performance and Risk, to publish the Corporate Plan.	05/05/2017	06/06/2017	Martin Walker	Martin Walker	Complete	No	The Corporate Plan was published on 26 May 2017.

AUDIT SCOTLAND BOARD

6 JUNE 2017

REPORT BY THE CORPORATE GOVERNANCE MANAGER

CORPORATE GOVERNANCE POLICIES – STANDING ORDERS UPDATE

1. Purpose of Report

This report invites the Audit Scotland Board to re-approve Audit Scotland's Standing Orders.

2. Update to the Standing Orders

It is the responsibility of the Audit Committee to keep under review the Standing Orders, Financial Regulations, Scheme of Delegation and Codes of Conduct and recommend to the Board any amendments.

A report was submitted to the Audit Committee at their meeting on 6 June 2017 detailing the review. Audit Scotland's Standing Orders states (at paragraph 15) that the attendance of both the Auditor General and the Chairman of the Accounts Commission is required for the Board to be quorate. This requirement has been the subject of extensive discussions about being able to transact Audit Scotland Board business in the absence at Board meetings of one or both of these members. One of our legal firms, bto, was engaged to provide an opinion on the legal position of amending the Standing Orders to allow for the absence of the Auditor General and/or the Chairman of the Accounts Commission. Bto provided their opinion and this was discussed at the Board meeting on the 5 May 2017.

After discussion the Audit Committee agreed to recommend the updated Standing Orders to the Board for re-approval.

3. Recommendation

The Board is invited to approve the revised Standing Orders.

Standing Orders

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

Contents

Standing orders	5
Introduction	5
Constitution	5
Chair	6
Meetings	6
Agenda.....	6
Conduct of Business	6
Minutes	7
Vacancy	7
Code of Conduct	7
Committees.....	7
Deeds and Documents.....	7
Advisers and Committee Co-optees	8
Openness and Transparency	8
Board Effectiveness	8
Application of Standing Orders	8
Alteration.....	8
Appendix 1: Audit Committee remit	9
Internal Control and Corporate Governance	9
Internal Audit	9
External Audit.....	10
Annual Accounts	10
Standing Orders, Financial Regulations and Scheme of Delegation	10
Other duties.....	10
Appendix 2: Remuneration & Human Resources Committee remit	11
Remuneration & Human Resources Committee responsibilities	11
Other duties.....	12
Appendix 3: Appeals Committee remit.....	13
Appendix 4: Co-option procedure	14
Introduction	14

Reasons for co-option	14
Nominations process.....	14
Application process	14
Term of Office	14
Remuneration.....	15
Conduct of co-opted members	15

Standing orders

Introduction

1. The Constitution and membership of Audit Scotland is unusual in having both members appointed by the Scottish Parliament and members with or having access to Direction giving powers. The Board will seek to operate on a consensus basis recognising that on occasion a majority decision may be reached and that the Auditor General and the Accounts Commission may issue Directions for the purpose of or in connection with the exercise of Audit Scotland's functions in relation to either or both of them.

Constitution

2. Audit Scotland is a body corporate established under section 10 of the Public Finance and Accountability (Scotland) Act 2000 ("the Act").
3. The function of Audit Scotland is to provide such assistance and support as the Auditor General and the Accounts Commission require in the exercise of their respective functions and, in particular, to provide them, or ensure that they are provided, with the property, staff and services which they require for the exercise of those functions. The Auditor General and the Accounts Commission may give directions to Audit Scotland in connection with the exercise of their functions. Detailed provisions about the operation of Audit Scotland are contained in Schedule 2 to the Act as amended by the Public Services Reform (Scotland) Act 2010.
4. The Board remains responsible for the exercise of all functions of Audit Scotland. It exercises its powers and authorities through the Scheme of Delegation, which it determines and approves.
5. The members of Audit Scotland are the Auditor General, the Chairman of the Accounts Commission and three other members appointed by the Scottish Commission for Public Audit.
6. The three other members will be appointed under terms and conditions, including remuneration, as determined by the Scottish Commission for Public Audit. The Auditor General and the Chairman of the Accounts Commission may not receive any remuneration as members of Audit Scotland.
7. Members of Audit Scotland may terminate their appointments at any time by notifying, in writing, the appropriate appointing body, and following the prescribed period in the letter of engagement.
8. In these Standing Orders the members of Audit Scotland meeting together to discharge their functions are referred to as the Board.

Chair

9. The Scottish Commission for Public Audit will appoint one of the members of Audit Scotland which it has appointed to preside at the meetings of the Board ("the Chair").

Meetings

10. Meetings will be held at times, dates and places agreed by the members. In addition, a meeting may be called at any time by the Chair or by not less than three members giving the Chief Operating Officer a written request for such a meeting stating the business to be transacted. The use of video or telephone conferencing by members will be deemed as attendance at the meeting.

Agenda

11. At least three clear working days before a meeting of the Board the Chief Operating Officer will send written notice of the time and place of the meeting and of the business to be transacted to each member. So far as possible, reports and other papers relating to agenda items will be circulated with the agenda.

Conduct of Business

12. The Chair, if present, will preside. If the Chair cannot be present the Board must appoint one of the other members appointed by the Scottish Commission for Public Audit to preside at the meeting.
13. No business other than that stated in the notice of the meeting will be transacted at that meeting other than with the consent of the Chair and a minuted explanation of why the matter had to be conducted without the standard notice.
14. The Chair of the meeting will decide all questions of order, relevancy and conduct of business during the meeting.
15. A quorum for a meeting of the Board is three members including those present by telephone or video conference call. The Auditor General and the Chair of the Accounts Commission must be present for a quorum to be constituted, save that in the event that the Auditor General and/or the Chair of the Accounts Commission are unable to attend a meeting of the Board, either may confirm, by giving notice in writing prior to the commencement of the meeting, that (i) they consent to the meeting proceeding in their absence; (ii) that the meeting may be deemed to be quorate notwithstanding their absence provided the other requirements for a quorum to be constituted as set out in paragraphs 15, 16 and 17 are met; and (iii) that any business detailed on the agenda circulated pursuant to paragraph 11 and transacted at the meeting shall be deemed to be transacted validly provided that all other requirements of these Standing Orders are complied with.
16. Where the Auditor General and/or the Chair of the Accounts Commission consents to a meeting proceeding in their absence, they shall, within five working days of the date of the

meeting, be provided with a copy of the draft minutes of the meeting produced pursuant to paragraph 19.

17. No business which is not detailed on the agenda circulated pursuant to paragraph 11, and which the Board deems to be material to the operation of Audit Scotland, shall be transacted at a meeting at which either the Auditor General and/or the Chair of the Accounts Commission is not present.
18. At any meeting the Board may suspend Standing Orders for the duration of the meeting or of any item of business provided a majority of the members present so agree.

Minutes

19. Minutes of every meeting of the Board will be drawn up and will be approved at the following meeting.

Vacancy

20. The proceedings of the Board will not be invalidated by any vacancy in membership or by any defect in the appointment of any person.

Code of Conduct

21. Each member will abide by the Code of Conduct for Members of the Audit Scotland Board current at any time.

Committees

22. The Board may appoint standing or ad hoc committees consisting of such numbers as the Board may determine. Committees may consist of members and other suitable persons chosen by the Board.
23. The Board will establish an Audit Committee with the terms of reference contained in Appendix 1.
24. The Board will appoint a Remuneration & Human Resources Committee with the terms of reference contained in Appendix 2.
25. The Board will establish an Appeals Committee with the terms of reference contained in Appendix 3.
26. Any committee will operate within the terms of remit and any delegation made to it by the Board.

Deeds and Documents

27. Any deed or document requiring formal execution by Audit Scotland will be signed for and on behalf of Audit Scotland by the Chairman of the Accounts Commission or the Auditor General for Scotland and the Chief Operating Officer.

Advisers and Committee Co-optees

- 28. The Board may appoint advisers and/or co-optees to Committees and pay them such remuneration and expenses as the Board decide. The co-option appointment procedure is contained in Appendix 4.
- 29. Employees of Audit Scotland, advisers and others may attend meetings of the Board at the invitation of the members.

Openness and Transparency

- 30. The Board will publish agendas, minutes and papers of a non confidential nature on the Audit Scotland website.

Board Effectiveness

- 31. The Board will conduct a self-evaluation of its effectiveness on an annual basis.

Application of Standing Orders

- 32. These Standing Orders will apply to meetings of committees of the Board subject to any due modification of details.

Alteration

- 33. These Standing Orders may be altered by the Board provided that the alteration is approved by a majority of the members of the Board.

Appendix 1: Audit Committee remit

34. The Audit 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 Audit Committee, and may pay them such remuneration and expenses as the Board decides. The Chair of the Board and the Accountable Officer may not be members of the Audit Committee but may attend meetings.
35. The purposes of the Audit Committee are detailed in the Audit Committee terms of reference. The key points are:

Internal Control and Corporate Governance

36. To evaluate the framework of internal control, strategic processes for risk and corporate governance comprising the following components:
- Control Environment.
 - Risk Management.
 - Information and Communication.
 - Control Procedures.
 - Monitoring and Corrective Action.
37. To review the system of internal financial control, which includes:
- The safeguarding of assets against unauthorised use and disposal.
 - The maintenance of proper accounting policies and records and the reliability of financial information used within the organisation or for publication.
 - To ensure that Audit Scotland's activities are within the law and regulations governing them.
 - To monitor performance and best value by reviewing the economy, efficiency and effectiveness of operations.
 - To present an annual statement of assurance to the Board to support the Accountable Officer's governance statement.

Internal Audit

- To review the Terms of Reference and appointment of the internal auditors.
- To review and approve the internal audit strategic and annual plans.
- To monitor audit progress and review audit reports.
- To monitor the management action taken in response to the audit recommendations through an appropriate follow up mechanism.

- To consider internal audit's annual report and assurance statement.
- To review the operational effectiveness of internal audit by considering the audit standards, resources, staffing, technical competency and performance measures.
- To ensure that there is direct contact between the Audit Committee and internal audit and that the opportunity is given for discussions with internal audit who should attend every meeting of the Committee.

External Audit

38. To consider all audit material, in particular:
- Audit Reports.
 - Annual Reports.
 - Management Letters.
 - Management Reports.
39. To monitor management action taken in response to all external audit recommendations.
40. To hold meetings with the external auditors at least once per year and, as required, without the presence of senior management.
41. To review the extent of co-operation between external and internal audit.
42. The external auditor will be appointed by the Scottish Commission for Public Audit under Section 25 of the 2000 Act. The external auditor will examine and certify the account and report on the account to the Commission. The Commission must lay before the Parliament a copy of the account and the auditor's report and publish the account and that report.

Annual Accounts

43. To review and recommend approval of the Annual Accounts.

Standing Orders, Financial Regulations and Scheme of Delegation

44. To keep under review the Standing Orders, Financial Regulations and Scheme of Delegation and recommend to the Board any amendments.

Other duties

45. The Audit Committee may take on other duties as determined by the Audit Scotland Board.

Appendix 2: Remuneration & Human Resources Committee remit

46. 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.
47. The purposes are detailed in the Remuneration & Human Resources Committee terms of reference.

Remuneration & Human Resources Committee responsibilities

48. In relation to members of Audit Scotland's Management Team, are to:
- Review and approve all terms & conditions of employment, including job descriptions, all pay and benefit reward elements associated with each post.
 - Ensure remuneration policy and strategy is aligned to the relevant public sector policies being implemented by the UK and Scottish Governments.
 - Set and review the overall reward structure, including the value of pay ranges and general annual pay award strategy.
 - Assure itself that effective arrangements are followed for performance assessments in respect of Audit Scotland's Management Team, including any changes to pay and benefits arising from the assessment of performance during the review period.
 - Review talent management and succession planning arrangements.
 - Approve remuneration packages for newly appointed members of the Management Team.
 - Recommend appointments and changes affecting Management Team to the Board.
 - Decide on applications for early retirement.
 - Determine compensation payments for loss of office.
 - Agree, oversee and review the operation of expenses policy.
 - Review the expense claims of the Accountable Officer on an annual basis.
49. In relation to other staff employed by Audit Scotland, are to:
- Determine the remuneration policy governing all terms and conditions of employment, including pay, benefits, retirement policy and other policies relating to compensation for loss of office.

- Ensure remuneration policy and strategy is aligned to the relevant public sector policies being implemented by the UK and Scottish Governments.
- Approve the parameters for the annual pay award cycle.
- Review, not less than annually, the application of remuneration policy.
- Assure itself about any issues relating to the overall performance of employees.

Other duties

50. The Remuneration & Human Resources Committee may take on other duties as determined by the Audit Scotland Board.

Appendix 3: Appeals Committee remit

51. The Appeals Committee will consist of at least 2 members of the Board.
52. The purpose of the Appeals Committee is:
- To consider and dispose of any matters requiring independent deliberation which may be referred to it by the Board.
 - To hear and dispose of appeals by members of the Management Team under the Audit Scotland disciplinary and grievance procedures.

Appendix 4: Co-option procedure

Introduction

53. Audit Scotland's standing orders state that:

- The Board may appoint standing or ad hoc committees consisting of such numbers as the Board may determine. Committees may consist of members and other suitable persons chosen by the Board.
- The Board may appoint advisers and/or co-optees to Committees and pay them such remuneration and expenses as the Board decide. Employees of Audit Scotland, advisers and others may attend meetings of the Board at the invitation of the members.

Reasons for co-option

54. There may be times when specialist expertise is required which the Board may be unable to fulfil, or when the current or future balance of skills available to the Board's committees may need strengthened.
55. The Board should discuss and agree the specification of skills and experience being sought through co-option.

Nominations process

56. If the Board agrees to co-opt to its committees to fulfil requirements identified under 49 above, an advertisement seeking expressions of interest will be placed on Audit Scotland's website.

Application process

57. Applicants for co-option should provide a written statement of their relevant skills and a CV.
58. Following a shortlisting process, applicants will be interviewed by the Chair of the Board and the Chair of the relevant committee, plus one other member of the Board.
59. Candidates and interviewers must declare any relationships or potential conflicts of interest to the Chair.
60. The Board should approve the final recommendation from the Chair.

Term of Office

61. Co-option is intended to provide specific skills for a fixed term as determined by the Board.
62. There is potential for renewal, subject to the approval of the Board.

Remuneration

63. Remuneration, where applicable, will be determined by the Board and will be no greater than the rate set by the SCPA for Board members.

Conduct of co-opted members

64. Co-opted members will be required to follow the Audit Scotland Code of Conduct for Board members, and the associated disclosure requirements, and their appointment may be terminated by the Chair, subject to the approval of the Board.

AUDIT SCOTLAND BOARD

6 JUNE 2017

REPORT BY THE ASSISTANT DIRECTOR CORPORATE PERFORMANCE AND RISK

Q4 CORPORATE PERFORMANCE REPORT 2016/17

1. Purpose of Report

This report provides the Board with an overview of Audit Scotland's performance during quarter four and a summary of 2016/17 performance.

2. Background

We monitor and report on performance using nine corporate objectives. Our assessments on the objectives are informed by 20 key performance questions (KPQs), which in turn are informed by 44 Key performance indicators (KPIs). The report seeks to provide assurance about progress against our objectives and to identify any areas which require particular attention.

- Appendix 1 provides a summary of 2016/17 performance
- Appendix 2 provides a summary of our performance and the supporting KPQs and KPIs over time
- Appendix 3 provides detailed information on each of the objectives, KPQs and KPIs, including narrative on current performance and a forward look on future issues and risks.

We use a red, amber green (RAG) 'traffic light' assessment for each of the objectives, KPQs and KPIs where:

- **Red** = Not progressing/significant additional management action required.
- **Amber** = Progressing and additional management action planned.
- **Green** = On target/no need for additional management action.

3. Performance headlines Q4

The Q4 indicators present a positive picture overall and this is consistent with the previous quarterly reports. The headlines include:

Outputs and outcomes

- The refreshed five year rolling work programme was finalised in Q4 and published in April
- Five audit reports delivered in Q4, including high profile reports on; Managing new financial powers, Local Government in Scotland – performance and challenges overview, NHS workforce statistics and the review of the police I6 project.

Processes

- Four reports were finalised in Q4 - but published in Q1 as a result of a delay in the Scottish Government laying reports in Parliament and the local government election moratorium which started earlier and lasted longer than usual
- Local government risk assessments were completed in Q4
- Expenditure on audits varied slightly across the business groups and was 3.3% above budget over all.

Resourcing

- In the twelve months to March 2017 Audit Scotland's Net Operating Cost was £7,350k , this was £73k less than budget
- Sickness absence levels remain low, are lower than last year and are below the public sector average.

The overall positive assessment of our performance is consistent with the messages in the suite of 2016/17 annual performance reports to be published in June 2017.

4. Performance review Q4

Six of the nine corporate objectives are assessed as 'green':

- 2.1 We conduct relevant and timely audits of the way the public sector manages and spends money.
- 2.2 We report our findings and conclusions in public
- 2.3 To identify risks and make clear and relevant recommendations for improvement and follow these up.
- 3.1 We systematically improve the quality and impact of our work.
- 3.3 We develop new and improved products to maximise the impact of audit.
- 3.6 We work together to deliver excellent audits.

Three objectives remain at 'amber':

- 3.2 We seek out and manage information and intelligence to deliver excellent audits.
- 3.4 We maximise our efficiency and effectively manage our resources to reduce the costs of audit.
- 3.5 We empower and support our people to be engaged, highly skilled and perform well.

None of the objectives are assessed as 'red'.

5. Performance summary - 2016/17

Our overall performance in 2016/17 was strong. High quality audits were substantially delivered to time and budget and we produced more audit reports and value-adding audit outputs than last year. This has been achieved alongside making good progress on a wide range of strategic projects in the Becoming World Class Improvement programme. A summary of 2016/17 performance is attached as appendix 1.


6. Areas requiring attention

Developments in the areas requiring attention are being managed through the Becoming World Class (BWC) improvement programme. The Q4 Becoming World Class progress report is on today's agenda as item 11.

A tender specification is being developed to secure external consultancy support to develop the performance management framework and carry out a scan of potential IT system solutions in the market. Management Team will consider the draft tender specification at its meeting on 27 June 2017.

7. Conclusion and Recommendations

The Board is invited to review the performance report and consider whether any additional management attention is required.

	<p>Our objective is to ensure that public audit in Scotland applies the highest professional and ethical standards, is efficient, proportionate and risk based. Audit work should be informed by an excellent understanding of the strategic and operational context and respond effectively to changing circumstances and emerging issues. We must report clearly and authoritatively and follow the public pound wherever it is spent. Audit must promote transparency, accountability and Best Value.</p>
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Headline: audits are being delivered to time, budget and quality. Audit costs were 3.3% above planned budget, this is within an acceptable tolerance range of 5%. Our risk assessment and planning arrangements continue to improve.

Annual audits

- 329 accounts audited in 2016/17
- 209 Local government (32 councils, 63 joint boards, 103 charities, 11 pension funds)
 - 76 Central government (Scottish Government, plus 48 NDPBs, 16 Other, 9 Agencies, Scottish Water and the European Agricultural Fund)
 - 23 NHS (14 Territorial NHS regions, 9 Special health boards)
 - 21 Further education (20 Colleges and one regional board)

Performance/ best value/ overviews

- 16 national performance audits and overviews
- 7 Section 22 reports
- 4 Best Value Reports
- wide range of additional audit outputs, including briefings, infographics, interactive data tools, checklists and information hubs.

On time

- 98.9% planned audits delivered (96.5% in 2015/16)
- 93.0% planned reports published to schedule (96.6% in 2015/16)
- 374 audit outputs in the year (323 in 2015/16)

	Local government	Health	Central government	Further education
Audit opinion on time	100%	100%	92%	100%
Annual audit report on time	99%	95.7%	89.5%	100%
Accounts sent for laying on time	N/A	100%	100%	100%

- 189 of the 194 planned 2016/17 reports were delivered in year (176 v 168 planned in 2015/16)
 - 38 were delivered earlier than the due date (37 in 2015/16)
 - two reports were rescheduled within the year (six in 2015/16)
 - five reports were rescheduled to 2017/18 (three in 15/16)

On budget

Expenditure on audits varied slightly across the business groups and was delivered 3.3% over budget. (2.2% under budget in 15/16). In ASG some of the smaller audits were over budget where a more expensive skills was required. The scope of the colleges overview, higher education and supporting Scotland's economic growth performance audits required more resources than originally planned.

Quality

The annual quality report provides positive assurance on the quality of the audit work over the year, based on management reviews, hot and cold reviews and engagement with stakeholders.



Our objective is to make the best use of our resources so that we can deliver audit work that improves the use of public money. We want to make Audit Scotland a great place to work so that we can attract and retain a highly skilled workforce who provide high- quality audit services.

Headline: we are managing our workforce effectively and are continuing to invest in learning and development. Financial planning and budget management are effective.

People

- Staff complement was 99.4% of 278.1 establishment (97.7% in 2015/16)
- Absence rate of 5.39% (5.62% in 2015/16, CIPD benchmarks are 6.4% for the public sector and 3.9% for the private sector 3.9%)
- 11.11% turnover rate (8.24% in 2015/16 and CIPD benchmark of 13.6%)
- 89 in-house L&D events covering 1,367 places (87 events and 1,410 places in 2015/16).
- 158 exams with 90.5% pass rate for professional trainees (124 exams and 92.7% pass rate in 2015/16)
- Retained ones to watch status in the Best Companies employee engagement survey
- Career progression/ refreshing the workforce - 62 vacancies in 2016/17 33 of which were filled externally (67 vacancies filled in 2015/16, 30 external)

Resources

- Net Operating Cost £73k less than budget – variance of 0.3% of total expenditure budget (2.8% variance in 2015/16)
- Staff costs £14k more than budget – variance of 0.1% (1.9% variance in 2015/16)
- Capital investment £3k less than budget – variance of 0.15%. (8.2%% variance in 2015/16)
- Property costs £39k less than budget – variance of 4.2%. (13.7% variance in 2015/16)
- Travel and subsistence expenditure £122k less than budget– variance of 12.4%. (16.7% variance in 2015/16)



Our objective is to maximise the difference our audit work makes to public services in Scotland.

Headline: there has been a significant increase in people accessing our work through social media and the website and many high profile reports which are supporting scrutiny. We need to do more to record and monitor the impact we have more effectively and will continue to seek opportunities to make a positive difference.

Getting our messages out

- 704,966 downloads (an increase of 16.3% on 2015/16)
- 66,233 visits to the website (an increase of 26% on 2015/16)
- 15,470 social media engagements reached (an increase of 291% on 2015/16)
- 1,528 media mentions (an increase of 14.6% on 2015/16).
- 94% correspondence responses issued within 30 days (87% in 2016/17)
- attended 22 meetings of the Public Audit and Post-Legislative Scrutiny Committee
- extensive parliamentary interest and activity around audit reports
- High awareness of Audit Scotland amongst MSPs and positive feedback on the quality of the work

Performance Management Framework: Overview
Appendix 2

Performance Management Framework Overview										Appendix 1																										
Objective	2015-16				2016-17				KPQ	2015-16				2016-17				KPI	2015-16				2016-17													
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4										
2.1 To conduct relevant and timely audits of the way the public sector manages and spends money.	G	G	G	G	G	G	G	G	2.1.1 To what extent are audits delivered on time?	G	G	G	G	G	G	G	G	2.1.1.1 Audit progress vs. schedule	G	G	G	G	G	G	G	G										
									2.1.2 To what extent are audits delivered on budget?	G	G	G	G	G	G	G	G	2.1.2.1 Audit costs vs. budget	G	G	G	G	G	G	G	G	G									
									2.1.3 To what extent are relevant audits being delivered?	G	G	G	G	G	G	G	G	2.1.2.2 Audit costs vs. benchmarks	G	G	G	G	G	G	G	G	G	G								
									2.1.4 To what extent are audits world class?	A	A	A	A	A	A	A	2.1.3.1 Manager's assessment	G	G	G	G	G	G	G	G	G	G									
																	2.1.3.2 No of significant missed issues	G	G	G	G	G	G	G	G	G	G	G	G							
2.1.4.1 Quality assessment world class	A	A	A	A	A	A	A	A	2.1.4.2 Feedback	G	G	G	G	G	G	G	G	G	G	G	G	G	G													
2.2 To report findings and conclusions in public.	G	G	G	G	G	G	G	G	2.2.1 To what extent are reports published on schedule?	G	G	G	G	G	G	G	G	2.2.1.1 Number of reports produced vs. schedule	A	A	A	A	G	G	G	G										
									2.2.2 How well are messages out?	G	G	G	G	G	G	G	2.2.2.1 Media coverage	G	G	G	G	G	G	G	G	G										
																	2.2.2.2 Web analytics	G	G	G	G	G	G	G	G	G										
																	2.2.2.3 Manager's assessment Compliance with plain language	G	G	G	G	G	G	G	G	G	G	G								
CHANGED ASSESSMENT 2.3 To identify risks and make clear and relevant recommendations for improvement and follow these up.	G	A	A	A	A	A	A	G	G	2.3.1 To what extent are there practical, clear and relevant recommendations in everything published?	G	G	G	G	G	G	G	G	G	G	G	G	G	G												
										2.3.2 To what extent have recommendations led to improvements?	A	A	A	A	A	A	G	G	2.3.1.1 Manager's assessment that recommendations are clear, SMART, linked to findings, practical and have checklists where appropriate.	G	G	G	G	G	G	G	G	G								
																			2.3.1.2 % of recommendations accepted	G	G	G	G	G	G	G	G	G								
																			2.3.2.1 Manager's assessment (have recommendations been acted upon/have they gone to the governing body of the audited organisation?)	A	A	A	A	A	A	G	G	2.3.2.2 Findings from impact reports	A	A	A	A	A	A	A	A
3.1 To systematically improve the quality and impact of audit work	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	3.1.1.1 Internal quality review findings	G	G	G	G	G	G	G	G											
																	3.1.1 To what extent are we improving the way we are working?	G	G	G	G	G	G	G	G	G	G	G	G							
3.2 To seek out and manage information and intelligence to deliver excellent audits.	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A												
																									3.2.1 To what extent is the knowledge people need, gathered, organised and accessible?	A	A	A	A	A	A	A	A	A	3.2.1.1 Staff survey/focus group feedback	A
				</																																

3.3 To develop new and improved products to maximise the impact of audit.	A	A	A	A	G	G	G	G	3.3.1 To what extent are new products and services developed?	A	A	A	A	G	G	G	G	3.3.1.1 Manager's assessment (review of recent innovations)	A	A	A	A	G	G	G	G
									3.3.2 How well are products and study programmes suitable and appropriate for emerging issues?	A	A	A	A	A	A	A	A	3.3.2.1 Manager's assessment	A	A	A	A	A	A	A	A
3.4 To maximise efficiency and effectively manage resources to reduce the costs of audit.	A	A	A	A	A	A	A	A	3.4.1 To what extent is efficiency improving?	A	A	A	A	A	A	A	A	3.4.1.1 Costs vs. shrinking budget	G	G	G	G	G	G	G	G
																		3.4.1.2 Cost per audit (against benchmark)	Y	Y	Y	Y	Y	Y	Y	Y
																		3.4.1.3 Workforce costs	G	G	G	G	G	G	G	G
																		3.4.1.4 Estate costs	G	G	G	G	G	G	G	G
																		3.4.1.5 Costs of travel	G	G	G	G	G	G	G	G
																		3.4.1.6 Carbon footprint	G	G	G	G	G	G	G	G
																		3.4.1.7 Benchmarking data on finance, IT, HR, Communications and estate	Y	Y	Y	Y	Y	Y	Y	Y
																		3.4.1.8 IT network downtime	G	G	G	G	G	G	G	G
																		3.4.1.9 Internal audit feedback	A	A	A	A	A	A	A	A
																		3.4.1.10 % productive/chargeable time vs. targets by grade	G	G	G	G	G	G	G	G
3.5 To empower and support people to be engaged, highly skilled and perform well.	A	A	A	A	A	A	A	A	3.5.1 To what extent have we got empowered and engaged people?	A	A	A	A	A	A	A	A	3.5.1.1 Best Company survey results	G	G	G	G	G	G	G	G
									3.5.2 To what extent are people highly skilled?	G	G	G	G	G	G	G	G	3.5.2.1 % completion of personal development plans	G	G	G	G	G	G	G	G
									3.5.3 To what extent are people performing well?	G	G	G	G	G	G	G	G	3.5.2.2 % pass rates for trainees	G	G	G	G	G	G	G	G
																		3.5.3.1 Performance feedback ranks (PAD Score/evaluation)	G	G	G	G	Y	Y	Y	Y
																		3.5.3.2 360 degree feedback	A	A	A	A	A	A	A	A
																		3.5.3.3 Attendance levels	G	G	G	G	G	G	G	G
																		3.5.3.4 Staff Turnover	G	G	G	G	G	G	G	G
									3.5.4 We will understand and support diversity within the workforce	G	G	G	G	G	G	G	G	3.5.4.1 Equalities	G	G	G	G	G	G	G	G
3.6 To work together to deliver excellent audits.	G	G	G	G	G	G	G	G	3.6.1 To what extent is there communicating and collaborating across organisational departments?	G	G	A	A	A	A	A	A	3.6.1.1 Best Company survey results	G	G	A	A	A	A	A	A
									3.6.2 To what extent are career paths offered across the organisation?	G	G	G	G	G	G	G	G	3.6.2.1 Manager's assessment	G	G	G	G	G	G	G	G
																		3.6.2.2 % promotions per year	G	G	G	G	G	G	G	G
																		3.6.2.3 % side-ways moves per year	G	G	G	G	G	G	G	G
																		3.6.2.4 No. internal/external secondments	G	G	G	G	G	G	G	G

Corporate objective – 2.1 We conduct relevant and timely audits of the way the public sector manages and spends money

Key Performance Questions:	Q1 RA G	Q2 RAG	Q3 RAG	Q4 RAG	PERFORMANCE HEADLINES:
To what extent are audits delivered on time?	G	G	G	G	New 5 year rolling work programme launched Audits completed to schedule, though publication of some later than planned.
To what extent are audits delivered on budget?	G	G	G	G	
To what extent are relevant audits being delivered?	G	G	G	G	Expenditure on audits within tolerance though slightly above budget (3.3%) More audit outputs in 2016/17 than last year (189 compared to 176) and the average cost per audit day has reduced.
To what extent are audits world class?	A	A	A	A	

Relevant: During Q4 the Accounts Commission consulted on the proposed forward work programme following the recent refresh exercise. The response to the consultation was positive and provides assurance that the programme covers relevant and timely audit work.

On time: Five audits report were delivered in Q4, a total of 189 for 2016/17. (Details of the reports published are available in the table on page 10)

Three Section 22 reports (Edinburgh, Lews Castle and Moray colleges) were completed during the quarter as planned.

122 of the 123 of the annual audit plans due by 31 March 2017 were completed to schedule.

On budget: Business group's expenditure on audits varied slightly across the business groups but overall was 3.3% over budget.

Business Group	2016/17				Average cost per audit day by business group
	Budget	Actual	£ Variance	% Variance	
ASG	9,851,008	10,209,831	358,823	+3.6	
AST	863,452	891,951	28,499	+3.3	
PABV	1,763,841	1,789,438	25,957	+1.5	
Total	12,478,301	12,891,220	412,919	+3.3	

The overspend for ASG is largely down to some of the audits with smaller resource budgets going over the allocated budgets. A more expensive skills mix on some audits also contributed towards the overspend. For PABV overspend is largely due to colleges overview, higher education and supporting Scotland's economic growth performance audits. The scope and requirements of these audits were more complex than originally envisaged, requiring audit plans to be revised. In one audit there was also a change of manager mid audit, resulting in additional costs.

The average cost per audit day for audits published to the end of quarter 4 (and so 16/17 overall) was £438 per audit day (£466 in 2015/16).

Forward look/ actions:

- There are 139 audit client bodies that require a statutory audit opinion for the 2016/17 year audits.
- Recording of annual audit plan completion within the MKI system will be tightened up.

Key risks / Issues:

- Not all audit plans and AARs may be delivered on time

Performance details: Audit products planned for the year 2016/17:

The business group activity is shown below. For ASG this includes the annual certifications but does not include other products such as annual audit plans, controls and governance reports and annual audit reports, other reports / returns required by the annual planning guidance. Including these, ASG's total external-facing outputs currently are in excess of 1,000. For Audit Strategy - housing benefit work including risk assessments and follow ups, thematic studies and welfare reform updates; for PABV performance audits, Best Value, CPP, overview, how councils work statutory reports. The 'other' reports include an allowance for statutory reports and new products including briefing reports and the national scrutiny plan and the NHS workforce report.

Business Group	Planned	Completed (YTD)	
ASG (15/16 audits)	149	149	100%
AST	14	14	100%
PABV	18	16	89%
Other	15	11	74%

Feedback received:

Teams have recorded many examples on where we have had a positive impact. Some examples include:

NHS: we presented the 2016/17 Annual Audit Plan (AAP) to the Audit Committee who were very positive, commenting that they welcomed the new layout and clarity.

Local Government: we noted that a council's 2015/16 accounts were long and unwieldy. We discussed 'de-cluttering' the accounts with senior finance officers. Finance officers were pleased with the engagement and have indicated that they will seek to apply the guidance provided.

IJB: 2016/17 is the first operational year of the IJB. At a meeting of the IJB's Performance and Audit Committee the section 95 officer praised the audit team on its engagement with officers and assistance in providing templates and guidance on the preparation of the accounts.

Central Government: The Fraser of Allander Institute referred to our 2015/16 NDR Annual Audit Report in an article on their website, which was also tweeted. The institute quoted from our report and discussed our reporting of the NDR account deficit. They sourced a graph from our AAR to highlight the cumulative deficit over the last few years. The focus of the article on financial sustainability, how the NDR account functions and NDR's role of the as a source of funding for Local Government.

Corporate objective – 2. 2 We report our findings and conclusions in public

Key Performance Questions:	Q1 RAG	Q2 RAG	Q3 RAG	Q4 RAG	PERFORMANCE HEADLINES:
To what extent are reports published on schedule?	G	G	G	G	Some rescheduling, two reports rescheduled within the year and four rescheduled to Q1 2017/18. Downloads and social media stats up are on last year.
How well are messages getting out?	G	G	G	G	

Reporting on schedule:

The National Scrutiny Plan was originally scheduled for publication in March 2017. Due to the earlier than expected start date for the local government moratorium on 13 March and the local government focus of the plan, the publication date was rescheduled to May (Q1 2017/18). Three Section 22 reports (Edinburgh, Lews Castle and Moray colleges) were completed during the quarter as planned. However, due to the process of the Scottish Government laying the accounts they were not laid in Parliament until April (Q1 2017/18).

Getting our message out

There was a significant amount of continuing coverage for reports published in the previous quarters. These included reports on the **Scottish Police Authority**, the **NHS in Scotland 2016**, **Prestwick Airport** and **NHS Tayside**. There was also media coverage on the **NHS Workforce** data briefing despite promotion of this publication being limited to social media and Govdelivery distribution to key stakeholders (MSPs, directors of finance, and third sector bodies). This demonstrates the public interest in our work, across various formats. Other related media coverage included articles on public sector bonuses, reference to our future audit on ferries and a piece on Audit Scotland's commitment to the Scottish Living Wage.

The press coverage for Q4 saw 399 Audit Scotland and 62 Accounts Commission mentions. The majority of coverage in Q4 was for I6: a review and Local government in Scotland: Performance and challenges 2017 reports. The most downloaded reports in Q4 were Local government in Scotland: Performance and challenges 2017 (1292), Scotland's NHS workforce: Data briefing (1186) and I6: a review (1183).

As well as media coverage in Q4 there were a number of other events to support getting the messages out including; a presentation to a Holyrood conference on health and social care, Auditor General media appearances for the BBC and Sunday Times on the NHS, parliamentary committee appearances and two International visits from Japan and Palestine.

Downloads

Comparison with previous years downloads shows an increase.

Total downloads	2016/17	2015/16
Q1	177,392	122,266
Q2	183,206	153,840
Q3	182,163	150,044
Q4	162,235	179,851
Total	704,996	606,001

Social Media

	2016/17		2015/16	
Month	Engagements*	Re tweets	Engagements	Retweets
Q1	2,104	260	727	262
Q2	3,935	566	388	65
Q3	4,909	689	989	262
Q4	4,522	782	1848	207
Total	15,470	2,297	3952	796

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

Correspondence

Audit Scotland handles a wide range of correspondence from members of the public, elected representatives and organisations. Although we have no statutory duty to investigate issues of concern or respond to correspondence, we do so under our Code of Audit Practice. Due to a change in recording the total cases does not compare directly with the previous years because in previous years the totals included general audit enquiries. In 2016/17 there were 119 new correspondence cases identified shown in the table below:

New correspondence cases	Q1	Q2	Q3	Q4	2016/17	2015/16
Number of cases	28	43	20	28	119	181
Acknowledgement within five working days	100%	100%	95%	100%	99%	90%
Final response within 30 working days	96%	93%	100%	89%	94%	87%

Forward look:

- The moratorium for the local government election started on 13 March 2017 and the moratorium for the UK parliamentary elections runs from 27 April to 8 June 2017.
- A new section on the Audit Scotland website has been developed for the forward work programme. There will also be a range of awareness raising activities to promote the programme including blogs, podcast, flyers, news releases, briefing sessions and extensive promotion via social media. This should raise awareness of our forthcoming work and promote the audit work and its messages.
- A far broader range of audit reports will now be published on the website under the new Code of Audit Practice.

Key risks / Issues:

Corporate risk register: – failure of impact and influence, failure of capacity.

Publication schedule

In 2016/17, we planned to publish 194 audits/reports. Variation in the schedule is shown as ✓ = delivered, (QX) = rescheduled to /from quarter identified in the brackets. Statutory reports arising during the year are included in the 'Other' row.

	Q1	Q2	Q3	Q4
Performance Audit (9)	✓Common Agricultural Policy Futures programme: an update	✓Higher Education ✓Supporting Scotland's economic growth ✓Roads Maintenance ✓Broadband update ✓Social Work		✓Managing new financial powers XFerries tendering (Q2 2017/18) XEqual Pay (Q1 2017/18)
Best Value (4)	✓South Ayrshire	XAngus (Q3)	✓Falkirk ✓East Dunbartonshire ✓Angus (Q2)	
How Councils Work (1)		XRoles and relationships outputs (later in 2016/17)	✓Roles and relationships outputs (Q2)	
Overview (4)		✓Scotland's Colleges	✓NHS in Scotland ✓Local Government in Scotland – financial overview	✓Local Government in Scotland – performance and challenges overview
HB Risk Assessment (7)	✓South Ayrshire Council ✓Inverclyde Council	✓East Ayrshire Council ✓East Renfrewshire Council	✓Aberdeenshire Council ✓Dundee City Council ✓South Lanarkshire Council	
HB Follow up (4)	✓East Dunbartonshire Council ✓North Ayrshire Council	✓Clackmannanshire Council ✓East Dunbartonshire Council		
HB Annual Report (1)	✓ HB annual report			
Thematic study (2)	✓HB good practice guide		✓Review of fraud & error liaison arrangements	
ASG Planned audit statutory deadline (149)	✓9 NHS ✓11 CG	✓84 LG (inc IJBs) ✓27 CG	✓15 CG ✓2 FE	✓1 CG
Other (15)	✓National Fraud Initiative ✓Position report on S106 charity accounts ✓Good practice note - Improving the quality of NHS annual report and accounts – governance statements.	✓ S22 Scottish Government Consolidated Accounts ✓Scotland's new financial powers Sept 16	✓ S22 The 2015/16 audit of the Scottish Police Authority ✓ S22 NHS 24: Update on management of an IT contract ✓ S22 NHS Tayside: Financial sustainability	✓NHS workforce statistics XNational Scrutiny Plan (Q1 2017/18) ✓I6: a review XS22 Moray College (Q1 2017/18) XS22 Lews College (Q1 2017/18) XS22 Edinburgh College (Q1 2017/18)
Total scheduled (194)	27	97	59	11
Total delivered (189)	31	123	30	5

Corporate objective – 2.3 We identify risks and make clear and relevant recommendations for improvement and follow these up

Key Performance Questions:	Q1 RAG	Q2 RAG	Q3 RAG	Q4 RAG	PERFORMANCE HEADLINES:
To what extent are there practical, clear and relevant recommendations in everything published?	G	G	G	G	Clear messages and recommendations in Q4 reports.
To what extent have recommendations led to improvements?	A	A	G	G	Local Government Risk assessments completed in Q4

Narrative:

Identifying risks:

The risk assessments for local councils were concluded in Q4. These form the basis of the National Scrutiny Plan and local scrutiny plan for each council.

Team Risk Assessment Meetings (TRAMs) are used to ensure that there is proper consideration of all significant risks. The meetings are led by the Engagement Lead (usually the Assistant Director) and involve the entire audit team, who use their collective knowledge of the audit client to assess risks. The process has been improved to make it more comprehensive and robust, including more focus on the risks of fraud and management override of controls, laws and regulations and related parties. PABV colleagues are routinely invited to attend TRAM meetings.

Recommendations:

Clear messages and recommendations in the Q4 reports (Local Government Overview, I6, New Financial Powers, NHS workforce).

Forward look:

- The Code of Audit Practice requires a broader risk assessment process take place.
- ASG's Professional Standards and Quality Improvement team has revised the annual audit report templates to ensure that they fully comply the requirements of the revised Code of Audit Practice. The template requires audit teams to make clear judgments and conclusions.

Key risks / Issues:

- Audited bodies do not always implement recommendations according to the agreed timetable, which can result in repeat recommendations.
- Insufficient progress with measuring the impact of our audits could undermine our credibility with a wide range of stakeholders.
- Corporate risk register - failure of legitimacy and relevance, failure of impact and influence, failure to deliver the vision.

Performance details:

Examples where our work has had a positive impact

Financial management

Local Government: Our substantive testing of EMA payments found that they were not being backdated correctly. It was found this was a fault with the SEEMIS system, which is used by all Scottish local authorities. All local authority external auditors (including the Firms) were advised to include the point within their covering letters. Some local authorities have requested SEEMIS update the system in accordance with SG guidance. In the interim, a manual process is being implemented to ensure the correct back-pay for students

Financial sustainability

Local Government: The audit team highlighted the serious financial management and sustainability issues faced by a council, including possible budget cuts of over £100 million by 2019/20. Recognising that significant transformational change was required the Executive Director stated that 'it is important that the council develops a medium term financial plan in order to support the spending priorities going forward and to ensure that the Council is financially sustainable'.

Local Government: The audit team found an issue of an overspend of £3m with service expenditure against budget and reported on how continuing overspends on service delivery could impact on the longer term financial sustainability. These were accepted by the council and led to it making a formal response on how it intended to address the issues through service redesign.

Governance and transparency

Local Government As a result of our 2015/16 report on the budgeting process the council made a number of improvements in setting the 2017/18 budget. In particular, there were no significant changes to the budgeting pack on the budget setting day this year, other than how the council might spend the additional funding announced by the Chancellor of the Exchequer. The budget proposal included a clear breakdown of how a balanced budget would be made up. Additionally, the minutes of the council meeting were more comprehensive and transparent.

Local Government During the audit year we found a significant issue surrounding equal pay claims which totalled over £50 million. We reported transparently on this issue in our annual audit plan and followed this up during the year through focussed audit work. This culminated in clear reporting in the 2015/16 AAR on the impact of these claims on the council's reserves and future spending commitments.

Colleagues from PABV facilitated a seminar with social work, health, and IJB staff and councillors in Shetland. This involved discussion of various reports and the key findings and recommendations, and a Q&A. The council has agreed to take actions agreed at the seminar to the relevant committees and the IJB.

Value for money

The Skills Investment Plan Prospectus for early learning and childcare published by Skills Development Scotland in March 2017 cited the 2016 Audit Scotland report Changing models of Health and Social care as an influence the development of the plan.

Corporate objective – 3.1 We systematically improve the quality and impact of our work

Key Performance Questions:	Q1 RAG	Q2 RAG	Q3 RAG	Q4 RAG	PERFORMANCE HEADLINE:
To what extent are we improving the way we are working?	G	G	G	G	We continue to invest in quality and improvement work.

Quality

- Development of the new audit quality framework is ongoing, this has included; a quality summit, a comparison with the audit quality arrangements in the UK and internationally and meetings with a sample of ten audited bodies focussing on the audit handover process.
- Post audit reviews and lessons learned meetings for several recently completed audits
- Following the ICAS quality reviews the Professional Standards and Quality Improvement (PSQI) team have developed training packages for senior audit team members, and improved the format of the annual audit plan templates
- ASG submitted its International Standard on Quality Control 1 (ISQC 1) return to Audit Strategy in March 2017. The ISQC 1 return evaluates whether we are fully complying with the requirements of the internationally recognised standards on quality which apply to all audit firms. The results of the return will be reported in Audit Scotland's Transparency and Quality report in June 2017, along with the results for the appointed private firms.

Technical support/ briefings/ professional standards - In Q4 this included:

- five technical training workshops for auditors and one for audited bodies on NFI.
- hosting a CIPFA Pensions Network for auditors and practitioners
- issuing a report on local government pension schemes: Insights for auditors from a review of the 2015/16 Annual Audit Reports.
- publishing guidance on auditing 2016/17 central government and health board annual accounts
- publishing two technical guidance notes on grants
- producing new model independent auditor reports that reflect the new ISA (UK) 700 (first UK audit agency to do so) and include new opinions on management commentary and annual governance statement
- working with Scottish Government to clarify the application of the Government Financial Reporting Manual to Scottish bodies
- updating guidance on ethical requirements in light of the revised standard
- discussions with council lead officers, parliamentary clerks and SPICE to consider the future reporting of local government financial information.

Training

- 'Keeping Audit on the Right Track' training delivered in partnership with ICAS ahead of the beginning of the 2016/17 final accounts audit work.
- Working closely with ICAS to provide training on International Standards on Auditing (ISAs) to address issues arising from internal and external quality reviews.
- We developed a training package in conjunction with the other audit agencies on the revised Practice Note 10

Forward look:

- The audit quality framework is progressing and is due in for sign off in August 2017 and performance indicators re audit quality are being progressed
- A quality review of the 16/17 annual audit plans is under way
- ASG will be refreshing the audit approach over the summer to ensure full compliance with 2016 ISAs.
- We are developing a training package and detailed guidance document for those conducting analytical reviews.
- As part of the audit analytics pilot work we need to ensure that the approach complies with the requirements of international auditing standards.

Key risks / Issues:

Corporate risk register – failure of quality, failure of impact and influence, failure of innovation

Corporate objective – 3. 2 We seek out and manage information and intelligence to deliver excellent audits

Key Performance Questions:	Q1 RAG	Q2 RAG	Q3 RAG	Q4 RAG	PERFORMANCE HEADLINE:
To what extent is the knowledge people need, gathered, organised and accessible?	A	A	A	A	Improved cross organisational risk assessments and audit work and approaches to digital audit are building momentum.
To what extent are appropriate knowledge resources built?	A	A	A	A	

Knowledge management and intelligence activity in Q4 included:

Integrated audit teams are in place to deliver BV audit and financial audit for all councils. This includes sharing of knowledge, skills and audit intelligence, and developing plans to best use the respective strengths each business group brings to the audit. Audit teams and the firms are also using the new local government extranet as a means of sharing audit intelligence on councils more widely and systematically.

Colleagues from ASG, PABV, Audit Strategy and the firms participated in information sharing workshops and sector briefings.

Our approach to digital audit is developing:

- Auditing digital – the five year rolling work programme contains a number of audits focussing on digital transformation and projects
- Digital auditing:
 - The audit intelligence project has seen more outcome and health data being imported to the data warehouse through a series of 'data sprints'
 - ASG are currently examining the greater use of digital auditing within audit work. ASG team members are conducting pilots at four audit clients
- Digital capacity
 - colleagues have been working with the other UK audit agencies on audit analytics and have also liaised with staff from KPMG
 - introductory training in data analytics were delivered in Glasgow, Edinburgh, Inverness and Aberdeen. The content focused on audit quality (treating data analytics as a special form of analytical review) and excel tools

External knowledge activities have included colleagues from PABV participated in a national health intelligence sharing event and a series of briefings and Q&A sessions to parliamentary clerks and SPICE on our recent audit work in the higher and further education sectors

Internal activity has included an internal workshop discuss our approaches to transformative innovation, particularly in relation to health and social care and a knowledge café took to share the learning from the recent #checksee project with Young Scot.

Forward look:

- The first of the new Best Value Assurance Reports (BVARs) is due to publish in June 2017.
- Digital audit strategy development – summer 2017 and developments including
 - Training sessions on IDEA (an IT audit tool for extracting and analysing data). The aim is to hold regular events for ASG staff, delivered both in the form of half-day workshops, and as super-team training / updates.
- Completion of the pilots using audit analytics in NHS Fife, Fife Council, CNES and Moray Council

Key risks / Issues:

- Failure to gather and share information may lead to issues being missed, tools to gather and share information are not fully utilised, failure to use data analytics to improve efficiency and effectiveness.
- Corporate risk register – failure to deliver our vision, failure of legitimacy and relevance, failure of impact and influence, failure of innovation.

Corporate objective – 3. 3 We develop new and improved products to maximise the impact of audit

Key Performance Questions:	Q1 RA G	Q2 RAG	Q3 RAG	Q4 RAG	PERFORMANCE HEADLINE:
To what extent are new products and services developed?	G	G	G	G	New types of outputs were produced in Q4, including the performance and challenges LG overview and the NHS workforce briefing.
How well are products and study programmes suitable and appropriate for emerging issues?	G	G	G	G	

New and improved products in Q4 included:

- Publication of the first of the Accounts Commission's new *performance and challenges* local government overview reports (the first of the new financial overviews was published in November). Feedback has been positive about the new two report approach to local government overview reporting.
- A new output on the NHS workforce – the data briefing / audit trailer included initial statistics and analysis linked to the main audit which will be published Summer 2017.
- The Self Directed Support audit team used a radio broadcast to reach out to service users, carers and family members as part of their engagement activity.
- A new audit planning report template has been rolled out to audit teams. All sectors are now using this audits and initial feedback from audited bodies has been positive.
- A new interim audit report has been developed and rolled out to ASG audit teams for use in reporting their findings.
- Annual Audit Report templates have been developed for use in the local government, health and central government sectors as well as templates for IJBs, colleges and pension funds. The new templates are designed to have more of an impact with greater use of infographics.
- Pension fund audit programmes have been overhauled to ensure that audit work is more relevant to the bodies we audit.
- The AD with lead responsibility for parliamentary engagement took part in an event hosted by the Commission for Parliamentary Reform, looking at different organisations' experience of engaging with the Scottish Parliament. The Parliament is exploring how it can improve its approach to scrutiny, including how it uses evidence. This work will in turn help us to improve how we in turn support and engage with the parliament and its subject committees.

Forward look:

- The BIU plan to review and update all audit programmes and the audit guide to ensure that ASG's audit approach fully complies with the revised (2016) international auditing standards.
- The BIU is working with colleagues from Audit Strategy's Technical Services Unit to develop a training package and detailed guidance on conducting analytical reviews.

Key risks / Issues:

- Innovation and development of new products may impact on capacity to deliver scheduled work programme.
- Corporate risk register – failure of impact and influence, failure of innovation.

Corporate objective – 3. 4 We maximise our efficiency and effectively manage our resources to reduce the costs of audit

Key Performance Questions:	Q1 RAG	Q2 RAG	Q3 RAG	Q4 RAG	PERFORMANCE HEADLINE:
To what extent is efficiency improving?	A	A	A	A	In the twelve months to March 2017 the Net Operating Cost at £7,350k was £73k less than budget.

Summary:

In the twelve months to March 2017 Audit Scotland's Net Operating Cost at £7,350k was £73k less than budget. The main reasons for the favourable variance were:

- Total income recorded in the twelve months to March 2017 was £456k higher than the phased budget. Fee income, including central charges, contributed £305k.
- Expenditure was £383k higher than budget. The most significant variance related to IAS 19 pension charges which were £366k greater than budget. Adverse variances were also recorded in respect of agency and secondment expenditure, £258k, severance costs £137k and Information Technology, £45k. Among the favourable variances were travel & subsistence, £122k, legal, professional and consultancy, £81k, training £53k, property £39k, office costs £41k and depreciation £58k. Further details are provided in section 2.

We have developed improved resource planning to ensure that the most appropriate staff are being used for each audit and to maximise efficiency. This is a more integrated approach to resource planning, with representatives from PABV routinely attending ASG resource meetings and vice versa. There was also more emphasis on ensuring a consistent approach on the allocation of budgeted days for all audit clients.

ASG's audit methodology has been further streamlined and a new audit programme developed for key controls testing (i.e. file B20). This will enable auditors to reduce the time spent on testing controls and free up time for local performance / wider dimension work.

PABV established a dedicated Programme Management Group to provide more effective and collegiate management of the overall work programme, including scheduling and resourcing of work. The group will formally launch during Q1 of 2017/18.

The format and content of KPI reports used by ASGMT have been significantly improved and now include an executive summary focussing on key areas requiring management attention

Forward look:

- On 11 April the Management Team agreed the priority areas for a programme of efficiency reviews in 2017/18.
- Refined resource allocation arrangements to support the new audit appointments.

Key risks / Issues:

- Corporate risk register: – failure to achieve value for money

Performance details:**Cost vs. budget:****Net operating (cost) to March 2017**

In the twelve months to March 2017 Audit Scotland's Net Operating Cost at £7,350 was £73k less than budget.

£000	Q1	Q2	Q3	Q4
Actual	(986)	(1,705)	(3,803)	(7,350)
Budget	(1,267)	(1,925)	(4,169)	(7,423)
Variance	281	220	366	73

Business group net operating (cost)/contribution to overheads summary 12 months to March 2017 (£'k)

The table below shows net operating cost/surplus for each business group.

	ASG	AST	PABV	CSG
Actual	1,262	(892)	(3,745)	(4,978)
Budget	1,153	(864)	(3,821)	(4,984)
Variance	+109	(-28)	-(76)	(+6)
+ = favourable, - = unfavourable				

Capital expenditure:

Capital investment in the twelve months to March 2017 totalled £197k, £3k less than the budget of £200k. £105k of the investment related to IT hardware, with the purchase of new mobile phones £41k, the new card entry system at our Glasgow office £6k, citrix access tokens £17k, server equipment £29k, laptops £5k and equipment for the Glasgow office refurbishment £7k. Investment in new software totalled £66k with £21k relating to finance system upgrades, a further £32k was required for licences to comply with the latest Microsoft requirements and £12k has been spent on software to manage Chromebook devices.

£20k was spent on furniture for the new office in Inverness. The small increase in construction assets was the cost of the fit-out at the new Inverness office, £6k.

Staff:

Our staff costs in the twelve months to March 2017 were £14k more than budget. The average number of staff employed in the twelve months to March 2017 at 276.4 w.t.e. was 1.7 w.t.e. lower than the establishment figure of 278.1 w.t.e. The staff budget for 2016/17 assumed a 3% vacancy factor and therefore the average number of staff employed in the period was 6.4 w.t.e. more than the numbers funded in the budget. The additional cost of employing these staff was partly offset by lower than budgeted average actual salary costs per employee. Total staff costs to 31 March 2017 including agency and secondment expenditure and net of secondment income were £132k more than budget.

	Q1	Q2	Q3	Q4
2016/17 establishment w.t.e:	278.1	278.1	278.1	278.1
Average number of staff employed in 2016/17 w.t.e:	276	277.7	277.7	276.4
No. of staff at end of quarter w.t.e:	279.8	276.2	276.5	270.8

Estate:

Property costs in the year to March 2017 were £39k less than budget.

£000	YTD- Q1	YTD- Q2	YTD- Q3	YTD- Q4
Actual spend	206	442	672	896
Budget	224	450	675	935
Prior year spend	389	805	1,245	1,298

Costs of travel:

Travel and subsistence in the year to March 2017 was £122k less than budget. The underspend was mainly attributable to lower expenditure in ASG, £117k, and PABV, £13k. Expenditure on the leased car fleet was close to budget with expenditure being £5k greater than budget.

£000	YTD- Q1	YTD- Q2	YTD- Q3	YTD- Q4
Actual spend	198	417	615	863
Budget	209	456	702	985
Prior year spend	217	448	624	858

IT network up time Q4:

	IT uptime	Working hours lost	Average time lost per person (minutes)
Q1	99.9	22	4
Q2	99.9	7	1.2
Q3	100	0	0
Q4	99.8	239	47

IT Incident management summary

- 96% (927/965) of incidents were accepted within the response time SLA.
- 99% (956/965) of requests were closed by an Analyst within the fix time SLA
- An average of 3.16 incidents were logged per user.

Internal Audit recommendations:

There were seven internal audits completed year to date with six rated as substantial for both design and operational effectiveness and one rated reasonable. There are a total of 21 recommendations.

Year	Total no. of Audits	Total number of recommendations	High	Medium	Low
2016/17 (YTD)	8	23	0	6	17
2015/16	7	15	0	3	12

Business group productivity:

Business group productivity, within each business group, remains broadly consistent with productivity/ planning assumptions.

	2016/17				2015/16		
	ASG	AST	PABV		ASG	AST	PABV
Q1	60%	93%	68%		73%	88%	65%
Q2	78%	93%	69%		75.9%	91.5%	72.6%
Q3	51%	96.5	65%		54%	89%	66%
Q4	73	-	73%		69%	91	67%

Corporate objective – 3. 5 We empower and support our people to be engaged, highly skilled and perform well

Key Performance Questions:	Q1 RA G	Q2 RAG	Q3 RAG	Q4 RAG	PERFORMANCE HEADLINE:
To what extent have we got empowered and engaged people?	A	A	A	A	Audit Scotland and the PCS negotiating team successfully reached agreement on the pay award and a comprehensive package of improvements in support of BaBO. The 3D process was refined and the second cycle was concluded.
To what extent are our people highly skilled?	G	G	G	G	
To what extent are people performing well?	Y	Y	Y	Y	
We will understand and support diversity within the workforce	G	G	G	G	

Best Companies:

Organisation wide results were considered by Management Team in December 2016 and Leadership Group and the Board in January 2017. Analysis of and meetings on the results at business group level took place in Q4 along with Knowledge Cafes.

BABO:

- Time Place Travel (TPT) was formally launched in January 2017 and the initial survey results show 90% of colleagues, who completed the survey; think TPT will have a positive or no negative impact on themselves, their team and their clients. We will survey again in July 2017 to see what the actual impact has been.

Wellbeing:

- We undertook a procurement exercise for the occupational health provider in January 2017, and the contract was awarded to Wellness International. 158 employees undertook an annual health check between January and March 2017.

L&D:

- The Personal Development and Growth Group (PDGG) met on 19/04/17 and reviewed final delivery against the L&D plan for 2016-17. Delivery against the priority plan at the end of 2016/17 is 66% (23 out of 35 items). Of the remaining 12 items, four of those items have been developed and will be scheduled in 2017/18; another four are under development and will be delivered in 2017/18, and the final four have not been progressed as they are contingent on outcomes of BABO, e.g. new recruitment and selection training. In addition, approximately 50% of the 'desirable' plan has been delivered.
- Work on the self-directed learning pilot in PABV continues, and a number of those involved (16) have continued to progress their development. The deadline for completion is March 2017 and a review on the impact of how this pilot has gone will take place in late Autumn 2017.
- Feedback from colleagues suggest that Learning & Innovation Groups (LIG's) are working well, and having a positive impact. We now have four established LIG's. All the groups contain a broad mix of colleagues from across all business groups and grades. The groups are using Yammer to share information in between meetings, and taking advantage of technology to connect at meetings if working remotely from our base location offices.
- L&D events - 89 Events and 1360 attendee places compared to 87 events and 737 places in 2015/16

Exam totals – 90.5 % (143 of 158) exams passed - compared to 93% (115 of 124) in 2015/16.

Absence - 5.06 days - lower than previous year and better than the public sector average

Turnover - resignations lower all leavers higher than last year but below the CIPD benchmark

	2016/17	2015/16	2014/15	CIPD benchmark
Resignations %	4.16	5.37%	2.54%	
All Leavers %	11.11	8.24%	6.89%	13.6%

Forward look:**BABO:**

- Audit Scotland Pay and reward offer 2017 went to PCS ballot on 12 April 2017
- Work continues on revising the Role Profiles and designing the Career Development Gates (CDG) process. CDG is due to be available in October 2017.
- We are starting to explore how we can further support leadership development in a BaBO organisation

L&D:

- The PDGG have drafted the L&D plan for 2017/18 and this will be shared with colleagues in May 2017.
- The PDGG are working collaboratively with Elaine Boyd on the Audit Quality programme
- An update on the progress of Learning and Innovation Groups (LIGs) will be shared with colleagues over the next month or so.

Wellbeing:

- The draft annual H&S report and the results from this year's wellness checks shared with Health, Safety & Wellbeing group on 25 April 2017. The priorities which emerge from these discussions will form part of the new integrated wellness programme for 2017/18.

Key risks / Issues:

- Corporate risk register: failure of capacity, failure to operate as one organisation.

Performance details:

Learning and development opportunities in Q4: The table below table lists the types of L&D events as well as the number of delegate places.

	No. of Events	No. of Attendees
Health & Safety	0	0
Knowledge Cafes	1	5
Learning & Development	9	290
Management Development	1	8
Organisational Development	1	8
Technical Training	5	49
	17	360

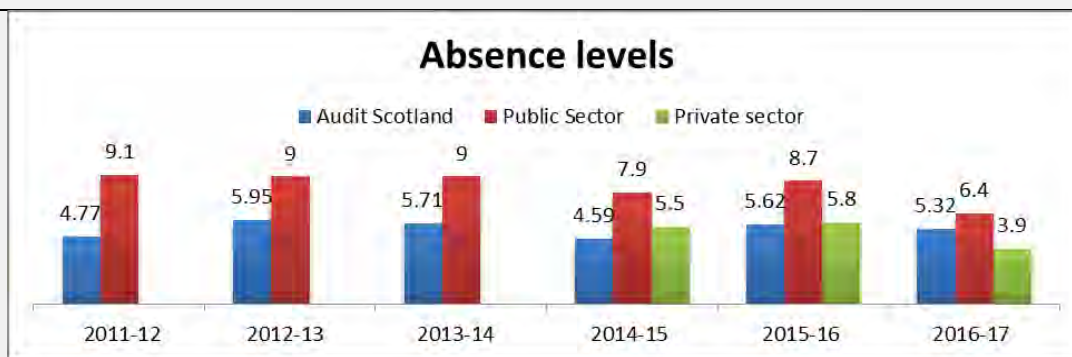
Exam results: In Q4 there were 108 exams taken. In TPS (Test of Professional Skills) there were a total of 24 exams taken in two subjects, Advanced Finance and Assurance and business, from this there was one trainee having to resit Advanced Finance in June 2017. In TC (Test of Competence) there was a total 84 exams in all five subjects in Q4. From these five trainees are doing a total of 11 resits. There were also two resignations from this level of trainees bringing the number down to 12 trainees in the TC level.

	Exams taken	Exams passed	% pass rate
Q1	15	15	100
Q2	26	24	92.3
Q3	9	8	88.8
Q4	108	96	88.9
Total	158	143	90.5

Absence levels:

In Q4 the absence levels remained low at an average of 1.28 days per person. The 2016/17 absence levels (5.32) are below last years (5.62). We continue to be below the Public sector average but above the private sector average. Business groups report that absence is being managed within existing resources with no significant impact on performance.

	Q1 days	Q2 days	Q3 days	Q4 days	ytd days	15/16 total
ASG	1.16	1.69	1.13	1.21	5.19	6.11
Audit Strategy	0	2.60	2.0	3.33	7.93	2
CSG	1.11	0.48	0.64	1.02	3.25	4.74
PABV	0.81	1.26	2.11	1.18	5.36	3.42
Audit Scotland16/17	1.03	1.37	1.27	1.28	5.32	
Audit Scotland15/16	0.89	0.98	1.49	2.05	5.62	
Audit Scotland14/15	1.12	0.87	0.99	1.31	4.59	
Audit Scotland13/14	1.6	1.14	1.57	1.40	5.99	



Staff turnover:

All leavers for Q4 equates to 4.24% (All leavers include VERA, and end of fixed-term contractors, student placements and career breaks). There increase in leavers in Q4 is in part due to the Vera leavers. Staff turnover shows a small decrease in the number of resignations and increase in all leavers.

We remain below the 2015 CIPD benchmarks for leavers.

2016/17	Q1	Q2	Q3	Q4	YTD	2015/16	CIPD benchmark
Resignations %	1.03	0.68	1.39	1.06	4.16	5.37	5.5
All Leavers %	1.37	3.41	2.09	4.24	11.11	8.24	13.6

Equalities

In Q4 two Equality reports were published :

- the Equality outcomes and mainstreaming Progress report 2015-17
- Equal pay review 2016

Corporate objective – 3. 6 We work together to deliver excellent audits

Key Performance Questions:	Q1 RAG	Q2 RAG	Q3 RAG	Q4 RAG	PERFORMANCE HEADLINE:
To what extent is there communicating and collaborating across organisational departments?	A	A	A	A	There is a focus on risk assessments in Q4. Shared risk assessments and Team Risk Assessments involved colleagues from across business groups.
To what extent are career paths offered across the organisation?	G	G	G	G	

Narrative:

One organisation working continues, examples in Q4 included:

- The Annual Audit Conference, which traditionally has had a focus on financial auditing issues, was changed to include a broader mix of topics that would be of relevance to all staff. More colleagues from across business groups attended than in previous years.
- Shared risk assessments (SRAs) and Team Risk Assessment Meetings (TRAMs) involving colleagues from ASG and PABV have been taking place in Q4.

Career paths and secondments

Fifteen members of staff benefited from a new career opportunity this quarter, through a permanent promotion or fixed-term acting up and there were five external appointments. Three new secondments were recorded this quarter and five existing secondments remain in place. 128 (46%) members of staff now have flexible contracts.

All filled vacancies

	2016/17 YTD	2015/16	2014/15	2013/14
Internal	29	37	28	26
External	33	30	24	24
Total	62	67	52	50

Over 2016/17: the number of new posts is 62 slightly lower than last year (67)

Forward look:

- BaBO work shops will continue throughout the year to engage with staff in a number of initiatives including role profiles
- More Joined up training will be developed and delivered during 2017/18.

Key risks / Issues:

Corporate risk register - failure to operate as one organisation

AUDIT SCOTLAND BOARD

6 JUNE 2017

REPORT BY THE ASSISTANT DIRECTOR, CORPORATE PERFORMANCE AND RISK

Q4 BECOMING WORLD CLASS IMPROVEMENT PROGRAMME REPORT 2016/17

1. Purpose of Report

To invite the Board to consider the progress made to date on the Becoming World Class (BWC) improvement programme and the planned actions.

2. Background

The BWC strategic improvement programme is a key enabler for achieving our vision to be a world class audit organisation. The last quarterly BWC update report was considered by the Board on 31 March 2017.

3. Progress on the BWC improvement programme

We continue to make good progress on the programme, particularly in the context of a full programme of audit work. Progress headlines since the last report include:


- *Securing World Class Audit* – where the
 - audit appointments using the revised Code of Audit Practice are under-way
 - fees and funding strategy has been agreed
 - review of quality is progressing, including the development of a vision, framework and governance and assurance arrangements.
- *Building a Better Organisation (BaBO)* – where
 - the pay, reward and arrangements for career progression and ways of working have been agreed
 - 3D meetings and health checks have taken place
 - the tender for the Glasgow office improvements has been awarded
 - priority areas for a programme of efficiency reviews have been agreed.
- *Making a Difference* – where
 - the first of the new BV audits has been reported to the Accounts Commission
 - the five year rolling work programme has been published on the website
 - we are developing a Digital Audit strategy.

The appendix provides additional information on each of the BWC workstreams.

4. Recommendation

The Board is invited to note the progress made to date and the next steps.

Appendix

 SECURING WORLD CLASS AUDIT	<p>Our objective is to ensure that public audit in Scotland: • applies the highest professional and ethical standards • is efficient, proportionate and risk based • is informed by an excellent understanding of the strategic and operational context • responds effectively to changing circumstances and emerging issues • reports clearly and authoritatively • follows the public pound wherever it is spent • promotes transparency, accountability and Best Value.</p>
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Project/ initiative/ product	Status update	Next steps
Review of Audit Quality	<p>Development work has focussed on:</p> <ul style="list-style-type: none"> • Developing a vision for audit quality • Drafting a new quality framework • International comparisons with other audit agencies and Firms • Governance and reporting arrangements for audit quality • Meeting the Auditor General and Accounts Commission's interest in quality • Assessing the options for external assurance for quality review <p>The Audit Committee considered an update report at its meeting on 17 May 2017.</p> <p>2016/17 annual quality report to the Audit Committee in June 2017</p>	<p>'Year 1' development milestones include:</p> <ul style="list-style-type: none"> • Development of quality KPIs – June 2017 • New framework in place – October 2017 <p>'Year 2' milestones include:</p> <ul style="list-style-type: none"> • KPI data capture & audit quality manual – November 2017 • Cold reviews using new framework – December 2017 • External assurance review (Audit Scotland) – January 2018 • External assurance review (Firms) – February 2018 • Quality assurance reporting – March/April 2018 • Client/firms/staff survey – May/June 2018 • Project review – September 2018
New financial powers and constitutional change	<p>Key contextual issues include:</p> <ul style="list-style-type: none"> • Article 50 triggered on 29 March starting negotiations for the UK to leave the EU • Scottish Budget passed in February, incorporating new tax & borrowing powers and corresponding block grant adjustments • Scottish Fiscal Commission and Crown Estate Scotland began operating on 1 April - the AGS will appoint the auditor • Social Security Minister announced 10 of the 11 devolved benefits will be delivered directly by a new social security agency – we anticipate the AGS will appoint the auditor for the agency and the payments it administers • Scottish Government is formally consulting with us on a draft 	<p>The key milestones are:</p> <ul style="list-style-type: none"> • Agreement of framework for audit and accountability arrangements for devolved services by the Scottish and UK Governments in June • Consideration of current assessment of resource requirements at New Financial Powers Steering Group meeting on 20 June • Development of resource plans to help inform budget proposals for 2018/19 onwards • Recommendations of Budget Process Review Group published at end of June • Appointment of auditors for the Scottish Fiscal


Project/ initiative/ product	Status update	Next steps
	<p>framework for audit and accountability arrangements for devolved services</p> <ul style="list-style-type: none"> • Air Departure Tax, Railway Policing and Forestry and Land Management bills being considered in parliament • Budget process review group interim report published in March – we provided a tri-partite response to the consultation and continue to support the AGS' participation in the Group • Publication of the latest report on Managing New Financial Powers in March and launch of the web resource hub • Publication of AGS's annual report on the NAO audit of the implementation of the Scottish Rate of Income Tax in December <p>A detailed update report is item 18 on the agenda for the Board meeting on 6 June 2017.</p>	<p>Commission and Crown Estate Scotland – the first financial audits will be completed in 2018</p>



Our objective is to make Audit Scotland a great place to work so that we can attract and retain a highly skilled workforce. We want to make the best use of our resources so that we can deliver audit work that improves the use of public money.

Project/ initiative/ product	Status update	Next steps
How we work together Job Design Reward & Recognition Performance Appraisal	<p>Audit Scotland and the PCS negotiating team successfully reached agreement on the pay award and a comprehensive package of improvements in support of BaBO. This included:</p> <ul style="list-style-type: none"> • broad banded pay structure • cessation for performance related pay and formal adoption of 3D • uplift of salary and target rates, spine point increment • basic 1% increase and extra award for lower paid colleagues and transition arrangements • increased holiday entitlement for those with less than five years qualifying service • extension of no compulsory redundancy policy • funded car leasing scheme closed to new entrants from April 2017. <p>Time, Place & Travel (TPT) is based on all colleagues following a set of principles and guidance regarding choices they make about working time, workplace location and travel/expenses. TPT has been phased in and many individuals and teams are already benefiting.</p>	<p>The key milestones are:</p> <ul style="list-style-type: none"> • Review of time, place and travel in operation – Summer 2017 • Developing a suite of processes in support of the 'gates system' – October 2017
How we learn and develop Planning careers, developing skills, professional training schemes, becoming better managers and leaders	<p>The PDG has updated the Learning and Development Strategy and plan. An extensive learning and development programme continues.</p> <p>The Leadership Group has started to consider what leadership will look like in Audit Scotland over the next 3 – years.</p>	<p>The key milestones are:</p> <ul style="list-style-type: none"> • Refreshed 2017/18 Learning and Development Strategy and plan scheduled for quarter 1 of 2017/18. • Leadership group role profiles – October 2017 • 2017/18 review of professional training scheme
Wellbeing	<p>The procurement process for the Wellbeing partner has been concluded. Health checks are under way.</p> <p>The Healthy Working Lives sub group continues to build on the wellness checks through information campaigns and training.</p>	<p>The HSW group met on 25 April to review the Annual Report and hear from Wellness International on the themes emerging from the wellness checks. The HSW subgroup will work with the Social Committee and colleagues to create an integrated wellness plan for the next 12-18 months. This plan will be shared more widely with colleagues once agreed.</p>

Project/ initiative/ product	Status update	Next steps
Office accommodation	Tender responses for the refurbishment of the Glasgow office have been considered by Management Team and a contractor appointed. Final report documenting the tender process and decision is to be prepared. Permission from the landlord to carry out the work is being sought as a matter of urgency.	The key milestones are: <ul style="list-style-type: none"> • MT report to be prepared by end May 2017. • Meeting with contractor w.c. 15 June to agree timelines for work. Preferred option is to close the office for a period of two to three weeks in July • Furniture order to be progressed following meeting with contractor • Timeline and plans to be communicated to staff once information is available.
Programme of efficiency reviews	On 11 April the Management Team considered options for the focus of efficiency reviews in 2017/18.	Development of project scope and timelines for reviews: <ul style="list-style-type: none"> • Review of time and resources on non audit work • Travel and subsistence • Expenditure reviews (legal and professional fees, information technology)

	Our objective is to maximise the difference our audit work makes to public services, the people that they serve, the outcomes that those people experience and the use of public money.
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Project/ initiative/ product	Status update	Next steps
Auditing Best Value	<p>The BV audits are under-way. The first of the six scheduled for 2016/17 was considered by the Accounts Commission at its meeting on 11 May 2017. The commission also endorsed the proposed programme for year two.</p> <p>The Accounts Commission' steering group continues to meet to inform and monitor developments.</p> <p>The working group leading the review of the statutory guidance continues. The Group committed to having proposals in place by around June 2017.</p>	<p>The key milestones are:</p> <ul style="list-style-type: none"> • June 2017 – January 2018 - 5 BV assurance reports to the Accounts Commission. • September 2017 - the first Annual Audit Reports that will reflect the wider scope of the audit and the new approach to auditing Best Value. • Early 2018 - the Controller of Audit's Annual Assurance and Risks Report to the Commission will be the first to reflect the wider scope of audit and the new approach and the Commission's Strategic Audit Priorities. •

Project/ initiative/ product	Status update	Next steps
World Class Programme Development	Following consultation the rolling five year work programme was published on the website in April. The web pages have been extensively redeveloped and provide information and contact details on the audits.	<p>We will continue to:</p> <ul style="list-style-type: none"> • refine programme development approaches in 2017/18 through a series of external engagement events to inform our monitoring of policy and performance and support the development of alternative audit outputs. • develop stronger links between our cluster work and related strategic developments such as our New Financial Powers developments work, the implementation of the new approach to auditing Best Value and the Audit Intelligence project.
Strategic approach to Parliamentary Engagement	<p>On 20 January the Board considered an update report on progress in implementing our Parliamentary engagement strategy. This included the results of a survey of MSPs which offered positive assurance about their awareness of the work of Audit Scotland and their views on our effectiveness as an organisation. MSPs were also positive about how contact with key parliamentary committee has been managed to date.</p> <p>We launched our new work programme on the 25 April. An important element of this has been a programme of engagement with Parliament, including:</p> <ul style="list-style-type: none"> • e-mailing details of the work programme to all MSPs and parliamentary clerks • briefing the PAPLS committee on the work programme • giving a breakfast briefing for SPICe and clerking teams on the work programme and how we intend to work collaboratively with Parliament and its committees <p>All of these activities have provided positive feedback from the Parliament about the engagement and support MSPs and parliamentary staff have received from Audit Scotland staff over recent months. The feedback on the content of the work programme indicates that it reflects key areas of interest to many subject committees of the Parliament.</p>	<p>The next phase of our activity will focus on ensuring that our audit work is used to best effect to support effective parliamentary scrutiny. This will involve:</p> <ul style="list-style-type: none"> • consolidating and building on the relationships we have established with clerking teams and committees. • liaising with parliamentary committees over briefings and evidence sessions on the audit work contained in our five-year work programmes • developing new approaches to communicating messages arising from our audit work to support parliamentary scrutiny • reflecting key areas of Parliamentary interest in our programme development activity and future work programme refreshes • supporting the Public Audit and Post-Legislative Scrutiny Committee and subject committees in delivering high quality parliamentary scrutiny.

Project/ initiative/ product	Status update	Next steps
	<p>Our stocktake of progress to date has confirmed that we have met all of our key objectives of phase 1 of our Parliamentary engagement strategy (understanding, informing and engaging with the Parliament).</p> <p>We are now moving into phase 2 of our strategy which will be focused on ensuring that all of our work is used to best effect to support effective parliamentary scrutiny</p>	
Digital audit	<p>Work is under-way to develop a Digital Audit Strategy. This focuses on audit work on digital projects/ services/ transformation (auditing digital), data and analytics to support the audit work (digital auditing) and the resources/tools and skills to deliver these (digital capacity).</p> <p>The second phase of the Audit Intelligence project is under-way; this is focussing on outcomes data.</p> <p>The audit analytics project is also progressing. This includes the development of audit analytics tests and analyses to support the financial audit.</p>	<p>The next steps include:</p> <ul style="list-style-type: none"> • Ongoing work in the audit intelligence and audit analytics projects. • Development of the Digital Strategy by August 2017.

AUDIT SCOTLAND BOARD

6 JUNE 2017

REPORT BY THE CORPORATE FINANCE MANAGER

Q4 FINANCIAL PERFORMANCE REPORT

1. Purpose

This report presents the draft financial results for the twelve months to March 2017. These results support the quarter four performance report presented to today's Board meeting at agenda item 12. This paper was also discussed at today's Audit Committee meeting at agenda item 17.

2. Background

The draft Management Accounts and finance report for the twelve months to March 2017 which was discussed by Management Team on 2 May 2017 is attached to this paper. The paper comprises the following sections

- Schedule 1 Headline Results and commentary
- Schedule 2 Results Summary
- Schedule 3 Balance Sheet
- Schedule 4 Cash Flow Statement
- Schedule 5 Capital Expenditure and Funding Report
- Schedule 6a ASG Finance Report
- Schedule 6b PABV Finance Report
- Schedule 6c CSG Finance Report
- Schedule 6d BSS & FM Finance Report
- Schedule 7 WTE Staff in Post Summary 2016/17
- Schedule 8a Work in Progress 2015/16 Audit Year
- Schedule 8b Work in Progress 2016/17 Audit Year
- Schedule 8c Financial Year - audit completion percentages
- Schedule 9 2016/17 Financial year – fee income analysis

Further details on the financial results are provided in the Annual report and accounts for 2016/17 and covering paper which will be discussed at agenda item 13.

3. Virement

There were no instances of budget virement in excess of £20k in the 12 months to March 2017.

4. Action

The Board is invited to note the draft financial results for the twelve months to March 2017.

FINANCE REPORT

Twelve Months to 31 March 2017

1.1 Headline Results

1. The Financial results presented in this report are draft and are subject to external audit scrutiny and sign off.
 - In the twelve months to March 2017 Audit Scotland's Net Operating Cost at £7,350k was £73k less than budget.
 - Total income recorded in the twelve months to March 2017 was £456k higher than the phased budget. Fee income including central charges contributed £305k.
 - Expenditure was £383k higher than budget. The most significant variance related to IAS 19 pension charges which were £366k greater than budget. Adverse variances were also recorded in respect of agency and secondment expenditure, £258k, severance costs £137k and Information Technology, £45k. Among the favourable variances were travel & subsistence, £122k, legal, professional and consultancy, £81k, training £53k, property £39k, office costs £41k and depreciation £58k. Further details are provided in section 2.

1.2 The summary financial information to March 2017 :

£000	Annual Budget	Actual	Budget	Var.	% Var.	Prior Year
Fee Income - In House	7,664	7,858	7,664	194	-2.5%	8,088
Fee Income - Audit Firms	5,795	5,630	5,795	(165)	2.8%	5,655
Central Charges	4,718	4,994	4,718	276	-5.8%	4,711
Interest	25	36	25	11	-44.0%	41
Other Income	0	140	0	140	-	34
IAS 19 Income	(626)	(626)	(626)	0	0.0%	(937)
TOTAL INCOME	17,576	18,032	17,576	456	2.6%	17,592
Approved auditors	5,011	4,987	5,012	25	-0.5%	5,051
Staff salaries and oncosts	14,833	14,847	14,833	(14)	0.1%	14,102
Payroll provisions incl. severance	40	177	40	(137)	342.5%	346
Agency and secondment costs	123	381	123	(258)	209.8%	331
IAS 19 Pension costs	505	871	505	(366)	72.5%	979
Property costs	935	896	935	39	-4.2%	1,298
Travel and subsistence	986	863	985	122	-12.4%	858
Legal, professional and consultancy	695	614	695	81	-11.7%	557
Training	537	484	537	53	-9.9%	440
Recruitment	125	109	125	16	-12.8%	121
Printing and office costs	291	250	291	41	-14.1%	337
Information technology	368	413	368	(45)	12.2%	461
Audit	60	56	60	4	-6.7%	56
Depreciation	412	354	412	58	-14.1%	271
Other costs	78	80	78	(2)	2.6%	79
EXPENDITURE	24,999	25,382	24,999	(383)	1.5%	25,287
NET OPERATING (COST)	(7,423)	(7,350)	(7,423)	73	-1.0%	(7,695)

FINANCE REPORT

Twelve Months to 31 March 2017

2. Income and Expenditure Summary (See Headline Table, above, and Sch. 2)**a) Income**

In the twelve months to March 2017 fee income including central charges was £305k higher than budget. In-house fee income was £194k higher than budget and income earned in respect of audits carried out by external audit firms was £165k less than budget. Central charges income £276k greater than budget.

In-house fee income is derived from work in progress (WIP) completion percentages compiled through access to ASG's Management Information System (MIS) which captures audit day inputs from the Time Recording System and MKI. The resulting percentages have been reviewed by the ASG Management Team and, where appropriate, adjustments have been made to reflect actual audit progress.

The phased budgets for fee income have been profiled, mainly, on the basis of actual income levels recorded during the 2015/16 financial year. As the budgets have been based on indicative audit fees, variances will arise as a result of volume and price differences. Volume variances will occur when the WIP percentage reported is either above or below the percentage anticipated in the budget. Price variances will reflect the degree to which the fees have been agreed above, or below, indicative.

Fee income includes income for both the 2015/16 and 2016/17 audit years.

All in-house 2015/16 audits are now complete and in the twelve months to March 2017, income (excluding credits for non-chargeable work) was £298k more than budget. Favourable variances were recorded for Local Government +£93k, Central Government +£199k and Further Education (FE) +£11k. Income recorded for Health audits was £5k below budget.

WIP levels for chargeable 2015/16 audits were 1.90% higher than the phased budget included in the 2016/17 financial year, recognising that WIP levels at March 2016 were on average 1.90% less than budget. As a result income was £155k greater than budget. The agreement of fees at levels above the indicative amounts included in the budget has increased the overall favourable variance by £143k.

The table below provides an analysis of the final in-house fee income variance by sector for 2015/16 audits.

2015/16	Volume			Price	Total
	Cumulative WIP %	In-year WIP %	£k	£k	£k
Local Government	0.00	+1.37	+66	+27	+93
Health	0.00	+0.38	+5	-10	-5
FE	0.00	+13.49	+7	+4	+11
Central Government	0.00	+4.59	+77	+122	+199
Total – March 2017	0.00	+1.90	+155	+143	+298

Income earned for in-house 2016/17 audits was £113k less than phased budget. Income in respect of Local Government audits was £199k less than budget. This adverse variance was partly offset by favourable income variances recorded for the Health, +£26k, FE, +£10k and Central Government, +£50k. Audit progress at the start of the new 2016/17 audits was on average 2.13% below the budget expectation. The variance reported is mainly volume related.

FINANCE REPORT
Twelve Months to 31 March 2017

The table shows the analysis by sector at March 2017 for the 2016/17 audits:

2016/17	Volume		Price	Total
	Cumulative WIP %	£k	£k	£k
Local Government	-5.41	-224	+25	-199
Health	+1.40	+20	+6	+26
FE	+24.50	+10	0	+10
Central Government	+2.29	+43	+7	+50
Total – March 2017	-2.13	-151	+38	-113

All 2016/17 in-house audits have been reviewed by ASG Management, to ensure that the percentage completion for each audit is based on the outputs from the audit work to date.

A further £9k of in-house income was recorded in the twelve months to March for additional fees agreed in respect of Local Government charity audits for the 2014/15 audit year.

Audit progress information is collected from firms on a quarterly basis and the March results reflect the returns made at the end of March 2017 in respect of the completion of the 2015/16 audits and the commencement of 2016/17 audits.

Income earned in the twelve months to March 2017 in respect of 2015/16 audits carried out by external firms was £590k greater than budget. All these audits are now complete and the high income levels recorded in-year were in part due to a recovery in audit WIP completion levels from the low levels recorded at March 2016, -7.31%. As a result WIP levels for chargeable 2015/16 audits were 7.31% higher than the phased budget included in the 2016/17 financial year and income £410k greater than budget. The agreement of fees at levels above the indicative levels included in the budget generated £180k of additional income.

The table below provides an analysis of the audit firm fee income variance by sector for 2015/16 audits carried out by external firms.

2015/16	Volume			Price	Total
	Cumulative WIP %	In year WIP %	£k	£k	£k
Local Government	0.00	+8.55	+260	+7	+267
Health	0.00	+4.03	+50	+53	+103
Water	0.00	+10.34	+18	+13	+31
FE	0.00	+9.38	+39	+42	+81
Central Government	0.00	+6.06	+43	+65	+108
Total	+0.00	+7.31	+410	+180	+590

Income recorded by the audit firms for their 2016/17 audits was £766k less than budget.

With the exception of the Water audit all sectors are showing adverse variances, Local Government -£430k, -10.64%, Health -£174k, -8.59%, FE -£5k, -0.76% and chargeable Central Government -£160k, -9.99%. A small favourable variance of £3k (+10.32%) was reported for the Scottish Water audit. Average WIP levels for 2016/17 audits was 23.72% which was -8.92% below budget expectations and reduced income by £384k. The agreement of fees at levels above the indicative levels included in the budget generated £28k of additional income.

FINANCE REPORT

Twelve Months to 31 March 2017

The success of the procurement process to appoint firms for the next five years at fee levels below the previous contract values has a direct impact on the income that will be earned for 2016/17 audits carried out by firms. As the 2016/17 financial year budget was prepared on the assumption that the new contract values would be at a level equal to the previous values, income for the 2016/17 audit year will be lower than assumed in the budget. The impact of this adverse variance has been identified and is shown separately in the variance analysis below. At the end of March 2017 the impact amounted to -£410k.

The table, below, shows the analysis of the income by sector:

2016/17	Volume			Procurement Effect	Price	Total
	Cumulative WIP %	In year WIP %	£k	£k	£k	£k
Local Government	-10.64	-10.64	-277	-168	15	-430
Health	-8.59	-8.59	-82	-103	11	-174
Water	+10.32	+10.32	+14	-11	0	3
FE	-0.76	-0.76	-3	-2	0	-5
Central Government	-9.99	-9.99	-36	-126	2	-160
Total	-8.92	-8.92	-384	-410	28	- 766

A further £11k of income was recorded for additional audit fees agreed for 2014/15 audits carried out by external firms (Health £8k, FE £3k).

Central charges income was £276k higher than budget. Central charges for 2016/17 audits have increased by £0.7m from the 2015/16 fee levels as a result of higher pooled costs and in particular the pooling of the external firm's discounts. As all auditor remuneration has been set to apply the minimum level of discounts offered by firms the element that relates to audits carried out in-house is recovered through increased central charges. As the 2016/17 financial year budget was prepared on the assumption that the new contract values would be at a level equal to the previous values, income for the 2016/17 audit year for central charges were higher than assumed in the 2016/17 financial year budget.

Schedule 8a details the cumulative WIP completion percentages for 2015/16 audits in each sector at March 2017. Information is also provided in terms of the budget for 2015/16 audits and a comparator with the position reported at March 2016 (2014/15 audit year). Schedule 8b details the cumulative position for the 2016/17 audits. A comparison of the WIP completion percentages reported for the current and prior year is shown in Schedule 8c. Schedule 9 provides an analysis of total fee income by sector, audit year and by provider (in-house and external firms).

Other income was £140k above budget for the year to date, mainly as a result of costs recovered for staff seconded to other public sector organisations. Interest received, at £36k, was £11k more than budget.

Total income for 2016/17 at £18,032k was £440k more than recorded the previous year. The increase was mainly related to a lower deficit relating to IAS 19 pension income which has reduced by £311k, from £937k in 2015/16, to £626k in 2016/17. Secondment (other) income was £106k higher than the previous year and fee income, including central charges, was £28k more.

This IAS19 pension adjustment represents the surplus or deficit of expected interest income from pension assets less the interest payable on scheme liabilities – the additional charge (£626k) was funded through a Spring Budget Revision agreed with the SCPA and Scottish Government's finance department.

FINANCE REPORT**Twelve Months to 31 March 2017**

b) Expenditure

Total expenditure for the twelve months to March 2017 at £25,382k was £383k more than budget.

The most significant adverse variance was associated with movements in pension charges, as advised by the Lothian Pension Fund actuary. These charges were £366k more than the budget estimate which was funded through a Spring Budget Revision agreed with the SCPA and Scottish Government's finance department. The increase was mainly driven by a reduction in the net discount factor used to value future pension liabilities. £244k of the increased charge relates to the unfunded provisions that we carry in respect of early retirement of former Accounts Commission and Local Government Ombudsmen staff.

Own staff costs in the twelve months to March 2017 were £14k more than budget. The average number of staff employed in the twelve months to March 2017 at 276.4 w.t.e. was 1.7 w.t.e. lower than the establishment figure of 278.1 w.t.e. The staff budget for 2016/17 assumed a 3% vacancy factor and therefore the average number of staff employed in the period was 6.4 w.t.e. more than the numbers funded in the budget. The additional cost of employing these staff was partly offset by lower than budgeted average actual salary costs per employee. Further information is provided in schedule 7.

Agency and secondment costs in the year were £258k greater than budget. The secondment of three staff from other public sector bodies (West Lothian Council, Office for National Statistics, and Scotland's Rural College) to PABV increased costs by £205k and agency expenditure in Corporate Services and BSS was £50k more than budget due to the backfill of staff on maternity/paternity leave. Agency spend in ASG was £3k less than budget.

Total staff costs to 31 March 2017 including agency and secondment expenditure and net of secondment income were £132k more than budget.

A provision of £155k has been made in the accounts for the pension strain and severance costs associated with five staff who have accepted terms to leave the organisation under VERA and voluntary redundancy between May and December 2017. Total severance costs were £177k. This sum also included £15k for the costs of one member of BSS staff who left during 2016/17 and £7k in respect of the difference between the provision made and actual pension payments for the 11 staff that have left in the year to March 2017 under the 2016 VERA scheme.

In the year to March 2017 property costs were £39k less than budget. £25k of the underspend related to service charges where a provision held for final charges for 18 George Street have not been required and the provision released. The balance relates to a number of variances the most notable of which is property maintenance where costs were £14k less than budget as benefits accrue from occupying newer buildings.

Travel and subsistence in the year to March 2017 was £122k less than budget. The underspend was mainly attributable to lower expenditure in ASG, £117k, and PABV, £13k. Expenditure on the leased car fleet was close to budget with expenditure being £5k greater than budget.

Legal, professional and consultancy expenditure in the twelve months to March 2017 was £81k less than the phased budget. £75k of the underspend related to the unused balance in the Management contingency fund.

Training costs were £53k below budget. Favourable variances were recorded for training expenditure 40k, attendance at conferences £10k, and professional subscriptions, £3k.

Printing and office costs were £41k less than budget. The variance was the combination of a number of small variances the most notable of which were stationery, postage and couriers £10k, books and periodicals £8k, insurances £6k and telecoms costs £11k.

Information technology expenditure was £45k more than budget, a consequence of continuing investment in the resilience of our networks, including the move to new premises in Inverness,

FINANCE REPORT

Twelve Months to 31 March 2017

together with increased software, hardware and licence costs.

Depreciation charges were £58k less than budget a result of lower than budgeted capital expenditure in previous years and timing differences in respect of capital investment profiles in the current year.

Total expenditure in 2016/17 at £25,382k was £95k higher than recorded in 2015/16. The table below provides an analysis of the main changes.

<u>Expenditure</u>	<u>Change £k</u>	<u>Comment</u>
Own staff /agency	+795	Consistent with increased staff numbers +6 w.t.e., 2% pay award in April 2016, increased secondment costs, and the impact of increased national insurance costs as a result of the removal of the contracted out rebate from April 2016 (+267k).
VERA / Redundancy	-169	Reduced provisions driven by fewer departures.
IAS 19 pension charges	-108	Impact of changing discount factors.
Property costs	-402	Full year benefits of office rationalisation. 2015/16 costs included costs of relocation and office double running.
Balance	-21	
Total	+95	

c) **Comparison of year-end results with forecast**

The year-end forecast that was prepared in November 2016 estimated that Net Operating Costs would be £0.5m less than budget, £0.4k higher than the draft results. The main movement related to IAS 19 pension charges. The table below provides a comparison of the main components of the draft results with that forecast.

	Budget Variance £m		
	<u>Draft Results</u>	<u>Forecast</u>	<u>Variance</u>
Fee income – in-house	+0.2	+0.2	-
Fee income - approved auditor net of costs	-0.1	- 0.1	-
Fee income – central charges	+0.3	+0.3	-
Staff costs net of secondment inc. & exp.	-0.1	-0.1	-
VERA / severance	-0.1	-	-0.1
Indirect costs	+0.2	+0.1	+0.1
Management Contingency	+0.1	+0.1	-
IAS 19 pension charges	-0.4	-	-0.4
Total	+0.1	+0.5	-0.4

FINANCE REPORT

Twelve Months to 31 March 2017

3. Balance Sheet (See Sch. 3)

At 31 March 2017, net liabilities of £32,533k were recorded in the Balance Sheet. This represented an increase in net liabilities of £16,490k from the audited position at 31 March 2016.

The most significant movement in the balance sheet related to the net funded pension position. The net liability has increased by £15,627k from £15,838k at March 2016 to £31,465k at March 2017 as advised by the pension scheme actuary. The increase in liabilities was mainly due to a reduction in the net discount rate used to fund future liabilities. The net discount factor has decreased from 1.2% at March 2016 to 0.2% at March 2017.

Non-current assets have decreased by £157k as result of depreciation charges on our assets being greater than new capital investment in the twelve months to March 2017.

Current assets have decreased by £628k. Cash balances have reduced £294k and trade and other receivables by £334k. The reduction in trade and other receivables was mainly attributable to lower WIP levels recognising the impact of fee reductions introduced for the 2016/17 audit year.

Trade and other payables have reduced by £259k, the main reason being the reduction of £294k in the cash balance owed to the Scottish Consolidated Fund, compared to the March 2016 balance.

Deferred liabilities have increased by £285k due to movements in the rent free provision for the new Edinburgh office. This provision is being built up over the first 39 months of the lease. The total provision for early retirement has remained similar to last year.

Other provisions, dilapidations, have increased as we have added a further years charge for our offices in Edinburgh and Glasgow.

4. Cash Flow Statement (See Sch. 4)

In the twelve months to March 2017 cash balances have decreased by £294k from £1,744k at March 2016 to £1,450k at 31 March 2017. The position includes receipts from fee invoicing and £5,000k drawn down from the Scottish Consolidated Fund. This cash was slightly lower than our cash outflows in the twelve months to March 2017.

5. Capital Expenditure and Funding Report (See Sch. 5)

Capital investment in the twelve months to March 2017 totalled £197k, £3k less than the budget of £200k.

£105k of the investment related to IT hardware, with the purchase of new mobile phones £41k, the new card entry system at our Glasgow office £6k, citrix access tokens £17k, server equipment £29k, laptops £5k and equipment for the Glasgow office refurbishment £7k.

Investment in new software totalled £66k with £21k relating to finance system upgrades, a further £32k was required for licences to comply with the latest Microsoft requirements and £12k has been spent on software to manage Chromebook devices.

£20k was spent on furniture for the new office in Inverness. The small increase in construction assets was the cost of the fit-out at the new Inverness office, £6k.

6. Business Group Summaries (See Sch. 6 a~d)

6.1 In the twelve months to March 2017 **Audit Services Group** generated a net operating contribution to overheads of £1,262k which was £109k higher than budget.

- Fee income (including credits for non-chargeable work) was £23k lower than budget.
- All in-house 2015/16 audits are complete. Fee income (including credits for non-chargeable work) for 2015/16 audits was £156k more than budget. Favourable variances for chargeable audits of £303k (Local Government +£93k, Central Government +£199k,

FINANCE REPORT

Twelve Months to 31 March 2017

and FE +£11k) were offset by adverse variances for Health -£5k. Income credits for non-chargeable Central Government audits were £142k below budget.

- The favourable income position reported for 2015/16 Local Government audits reflects in part the recovery of WIP completion levels from the lower levels recorded at March 2016. As a result, audit work was 1.37% more than budget which increased income by £66k. The impact of agreeing 2015/16 fees at levels above that included in the budget added a further £27k of income.
- The increased income levels reported for chargeable Central Government audits +£199k was driven by the agreement of fees at amounts above the indicative levels included within the budget +£122k. The main contributors were EAFA +£48k, the Scottish Police Authority + £40k, Scottish Canals +£13k, Forest Enterprise Scotland +£6k and Registers of Scotland +£6k. A further £77k of income reflects the recovery of WIP completion levels from the low levels recorded at March 2016 +4.59%
- As audit work on non-chargeable 2015/16 audits was 7.81% ahead of phased budget at March 2016 the amount of audit work carried out in this financial year was correspondingly reduced with a resulting reduction in the level of audit credits recorded, at -£142k.
- Income (including credits for non-chargeable work) for the 2016/17 audits was £188k less than budget. Income in respect of Local Government audits was £199k less than budget and income credits for non-chargeable audits £75k lower than budget. These adverse variances were partly offset by favourable income variances recorded for the Health, +£26k, FE, +£10k and Central Government, +£50k audits. The reported figures for average audit progress at 32.02% were -2.66% lower than budget.
- An additional £9k of income was recorded for additional fees agreed in respect of Local Government charity audits for the 2014/15 audit year.
- Income earned from secondments was £42k above budget and relates to a member of staff seconded to the Care Inspectorate and a second member of staff on a part-time secondment to ICAS.
- Further details on income are provided in section 2 above and schedules 8 and 9.
- Gross expenditure at £8,384k was £90k less than budget.
- Own staff costs were £16k more than budget. The average number of staff employed in the twelve months to March 2017 at 148.0 w.t.e. was 0.2 w.t.e. below establishment. As the staff budget for 2016/17 assumed a 3% vacancy factor, the average number of staff employed in the period was 4.2 w.t.e. more than the numbers funded in the budget. The additional cost of employing these staff was partly offset by lower than budgeted average actual salary costs per employee. Agency costs were £3k less than budget. Total staff costs including agency and net of secondment income were £29k less than budget.
- Expenditure levels in other categories were in total £103k less than budget with the main contributor being lower travel and subsistence expenditure £117k.

6.2 Net expenditure in **PABV** for the twelve months to March 2017 was £3,745k, £76k less than budget.

- Total staff costs inclusive of secondment expenditure were £91k more than budget. Three staff seconded into PABV from the Office for National Statistics, West Lothian Council and Scotland's Rural College increased expenditure by £205k. This expenditure was partly offset by lower own staff costs which were £114k less than budget (average staffing in the year was 60.7 w.t.e. compared to an establishment of 63.8 w.t.e.). A further £94k of income was received for staff seconded to Healthcare Improvement Scotland and the Scottish Parliament.
-

FINANCE REPORT**Twelve Months to 31 March 2017**

- Total staff costs inclusive of secondment charges and net of secondment income were £3k less than budget.
- Other expenditure in the twelve months to March 2017 was £70k less than budget – mainly consultancy expenditure which was £77k less than budget.

6.3 **Corporate Services** net expenditure in the twelve months to March 2017 at £3,293k was £32k less than budget. The main contributors to the variance are noted below.

- Own staff costs were £27k higher than budget for the period. CSG staffing at 31.9 w.t.e. was 0.3 w.t.e. above establishment with the adverse cost variance driven by increased staff in post and the 3% vacancy factor. Agency staff spend as a result of backfilling staff on maternity/paternity leave was £50k more than budget.
- Other expenditure for Corporate Services was £97k less than budget. The main contributors to this variance were training and recruitment expenditure which was £69k less than budget and depreciation charges which were £58k lower.
- Bank interest earned in the year was £11k more than budget.

6.4 **Business Support and Facilities Management**, net expenditure to March 2017 at £1,685k was £26k more than budget.

- Staff costs, including agency charges, were £32k higher than budget. The average number of staff employed in the year was 20.9 w.t.e., 1.4 w.t.e. above establishment.
- Other expenditure at £956k was £6k less than budget, the highest adverse variance was legal and professional fees which was £35k higher than budget following the post occupancy review of West Port undertaken by haa design, new work related to the proposed alterations in our Glasgow office, and legal and search fees associated with the Inverness move. Favourable variances recorded for accommodation, £26k, and consultancy, £10k, offset the legal costs.

David Hanlon
Corporate Finance Manager
28 April 2017

AUDIT SCOTLAND

FINANCE REPORT

RESULTS SUMMARY: 31 March 2017

Schedule 2

£(000)'s	Annual	Actual	Period	Variance	Actual	Budget	Variance
INCOME							
Fee Income - In House	7,664	547	700	(153)	7,858	7,664	194
Fee Income - Audit Firms	5,795	753	1,419	(666)	5,630	5,795	(165)
Central Charges	4,718	445	393	52	4,994	4,718	276
Rebate	0	0	0	0	0	0	0
Bank interest	25	3	2	1	36	25	11
Other Income	(626)	(607)	(626)	19	(486)	(626)	140
TOTAL INCOME	17,576	1,141	1,888	(747)	18,032	17,576	456
EXPENDITURE							
Commission	177	17	20	3	172	177	5
Board	34	8	3	(5)	44	34	(10)
Auditor General	233	20	24	4	223	233	10
Accounts Commission Secretary	93	8	9	1	89	93	4
Management Team	615	50	59	9	595	615	20
Audit Strategy	864	264	264	0	892	864	(28)
Approved Auditors	5,012	587	1,083	496	4,987	5,012	25
Audit Services Group	8,474	712	740	28	8,384	8,474	90
Performance Audit and Best Value	3,821	297	343	46	3,842	3,821	(21)
Corporate Services	3,350	312	293	(19)	3,330	3,350	20
Business Support & Facilities	1,659	135	149	14	1,685	1,659	(26)
Reserves & Provisions	592	1,122	592	(530)	1,139	592	(547)
Contingency & EYF	75	0	75	75	0	75	75
TOTAL EXPENDITURE	24,999	3,532	3,654	122	25,382	24,999	(383)
NET OPERATING (COST)	(7,423)	(2,391)	(1,766)	(625)	(7,350)	(7,423)	73
SCPA agreed Budget	(6,382)						
Budget Revision - AME pension adjustment	(1,041)						
	(7,423)						

AUDIT SCOTLAND

FINANCE REPORT

Balance Sheet As at 31 March 2017

Schedule 3

	31 March 2016 (Audited) £(000)'s	31 March 2017 (Unaudited) £(000)'s
Non-Current Assets		
Property, Plant and Equipment	1,767	1,553
Intangible Assets	33	90
Total non-current assets	1,800	1,643
Current Assets		
Trade and other receivables	2,661	2,327
Cash and cash equivalents	1,744	1,450
Total current assets	4,405	3,777
Total assets	6,205	5,420
<u>Less: Current Liabilities</u>		
Trade and other payables < 1 year	3,896	3,637
Provision for early retirement < 1 year	444	254
Other provisions < 1 year	33	0
Total current liabilities	4,373	3,891
Non-current assets plus/net current assets/liabilities	1,832	1,529
Non-current liabilities		
Deferred liabilities	(258)	(543)
Provision for Early Retirement	(1,698)	(1,903)
Other provisions	(81)	(151)
Net Funded Pension Liabilities	(15,838)	(31,465)
Total non-current liabilities	(17,875)	(34,062)
ASSETS LESS LIABILITIES	(16,043)	(32,533)
<u>Represented by:</u>		
Taxpayers' Equity		
Net funded pension liabilities	15,838	31,465
General Fund	205	1,068
	16,043	32,533

AUDIT SCOTLAND

FINANCE REPORT

Cash Flow Statement to 31 March 2017

Schedule 4

£(000)'s

Cashflows from operating activities

Net Operating cost	(7,350)
<i>Adjustment for non cash items:</i>	
- Depreciation	354
- Pension scheme - net revenue (debit)	1,193
Decrease/(Increase) in trade and other receivables	334
Decrease/(Increase) in trade/other payables/deferred liabilities	340
Increase/(Decrease) in provisions for early retirement	15
Increase/(Decrease) in other provisions	37

Net cash outflow from operating activities	(5,077)
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Cashflows from investing activities

Purchase of property, plant and equipment	(131)
Purchase of intangible assets	(66)
(Add) / Less movement in accrued expenditure	(20)
	(217)

Cashflows from financing activities

From Consolidated Fund (supply)	5,000
----------------------------------	--------------

Net (decrease)/increase in cash and cash equivalents in the period	(294)
---	--------------

Cash and cash equivalents at the beginning of the period	1,744
--	--------------

Cash and cash equivalents at the end of the period	1,450
--	--------------

Net cash requirement

Cashflows from financing activities	5,000
Decrease/(Increase) in cash	294
	5,294

Capital Expenditure and Funding Report
As at 31 March 2017

Schedule 5

	Leasehold Buildings £(000)'s	Furniture & Fittings £(000)'s	Computer Hardware £(000)'s	Computer Software £(000)'s	TOTAL £(000)'s
ASSETS					
Cost					
At 1 April 2016	1,270	251	869	725	3,115
Reclassified in year	0	0	(7)	7	0
Additions for year	6	20	105	66	197
Disposals for year	0	0	(58)	0	(58)
As at 31 March 2017	1,276	271	909	798	3,254
Depreciation					
At 1 April 2016	128	34	461	692	1,315
Reclassified in year	0	0	0	0	0
Charge for Year	135	51	152	16	354
Disposals for year	0	0	(58)	0	(58)
As at 31 March 2017	263	85	555	708	1,611
Net Book Value					
As at 31 March 2017	1,013	186	354	90	1,643
Analysis of Asset Financing					
Owned	1,013	186	354	90	1,643

AUDIT SCOTLAND

FINANCE REPORT

ASG FINANCE REPORT: to 31 March 2017

Schedule 6a

£(000)'s	Annual Budget	Period	Period Budget	Variance	YTD	Budget YTD	Variance YTD
INCOME							
LG Audits	4,588	271	445	(174)	4,490	4,587	(97)
Health Audits	1,530	119	112	7	1,551	1,530	21
CG Audits	1,509	171	140	31	1,758	1,509	249
CG Audits (non-chargeable)	1,963	73	144	(71)	1,746	1,963	(217)
FE Audits	38	(14)	3	(17)	59	38	21
Fees for Additional Audits	0	0	0	0	0	0	0
TOTAL FEE INCOME	9,628	620	844	(224)	9,604	9,627	(23)
Secondments Income	0	8	0	8	42	0	42
Other Income	0	0	0	0	0	0	0
OTHER INCOME	0	8	0	8	42	0	42
TOTAL INCOME	9,628	628	844	(216)	9,646	9,627	19
DIRECT COSTS							
Salaries	5,772	477	481	4	5,808	5,772	(36)
National Insurance	630	52	53	1	629	630	1
Superannuation	1,002	81	84	3	983	1,002	19
Superannuation Lump Sum	40	3	3	0	40	40	0
Class 1A NI	40	3	3	0	40	40	0
Agency Costs and Secondments	75	0	0	0	72	75	3
TOTAL DIRECT COSTS	7,559	616	624	8	7,572	7,559	(13)
EXPENDITURE							
Training & Recruitment	41	9	0	(9)	47	41	(6)
Cars	352	28	29	1	363	352	(11)
Travel & Subsistence/Relocation	465	52	76	24	348	465	117
Accommodation	0	4	0	(4)	4	0	(4)
Other Accommodation Costs	5	3	0	(3)	13	5	(8)
Printing	5	0	1	1	2	5	3
Communications	0	0	0	0	0	0	0
Stationery & Consumables	7	0	1	1	3	7	4
Postage & Distribution	3	1	0	(1)	3	3	0
ICT	17	3	4	1	15	17	2
Consultancy	6	0	2	2	2	6	4
Legal/Professional Fees	0	0	0	0	0	0	0
Insurance	0	0	0	0	0	0	0
Corporate Costs	8	(5)	2	7	7	8	1
Depreciation	0	0	0	0	0	0	0
Miscellaneous	6	1	1	0	5	6	1
TOTAL EXPENDITURE	915	96	116	20	812	915	103
GROSS EXPENDITURE	8,474	712	740	28	8,384	8,474	90
NET OPERATING CONTRIBUTION TO OVERHEADS	1,154	(84)	104	(188)	1,262	1,153	109

AUDIT SCOTLAND

FINANCE REPORT

PABV FINANCE REPORT: to 31 March 2017

Schedule 6b

£(000)'s	Annual Budget	Period	Period Budget	Variance	YTD	Budget YTD	Variance YTD
INCOME							
Bank Interest	0	0	0	0	0	0	0
Secondments Income	0	10	0	10	94	0	94
Other Income	0	0	0	0	3	0	3
Pension Fund Finance Income	0	0	0	0	0	0	0
OTHER INCOME	0	10	0	10	97	0	97
TOTAL INCOME	0	10	0	10	97	0	97
DIRECT COSTS							
Salaries	2,687	204	224	20	2,593	2,687	94
National Insurance	299	22	25	3	285	299	14
Superannuation	465	35	39	4	457	465	8
Superannuation Lump Sum	19	2	2	0	19	19	0
Class 1A NI	3	0	0	0	5	3	(2)
Agency Costs and Secondments	0	1	0	(1)	205	0	(205)
TOTAL DIRECT COSTS	3,473	264	290	26	3,564	3,473	(91)
EXPENDITURE							
Training & Recruitment	5	1	0	(1)	5	5	0
Cars	32	3	3	0	31	32	1
Travel & Subsistence/Relocation	79	13	8	(5)	67	80	13
Accommodation	0	0	0	0	0	0	0
Other Accommodation Costs	4	1	0	(1)	3	4	1
Printing	0	0	0	0	0	0	0
Communications	0	0	0	0	0	0	0
Stationery & Consumables	3	0	0	0	0	3	3
Postage & Distribution	0	0	0	0	0	0	0
ICT	5	1	1	0	4	5	1
Consultancy	210	7	38	31	133	210	77
Legal/Professional Fees	0	4	0	(4)	17	0	(17)
Insurance	0	0	0	0	0	0	0
Corporate Costs	10	2	3	1	17	9	(8)
Depreciation	0	0	0	0	0	0	0
Miscellaneous	0	1	0	(1)	1	0	(1)
TOTAL EXPENDITURE	348	33	53	20	278	348	70
GROSS EXPENDITURE	3,821	297	343	46	3,842	3,821	(21)
NET OPERATING (COST)	(3,821)	(287)	(343)	56	(3,745)	(3,821)	76

AUDIT SCOTLAND

FINANCE REPORT

CSG FINANCE REPORT: to 31 March 2017

Schedule 6c

£(000)'s	Annual Budget	Period	Period Budget	Variance	YTD	Budget YTD	Variance YTD
INCOME							
Bank Interest	25	3	2	1	36	25	11
Secondments Income	0	0	0	0	0	0	0
Other Income	0	0	0	0	1	0	1
Pension Fund Finance Income	0	0	0	0	0	0	0
OTHER INCOME	25	3	2	1	37	25	12
TOTAL INCOME	25	3	2	1	37	25	12
DIRECT COSTS							
Salaries	1,229	103	103	0	1,248	1,229	(19)
National Insurance	131	11	11	0	134	131	(3)
Superannuation	211	18	18	0	216	211	(5)
Superannuation Lump Sum	8	1	1	0	8	8	0
Class 1A NI	0	0	0	0	0	0	0
Agency Costs and Secondments	8	7	0	(7)	58	8	(50)
Severance Costs	0	0	0	0	0	0	0
Untaken Holidays Accrual	0	0	0	0	0	0	0
Adj to Early Retirement Provision	0	0	0	0	0	0	0
TOTAL DIRECT COSTS	1,587	140	133	(7)	1,664	1,587	(77)
EXPENDITURE							
Training & Recruitment	554	52	43	(9)	485	554	69
Cars	0	0	0	0	0	0	0
Travel & Subsistence/Relocation	25	2	3	1	22	25	3
Accommodation	0	(24)	0	24	(24)	0	24
Other Accommodation Costs	17	0	4	4	10	17	7
Printing	8	1	1	0	7	8	1
Communications	80	7	7	0	77	80	3
Stationery & Consumables	1	0	0	0	0	1	1
Postage & Distribution	5	0	0	0	2	5	3
ICT	376	41	35	(6)	413	376	(37)
Consultancy	60	13	3	(10)	82	60	(22)
Legal/Professional Fees	100	18	9	(9)	120	100	(20)
Insurance	71	5	6	1	68	71	3
Corporate Costs	11	2	2	0	7	11	4
Depreciation	412	30	34	4	354	412	58
Miscellaneous	43	25	13	(12)	43	43	0
TOTAL EXPENDITURE	1,763	172	160	(12)	1,666	1,763	97
GROSS EXPENDITURE	3,350	312	293	(19)	3,330	3,350	20
NET OPERATING (COST)	(3,325)	(309)	(291)	(18)	(3,293)	(3,325)	32

AUDIT SCOTLAND

FINANCE REPORT

BSS & FM FINANCE REPORT: to 31 March 2017

Schedule 6d

£(000)'s	Annual Budget	Period	Period Budget	Variance	YTD	Budget YTD	Variance YTD
INCOME							
Bank Interest	0	0	0	0	0	0	0
Secondments Income	0	0	0	0	0	0	0
Other Income	0	0	0	0	0	0	0
Pension Fund Finance Income	0	0	0	0	0	0	0
OTHER INCOME	0	0	0	0	0	0	0
TOTAL INCOME	0	0	0	0	0	0	0
DIRECT COSTS							
Salaries	518	46	42	(4)	548	518	(30)
National Insurance	48	4	4	0	51	48	(3)
Superannuation	88	7	7	0	80	88	8
Superannuation Lump Sum	3	0	0	0	3	3	0
Class 1A NI	0	0	0	0	0	0	0
Agency Costs and Secondments	40	0	0	0	47	40	(7)
Severance Costs	0	0	0	0	0	0	0
Untaken Holidays Accrual	0	0	0	0	0	0	0
Adj to Early Retirement Provision	0	0	0	0	0	0	0
TOTAL DIRECT COSTS	697	57	53	(4)	729	697	(32)
EXPENDITURE							
Training & Recruitment	0	0	0	0	2	0	(2)
Cars	4	0	0	0	0	4	4
Travel & Subsistence/Relocation	6	2	1	(1)	10	6	(4)
Accommodation	837	57	75	18	811	837	26
Other Accommodation Costs	32	4	3	(1)	30	32	2
Printing	23	1	2	1	23	23	0
Communications	0	0	0	0	0	0	0
Stationery & Consumables	30	2	3	1	25	30	5
Postage & Distribution	11	1	1	0	9	11	2
ICT	1	0	0	0	1	1	0
Consultancy	10	0	10	10	0	10	10
Legal/Professional Fees	0	11	0	(11)	35	0	(35)
Insurance	7	0	1	1	4	7	3
Corporate Costs	1	0	0	0	6	1	(5)
Depreciation	0	0	0	0	0	0	0
Miscellaneous	0	0	0	0	0	0	0
TOTAL EXPENDITURE	962	78	96	18	956	962	6
GROSS EXPENDITURE	1,659	135	149	14	1,685	1,659	(26)
NET OPERATING (COST)	(1,659)	(135)	(149)	14	(1,685)	(1,659)	(26)

AUDIT SCOTLAND

FINANCE REPORT

WTE Staff in Post Summary: 2016/17

Schedule 7

	Establishment	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	March	Average
Auditor General	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Accounts Commission Secretary	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Management Team	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Audit Strategy	9.0	8.8	8.8	8.8	8.8	8.8	8.8	8.8	9.8	9.8	8.9	8.9	8.9	9.0
Audit Services Group	148.2	149.0	147.0	149.0	152.0	152.0	146.0	150.2	146.7	148.2	145.4	145.0	144.8	148.0
Performance Audit and Best Value	63.8	60.3	60.3	63.3	63.1	62.7	62.9	60.9	60.0	59.0	60.0	58.0	57.6	60.7
Corporate Resource Group	4.6	3.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.5
Human Resources	5.2	5.2	5.4	5.4	5.4	5.2	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4
IT Services Group	9.0	9.0	9.0	9.0	8.0	8.0	8.0	9.0	9.0	9.0	9.0	9.0	9.0	8.8
Communications	9.8	9.8	9.8	9.8	9.8	9.8	9.8	9.8	9.8	9.8	9.8	9.8	9.8	9.8
Corporate Planning & Projects	3.0	3.0	3.0	4.0	4.0	4.0	4.0	4.0	3.0	3.0	3.0	3.0	3.0	3.4
Corporate Services	31.6	30.6	31.8	32.8	31.8	31.6	31.8	32.8	31.8	31.8	31.8	31.8	31.8	31.9
Business Support & Facilities	19.5	19.9	19.9	19.9	19.7	19.7	20.7	21.7	21.7	21.7	22.7	21.8	21.6	20.9
TOTAL AUDIT SCOTLAND (Exc Commission)	278.1	274.6	273.8	279.8	281.4	280.8	276.2	280.4	276.0	276.5	274.8	271.6	270.8	276.4
%age of Establishment	100.0%	98.7%	98.4%	100.6%	101.2%	100.9%	99.3%	100.8%	99.2%	99.4%	98.8%	97.6%	97.3%	99.4%
Board	4.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Commission	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0
TOTAL	294.1	289.6	288.8	294.8	296.4	295.8	291.2	295.4	291.0	291.5	289.8	286.6	285.8	291.4
Agency and Secondments (w.t.e.)														
Agency estimate		1.3	1.9	4.3	10.6	12.7	5.9	1.7	1.5	1.5	1.2	1.2	1.8	3.8
Secondments to Audit Scotland		3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Secondments from Audit Scotland		-1.0	-1.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-3.0	-3.2	-3.6	-2.2
		3.3	3.9	5.3	11.6	13.7	6.9	2.7	2.5	2.5	1.2	1.0	1.2	4.6

AUDIT SCOTLAND

FINANCE REPORT

WORK IN PROGRESS 2015/16 AUDIT YEAR

SCHEDULE 8a

AUDIT COMPLETION PERCENTAGES

	2015/16 AUDIT YEAR					
	14/15 AY ACTUAL March 2016 %	Cumulative				In year variance March 2017 %
		ACTUALS	BUDGET		VARIANCE	
		March 2016 %	March 2017 %	March 2017 %	March 2017 %	
In House Teams						
Local Government	100.00	34.92	100.00	100.00	0.00	1.37
Health	100.00	36.26	100.00	100.00	0.00	0.38
FE colleges	100.00	16.16	100.00	100.00	0.00	13.49
Central Government	100.00	32.44	100.00	100.00	0.00	4.59
Total Chargeable	100.00	34.57	100.00	100.00	0.00	1.90
Non Chargeable	100.00	31.83	100.00	100.00	0.00	-7.81
Total In House	100.00	34.02	100.00	100.00	0.00	0.01
Approved Auditors *						
Local Government	100.00	21.91	100.00	100.00	0.00	8.55
Health	100.00	27.24	100.00	100.00	0.00	4.03
Water	100.00	20.00	100.00	100.00	0.00	10.34
FE colleges	100.00	3.36	100.00	100.00	0.00	9.38
Central Government	100.00	23.38	100.00	100.00	0.00	6.06
Total Chargeable	100.00	21.88	100.00	100.00	0.00	7.31
Non Chargeable	100.00	7.04	100.00	100.00	0.00	38.01
Total Approved Auditors	100.00	21.58	100.00	100.00	0.00	7.95
* To be reported quarterly						

AUDIT SCOTLAND

FINANCE REPORT

SCHEDULE 8b

WORK IN PROGRESS 2016/17 AUDIT YEAR

AUDIT COMPLETION PERCENTAGES

	15/16 AY ACTUAL March 2016 %	2016/17 Audit Year		
		ACTUAL March 2017 %	BUDGET March 2017 %	VARIANCE March 2017 %
In House Teams				
Local Government	34.92	31.72	37.13	-5.41
Health	36.26	38.52	37.12	1.40
FE colleges	16.16	35.00	10.50	24.50
Central Government	32.44	30.67	28.38	2.29
Total Chargeable	34.57	32.78	34.91	-2.13
Non Chargeable	31.83	28.06	33.46	-5.40
Total In House	34.02	32.02	34.68	-2.66
Approved Auditors *				
Local Government	21.91	24.64	35.28	-10.64
Health	27.24	26.48	35.07	-8.59
Water	20.00	40.00	29.68	10.32
FE colleges	3.36	3.76	4.52	-0.76
Central Government	23.38	24.68	34.67	-9.99
Total Chargeable	21.88	23.72	32.64	-8.92
Non Chargeable	7.04	22.47	29.08	-6.61
Total Approved Auditors	21.58	23.66	32.57	-8.91
* To be reported quarterly				

AUDIT SCOTLAND

FINANCE REPORT

AUDIT SCOTLAND

FINANCIAL YEAR - 2016/17

SCHEDULE 8c

AUDIT COMPLETION PERCENTAGES

	2016/17 Financial Year			2015/16 Financial Year			Change %
	Audit Year		Total %	Audit Year		Total %	
	2015/16 %	2016/17 %		2014/15 %	2015/16 %		
In House Teams							
Local Government	65.08	31.72	96.80	66.04	34.92	100.96	-4.16
Health	63.74	38.52	102.26	64.66	36.26	100.92	1.34
FE colleges	83.84	35.00	118.84	64.68	16.16	80.84	37.99
Central Government	67.56	30.67	98.23	58.71	32.44	91.15	7.09
Total Chargeable	65.43	32.78	98.21	64.32	34.57	98.89	-0.68
Non Chargeable	68.17	28.06	96.23	74.67	31.83	106.50	-10.27
Total In House	65.98	32.02	98.00	66.35	34.02	100.37	-2.37
Approved Auditors *							
Local Government	78.09	24.64	102.73	73.96	21.91	95.87	6.85
Health	72.76	26.48	99.24	69.12	27.24	96.36	2.88
Water	80.00	40.00	120.00	70.00	20.00	90.00	30.00
FE colleges	96.64	3.76	100.40	94.50	3.36	97.86	2.54
Central Government	76.62	24.68	101.30	69.61	23.38	92.99	8.31
Total Chargeable	78.12	23.72	101.84	73.67	21.88	95.55	6.29
Non Chargeable	92.96	22.47	115.43	74.62	7.04	81.66	33.77
Total Approved Auditors	78.42	23.66	102.08	73.69	21.58	95.27	6.81
Total							
Local Government	70.33	28.97	99.30	69.20	29.67	98.87	0.42
Health	67.70	33.52	101.22	66.61	32.30	98.91	2.31
Water	80.00	40.00	120.00	70.00	20.00	90.00	30.00
FE colleges	95.34	6.86	102.20	91.76	4.66	96.42	5.77
Central Government	70.67	29.62	100.29	62.20	29.33	91.53	8.76
Total Chargeable	70.81	29.33	100.14	68.24	29.19	97.43	2.70
Non Chargeable	69.58	27.23	96.81	74.67	30.42	105.09	-8.28
Total	70.64	29.07	99.71	69.08	29.36	98.44	1.27
* To be reported quarterly							

AUDIT SCOTLAND

FINANCE REPORT

2016/17 FINANCIAL YEAR - FEE INCOME ANALYSIS £000

As at 31 March 2017

SCHEDULE 9

	Prior year adjustments			2015/16 Audit Year			2016/17 Audit Year			2016/17 Financial Year to Date			Variance analysis		
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Volume	Price *	Total
In-house Teams															
Local Government	9	0	9	3,146	3,053	93	1,335	1,534	(199)	4,490	4,587	(97)	(158)	61	(97)
Health	0	0	0	1,009	1,014	(5)	542	516	26	1,551	1,530	21	25	(4)	21
FE colleges	0	0	0	44	33	11	15	5	10	59	38	21	17	4	21
Central Government	0	0	0	1,221	1,022	199	537	487	50	1,758	1,509	249	120	129	249
Total In-house teams	9	0	9	5,420	5,122	298	2,429	2,542	(113)	7,858	7,664	194	4	190	194
Approved Auditors															
Local Government	0	0	0	2,388	2,121	267	656	1,086	(430)	3,044	3,207	(163)	(17)	(146)	(163)
Health	8	0	8	956	853	103	265	439	(174)	1,229	1,292	(63)	(32)	(31)	(63)
Water	0	0	0	150	119	31	54	51	3	204	170	34	32	2	34
FE colleges	3	0	3	445	363	82	15	20	(5)	463	383	80	36	44	80
Central Government	0	0	0	598	491	107	92	252	(160)	690	743	(53)	7	(60)	(53)
Total Approved Auditors	11	0	11	4,537	3,947	590	1,082	1,848	(766)	5,630	5,795	(165)	26	(191)	(165)
Total															
Local Government	9	0	9	5,534	5,174	360	1,991	2,620	(629)	7,534	7,794	(260)	(175)	(85)	(260)
Health	8	0	8	1,965	1,867	98	807	955	(148)	2,780	2,822	(42)	(7)	(35)	(42)
Water	0	0	0	150	119	31	54	51	3	204	170	34	32	2	34
FE colleges	3	0	3	489	396	93	30	25	5	522	421	101	53	48	101
Central Government	0	0	0	1,819	1,513	306	629	739	(110)	2,448	2,252	196	127	69	196
Total Fees	20	0	20	9,957	9,069	888	3,511	4,390	(879)	13,488	13,459	29	30	(1)	29
Central Charges	0	0	0	2,771	2,771	0	2,223	1,947	276	4,994	4,718	276	0	276	276
TOTAL	20	0	20	12,728	11,840	888	5,734	6,337	(603)	18,482	18,177	305	30	275	305

* Price variance includes the reduction in income to be earned as as result of procurement savings on work carried out by external firms

AUDIT SCOTLAND BOARD

6 JUNE 2017

REPORT BY THE CORPORATE GOVERNANCE MANAGER

REVIEW OF THE WHISTLEBLOWING AND COUNTER FRAUD POLICIES

1. Purpose of Report

This report invites the Audit Scotland Board to re-approve Audit Scotland's whistleblowing and counter fraud policies.

2. Review of the Whistleblowing and Counter Fraud policies

The Audit Committee is responsible for advising the Board on Audit Scotland's anti-fraud and whistleblowing policies and arrangements. The Board is responsible for approving the policies.

The whistleblowing and counter fraud policies were reviewed in May this year and paper prepared and submitted to Management Team for their meeting on 23 May 2017.

A report was submitted to the Audit Committee at their meeting on 6 June 2017 detailing the review and the changes required to the policies.

The Audit Committee agreed to recommend the policies to the Board for re-approval for a further two years and publication.

3. Recommendation

The Board is invited to approve the amended versions of the whistleblowing and counter fraud policies.

Whistleblowing Policy

Owned and maintained by:	Human Resources
Date Checked/created:	June 2017
Next review date:	June 2019

Introduction

1. Audit Scotland encourages an open culture in dealings between its employees and all people with whom we engage. In particular, we recognise that effective and honest communication is essential if concerns about breaches or failures are to be effectively dealt with and the organisation's success ensured.
2. All of us at one time or another have concerns about what is happening at work. Usually these concerns are easily resolved. However, when they are about unlawful conduct, financial malpractice or actions that could damage the reputation of Audit Scotland it can be difficult to know what to do.
3. Audit Scotland has introduced this policy to enable all those who work with or within the organisation to raise their concerns about such malpractice at an early stage and in the right way. We would rather you raised the matter when it is just a concern rather than wait for proof.
4. There may be occasions when, due to individual acts, omissions or failings, it may be necessary to bring certain matters which give cause for serious concern to the attention of Audit Scotland. If you are concerned about an aspect of individual behaviour or Audit Scotland practice, you should raise it. Your concerns may fall under one (or more) of the following categories:
 - A criminal offence has been committed, is being committed or is likely to be committed.
 - A person has failed, is failing or is likely to fail to comply with any legal obligation to which he/she is subject.
 - A miscarriage of justice has occurred, is occurring or is likely to occur.
 - The health and safety of any individual has been, is being or is likely to be endangered.
 - A person has supplied, is supplying or is likely to supply Audit Scotland and / or client information, without appropriate authorisation.
 - The environment has been, is being or is likely to be damaged.
 - Information tending to show any matter falling within any of the above has been, is being or is likely to be deliberately concealed.

5. You may be worried about raising such issues or may want to keep the concerns to yourself, perhaps feeling it's none of your business or that it's only a suspicion. You may feel that raising the matter would be disloyal to colleagues, managers or the organisation. You may decide to say something but find you have spoken to the wrong person or raised the issue in the wrong way and are not sure what to do next.
6. If something is troubling you and you think we should know about it, please follow the section on how to raise a concern internally. However, if you are aggrieved about your personal position, please use the Grievance Policy within the staff handbook in ishare. This policy is primarily for concerns where the interests of others or of the organisation itself are at risk. It should be read in conjunction with our Counter Fraud Policy.

Our Assurances to you

Your safety

7. The Board and Management Team are committed to this policy. If you raise a genuine concern under this policy, you will not be at risk of losing your job or suffering any form of retribution as a result. Provided you are acting in the public interest, Audit Scotland are satisfied you had a genuine belief and no personal gain was involved, it does not matter if you are mistaken. Of course we do not extend this assurance to someone who maliciously raises a matter they know is untrue.
8. If your concern is subsequently shown to be false or inaccurate, employees will be informed of the discrepancy between their report and the facts at hand.

Your confidence

9. We will not tolerate the harassment or victimisation of anyone raising a genuine concern. However, we recognise that you may nonetheless want to raise a concern in confidence under this policy. If you ask us to protect your identity by keeping your confidence, we will not disclose it without your consent. If the situation arises where we are not able to resolve the concern without revealing your identity (e.g. because your evidence is needed in court), we will discuss with you whether and how we can proceed.
10. Remember if you do not tell us who you are, it is much more difficult for us to look into the matter, protect your position or give you feedback. Accordingly, while we will consider anonymous reports, this policy is not appropriate for concerns raised anonymously.
11. We strive to create a working environment that promotes dignity and respect for all. No form of bullying, harassment or victimisation will be tolerated against any member of staff on the grounds of them raising a concern.
12. If you believe that you are being subjected to a detriment as a result of raising concerns under this policy, you should raise the matter under the staff grievance policy and procedure, as appropriate. Any staff member who victimises or retaliates against those who have raised concerns under this policy will be subject to disciplinary action.

How we will handle the matter

13. Once you have told us of your concern, we will look to assess what action should be taken. This may involve an internal inquiry or a more formal investigation. We will tell you who is handling the matter, how you can contact them and whether your further assistance may be needed. If you request, we will write to you summarising your concern and how we propose to handle it.
14. Due to the varied nature of these sorts of concerns, which may involve internal investigators and / or the police, it is not possible to lay down precise timescales for such investigations. The investigating officer will ensure that the investigations are undertaken as quickly as possible without affecting the quality and depth of those investigations.
15. When you raise the concern you may be asked how you think the matter might best be resolved. If you do have any personal interest in the matter, you should tell us at the outset. If your concern falls more properly within the Grievance Policy we will tell you.
16. While the purpose of this policy is to enable us to investigate possible malpractice and take appropriate steps to deal with it, we will give you as much feedback as we properly can.
17. If requested, we will confirm our response to you in writing. However, please note that we may not be able to tell you the precise action we take where this would infringe a duty of confidence owed by us to someone else.
18. We will keep summary details of each whistleblowing matter raised and investigated to enable annual reporting of disclosures made under this policy.

How to raise a concern internally

19. Step one - If you have a concern about malpractice, we hope you will feel able to raise it first with your manager. This may be done orally or in writing.
20. Step two - If you feel unable to raise the matter with your manager, for whatever reason, please raise the matter with Diane McGiffen, Chief Operating Officer on 0131 625 1608. Please say if you want to raise the matter in confidence so that they can make appropriate arrangements.
21. Step three - If these channels have been followed and you still have concerns, or if you feel that the matter is so serious that you cannot discuss it with any of the above, please contact Heather Logan, Board Member on 07976 631836.

Personal and Vicarious Liability

22. Amendments made to the Public Interest Disclosure Act 1998 which came into force in 2013 included new rules introducing personal and vicarious liability. These changes mean that individuals can face personal liability to whistleblowers, and employers can be “vicariously” liable for the acts of their staff (irrespective of whether the acts are done with their knowledge or approval).

Independent advice

23. If you are unsure whether to use this procedure or you want independent advice at any stage, you may contact:
- your union (if applicable); or
 - the independent charity Public Concern at Work on 020 7404 6609. Their lawyers can give you free confidential advice at any stage about how to raise a concern about serious malpractice at work. Alternatively, visit their website at www.pcaw.co.uk

External contacts

24. While we hope this policy gives you the reassurance you need to raise such matters internally, we recognise that there may be circumstances where you can properly report matters to outside bodies, such as regulators or the police. Public Concern at Work (or, if applicable, your union) will be able to advise you on such an option and on the circumstances in which you may be able to contact an outside body safely.

If you are dissatisfied

25. If you are unhappy with our response, you can go to the other levels and bodies detailed in this policy. While we cannot guarantee we will respond to all matters in the way you might wish, we will try to handle all matters fairly and properly. By using this policy, you will help us achieve this.

Counter Fraud Policy

Owned and maintained by:	Human Resources
Date checked/created:	June 2017
Next review date:	June 2019

1. This policy sets out our approach to preventing, investigating and reporting fraud. All staff must ensure they are familiar with this policy. Audit Scotland takes a 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. 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 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
 - Whistleblowing Policy
 - Disciplinary Policy
 - Grievance Policy
 - Ethical Standards Policy.
5. Copies of these documents are located in Audit Scotland's Staff Handbook within ishare and are also available from Human Resources.

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6. This policy requires Audit Scotland employees to report any instance of suspected fraud to their Director or Assistant Director. Where staff do not understand any aspect of the policy, they should seek clarification from their Director or Assistant Director.
 7. All staff 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 staff 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 staff 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 communicated to all staff 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. Consultation with Human Resources is required prior to commencing any background check and will help determine the appropriate course of action.

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

12. Staff 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. Staff 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 staff 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 staff who report reasonably held suspicions. Victimising or deterring staff 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. Alternatively you have the option to:
 - Discuss the matter confidentially with the Chief Operating Officer; or
 - Advise the Chief Operating Officer anonymously of your concerns.
17. 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.
18. Do not approach the individual(s) about whom you have concerns and do not discuss the matter with anyone else.

Audit Scotland's Fraud Response Plan



Prepared for Audit Scotland
April 2017

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

Contents

Fraud response plan.....	4
Purpose.....	4
Application	4
Fraud Response Team (FRT)	4
Individual FRT Members	5
Investigations	6
Action on Investigation Findings	7
Case Closure, Follow-Up and Review	7
Confidentiality.....	7
Reporting Cases of Fraud	7
External Fraud.....	7

Fraud response plan

Purpose

1. This Fraud Response Plan sets out our arrangements to ensure that when suspected frauds against Audit Scotland, the Auditor General and the Accounts Commission are reported, either to line managers, human resources, finance or business group managers, effective action is taken to:
 - investigate the circumstances
 - minimise the risk of subsequent loss
 - ensure that appropriate recovery action is taken or, failing recovery, to initiate action to write off any losses
 - remedy any weaknesses in internal control procedures
 - initiate disciplinary and legal procedures, where appropriate
 - demonstrate that Audit Scotland is not a soft target for attempted fraud.

Application

2. This plan is applicable to Audit Scotland, the Auditor General and the Accounts Commission.

The fraud response arrangements cover both internal and external fraud, and are based on our operational environment and risk factors.

Fraud Response Team (FRT)

3. The FRT for Audit Scotland is the Corporate Services Managers Group. The functions of the FRT include:
 - To receive and record information (anonymously or otherwise) about suspected frauds, either by telephone or in writing, from individual members of staff or the public.
 - To consult and coordinate on counter fraud matters as required; agree what action, assistance and communication is required from within Audit Scotland and external sources (e.g. Police).
 - To ensure that, where it is considered appropriate, Management Team and/or the Audit Committee is informed about relevant cases as soon as possible after they come to light.
 - To lead on the implementation of an effective counter fraud policy across Audit Scotland.
 - To report annually to the Audit Committee.
4. The FRT members are the Chief Operating Officer, the Assistant Director, Corporate Performance and Risk, the Corporate Finance Manager, the HR & OD Manager, the Digital Services Manager and the Communications Manager (or nominated staff member in their absence).

5. The FRT may call upon additional members with particular knowledge or expertise to assist on specific cases (eg Business Support Services Manager to restrict access to buildings).

Individual FRT Members

6. FRT members will be responsible for ensuring the necessary action in their functional areas. The immediate actions of the functional areas, insofar as they are appropriate to the particular case, will include:
 - **Chief Operating Officer and Fraud Response Team:** Lead in promoting an anti-fraud culture including communications; coordinate reporting of fraud and lessons learned across Audit Scotland, including fraud alerts; assist in assessing the risk of fraud in policies and programmes; coordinate fraud investigation activity across Audit Scotland; lead on counter fraud policy development.
 - **Finance, in conjunction with business areas:** Safeguard funds possibly at risk; rectify any immediately obvious gaps in financial controls; consider the case for recovery action and initiate action to recover funds as required; determine the financial effects of frauds; arrange, where necessary, for notation of the relevant accounts.
 - **Human Resources:** If appropriate, arrange to suspend Audit Scotland staff pending the outcome of any investigations (and review the notice of suspension at regular intervals throughout the period of investigation); liaise with Audit Scotland's panel of legal advisors on legal implications under employment legislation; consider, in consultation with line management, the sensitivity of the allegations in terms of public interest and whether the Communications Team should be briefed; implement disciplinary procedures against perpetrators of frauds and other members of staff whose actions may have facilitated frauds; consider the action to be taken if lesser instances of misconduct have been identified during the investigation.
 - **Digital Services / Business Support Services:** Protect accounting and other records; safeguard relevant records and assets possibly at risk; restrict access to offices and records of individuals involved by altering or withdrawing cards/passwords; pursue cases of straightforward theft; lead on information assurance work and counter fraud activity on information and communication technology.
 - **Communications:** Prepare internal communications about fraud and any media briefs/responses as appropriate.
 - **Internal Audit:** If appropriate, carry out investigations and liaise with the Police; make recommendations for improvement where appropriate and advise on potential lessons to be learned.
7. While these responsibilities are listed separately, they are clearly inter-linked and close liaison on developments in specific areas is essential, as is the involvement of line management at an appropriate level. It will invariably be necessary to act with extreme urgency at this stage.

Investigations

8. Following the reporting of suspicions of fraud to either line managers, Human Resources, Finance, etc, the information must be discussed with the Chief Operating Officer. The Chief Operating Officer will advise whether the allegations warrant an investigation and require the services of all or some of the FRT members. In the event that the suspicions relate to the Chief Operating Officer then the Chair of the Audit Committee will advise if the allegations warrant an investigation. In all cases, where allegations concern a member of the FRT or their department they will withdraw from the team until the investigation has concluded.
9. If an investigation is warranted, the Chief Operating Officer/FRT should initiate the following action, insofar as it is appropriate to the particular case:
 - Decide the level at which line management should be involved and bring the allegations to the notice of line management if it is not already aware of them, at the same time confirming the investigative arrangements and reporting lines.
 - Secure records and assets, including restrictions on access to offices and computer terminals.
 - Based on advice from HR, consider the case for suspension of Audit Scotland staff who are the subject of allegations.
 - Agree the scope and nature of any investigative work required to establish the facts of a particular case.
 - Notify Management Team and Audit Committee as required.
 - Decide whether the Police should be informed.
 - Agree a timetable for completion of any agreed actions.
10. Fraud investigations will normally be undertaken by the Assistant Director, Corporate Performance and Risk and may involve other FRT members, Internal Audit or an Independent Investigating Officer, depending on the circumstances.
11. Any investigation will take account of any relevant work or recommendations by a specialist area e.g. Finance, Internal Audit and Human Resources. Preliminary investigation findings must be reported to the Chief Operating Officer.
12. The Chief Operating Officer/Assistant Director, Corporate Performance and Risk should consider carefully the terms of reference for any investigative work. Investigations should not be restricted solely to allegations against an individual that may lead to a charge of gross misconduct. If there is a possibility that instances of serious misconduct (e.g. misconduct other than fraud) may also have occurred, these should be investigated at the same time under Audit Scotland's **Disciplinary Policy and Procedures**.

Action on Investigation Findings

13. As soon as possible after investigations have been completed and the Chief Operating Officer/FRT is satisfied that no further investigations are required, it must ensure that:
 - disciplinary action, if any, is being taken (in line with Disciplinary Policy and Procedures)
 - disciplinary action, if any, is being taken if the initial allegation appears to be malicious
 - the form and content of any report to Management Team and Audit Committee is appropriate
 - the Police are notified if required.

Case Closure, Follow-Up and Review

14. Where evidence of fraud or serious misconduct has been identified, the FRT should consider whether any action needs to be taken to prevent a recurrence. In such cases, an action plan should be drawn up setting out recommendations.
15. Action plans will include the required steps to take in response to an investigation's findings. An occurrence of fraud may hold lessons to be learned for an individual business area or the whole of Audit Scotland. The FRT has a lead role in ensuring that all appropriate action is taken forward effectively.
16. The FRT should make recommendations for any changes to procedures that it considers necessary in light of the outcome of individual cases and should consult relevant interests on any recommended changes. If appropriate, where individuals have been dismissed or subject to other disciplinary action for matters other than fraud (e.g. abuse of IT systems), consideration should be given to whether a review (by Internal Audit) should be undertaken to establish whether or not there has been possible misuse of other systems by the same individual(s).

Confidentiality

17. Members of the FRT will receive the appropriate information relating to individual cases. They must treat all information relating to individual members of staff on a confidential basis and should ensure that it is only passed on to colleagues on a strictly need to know basis.

Reporting Cases of Fraud

18. Details of fraud will be report to Management Team and the Audit Committee and an annual report on fraud will be prepared for the Audit Committee by the Corporate Governance Manager as part of the annual assurance process.

External Fraud

19. External frauds are frauds perpetrated by third parties against Audit Scotland (e.g. contract fraud).

20. The arrangements for external fraud will generally follow the process for internal fraud. The FRT may consider the following for external fraud:
- Information/a report by business group management on the circumstances.
 - A formal assessment of whether the evidence tends to substantiate fraud. Any invalid claims or invoices that could reasonably be argued were submitted in good faith should not normally be regarded as fraud.
 - Notification of the fraud to Police where appropriate.
 - Recovery action.
 - Consideration of control procedures and lessons learned.
21. It will normally be sufficient to alert Digital Services about any cases of internet scams. If fraud by a supplier is suspected, Management Team and the Audit Committee should be kept informed of developments. Cases of straightforward theft (which does not qualify as fraud) should be notified to the appropriate manager of business group for action.
22. If there is **any** suspicion of collusion on the part of Audit Scotland staff in a suspected or discovered external fraud, the procedures relating to internal fraud should apply as appropriate, given any requirements arising from ongoing Police investigations.

AUDIT SCOTLAND BOARD

6 JUNE 2017

REPORT BY THE CHAIR OF THE AUDIT COMMITTEE

2016/17 ANNUAL REPORT FROM THE CHAIR OF THE AUDIT COMMITTEE TO THE BOARD

1. Introduction and Background

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 and Accountable Officer, who are not employees of Audit Scotland. The Audit Committee met five times in 2016/17.

During the year the membership of the Audit Committee changed when Douglas Sinclair retired from the Audit Scotland Board and Audit Committee due to health reasons on 8 March 2017 and we have welcomed Ronnie Hinds as a member.

2. Programme of Work

The Audit Committee considered the annual report from the External Auditors, Alexander Sloan Chartered Accountants, relating to the certification of Audit Scotland's 2015/16 accounts. The audit of the 2016/17 accounts has concluded and was reported to the Audit Committee on 6 June 2017.

The Audit Committee approved the timetable to facilitate the completion of the Statutory Accounts for the Year ended 31 March 2017.

BDO conducted eight internal audits and one follow-up review in 2016/17. The Audit Committee considered seven internal audit reports, the annual audit plan for 2017/18 and four audit progress reports from BDO prior to 31 March 2017.

The final 2016/17 internal audit report, the follow-up report and the 2016/17 annual internal audit report were presented to the Audit Committee at the 17 May 2017 meeting. There were no significant audit findings.

The annual review of Audit Scotland's principal governance policies (Standing Orders, Financial Regulations and Scheme of Delegation) was undertaken. The reviews resulted in minor changes to them. In addition, the Audit Committee considered its Terms of Reference at each of its meetings; minor amendments were made.

The Members' Code of Conduct was reviewed 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.

The Audit Committee approved version eleven of Audit Scotland's business continuity plan and arrangements.

The Audit Committee considered annual assurance reports on Health and Safety, Information Governance and Security, Transparency and Quality, Correspondence

Handling, Risk Management, Hospitality and Gifts, Whistleblowing and Bribery and Fraud.

The Risk Management Framework was reviewed and presented to the Audit Committee on 3 May 2016 and recommended to the Board for re-approval at their meeting on 3 May 2016.

The corporate risk register was considered by the Audit Committee on four occasions as part of its internal controls and governance arrangements. A programme of risk interrogations of individual risks was undertaken and scrutinised at Audit Committee meetings in 2016/17.

The Audit Committee considered reports on data incidents and noted the corrective actions proposed by Audit Scotland to reduce further incidents.

At its meeting in February 2017 the Audit Committee considered a report from the internal and external auditors on their joint working.

The members of the Audit Committee carried out the annual review of its effectiveness basing it on the National Audit Office's Audit Committee self-assessment checklist. A report on the outcome and actions was presented to the meeting of the Audit Committee on 17 May 2017.

3. Overview of External Audit

Alexander Sloan, Chartered Accountants, who are appointed by the SCPA, completed the audit of Audit Scotland's 2015/16 accounts and provided a report to the June 2016 Audit Committee. The external auditor advised the Audit Committee that they would be issuing an unqualified audit opinion.

The external audit had been completed on time and the Audit Committee was satisfied that the work had been delivered to the required standard in accordance with Alexander Sloan's quality control procedures.

There were no recommendations in the external auditor's management letter.

The audit of the 2016/17 accounts will be reported to the Audit Committee at its meeting on 6 June 2017.

4. Overview of Internal Audit

BDO carried out eight internal audits and one follow-up review during 2016/17; 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.

Audits and overall assurance assessments were:

- Risk Management (substantial assurance)
- Business Performance Management (substantial assurance)
- Value for Money (substantial assurance)
- Recruitment and Induction (substantial assurance)
- Core Financials (substantial assurance)
- IT Security Review (reasonable assurance)

- Best Value Audit Approach (substantial assurance)
- Staff Performance Management (substantial assurance)
- Follow-up review (good progress).

There were 23 recommendations from the eight internal audits. Six recommendations were classed as medium and 17 as low significance. There were no recommendations of high significance. Management responses have been given for all audit recommendations and work is being undertaken to implement them as appropriate.

The internal audit service and scrutiny provided by BDO offered sufficient assurances for the 2016/17 annual internal audit report.

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.

The cost of the internal audit work, completed by 31 March 2017, was £30,866.44. The number of days used by BDO was 58, three more than in the 2016/17 plan.

5. Governance Statement

The Audit Committee considered a report on the effectiveness of the systems of internal control.

There was one matter highlighted from Audit Scotland's business groups which would require to be raised specifically in the Accountable Officer's governance statement. During the year it was established that there had not been full compliance with Audit Scotland's record management policy and that some documents were not being retained for the appropriate time periods. Almost all of the documents were recovered and the appropriate retention periods subsequently applied. This issue has highlighted how we can strengthen our records management processes and practices, and we have taken action to do so. We are also undertaking a lessons learnt review.

No other significant control weaknesses or issues have arisen, and no significant failures have arisen in the expected standards for good governance, risk management and control.

Internal auditors provided Audit Scotland with reasonable assurance that, there are no major weaknesses in the internal control system for the areas reviewed in 2016/17. External auditors reported that they would issue an unqualified audit opinion.

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.

6. Conclusion

On the basis of the work reviewed and progress made during 2016/17, the Audit Committee can advise the Board that, in its opinion, the internal control systems in Audit Scotland are adequate.

The Board is invited to approve this annual report from the Audit Committee for 2016/17.

AUDIT SCOTLAND BOARD

6 JUNE 2017

REPORT BY THE CHAIR OF THE REMUNERATION AND HUMAN RESOURCES COMMITTEE

2016/17 ANNUAL REPORT FROM THE CHAIR OF THE REMUNERATION AND HUMAN RESOURCES COMMITTEE

1. Purpose of report

This paper informs the Audit Scotland Board that the Remuneration & Human Resources Committee (Remco) has completed the review of the past performance of Remco and identified the future priority areas.

2. Background

Remco Terms of Reference (ToR) state that a review of Remco past performance and the identification of future priorities is an annual item of business. This process follows good practice for the operation of remuneration committees and the discussion forms the basis of a report to the Audit Scotland Board and Accountable Officer. Remco considered this matter in May 2017.

3. Performance highlights from 2016/17

During the period from 1 April 2016 through to 31 March 2017, Audit Scotland's Remco met on four occasions.

Key items of business have included

- approval of a Voluntary Early Release Arrangement (VERA) scheme for 2017 together with the on-going review of the operation, impact and savings achieved from earlier Audit Scotland VERA schemes;
- regular and comprehensive review and discussion connected with Audit Scotland's organisational development programme *Building a Better Organisation*. This has included a focus upon organisational culture, values, job design and reward at all levels, including leadership roles;
- leadership Group resourcing, including the decision to agree to the departure of the Assistant Auditor General through Audit Scotland's VERA scheme and, at Assistant Director level, receiving assurance that sufficient resources are in place to enable Audit Scotland to respond to the constitutional changes taking place in Scotland
- the application of pay policy for pay awards recommended for the most senior members of Audit Scotland's executive
- consideration of Audit Scotland's continued commitment to talent management and succession planning
- consideration of Audit Scotland's Equal Pay Report
- workforce planning for 2017/18
- restructuring of the Business Support Services team and the deployment of a limited scope Voluntary Redundancy Scheme to assist with cost management following the restructure.

All of this work has been achieved in accordance with good employment practice and is cognisant of the external public sector financial environment / guidance affecting organisations such as Audit Scotland.

4. Future priority areas

Remco has agreed that the following list of potential items will be considered as priority items for future discussion

- the continued impact of implementing Audit Scotland's organisational development programme, *Building a Better Organisation*. This will include consideration of the proposed Career Development Gates process in October 2017
- proposal for reward structure, pay progression arrangements and the future development of Audit Scotland's Leadership Group. This will be considered in October 2017
- the continued focus upon the development plans for the workforce as the impact of the new financial powers for Scotland and the implications of Brexit become clearer.

5. Conclusion

The operation of the Remco during 2016/17 has been effective and in accordance with the ToR. The work of the Committee continues to ensure good governance arrangements continue to exist and the Committee has supported the efficient and effective operation of Audit Scotland.

6. Recommendation

Audit Scotland Board members are invited to take note and comment upon the work of the Committee during 2016/17 and comment upon the priority areas for 2017/18.

7. Next steps

The Remco Chair will facilitate the next review of Remco performance at the meeting scheduled in May 2018. A report will then be submitted to the Audit Scotland Board and Accountable Officer in June 2018.

AUDIT SCOTLAND BOARD

6 JUNE 2017

REPORT BY THE CHIEF OPERATING OFFICER

2016/17 GOVERNANCE STATEMENT ON INTERNAL CONTROL AND CERTIFICATE OF ASSURANCE

1. Purpose of Report

This report informs the Board of the review of Audit Scotland's internal controls that support the achievement of the organisation's policies, aims and objectives as set by the Board. The report also provides the Certificate of Assurance on Audit Scotland's internal controls.

2. Recommendation

The Board is invited to note the recommendation from the Audit Committee to approve the Certificate of Assurance in support of the annual assurances and signing of the annual accounts.

AUDIT SCOTLAND BOARD

6 JUNE 2017

REPORT BY ASSISTANT DIRECTOR, AUDIT SERVICES AND PABV

NEW FINANCIAL POWERS AND CONSTITUTIONAL CHANGE UPDATE

1. Purpose

This paper provides an update on key developments surrounding further financial devolution and constitutional change, including Audit Scotland's organisational arrangements in this area.

2. Background

We provided an update to the Board in September 2016 on the new financial powers and the work of the new financial powers steering group. Significant developments since then include:

- the Scottish Government published its 2017/18 Draft Budget in December 2016 incorporating increased income tax powers. This was passed in February 2017, following agreement with the Green Party to provide additional funding and freeze the threshold for higher rate taxpayers
- the UK Government invoked Article 50 of the Lisbon treaty on 29 March 2017, commencing the process for withdrawal from the EU
- the Scottish Parliament's increased powers over income tax, borrowing and reserves in the Scotland Act 2016 became operational from 1 April 2017
- the Social Security Minister made a statement to Parliament on the Scottish Government's plans for a new social security agency, highlighting that 10 of the 11 benefits would be administered directly by the agency
- the Budget Process Review Group published its interim report for consultation and we provided a response on behalf of the AGS, Accounts Commission and Audit Scotland. The Group is now formulating its conclusions and recommendations
- Audit Scotland published the latest in our series of performance audits on managing the new financial powers on behalf of the AGS. The AGS published her annual report on the NAO's 2015/16 audit of the implementation of the Scottish Rate of Income Tax.

3. EU withdrawal

The UK Government invoked article 50 of the Lisbon Treaty on 29 March 2017, commencing the process of the UK's withdrawal from the EU. The timetable for this process set out in the Treaty is two years, although this may be extended by agreement. The UK Government subsequently published *Legislating for the United Kingdom's withdrawal from the European Union*. This set out its plans for a Great

Repeal Bill that would convert EU law as it stands to domestic law, create powers to make secondary legislation to 'correct' laws that would not otherwise operate appropriately, and repeal the European Communities Act 1972.

The UK remains a full member of the EU and all the rights and obligations of EU membership remain in force until exit. The UK Government will continue to negotiate, implement and apply EU law during this period.

In February 2017 the UK Government published a white paper setting out its plans for EU withdrawal. This highlighted a number of funding commitments for EU funded European Structural and Investment Funds and competitive bid projects (including Higher Education) that will continue after EU withdrawal. It also made a guarantee to the agricultural sector that it will receive the same level of funding that it would have received under Pillar 1 of the Common Agricultural Policy (CAP) until the end of the Multiannual Financial Framework in 2020. It also highlighted that no decisions currently taken by the devolved administrations will be removed from them, that more decisions would be devolved as a result of EU exit, and no new barriers to living and doing business within the UK would be created.

The UK general election will take place on 8 June. The outcome of this will determine the UK Government's future approach.

4. Parliamentary activity

The Scottish Parliament has considered the following bills (alongside the budget bill), relevant to powers being devolved through the Scotland Act 2016:

- The Air Departure Tax Bill was introduced to Parliament in December 2016 and is being scrutinised by the Finance and Constitution Committee. The Bill will introduce an Air Departure Tax (ADT) to replace the current UK Air Passenger Duty, which will be collected by Revenue Scotland from April 2018. The Bill does not include proposals on tax rates, but the Scottish Government has stated its intention to half the level of ADT by the end of the current parliamentary session.
- The Railway Policing Bill was introduced in December 2016 and is being scrutinised by the Justice Committee. The Bill will transfer railway policing powers to Police Scotland and the Scottish Police Authority.
- The Forestry and Land Management Bill was introduced in May 2017. The Bill aims to transfer powers over forestry and other land from Forestry Commissioners to Scottish Ministers. Scotland Act orders will be used to wind up the Commissioners as a cross-border public authority.

5. New public bodies

Two new public bodies began operating from 1 April 2017 in response to powers devolved through the 2012 and 2016 Scotland Acts – the Scottish Fiscal Commission (SFC) and Crown Estate Scotland.

The SFC was set up on a non-statutory basis in 2014 to independently assess the Scottish Government's forecasts of devolved tax revenues. The Scottish Fiscal Commission Act established it as a non-Ministerial Department and expanded its responsibilities to include:

- preparing five-year forecasts of devolved tax revenues, non-domestic rates and Scottish income tax

- preparing five-year forecasts of demand-led social security spending, once devolved
- preparing forecasts of Scotland's onshore gross domestic product
- assessing the reasonableness of Scottish ministers' borrowing projections.

The SFC is chaired by Lady Susan Rice and two new Commissioners were appointed from April 2017 – Professor Alasdair Smith (Inquiry Chair at the Competition and Markets Authority) and David Wilson (Executive Director of the International Public Policy Institute at Strathclyde University). John Ireland was appointed as Chief Executive of the SFC in May 2017, moving from his role as Deputy Director in the Energy and Climate Change Directorate of the Scottish Government. He oversees a staff of 20 people and a budget of £1.7 million.

Crown Estate Scotland is a public corporation, which manages land and property in Scotland that is owned by the Crown. The revenue generated from these assets will be paid into the Scottish Consolidated Fund. The public corporation was established on an interim basis until new legislation sets out permanent arrangements. These arrangements, which are expected to be in place by the end of 2019, may involve transferring the Crown Estate to local authorities. In the meantime, Crown Estate Scotland is led by a board and run by a team of around 35 people, and has annual revenue and capital receipts of around £25 million. Amanda Bryan is the Chair of the Board and Ronnie Quinn is the Chief Executive.

The AGS will appoint the auditor for both the SFC and Crown Estate Scotland. We are currently assessing the resources required for the annual financial audits, the first of which will be completed in 2018.

6. Social security powers

The Scottish Government's social security programme is in the early stages, and is expected to continue at least over the remainder of this Parliament through to 2021. The next stage, in establishing an agency and implementing the new social security system, is an exceptionally wide-ranging and complex task.

On 27 April the Social Security Minister announced the model for the delivery of social security in Scotland and published the Scottish Government's outline business case. Key aspects of this included:

- that 10 of the 11 devolved benefits will be delivered directly by the new Scottish social security agency through a centralised function
- councils will continue to be responsible for Discretionary Housing Payments and the Scottish Welfare Fund (previously devolved)
- the assessment model for disability and ill-health benefits will not involve contracting with the private sector.

The new agency, once fully operational, will have a staff complement of at least 1,500 FTE and estimated annual running costs of around £150 million. Most staff would be located centrally, but where possible some agency staff will be co-located in places people already visit to provide locally accessible face-to-face pre-claims advice and support. Ultimately the agency will be responsible for the administration of payments with a current value of around £2.8 billion annually.

The Scottish Government is continuing to develop its approach following the decision on the agency operating model. It plans to deliver the devolved benefits incrementally through to the end of 2020/21, with priority being placed on a safe secure transfer. On 30 May the Cabinet Secretary announced when the first three devolved benefits would start to be delivered. Increased Carer's Allowance will be delivered from summer 2018 and the Best Start Grant (replacing the Sure Start Maternity Grant) and Funeral Expense Assistance will be delivered from summer 2019. The Scottish Government will introduce its Social Security Bill to the Parliament by the end of June 2017. This is unlikely to complete its progress through Parliament before the spring of 2018. The Minister also indicated that she would announce the location of the agency and the next steps on the assessment model for determining eligibility for benefits in the autumn.

We anticipate the AGS will appoint the auditor for both the agency and the social security payments that it administers. We are beginning to assess the resources likely to be required for this work.

7. Scottish Parliament's budget

The Scottish Government published its draft budget for 2017/18 on 15 December 2016, three weeks after the UK Government's autumn statement. The draft budget document included a chapter on its new tax powers and corresponding block grant adjustments.

The Scottish Government froze the threshold for higher rate taxpayers at £43,000. In the rest of the UK, the threshold increased to £45,000. This means that higher rate taxpayers in Scotland will pay more income tax than those in the rest of the UK. The Scottish Government estimates that freezing the threshold will raise an additional £108 million in revenues in 2017/18.

The Budget Process Review Group was established by the Finance and Constitution Committee and the Cabinet Secretary for Finance and the Constitution in June 2016. It is tasked with reviewing the Scottish Parliament's budget process following the devolution of financial powers in the 2012 and 2016 Scotland Acts. The group's membership includes officials from the Scottish Parliament and Scottish Government, and external experts including the AGS. The group has met monthly since September. It published its interim report in March 2017 for consultation. The Group is currently reviewing responses and plans to publish its final report, with recommendations for reform, by the end of June 2017.

The interim report consultation included a specific question on how audit work might be used more effectively in supporting a more outcomes based approach to financial scrutiny. Common themes in response to this question highlighted that the AGS, Accounts Commission and Audit Scotland:

- are well placed to review how outcomes are being delivered and whether spending on this is achieving value for money. This relies on the Scottish Government clearly setting out the outcomes that budget allocations are expected to deliver.
- are in a unique position to look across the performance of the public sector. As such, they have an important role in sharing good practice.
- could be more challenging when assessing progress towards delivering outcomes, by analysing performance data and exploring the reasons behind poor performance.

- produce reports that could be used across Parliamentary committees more widely. This may help to support a more strategic approach to scrutiny within and across key policy areas.

We continue to support the work of the Group and are reflecting on the feedback provided on our work and how it is used by the Parliament.

8. Audit reporting

We published our performance audit *Managing New Financial Powers* on behalf of the AGS in March 2017. This looked at how well the Scottish Government, Revenue Scotland and the SFC are implementing or preparing to introduce devolved financial powers. It builds on our two previous reports in this area that were published in 2014 and 2015.

We found that the Scottish Government is well-organised to deliver its new tax and spending powers but more work is needed to build a clearer picture of what the changes will cost. We highlighted that implementing and managing the new financial powers will have major staffing implications, and recruiting enough people with the required skills may prove difficult. We also reported that a more strategic approach to public financial management and reporting is needed, including a medium-term financial strategy based on clear policies and principles. We made eight recommendations to the Scottish Government. We will continue to report on this area and the work programme includes performance audits on the devolution of fiscal powers through to 2021/22.

In December 2016 the National Audit Office (NAO) reported on its 2015/16 audit of HMRC's implementation of the Scottish Rate of Income Tax. This found that HMRC continues to make progress in ensuring that income tax levied under the Scottish rate will be assessed and collected properly, but still faces significant challenges to ensure that all Scottish taxpayers are correctly identified. The AGS published a report alongside this, providing additional assurance to the Scottish Parliament on the NAO's audit work in this area. This is the second year of this arrangement, and we have established good working relationships with NAO colleagues.

We launched an e-hub for financial devolution on our external website in March 2017. This brings all of our work in this area together in one place. It includes links to our reports, exhibits, blogs, briefings and other useful tools.

9. Parliamentary engagement

In November 2016 the AGS provided written and oral evidence on the fiscal framework to the Finance and Constitution Committee. This highlighted some of the key considerations for public financial management in Scotland arising from the new powers and the fiscal framework. It focused on the themes of strategic financial management, managing financial risk, transparency and accountability, and the role of audit.

In March 2017 the AGS, Professor James Mitchell and Don Peebles gave evidence to the Finance and Constitution Committee on the Budget Process Review Group's interim report. The AGS also attended the Parliament's Convenors Group to discuss the report.

10. Audit arrangements

In March 2016 the Scottish and UK Governments published a technical annex to the new fiscal framework. It describes how the key elements of the framework will be implemented and will operate, including the following provision in relation to audit arrangements:

“In line with the Smith recommendations for strengthening intergovernmental relations, both Governments have agreed to put in place a set of robust auditing arrangements with respect to the operation of this fiscal framework and the Scotland Act 2016. These arrangements should be efficient and effective. They should ensure that duplication is avoided as far as possible and that auditors are not overburdened by new responsibilities once the Smith provisions are fully implemented...The Joint Exchequer Committee should agree detailed arrangements based on these provisions.”

The Scottish Government and HM Treasury are developing a document that sets out principles and models of accountability in devolved services, and corresponding responsibilities for audit. The Scottish Government is formally consulting with Audit Scotland on the draft document, and HM Treasury is consulting with the NAO. The intention is for this document to be approved by officials in June before being put to Ministers for agreement by the Joint Exchequer Committee.

We are currently considering our response, including our observations on the extent to which the approach proposed might meet the expectations of the Scottish Parliament.

11. Consultations

In response to the increasing volume of Parliamentary and Scottish Government consultations and calls for evidence, we have reviewed our approach and developed guidance material on when and how we should respond. We have responded to a number of consultations relating to financial devolution since September 2016:

- Social security in Scotland (October 2016) – we provided a response to specific sections of the consultation where appropriate, drawing from our previous audit work. This included sections on outcomes and user experience, independent advice and scrutiny, managing overpayments and debt, and fraud.
- Scottish Fiscal Commission regulations (November 2016) – our response highlighted the need for a more strategic approach to public financial management and a possible role for the SFC in assessing the long-term sustainability of the public finances.
- Long-term management of the Crown Estate in Scotland (March 2017) – drawing on previous audit work, we provided a response to the consultation questions that we considered relevant to our role. This included general points on public financial management, best value, transparency, community empowerment and alignment with national outcomes.
- Budget Process Review Group interim report (April 2017) – we provided a tri-partite response to this consultation on behalf of the AGS, Accounts Commission and Audit Scotland. This included views on the key components of effective financial planning, management and scrutiny.

12. Organisational arrangements

A key aspect of our New Financial Powers and Constitutional Change work programme is to review the resources that we need to fulfil our role effectively in response to financial devolution and any further constitutional change. This involves reviewing our immediate resource requirements, assessing what staff and skills we will ultimately need once all of the powers have been introduced, and considering the timetable and transition.

We have been able to accommodate the additional audit work that has already arisen from the new powers, including the audits of Revenue Scotland, the Devolved Tax Accounts and our work on the Scottish Rate of Income Tax within the existing resources (with £100,000 also being included within current budgets to support continuing development work). As more accounts are introduced, the nature of public financial management in Scotland expands and social security powers are devolved, this is likely to require additional resourcing.

The next meeting of the New Financial Powers Steering Group in June 2017 will consider the current assessment of potential resource requirements, recognising the significant uncertainty particularly in relation to the timing, nature and extent of social security audit work. This will help inform the construction of our budget proposals for 2018/19 onwards.

Our programme of work in this area continues and reflects the range of activity covered by this report. Our immediate priorities are responding to the Scottish Government on proposed audit and accountability arrangements, supporting the work of the Budget Process Review Group, and identifying our resource requirements. We also continue to build organisational capacity through a range of development activity and by widening the awareness, understanding and involvement of our people in this area of work.

13. Conclusion

The Board is asked to note the content of this report.

Agenda

Wednesday 23 August 2017, 10.00am

Audit Scotland offices, 102 West Port, Edinburgh EH3 9DN

1. Private Meeting
2. Welcome and apologies
3. Declarations of interest

Standing Items

4. Chair's report – verbal update
5. Accountable Officer's report – verbal update
6. Accounts Commission Acting Chair's report – verbal update
7. Review of minutes: For approval
 - Board meeting, 6 June 2017
8. Review of actions tracker For information

Business Performance

9. Q1 Financial performance report 2017/18 For information
10. Q1 Corporate performance report 2017/18 For information
11. Q1 Becoming world class improvement programme report 2017/18 For information

Strategy and Planning

12. 2018-19 Budget financial strategy initial proposals For discussion
13. Building a Better Organisation: Delivering best value in Audit Scotland For information

Governance

14. Openness and transparency For discussion

- 15.** Annual review of Information governance policies
- FOI and EIR
 - Data protection
 - Records management
 - National Record of Scotland final report

For approval

Conclusion

- 16.** Giving something back overview
- 17.** Publication of reports
- 18.** Any other business
- 19.** Review of meeting
- 20.** Date of next meeting

For information

Wednesday 23 August 2017, 10.30am

Audit Scotland offices, 102 West Port, Edinburgh EH3 9DN

Present:

I Leitch (Chair)
C Gardner
H Logan
R Hinds
R Griggs

Apologies:

None

In attendance:

D McGiffen, Chief Operating Officer
R Frith, Assistant Auditor General
M Walker, Assistant Director, Corporate Performance and Risk
D Hanlon, Corporate Finance Manager
S Dennis, Corporate Finance Manager
F Kordiak, Director, Audit Services Group
R Seidel, Audit Manager, Performance Audit and Best Value
F McKinlay, Director, Performance Audit and Best Value
J Webber, Senior Executive Assistant

1. Private meeting

A private meeting was held by the Chair and Board members, prior to the start of the Board meeting. There were no matters raised in addition to those items on the agenda, which had been previously circulated.

2. Welcome and apologies

The Board noted that no apologies had been received.

3. Declarations of interest

There were no declarations of interest.

4. Chair's report

Ian Leitch provided a verbal update to members of regular meetings with Caroline Gardner and Diane McGiffen on business matters generally and on the forthcoming SCPA business planning meeting on 31 August 2017.

The members welcomed the update.

5. Accountable Officer's report

Caroline Gardner invited the Board to note the busy publication schedule including the Common Agriculture Policy Futures Programme and Scotland's Colleges 2017 reports, involvement with

the Budget Process Review Group, Parliamentary reform in light of the new financial powers and speaking engagements at last week's Holyrood Summer School.

Caroline invited the Board to note that the first year of the new audit appointments was going well. She advised that audit teams were part way through their busiest period with all NHS audits being signed off at the end June, while work continues to finalise Central Government and Local Government audits.

Turning to the review of quality and the change of responsibilities with Russell Frith's departure at the end of the year, Caroline referred to the review underway with Audit Strategy and of professional leadership developments within the wider Leadership Group which would be discussed with the Board at its October 2017 meeting.

Caroline then advised of engagement with UK audit bodies including recent visits by the NAO and her appointment to the panel for the recruitment for the next Auditor General for Wales.

She invited Diane McGiffen to provide more detail and Diane advised of recent engagements with the new executive team at the National Audit Office both in London and Edinburgh. Diane also invited the Board to note the refurbishment of the Glasgow had been completed and shared photographs of the refurbishment.

Following discussion, the Board welcomed the update.

6. Accounts Commission report

Ronnie Hinds, the Acting Chair of the Accounts Commission, provided a verbal update on his recent engagements, including publication of the joint report by the Auditor General for Scotland and the Accounts Commission on Self Directed Support and the forthcoming BV report on Renfrewshire Council.

Ronnie advised that the interviews for the appointment of the new Chair of the Accounts Commission were scheduled for the end of August with that appointment taking effect from 1 November 2017.

Ronnie invited the Board to note of a forthcoming meeting with the Chief Executives of local authorities to engage and consult on the work programme for the Accounts Commission.

The Board welcomed the update.

7. Review of minutes

Board meeting, 2 June 2017

The Board considered the minutes of the meeting on 2 June 2017, which had been previously circulated, and subject to a minor correction, confirmed that these were an accurate record of the meeting.

8. Review of actions tracker

The Board noted the updates provided by the action tracker and sought clarification around quality reporting at action ASB24. Russell advised the Audit Committee would consider a report at its meeting on 13 September before approval was sought by the Board at its meeting on 25 October 2017.

In relation to action ASB49, Working with Young Scot, Heather Logan requested a verbal update on progress at the next meeting of the Board in October 2017.

9. Q1 Financial performance report 2017/18

David Hanlon and Stuart Dennis, Corporate Finance Managers, joined the meeting

The Chair welcomed Stuart Dennis, Finance Manager to his first Board meeting and wished him success in his new role, taking over from David Hanlon.

David Hanlon introduced the Q1 Financial performance report 2017/18, a copy of which had been previously circulated.

David invited the Board to note the performance reported was as expected.

Heather Logan requested clarification on the allocation of costs and Ronnie Hinds sought clarification on the variation of fees above predicted fees charged by firms at 4.5% and Audit Services at 1.9%. Russell Frith referred to the fee strategy and allocation of costs to public bodies and advised of the annual monitoring of price and volume changes which had resulted in a reduction in firms agreeing additional fees. The Board noted the commitment to provide continued reporting on fees and funding quarterly through the performance report and annually in a more detailed review of trends. Following discussion, the Board noted the financial performance reported for Q1.

The Board noted David's forthcoming retirement in September and wished to record their thanks for his services recognising his diligence in supporting Audit Scotland on financial matters during his ten years as Corporate Finance Manager.

10. Q1 Corporate performance 2016/17

Martin Walker, Assistant Director, Corporate Performance and Risk, introduced the Audit Scotland Q1 Corporate Performance 2016/17, which had been previously circulated.

Martin invited the Board to note the overall strong corporate performance during Q1 and welcomed comments on the new reporting focus and format and the proposals for reporting.

Heather Logan welcomed the advances in the focus of reporting and asked for more detail on the alignment of personal objectives with the vision and direction of the organisation and for measuring the effectiveness and positive impact of our work. Martin advised that review of the performance management framework was under-way and these points feature in that review.

In relation to the KPIs for managing people effectively, Ronnie Hinds queried whether there were any underlying issues for a reduction in the examination passes reported. Diane clarified that the pass rate reported was for those results received in the quarter, highlighting some of the recent successes of trainees and that there were few exam failures and resits were planned for these. She advised that the annual pass rates reported in item 13 provided the longer term trends.

Following discussion, the Board welcomed the report and agreed they would welcome continuing to receive the underlying detail of reporting as shown in Appendix 2.

11. Q1 Becoming world class improvement programme report 2017/18

Martin Walker, Assistant Director, Corporate Performance and Risk, introduced the Audit Scotland Q1 Becoming World Class Improvement Programme, which had been previously circulated.

Martin invited the Board to consider the progress made to date on the improvement programme and the next steps.

The Board discussed the Securing World Class Audit workstream. Martin advised that improvement programme update reports provided a snapshot of progress each quarter. Previous reports had noted the completion of the new code of audit practice, the procurement and appointment of auditors and the revised fees and funding arrangements. Martin advised that the new audit quality framework would be considered by the Audit Committee at its meeting on 13 September 2017 and by the Auditor General, the Accounts Commission and the Board in October. He advised that good progress was being made on the strategic objectives in the 2015-2018 Corporate Plan.

Ronnie Hinds left the meeting, agreeing business should continue in his absence.

12. 2018/19 Budget financial strategy initial proposals

Fiona Kordiak, Director of Audit Services, and Rebecca Seidel, Audit Manager, Performance Audit and Best Value, joined the meeting.

Diane McGiffen introduced the 2018/19 Budget finance strategy initial proposals, which had been previously circulated.

Diane invited the Board to agree the assumptions set out in the report which provided information on the implications of new financial powers and constitutional change for Audit Scotland's budget, set out in Appendix 1. Diane advised the Board that the date for submission of our draft budget had yet to be confirmed, but that it was hoped that the Board would be able to agree the budget assumptions in the report so that if necessary, a submission could be agreed by correspondence between Board meetings if requested by the Scottish Parliament timetable.

The Chair enquired as to the basis for assessing the increased resources for supporting the work arising from the new financial powers.

Ronnie Hinds re-joined the meeting.

Fiona Kordiak, Director of Audit Services Group, advised the Board that the proposals for resource were the best estimate of resources required and phased to allow flexibility as implementation of new financial powers progress. Rebecca Seidel confirmed that detailed assessments had been undertaken to calculate individual pieces of work based on knowledge of work and the number of audit days required, using the existing grade mix of staff.

Ronnie Hinds queried the efficiencies required to absorb the longer term costs for new financial powers and Rebecca advised these would come following the implementation and transitional work during 2018/19 when the work moves from the development and preparation phase to delivering audit work.

Turning to the operational costs, the Chair requested clarification around the figures reported in Appendices 3 and 4 David Hanlon advised that Appendix 4 did not account for pension costs which explained the different figures. David advised the Board that the budget assumptions proposed would offer an overall real price reduction in fees.

The Chair asked whether the budget assumptions also took account of the implementation of EU exit. Rebecca confirmed these were not included for this draft budget but anticipated that any requirements would become clearer during 2018/19. The Board recognised the necessity for auditors to become familiar with their role, new risks and duties of new audit bodies.

Heather Logan asked for further information on the budget for agency staff and Fiona provided assurance that this was largely to support peak periods of financial audit work over the summer and in some instances for maternity cover across the organisation.

Following discussion, the Board approved the assumptions for the draft budget as set out in the report.

The Board welcomed the discussion.

Rebecca Seidel, Audit Manager, Performance Audit and Best Value left the meeting.

13. Building a Better Organisation– Delivering best value in Audit Scotland

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

Diane McGiffen introduced the Delivering Best Value in Audit Scotland report, which had been previously circulated.

Diane reminded the Board of the background to the report, which had begun as a comparison of Audit Services cost during the procurement process. She advised that following discussion on Audit Services performance, the Board had requested an overview of Audit Scotland's delivery of value for money.

Diane invited the Board to note this report had been expanded to include information in respect of the Performance Audit and Best Value, Audit Strategy and Corporate Services business groups in addition to Audit Services as previously reported in January 2017. She advised that the report aimed to report best value consistently across all business groups but over time that had not always been possible.

The Board welcomed the report which sought to provide assurance of the efficiency of the business groups, acknowledging the reduction in overall costs while recognising there was more to be done to capture the central costs associated with performance audit. Fraser McKinlay advised of ongoing external benchmarking work.

The Board noted the report and welcomed the discussion.

David Hanlon, Stuart Dennis, Corporate Finance Managers, Fiona Kordiak, Director of Audit Services and Fraser McKinlay, Director of Performance Audit and Best Value, left the meeting.

14. Openness and transparency

Martin Walker, Assistant Director, Corporate Performance and Risk, introduced the report on Openness and transparency, which had been previously circulated.

Martin invited the Board to consider the report as part of its ongoing development and commitment to openness and transparency.

The Chair invited views from members on any changes they wished to make with reference to the On Board guidance and the options presented in the report.

During the discussion, the Board noted the current arrangements around the publication of Board, Audit Committee and Management Team minutes, the publication of Board papers and the publication of strategic plans and the suite of annual performance reports.

The Board agreed that it should meet in public and that Martin should report back with options and detailed proposals on the practicalities and arrangements for supporting public meetings.

Action ASB60: Martin Walker to report back with detailed options and proposals on the practicalities and arrangements for supporting public meetings of the Board. (October 2017)

15. Annual review of information governance policies

The Chair invited members to note the Annual review of information governance policies and welcomed any comments.

The Board noted and approved each of the Freedom of Information, Data Protection and Records Management policies. Heather Logan enquired as to the lessons learned from the data incident report in relation to records and Martin confirmed a review had been carried out and a report was scheduled for Management Team on 29 August 2017 before being considered by the Audit Committee on 13 September 2017.

The Board welcomed the approval received from the National Records of Scotland of Audit Scotland's records management plan and recorded their congratulations to the team for this achievement.

16. Giving something back overview

Diane McGiffen invited the Board to note the work and fundraising activities of colleagues across Audit Scotland in support of our corporate charity, The Brain Tumour Charity. The

charity had been nominated for and voted by colleagues last year and so far had raised £3,125.99.

The Board recorded their appreciation of the efforts by colleagues to support the charity and of forthcoming fundraising events.

17. Publication of Reports

The Board approved the publication of reports with the exception of item 12, being the initial proposals for the 2018-19 Budget financial strategy, noting that the strategy would be published in due course.

18. Any Other Business

There was no further business.

19. Review of Meeting

The members agreed the meeting had been conducted efficiently.

20. Date of Next Meeting

It was noted that the next Audit Scotland Board meeting was scheduled for 25 October 2017 in the offices of Audit Scotland, 102 West Port, Edinburgh.

FORUM	Agenda Item No	Item Title	Action Description	Meeting Date	Due Date	Responsible	Assigned to	Complete/Ongoing	Reported Yes/No	Progress Notes
Board	8	Spring Budget Revision	Scottish Commission for Public Audit for a £1,716k Spring	20/11/2014	30/11/2014	Diane McGiffen	David Hanlon	Complete		Complete
Board	15	Corporate Governance Policies and Code of Conduct Review	The Corporate Governance Manager to review the Financial Regulations, Scheme of Delegation and staff Code of Conduct annually and report to the Board.	18/08/2016	23/08/2017	Alex Devlin	Alex Devlin	Ongoing		Standing Orders reviewed 27/10/16. The next review will be scheduled for Board meeting on 23 August 2017.
Board	9	Securing World Class Audit - Developments in Audit	The Chief Operating Officer to schedule an update report on the Becoming World Class and world class audit.	27/10/2016	20/01/2017	Diane McGiffen	Russell Frith	Ongoing		At its meeting on 31 March 2017, the Board agreed the quality report will be considered by the Audit Committee on 17 May 2017. A further report will come to the Board at its meeting on 25/10/2017.
Board	9	Review of standing orders	Diane McGiffen, Chief Operating Officer, to schedule a report for the Board meeting in February 2017.	20/01/2017	22/02/2017	Diane McGiffen	Diane McGiffen	Complete	Yes	As agreed by the Board at its meeting on 31 March 2017, this item was considered at its meeting on 5 May 2017.
Board	10	Making a Difference: Digital Audit	Diane McGiffen, Chief Operating Officer, to schedule a report for a Board meeting later in the year.	20/01/2017	05/05/2017	Diane McGiffen	Martin Walker	Complete	No	Digital Audit Strategy being developed to support the Corporate Plan. Draft Digital Strategy to be considered by the Board at its meeting in October.
Board	11	Securing World Class Audit: Review of Quality Arrangements	Diane McGiffen, Chief Operating Officer, to schedule a report for a Board meeting later in the year.	20/01/2017	31/03/2017	Russell Frith	Elaine Boyd	Complete	Yes	The Board considered a report at its meeting on 31 March 2017. Audit Committee considered a report on 17/05/17.
Board	12	Securing World Class Audit: Fraud Arrangements	Russell Frith, Assistant Auditor General, to make the suggested amendments to the report in terms of responsibilities of reporting fraud.	20/01/2017	22/02/2017	Russell Frith	Anne Cairns	Complete	Yes	The report on Counter Fraud Arrangements was updated and issued to colleagues on 06/02/2017.
Board	13	Making a Difference: Demonstrating Value for Money Update	Fiona Kordiak, Director of Audit Services, to liaise with Heather Logan and take on board comments from members before issuing a further draft for their consideration by correspondence.	20/01/2017	22/02/2017	Fiona Kordiak	Fiona Kordiak	Complete	No	The Board will consider a report at item 13 of today's agenda.
Board	18	Q2 Becoming World Class Improvement Programme Report 2016/17	Russell Frith, Assistant Auditor General, to schedule a report to the Board on established International benchmarks for world class quality, people and reporting.	20/01/2017	05/05/2017	Russell Frith	Russell Frith	Complete	Yes	This was covered in the quality framework report considered by the Audit Committee on 17/05/2017.
Board	7	Review of minutes	Joy Webber, Senior Executive Assistant, to publish the approved minute of the meeting of 22 February 2017.	31/03/2017	30/04/2017	Joy Webber	Joy Webber	Complete	Yes	The approved minute and reports have been published on the Audit Scotland website.

Board	9	Review of Standing Orders	Joy Webber, Senior Executive Assistant, to circulate the legal advice and to schedule it for discussion at the next Board meeting on 5 May 2017	31/03/2017	05/05/2017	Joy Webber	Joy Webber	Complete	Yes	The Board discussed the advice at Item 9 of agenda on 05/05/2017.
Board	14	Q3 Performance Report 2016/17	Martin Walker, Assistant Director, Corporate Performance and Risk, to consider how best to focus the narrative on objectives and performance in future reports.	31/03/2017	30/06/2017	Martin Walker	Martin Walker	Complete	No	The Q4 performance report provided 2016/17 a performance summary for each of the strategic objectives.
Board	16	Securing World Class Audit: Review of Audit Quality	Martin Walker to schedule an item for consideration by the Audit Committee meeting on 17 May 2017.	31/03/2017	05/05/2017	Martin Walker	Martin Walker	Complete	Yes	This item was considered at the meeting of the Audit Committee on 17/05/2017.
Board	18	Making a Difference: Public Engagement Work with Young Scot	Diane McGiffen, Chief Operating Officer, to schedule an update report in March 2018.	31/03/2017	01/03/2018	Diane McGiffen	Joy Webber	Ongoing		This item will be scheduled for 18 March 2018.
Board	19	Publication of Reports	Joy Webber, Senior Executive Assistant, to arrange to publish the reports on the Audit Scotland website alongside the approved minute.	31/03/2017	30/04/2017	Joy Webber	Joy Webber	Complete	Yes	The approved minute and reports have been published on the Audit Scotland website.
Board	8	Review of Actions Tracker	Diane McGiffen, Chief Operating Officer to arrange for the updated Demonstrating Value for Money report to be circulated to the Board in June 2017.	05/05/2017	30/06/2017	Diane McGiffen	Diane McGiffen	Complete	No	This item will be considered at item # of today's agenda.
Board	9	Standing Orders Legal Advice	Diane McGiffen, Chief Operating Officer to circulate to members the summary note of the legal privilege status of legal advice.	05/05/2017	31/05/2017	Diane McGiffen	Diane McGiffen	Complete	Yes	The summary note was shared with Board members on 30/05/2017.
Board	9	Standing Orders Legal Advice	Diane McGiffen, Chief Operating Officer to liaise with BTO Solicitors to update the Standing Orders and provide a summary of the changes for consideration by the Board at its meeting on 6 June 2017.	05/05/2017	06/06/2017	Diane McGiffen	Diane McGiffen	Complete	Yes	The Standing Orders have been amended and appear at Item 9 of today's agenda.
Board	10	Corporate Plan 2017/18	Martin Walker, Assistant Director, Corporate Performance and Risk, to publish the Corporate Plan.	05/05/2017	06/06/2017	Martin Walker	Martin Walker	Complete	Yes	The Corporate Plan was published on 26 May 2017.
Board	10	Q4 Corporate performance 2016/17	Martin Walker, Assistant Director, Corporate Performance and Risk, to review the format of the report to ensure actions to address amber indicators are clearly identified.	06/06/2017	27/09/2017	Martin Walker	Martin Walker	Complete	No	This has been considered at the report to be considered at item 10 of the agenda for the meeting on 23/08/2017.
Board	11	Q4 Becoming world class improvement programme	Russell Frith, Assistant Auditor General to consider annual reporting by the audit firms as part of the audit quality review programme. (August 2017)	06/06/2017	23/08/2017	Russell Frith	Russell Frith	Ongoing		Russell Frith will provide a verbal update at the meeting of the Board on 23/08/2017.
Board	16	Draft annual report and accounts – Year End 31 March 2017	Caroline Gardner, Auditor General to sign the annual report and accounts 2016/17.	06/06/2017	13/06/2017	Caroline Gardner	Caroline Gardner	Complete	No	Caroline Gardner signed the annual report and accounts on 13/06/2017.
Board	18	2016/17 Annual report on international work and international strategy 2017-20	Antony Clark, Chair of International Steering Group to consider the longer term impact of international work in future reporting.	06/06/2017	01/06/2018	Antony Clark	Sarah Pollock	Ongoing		A report will be scheduled by June 2018.
Board	21	Any other business	Diane McGiffen, Chief Operating Officer to schedule a report on openness and transparency for the Board meeting on 23 August 2017.	06/06/2017	23/08/2017	Diane McGiffen	Martin Walker	Complete	No	The report at item 15 will be considered at the meeting of the Board on 23/08/2017.

AUDIT SCOTLAND BOARD

23 AUGUST 2017

REPORT BY THE CORPORATE FINANCE MANAGER

Q1 FINANCIAL PERFORMANCE REPORT 2017/18

1. Purpose

This report presents the draft financial results for the three months to June 2017. These results support the quarter one performance report presented to today's Board meeting at agenda item 10.

2. Background

The Management Accounts and finance report for the three months to June 2017 is attached to this paper. The paper comprises the following sections.

- Schedule 1 Headline Results and commentary
- Schedule 2 Results Summary
- Schedule 3 Balance Sheet
- Schedule 4 Cash Flow Statement
- Schedule 5 Capital Expenditure and Funding Report
- Schedule 6a ASG Finance Report
- Schedule 6b PABV Finance Report
- Schedule 6c CSG Finance Report
- Schedule 6d BSS & FM Finance Report
- Schedule 7 WTE Staff in Post Summary 2017/18
- Schedule 8a Work in Progress 2016/17 Audit Year
- Schedule 9 2017/18 Financial year – fee income analysis

The report was discussed by Management Team on Tuesday 25 July 2017.

3. Discussion

In the three months to June 2017, Audit Scotland's Net Operating Expenditure was £942k which was £74k less than budget.

Lower overheads were the main contributors to the favourable position. Reduced costs were recorded for legal, professional and consultancy £23k, staff training £28k, printing and office costs £18k, and information technology £17k.

Staff costs including agency and secondment expenditure and net of secondment income were £13k less than budget.

In-house income was very close to budget being £6k higher than expected.

Fee income earned for audits carried by external firms net of fees and expenses paid to the firms was £41k less than budget. Although income was £38k higher than

budget, this was offset by fees and expenses payable to the external firms which were £79k higher than budget. This increased cost is timing related and was due to variable discounts offered by firms and the actual mix of WIP reported at June 2017.

There are no matters of concern requiring discussion with the Board.

Further detailed information on the financial results is provided in the attached report.

4. Virement

There were no instances of budget virement in excess of £20k in the three months to June 2017.

5. Action

The Board is invited to note the financial results for the three months to June 2017.

FINANCE REPORT

Three Months to 30 June 2017

1.1 Headline Results

1. In the three months to June 2017 Audit Scotland's Net Operating Expenditure at £942k was £74k less than budget.
 - Total income recorded in the three months to June 2017 was £72k more than the phased budget. Fee income including central charges was £44k higher than budget. Other income earned from staff on secondment to other organisations totalled £30k.
 - Expenditure was very close to budget. Favourable variances were recorded for own staff costs £28k, legal, professional and consultancy £23k, training £28k, printing and office £18k and information technology (IT) £17k. These favourable variances were partly offset by increased expenditure on approved auditors £79k and agency and seconded staff £45k. Further details are provided in section 2.

1.2 The summary financial information to June 2017 :

£000	Annual Budget	Actual	Budget	Var.	% Var.	Prior Year
Fee Income - In House	7,200	2,105	2,099	6	-0.3%	2,240
Fee Income - Audit Firms	4,463	1,498	1,460	38	-2.6%	2,086
Central Charges	5,505	1,376	1,376	0	0.0%	1,180
Interest	25	5	7	(2)	28.6%	7
Other Income	0	30	0	30	-	27
IAS 19 Income	0	0	0	0	-	0
TOTAL INCOME	17,193	5,014	4,942	72	1.5%	5,540
Approved auditors	3,952	1,381	1,302	(79)	6.1%	1,864
Staff salaries and oncosts	15,025	3,726	3,754	28	-0.7%	3,712
Payroll provisions incl. severance	114	0	0	0	-	0
Agency and secondment costs	60	55	10	(45)	450.0%	84
IAS 19 Pension costs	90	0	0	0	-	0
Property costs	930	211	215	4	-1.9%	206
Travel and subsistence	922	204	201	(3)	1.5%	198
Legal, professional and consultancy	546	36	59	23	-39.0%	90
Training	528	53	81	28	-34.6%	62
Recruitment	105	31	26	(5)	19.2%	29
Printing and office costs	286	53	71	18	-25.4%	68
Information technology	436	92	109	17	-15.6%	97
Audit	60	15	15	0	0.0%	13
Depreciation	397	92	99	7	-7.1%	88
Other costs	73	7	16	9	-56.3%	15
EXPENDITURE	23,524	5,956	5,958	2	0.0%	6,526
NET OPERATING (EXPENDITURE)	(6,331)	(942)	(1,016)	74	-7.3%	(986)

FINANCE REPORT

Three Months to 30 June 2017

2. Income and Expenditure Summary (See Headline Table, above, and Sch. 2)**a) Income**

In the three months to June 2017 fee income, including central charges, was £44k more than budget. In-house fee income was £6k above budget and income earned in respect of audits carried out by external audit firms was £38k more than budget. Central charges income was in line with budget.

In-house fee income is derived from work in progress (WIP) completion percentages compiled through access to ASG's Management Information System (MIS) which captures audit day inputs from the MKI audit working papers system. The system derived percentages have been reviewed by the ASG Management Team.

The phased budgets for fee income have been profiled, mainly, on the basis of actual income levels recorded during the 2016/17 financial year. As the budgets have been based on the balance of indicative audit fees to be collected in the financial year, variances will arise as a result of volume and price differences. Volume variances will occur when the WIP percentage reported is either above or below the percentage anticipated in the budget. Price variances will reflect the degree to which the fees have been agreed above, or below, the expected values included in the budget.

Fee income relates to the 2016/17 audit year.

Income earned for in-house 2016/17 audits (excluding credits for non-chargeable audits) was £6k more than the phased budget. Income was above budget for all sectors except Central Government - Local Government, +£25k, NHS, +£7k, and FE, +£23k. Income for Central Government chargeable audits was £49k less than budget. Audit progress for 2016/17 chargeable audits was on average -0.58% below the budget expectation which reduced income by £32k. The agreement of fees above the expected level included in the budget increased income by £39k – on average agreed fees are 1.9% higher than budget levels.

The table shows the analysis by sector at June 2017 for the 2016/17 audits:

2016/17	Volume		Price	Total
	Cumulative WIP %	£k	£k	£k
Local Government	+0.30	+13	+12	+25
Health	0.00	0	+7	+7
FE	+52.07	+23	-	+23
Central Government	-4.07	-68	+19	-49
Total – June 2017	-0.58	-32	+38	+6

In the Central Government sector, the adverse variance relates to the European Agricultural Fund Audit (EAFA). Audit progress is behind plan mainly as a result of well reported problems of delayed payments to farmers - our audit activity is based on sample testing and as the payments are later than planned this year our planned progress has slipped.

Audit progress information is collected from firms on a quarterly basis. The income recorded to June shows a favourable variance of £38k when compared to budget. The agreement of fees above the expected level included in the budget increased income by £86k – on average agreed

FINANCE REPORT

Three Months to 30 June 2017

fees are 4.5% higher than budget levels. Audit progress on average was 1% below that assumed in the budget reducing income by £48k.

The table, below, shows the performance to June 2017.

2016/17	Volume		Price	Total
	Cumulative WIP %	£k	£k	£k
Local Government	+1.37	+36	+47	+83
Health	0.00	0	+37	+37
FE	+5.02	+20	-	+20
Central Government	-26.72	-97	+2	-95
Water	-5.00	-7	-	-7
Total – June 2017	-1.00	-48	+86	+38

Schedule 8a details the cumulative WIP completion percentages for 2016/17 audits in each sector at June 2017. Information is also provided in terms of the budget for 2016/17 audits and a comparator with the position reported at June 2016 (2015/16 audit year). Schedule 9 provides an analysis of total fee income by sector, audit year and by provider (in-house and external firms).

The Management Team should note that any adverse fee income position reported for 2016/17 audits at June 2017 is mainly timing related. Income will move towards budget and, where higher than expected fees have been agreed, exceed budget as recognition of the balance of the 2016/17 audit fee income is made over the next five to six months.

Other income recovered for staff seconded to other public sector organisations was £30k above budget. Interest received, at £5k, was £2k less than budget - this is a trend that is likely to continue as interest rates paid by our bank continue to fall.

b) Expenditure

Total expenditure for the three months to June 2017 at £5,956k was £2k less than budget.

Reduced costs were recorded for own staff, £28k, legal, professional and consultancy expenditure £23k, training £28k, printing and office costs £18k and IT £17k. These favourable variances were partly offset by increased levels of fees and expenses paid to external audit firms, £79k and increased agency and secondment charges, £45k.

Fees and expenses payable to external audit firms were £79k more than budget. Fees paid to external firms were £85k greater than budget and VAT recoveries on Local Government work £6k more than budget. Excluding payments made to firms for non-chargeable audits which were £30k more than budget, fees paid to external firms for chargeable audits were £49k more than budget. The increase in audit fee income reported by the audit firms has a 'knock on' effect on the amount of the fees payable to the firms that is recognised in the accounts for the period. As income earned for chargeable audits carried out by external firms was £38k more than budget the fees and expenses associated with the work were also higher than budget – due to variable discounts offered by firms and the actual mix of WIP reported at June 2017, fees were £49k greater than budget.

FINANCE REPORT**Three Months to 30 June 2017**

Own staff costs in the three months to June 2017 were £28k less than budget. The average number of staff employed in the three months to June 2017 at 269.4 w.t.e. was 5.5 w.t.e. lower than the establishment figure of 274.9 w.t.e. The staff budget for 2017/18 assumes a 2% vacancy factor and therefore the average number of staff employed in the period was in line with the numbers funded in the budget. Lower than budgeted average actual salary costs per employee was the main contributor to the favourable variance. Further information is provided in schedule 7.

Agency and secondment costs were £45k greater than budget. The largest element of the variance £42k related to the secondment of two staff from other public bodies to PABV (from West Lothian Council and Scotland's Rural College). The balance of the adverse variance £6k, was due to agency expenditure incurred by Digital Services to cover a maternity/paternity absence, offset by a £3k agency underspend in ASG in the year to date.

Total staff costs to 30 June 2017 including agency and secondment expenditure and net of secondment income were £13k less than budget.

Legal, professional and consultancy fees were £23k greater than budget as a result of reduced consultancy expenditure across all business groups.

Training costs in the three months to June 2017 were £28k less budget. Training expenditure was £17k less than budget with the balance due to lower costs in respect professional subscriptions £4k and attendance at conferences £7k.

Expenditure on printing and office costs was £18k less than budget the result of a number of small variances across a range of cost categories the most notable of which were photography £4k, stationery £4k and books and periodicals £4k.

Lower expenditure on software licences was the main contributor to the IT expenditure variance of £17k.

At this early point in the year it is likely that many of the favourable expenditure variances are timing related.

The 2017/18 budget included a contingency fund of £150k which is controlled by the Management Team. In setting our operational budget £52k was allocated to part fund the additional costs arising from the implementation of our new reward system – as a result £98k remains uncommitted at the end of June 2017.

A further £114k in respect of payroll reserves is also uncommitted. £100k being the provision to plan for additional work arising from New Financial Powers (NFP) and the impact of the EU referendum with £14k being the balance remaining of the quality review provision.

3. Balance Sheet (See Sch. 3)

At 30 June 2017, net liabilities of £33,023k were recorded in the Balance Sheet. This represented a slight increase in net liabilities of £490k from the audited position at 31 March 2017.

Non-current assets have reduced by £72k as result of depreciation charges on our assets being greater than new capital investment in the three months to June 2017.

The second instalments of the 2016/17 audit fees were invoiced in mid-May, together with the final instalment of the 2015/16 FE fees. As a result trade and other receivables have increased by £1,517k and cash balances by £2,548k.

Trade and other payables increased by £4,480k primarily due to higher levels of deferred income (fee income received in advance of audit work being completed) and increased cash balances again relating to recent invoicing.

FINANCE REPORT

Three Months to 30 June 2017

Deferred liabilities increased by £72k due to movements in the rent free provision for the new Edinburgh office. This provision is being built up over the first 39 months of the lease. The provision for early retirement has reduced by £69k following payments made for BSS voluntary redundancy departures and monthly payments made for early retirements of former Accounts Commission and Local Government Ombudsmen staff.

4. **Cash Flow Statement** (See *Sch. 4*)

In the three months to June 2017 cash balances have increased by £2,548k from £1,450k at March 2017 to £3,998k at June 2017. The position includes receipts from fee invoicing and £3,000k drawn down from the Scottish Consolidated Fund. These receipts were higher than our cash outflows in the three months to June 2017.

5. **Capital Expenditure and Funding Report** (See *Sch. 5*)

Capital investment in the three months to June 2017 totalled £22k.

Investment in new furniture and fittings for the Glasgow office refurbishment was £16k. £6k was spent on additional RSA security tokens and software to trial mobile capture of expenses.

6. **Business Group Summaries** (See *Sch. 6 a~d*)

6.1 In the three months to June 2017 **Audit Services Group** had a net operating contribution of £315k which was £57k lower than budget.

- Fee income (including credits for non-chargeable work) was £52k lower than budget. Adverse variances were recorded in Central Government, both chargeable, -£49k and non-chargeable, -£58k. These adverse variances variance were partially offset by favourable variances in Local Government, £25k, NHS, £7k and FE, £23k. On average WIP was 1.16% less than assumed in the budget which reduced income and income credits by £92k. With the budget phased broadly in line with actual experiences last year and WIP calculated on time recorded through MKI, this reported volume variance is essentially a timing difference. The agreement of fees above the expected level included in the budget increased income and income credits by £40k.
- Income earned from secondments was £11k above budget and relates to a member of staff seconded on a part-time basis to ICAS.
- Further details on income are provided in section 2, above, and schedules 8 and 9.
- Gross expenditure at £2,104k was £16k more than budget.
- Own staff costs were £23k more than budget. The average number of staff employed in the three months to June 2017 at 144.8 w.t.e. was 0.3 w.t.e. below establishment. As the staff budget for 2017/18 assumed a 2% vacancy factor, the average number of staff employed in the period was 2.6 w.t.e. more than the numbers funded in the budget. The additional cost of employing these staff was partly offset by lower than budgeted average actual salary costs per employee. Agency expenditure was £3k less than budget. Total staff costs including agency and net of secondment income were £9k more than budget.
- Expenditure levels in other categories were £4k less than budget.

6.2 Net expenditure in **PABV** for the three months to June 2017 was £870k, £26k less than budget.

- Total staff costs inclusive of secondment expenditure were £6k less than budget. Two staff seconded into PABV from West Lothian Council and Scotland's Rural College increased expenditure by £42k. This expenditure was offset by lower own staff costs which were £48k less than budget (average staffing in the year was 57.3 w.t.e. compared

FINANCE REPORT**Three Months to 30 June 2017**

to an establishment of 61.8 w.t.e.).

- £10k of income was received for a member staff seconded to the Scottish Parliament.
- Total staff costs inclusive of secondment charges and net of secondment income were £16k less than budget.
- Other expenditure in the three months to June 2017 was £10k less than budget – mainly consultancy expenditure.

6.3 **Corporate Services** net expenditure in the three months to June 2017 at £740k was £54k less than budget. The main contributors to the variance are noted below.

- Own staff costs were £7k higher than budget for the period. CSG staffing at 32.1 w.t.e. was 0.3 w.t.e. above establishment, with the majority of the adverse cost variance being driven by the 2% vacancy factor. Agency staff expenditure as a result of backfilling staff on maternity/paternity leave was £6k more than budget.
- Other expenditure for Corporate Services was £69k less than budget. The main contributors to this variance were training and recruitment costs £13k, ICT expenditure £17k, consultancy £10k, and depreciation charges £7k.
- Bank interest earned in the year was £2k less than budget. Interest rates paid by the bank on deposits have reduced since the budget was set and it is unlikely the interest percentage will increase again over the short/medium term.

6.4 **Business Support and Facilities Management**, net expenditure to June 2017 at £386k was £23k lower than budget.

- Staff costs, including agency charges, were £7k lower than budget. The average number of staff employed in the year was 21.3 w.t.e., 0.9 w.t.e. below establishment. Three supernumerary members of staff left on voluntary redundancy terms in the three months to June 2017.
- £8k of income was received for a member staff seconded to Queen Margaret University.
- Other expenditure at £219k was £8k less than budget as a result of a number of small variances.

David Hanlon
Corporate Finance Manager
18 July 2017

AUDIT SCOTLAND

FINANCE REPORT

RESULTS SUMMARY: 30 June 2017

Schedule 2

£(000)'s	Annual	Actual	Period	Variance	Actual	Budget	Variance
INCOME							
Fee Income - In House	7,200	899	755	144	2,105	2,099	6
Fee Income - Audit Firms	4,463	1,479	1,460	19	1,498	1,460	38
Central Charges	5,505	459	459	0	1,376	1,376	0
Rebate	0	0	0	0	0	0	0
Bank interest	25	2	2	0	5	7	(2)
Other Income	0	8	0	8	30	0	30
TOTAL INCOME	17,193	2,847	2,676	171	5,014	4,942	72
EXPENDITURE							
Commission	177	12	13	1	40	44	4
Board	31	3	3	0	8	8	0
Auditor General	233	21	19	(2)	59	58	(1)
Accounts Commission Secretary	97	8	8	0	23	24	1
Management Team	623	50	52	2	149	155	6
Audit Strategy	683	58	61	3	162	162	0
Approved Auditors	3,952	1,362	1,302	(60)	1,381	1,302	(79)
Audit Services Group	8,483	714	712	(2)	2,104	2,088	(16)
Performance Audit and Best Value	3,757	292	296	4	880	896	16
Corporate Services	3,419	237	283	46	745	801	56
Business Support & Facilities	1,640	134	137	3	394	409	15
Reserves & Provisions	331	3	4	1	11	11	0
Contingency & EYF	98	0	0	0	0	0	0
TOTAL EXPENDITURE	23,524	2,894	2,890	(4)	5,956	5,958	2
NET OPERATING (EXPENDITURE)	(6,331)	(47)	(214)	167	(942)	(1,016)	74
SCPA agreed Budget	(6,331)						
Budget Revision - AME pension adjustment	(6,331)						

AUDIT SCOTLAND

FINANCE REPORT

Balance Sheet As at 30 June 2017

Schedule 3

	31 March 2017 (Audited) £(000)'s	30 June 2017 £(000)'s
Non-Current Assets		
Property, Plant and Equipment	1,553	1,483
Intangible Assets	90	88
Total non-current assets	1,643	1,571
Current Assets		
Trade and other receivables	2,315	3,832
Cash and cash equivalents	1,450	3,998
Total current assets	3,765	7,830
Total assets	5,408	9,401
<u>Less: Current Liabilities</u>		
Trade and other payables < 1 year	3,624	8,104
Provision for early retirement < 1 year	254	209
Other provisions < 1 year	0	0
Total current liabilities	3,878	8,313
Non-current assets plus/net current assets/liabilities	1,530	1,088
Non-current liabilities		
Deferred liabilities	(545)	(617)
Provision for Early Retirement	(1,903)	(1,879)
Other provisions	(150)	(150)
Net Funded Pension Liabilities	(31,465)	(31,465)
Total non-current liabilities	(34,063)	(34,111)
ASSETS LESS LIABILITIES	(32,533)	(33,023)
<u>Represented by:</u>		
Taxpayers' Equity		
Net funded pension liabilities	31,465	31,465
General Fund	1,068	1,558
	32,533	33,023

**Cash Flow Statement
to 30 June 2017**

Schedule 4

£(000)'s

Cashflows from operating activities

Net Operating expenditure	(942)
<i>Adjustment for non cash items:</i>	
- Depreciation	92
(Increase)/Decrease in trade and other receivables	(1,516)
(Decrease)/Increase in trade/other payables/deferred liabilities	2,005
(Decrease)/Increase in provisions for early retirement	(69)
(Decrease)/Increase in other provisions	0

Net cash outflow from operating activities **(430)**

Cashflows from investing activities

Purchase of property, plant and equipment	(18)
Purchase of intangible assets	(4)
Less / (add) movement in accrued expenditure	
	(22)

Cashflows from financing activities

From Consolidated Fund (supply)	3,000
----------------------------------	-------

Net increase / (decrease) in cash and cash equivalents in the period **2,548**

Cash and cash equivalents at the beginning of the period **1,450**

Cash and cash equivalents at the end of the period **3,998**

Net cash requirement

Cashflows from financing activities	3,000
(Increase)/ decrease in cash	(2,548)
	452

Capital Expenditure and Funding Report
As at 30 June 2017

Schedule 5

	Leasehold Buildings £(000)'s	Furniture & Fittings £(000)'s	Computer Hardware £(000)'s	Computer Software £(000)'s	TOTAL £(000)'s
ASSETS					
Cost					
At 1 April 2017	1,276	271	909	798	3,254
Reclassified in year	0	0	0	0	0
Additions for year	0	16	2	4	22
Disposals for year	0	0	(4)	0	(4)
As at 30 June 2017	1,276	287	907	802	3,272
Depreciation					
At 1 April 2017	263	85	555	708	1,611
Reclassified in year	0	0	0	0	0
Charge for Year	34	14	38	6	92
Disposals for year	0	0	(2)	0	(2)
As at 30 June 2017	297	99	591	714	1,701
Net Book Value					
As at 30 June 2017	979	188	316	88	1,571
Analysis of Asset Financing					
Owned	979	188	316	88	1,571

AUDIT SCOTLAND

FINANCE REPORT

ASG FINANCE REPORT: to 30 June 2017

Schedule 6a

£(000)'s	Annual Budget	Period	Period Budget	Variance	YTD	Budget YTD	Variance YTD
INCOME							
LG Audits	4,136	286	176	110	775	750	25
Health Audits	1,271	437	426	11	864	857	7
CG Audits	1,750	158	151	7	440	489	(49)
CG Audits (non-chargeable)	1,933	158	146	12	303	361	(58)
FE Audits	43	18	2	16	26	3	23
TOTAL FEE INCOME	9,133	1,057	901	156	2,408	2,460	(52)
Secondments Income	0	4	0	4	11	0	11
Other Income	0	0	0	0	0	0	0
OTHER INCOME	0	4	0	4	11	0	11
TOTAL INCOME	9,133	1,061	901	160	2,419	2,460	(41)
DIRECT COSTS							
Salaries	5,836	490	486	(4)	1,469	1,459	(10)
National Insurance	640	55	53	(2)	162	160	(2)
Superannuation	998	85	83	(2)	253	250	(3)
Superannuation Lump Sum	40	3	3	0	10	10	0
Class 1A NI	43	10	4	(6)	19	11	(8)
Agency Costs and Secondments	60	7	10	3	7	10	3
TOTAL DIRECT COSTS	7,617	650	639	(11)	1,920	1,900	(20)
EXPENDITURE							
Training & Recruitment	41	0	2	2	2	6	4
Cars	362	29	29	0	88	87	(1)
Travel & Subsistence/Relocation	413	31	34	3	83	82	(1)
Accommodation	0	0	0	0	3	0	(3)
Other Accommodation Costs	6	1	0	(1)	3	1	(2)
Printing	2	0	0	0	0	1	1
Communications	0	0	0	0	0	0	0
Stationery & Consumables	4	1	1	0	1	1	0
Postage & Distribution	3	0	0	0	0	1	1
ICT	16	2	4	2	2	4	2
Consultancy	6	0	1	1	0	2	2
Legal/Professional Fees	0	0	0	0	0	0	0
Insurance	0	0	0	0	0	0	0
Corporate Costs	8	0	1	1	1	2	1
Depreciation	0	0	0	0	0	0	0
Miscellaneous	5	0	1	1	1	1	0
TOTAL EXPENDITURE	866	64	73	9	184	188	4
GROSS EXPENDITURE	8,483	714	712	(2)	2,104	2,088	(16)
NET OPERATING CONTRIBUTION TO OVERHEADS	650	347	189	158	315	372	(57)

AUDIT SCOTLAND

FINANCE REPORT

PABV FINANCE REPORT: to 30 June 2017

Schedule 6b

£(000)'s	Annual Budget	Period	Period Budget	Variance	YTD	Budget YTD	Variance YTD
INCOME							
Bank Interest	0	0	0	0	0	0	0
Secondments Income	0	3	0	3	10	0	10
Other Income	0	0	0	0	0	0	0
Pension Fund Finance Income	0	0	0	0	0	0	0
OTHER INCOME	0	3	0	3	10	0	10
TOTAL INCOME	0	3	0	3	10	0	10
DIRECT COSTS							
Salaries	2,652	208	221	13	627	663	36
National Insurance	297	22	25	3	67	74	7
Apprenticeship Levy	0	0	0	0	0	0	0
Superannuation	459	36	38	2	109	115	6
Superannuation Lump Sum	18	2	2	0	4	4	0
Class 1A NI	4	1	0	(1)	2	1	(1)
Agency Costs and Secondments	0	14	0	(14)	42	0	(42)
TOTAL DIRECT COSTS	3,430	283	286	3	851	857	6
EXPENDITURE							
Training & Recruitment	0	0	0	0	0	0	0
Cars	32	2	3	1	6	8	2
Travel & Subsistence/Relocation	66	4	5	1	14	14	0
Accommodation	0	0	0	0	0	0	0
Other Accommodation Costs	2	0	0	0	1	1	0
Printing	0	0	0	0	0	0	0
Communications	0	0	0	0	0	0	0
Stationery & Consumables	3	0	0	0	0	1	1
Postage & Distribution	0	0	0	0	0	0	0
ICT	4	1	1	0	1	1	0
Consultancy	210	0	0	0	2	12	10
Legal/Professional Fees	0	0	0	0	0	0	0
Insurance	0	0	0	0	0	0	0
Corporate Costs	10	2	1	(1)	5	2	(3)
Depreciation	0	0	0	0	0	0	0
Miscellaneous	0	0	0	0	0	0	0
TOTAL EXPENDITURE	327	9	10	1	29	39	10
GROSS EXPENDITURE	3,757	292	296	4	880	896	16
NET OPERATING (EXPENDITURE)	(3,757)	(289)	(296)	7	(870)	(896)	26

AUDIT SCOTLAND

FINANCE REPORT

CSG FINANCE REPORT: to 30 June 2017

Schedule 6c

£(000)'s	Annual Budget	Period	Period Budget	Variance	YTD	Budget YTD	Variance YTD
INCOME							
Bank Interest	25	2	2	0	5	7	(2)
Secondments Income	0	0	0	0	0	0	0
Other Income	0	0	0	0	0	0	0
Pension Fund Finance Income	0	0	0	0	0	0	0
OTHER INCOME	25	2	2	0	5	7	(2)
TOTAL INCOME	25	2	2	0	5	7	(2)
DIRECT COSTS							
Salaries	1,262	107	105	(2)	320	315	(5)
National Insurance	136	11	11	0	34	34	0
Superannuation	216	18	18	0	56	54	(2)
Superannuation Lump Sum	9	1	1	0	2	2	0
Class 1A NI	0	0	0	0	0	0	0
Agency Costs and Secondments	0	0	0	0	6	0	(6)
TOTAL DIRECT COSTS	1,623	137	135	(2)	418	405	(13)
EXPENDITURE							
Training & Recruitment	534	11	39	28	74	87	13
Cars	0	0	0	0	0	0	0
Travel & Subsistence/Relocation	25	0	2	2	2	5	3
Accommodation	0	0	0	0	0	0	0
Other Accommodation Costs	17	1	2	1	2	4	2
Printing	8	1	1	0	1	2	1
Communications	80	4	7	3	15	20	5
Stationery & Consumables	1	0	0	0	0	0	0
Postage & Distribution	4	0	0	0	0	1	1
ICT	439	38	37	(1)	93	110	17
Consultancy	65	0	8	8	1	11	10
Legal/Professional Fees	107	8	9	1	26	27	1
Insurance	70	6	6	0	17	17	0
Corporate Costs	10	0	1	1	1	3	2
Depreciation	397	31	33	2	92	99	7
Miscellaneous	39	0	3	3	3	10	7
TOTAL EXPENDITURE	1,796	100	148	48	327	396	69
GROSS EXPENDITURE	3,419	237	283	46	745	801	56
NET OPERATING (EXPENDITURE)	(3,394)	(235)	(281)	46	(740)	(794)	54

AUDIT SCOTLAND

FINANCE REPORT

BSS & FM FINANCE REPORT: to 30 June 2017

Schedule 6d

£(000)'s	Annual Budget	Period	Period Budget	Variance	YTD	Budget YTD	Variance YTD
INCOME							
Bank Interest	0	0	0	0	0	0	0
Secondments Income	0	0	0	0	8	0	8
Other Income	0	0	0	0	0	0	0
Pension Fund Finance Income	0	0	0	0	0	0	0
OTHER INCOME	0	0	0	0	8	0	8
TOTAL INCOME	0	0	0	0	8	0	8
DIRECT COSTS							
Salaries	572	45	48	3	139	143	4
National Insurance	54	4	5	1	13	13	0
Superannuation	99	7	8	1	22	25	3
Superannuation Lump Sum	4	0	0	0	1	1	0
Class 1A NI	1	0	0	0	0	0	0
Agency Costs and Secondments	0	0	0	0	0	0	0
TOTAL DIRECT COSTS	730	56	61	5	175	182	7
EXPENDITURE							
Training & Recruitment	0	0	0	0	0	0	0
Cars	4	0	0	0	0	1	1
Travel & Subsistence/Relocation	6	1	1	0	3	1	(2)
Accommodation	799	68	67	(1)	194	200	6
Other Accommodation Costs	29	2	3	1	6	7	1
Printing	24	4	2	(2)	8	6	(2)
Communications	0	0	0	0	0	0	0
Stationery & Consumables	29	1	2	1	3	8	5
Postage & Distribution	12	2	1	(1)	2	3	1
ICT	1	0	0	0	0	0	0
Consultancy	0	0	0	0	0	0	0
Legal/Professional Fees	0	0	0	0	0	0	0
Insurance	5	0	0	0	2	1	(1)
Corporate Costs	0	0	0	0	1	0	(1)
Depreciation	0	0	0	0	0	0	0
Miscellaneous	1	0	0	0	0	0	0
TOTAL EXPENDITURE	910	78	76	(2)	219	227	8
GROSS EXPENDITURE	1,640	134	137	3	394	409	15
NET OPERATING (EXPENDITURE)	(1,640)	(134)	(137)	3	(386)	(409)	23

AUDIT SCOTLAND

FINANCE REPORT

WTE Staff in Post Summary: 2017/18

Schedule 7

	Establishment	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	March	Average
Auditor General	1.0	1.0	1.0	1.0										1.0
Accounts Commission Secretary	1.0	1.0	1.0	1.0										1.0
Management Team	4.0	4.0	4.0	4.0										4.0
Audit Strategy	8.0	7.9	7.9	7.9										7.9
Audit Services Group	145.1	143.8	144.2	146.2										144.8
Performance Audit and Best Value	61.8	57.6	56.6	57.6										57.3
Corporate Resource Group	4.6	4.6	4.6	4.6										4.6
Human Resources	5.4	5.4	5.4	6.4										5.7
Digital Services	9.0	9.0	9.0	9.0										9.0
Communications	9.8	9.8	9.8	9.8										9.8
Corporate Planning & Projects	3.0	3.0	3.0	3.0										3.0
Corporate Services	31.8	31.8	31.8	32.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	32.1
Business Support & Facilities	22.2	22.6	21.6	19.7										21.3
TOTAL AUDIT SCOTLAND (Exc Commission)	274.9	269.8	268.1	270.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	269.4
%age of Establishment	100.0%	98.1%	97.5%	98.3%										98.0%
Board	3.0	3.0	3.0	3.0										3.0
Commission	12.0	11.0	11.0	11.0										11.0
TOTAL	289.9	283.8	282.1	284.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	283.4
Agency and Secondments (w.t.e.)														
Agency estimate		1.2	0.3	1.8										1.1
Secondments to Audit Scotland		2.0	2.0	2.0										2.0
Secondments from Audit Scotland		-2.6	-2.6	-2.6										-2.6
		0.6	-0.3	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5

AUDIT SCOTLAND

FINANCE REPORT

WORK IN PROGRESS 2016/17 AUDIT YEAR

SCHEDULE 8a

AUDIT COMPLETION PERCENTAGES

	15/16 AY ACTUAL June 2016 %	2016/17 Audit Year			
		ACTUALS		BUDGET	VARIANCE
		March 2017 %	June 2017 %	June 2017 %	June 2017 %
In House Teams					
Local Government	56.68	31.72	50.16	49.85	0.30
Health	78.18	38.52	100.00	100.00	0.00
FE colleges	22.39	35	95.00	42.93	52.07
Central Government	61.89	30.67	55.34	59.42	-4.07
Total Chargeable	61.75	32.78	61.10	61.67	-0.58
Non Chargeable	56.08	28.06	49.29	53.56	-4.27
Total In House	60.63	32.02	59.20	60.36	-1.16
Approved Auditors *					
Local Government	40.15	24.64	43.66	42.28	1.37
Health	99.88	26.48	100.00	100.00	0.00
Water	100.00	40.00	95.00	100.00	-5.00
FE colleges	11.84	3.76	15.48	10.46	5.02
Central Government	71.08	24.68	49.74	76.46	-26.72
Total Chargeable	57.15	23.72	55.48	56.48	-1.00
Non Chargeable	79.70	22.47	86.08	77.20	8.88
Total Approved Auditors	57.35	23.66	57.07	57.56	-0.49
* To be reported quarterly					

AUDIT SCOTLAND

FINANCE REPORT

2017/18 FINANCIAL YEAR - FEE INCOME ANALYSIS £000

SCHEDULE 9

As at 30 June 2017

	Prior year adjustments			2016/17 Audit Year			2017/18 Audit Year			2017/18 Financial Year to Date			Variance analysis		
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Volume	Price *	Total
In-house Teams															
Local Government	0	0	0	775	750	25	0	0	0	775	750	25	13	12	25
Health	0	0	0	864	857	7	0	0	0	864	857	7	0	7	7
FE colleges	0	0	0	26	3	23	0	0	0	26	3	23	23	0	23
Central Government	0	0	0	440	489	(49)	0	0	0	440	489	(49)	(68)	19	(49)
Total In-house teams	0	0	0	2,105	2,099	6	0	0	0	2,105	2,099	6	(32)	38	6
Approved Auditors															
Local Government	0	0	0	543	460	83	0	0	0	543	460	83	36	47	83
Health	0	0	0	741	704	37	0	0	0	741	704	37	0	37	37
Water	0	0	0	75	82	(7)	0	0	0	75	82	(7)	(7)	0	(7)
FE colleges	0	0	0	46	26	20	0	0	0	46	26	20	20	0	20
Central Government	0	0	0	93	188	(95)	0	0	0	93	188	(95)	(97)	2	(95)
Total Approved Auditors	0	0	0	1,498	1,460	38	0	0	0	1,498	1,460	38	(48)	86	38
Total															
Local Government	0	0	0	1,318	1,210	108	0	0	0	1,318	1,210	108	49	59	108
Health	0	0	0	1,605	1,561	44	0	0	0	1,605	1,561	44	0	44	44
Water	0	0	0	75	82	(7)	0	0	0	75	82	(7)	(7)	0	(7)
FE colleges	0	0	0	72	29	43	0	0	0	72	29	43	43	0	43
Central Government	0	0	0	533	677	(144)	0	0	0	533	677	(144)	(165)	21	(144)
Total Fees	0	0	0	3,603	3,559	44	0	0	0	3,603	3,559	44	(80)	124	44
Central Charges	0	0	0	1,376	1,376	0	0	0	0	1,376	1,376	0	0	0	0
TOTAL	0	0	0	4,979	4,935	44	0	0	0	4,979	4,935	44	(80)	124	44

* Price variance includes the reduction in income to be earned as a result of procurement savings on work carried out by external firms

AUDIT SCOTLAND BOARD

23 AUGUST 2017

REPORT BY THE ASSISTANT DIRECTOR CORPORATE PERFORMANCE AND RISK

Q1 CORPORATE PERFORMANCE REPORT

1. Purpose of Report

This report provides the Board with an overview of Audit Scotland's performance during quarter one of 2017/18.

2. Background

Performance reports are considered by the Management Team and the Board on a quarterly basis alongside the quarterly financial performance report and Becoming World Class improvement programme update.

We have made a number of changes to the reporting focus and format based on the development work for the annual report and accounts, discussions in the Performance and Risk Management Group and feedback from Management Team and the Board.

The new reporting arrangements are taking effect alongside the broader development of the performance management framework and exploring options for digital applications to support this. In that context this, and future quarterly reports in 2017/18, offer transitional reporting arrangements that will evolve over the course of the year.

The main objective of the refocused reports is to provide performance information that offers a good balance between providing assurance and being action focused.

The performance information is structured around the three strategic objectives of Securing World Class Audit, Making a Difference and Building a Better Organisation.

- Appendix 1 provides a one page summary of performance for each strategic objective
- Appendix 2 provides the detailed performance information.

We have made a number of other changes

- refining and refocusing the key performance questions
- increasing the coverage of performance information to include audits covered by the firms
- introducing new performance indicators.

Where these changes have affected the time series comparisons we have made a judgement to identify a best fit with previous reporting. In some cases, for example where there are new indicators, time series analysis is not available.

The refocus and reformatting has also identified a number of areas where new performance measures are required. These are highlighted in yellow and will be developed and reported in future reports and/or inform the performance management framework development project.

3. Reporting arrangements

This is the first quarter using the new approach. To demonstrate the structure and content both appendices have been included for completeness. Subject to Board discussion I propose that future reports include only the summary at appendix 1. The appendix 2 detail will be made available as required.

4. Q1 performance summary

The Q1 report demonstrates strong performance over all. Performance headlines include:

- Securing World Class Audit - we are conducting relevant, timely and high quality audits
 - Publication of the rolling five year work programme and national local government scrutiny plan and 100% annual audit plans completed to schedule.
 - 34 annual audit reports and 10 performance/BV/statutory/HB reports published in Q1
 - Annual quality report published in Q1 confirming high quality audits are being delivered.
- Making a Difference - we are getting our messages out effectively and delivering new and improved products
 - High level of downloads and substantial parliamentary mainstream media and social media interest in reports, despite election moratoria
 - 'Principles for a digital future' briefing paper published, highlighting lessons learned from audit work on digital projects
- Building a Better Organisation - we are managing our workforce effectively and investing in learning and development. Financial planning and budget management are effective
 - Extensive BaBO work continuing roles, career progression and learning and development
 - Net operating costs, staff costs and property costs below budget
 - Absence rate of less than 1%.

The areas requiring attention are principally covered in the Becoming World Class Improvement Programme. This is the subject of an update report on today's agenda.

Other areas requiring attention include

- Identifying broader range of quantitative and qualitative measures around impact, insight and foresight
- Further development of budgeting for the new approach to auditing best value.

5. Conclusion and Recommendations

The Board is invited to review the performance report and consider

- the new reporting focus and format
- the proposals for reporting
- Q1 performance and whether any additional management attention is required.

Summary of 2017-18 Q1 performance



Our objective is to ensure that public audit in Scotland applies the highest professional and ethical standards, is efficient, proportionate and risk based. Audit work should be informed by an excellent understanding of the strategic and operational context and respond effectively to changing circumstances and emerging issues. We must report clearly and authoritatively and follow the public pound wherever it is spent. Audit must promote transparency, accountability and Best Value.

Headline: We are conducting relevant, timely and high quality audits.

Objectives	2016-17				2017-18				Actions
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
We conduct relevant and timely audits and report in public.	G	G	G	G	G				
We make clear and relevant recommendations for improvement	A	A	G	G	G				Annual reports to be reviewed to confirm compliance with the new quality framework and COAP
Audits are of high quality	G	G	G	G	G				
We systematically improve the quality of our work	G	G	G	G	G				The Audit Quality project is progressing to schedule

Key performance indicators

Annual Audit <ul style="list-style-type: none"> 100% annual audit plans delivered to schedule in Q1 11 annual audit delivered ahead of schedule 34 annual audit reports published in Q1 (23 NHS, 11 Central Government). 	Performance/ best value/ overviews/housing benefit/Section 22 <ul style="list-style-type: none"> The rolling five year work programme was published on the website in April. 2017/18 National scrutiny plan published in May 10 reports published in Q1: 3 statutory reports, 1 Performance Audit, 1 Best Value, 1 Overview, 3 Housing Benefit and the Digital futures briefing.
On time in Q1 <ul style="list-style-type: none"> 100% planned NHS Annual Audit Reports to clients delivered on time (96% in 2016/17). 11 CG reports published in Q1. These are early as they are not due until Q3. 3 Statutory reports on colleges, and the National Scrutiny Plan published in Q1 instead of Q4 as previously planned. For the former this was due to the date that the reports were laid in parliament and the latter a conscious decision to not publish during the local government election moratorium. 	
On budget <ul style="list-style-type: none"> Expenditure on annual audits was 7.71% below budget in Q1. Inverclyde The first BVAR (Inverclyde Council) was over budget in terms of days but under budget in terms of expenditure. The methodology for costing the audit is under development and will be reported in future quarters. 	Quality <p>Annual Audit Quality Report published in June 2017 concluded 'Audit Scotland teams and the appointed firms have effective audit quality arrangements' and 'our appraisal work has shown that high-quality audits are being delivered'. The Audit Quality project is progressing to schedule and the new framework will be in place in October.</p>



Our objective is to maximise the difference our audit work makes to public services in Scotland.

Headline: We are getting our messages out effectively and delivering new and improved products.

Objectives	2016-17				2017-18				Actions
	Q1	Q2	Q3	Q4	Q1				
We get our messages out effectively	G	G	G	G	G				
We systematically deliver impact through our work	G	G	G	G	G				Further quantitative measures to be developed to supplement qualitative assessments.
We offer insight and foresight through our audit work					Y				Development of an assessment framework and more systematic approach to measuring this objective.
We develop new and improved processes, products and services	G	G	G	G	G				

Key performance indicators

- A wide range of other audit outputs (plans, interim reports) are now also published on the website in addition to audit reports.
- Attended 10 meetings of the Public Audit and Post-Legislative Scrutiny Committee.
- Publication activity (note moratorium in place between 13 March – 4 May and 27 April – 8 June)
 - 329 Media mentions of Audit Scotland and/or Accounts Commission
 - 179,531 downloads (an increase of 1.2% on same quarter in 2016/17)
 - 5,932 social media engagements reached (an increase of 182% on the same quarter in 2016/17).
- 90% correspondence responses issued within 30 days (86% in 2016/17).
- New product 'Principles for a digital future' published in May.



Our objective is to make the best use of our resources so that we can deliver audit work that improves the use of public money. We want to make Audit Scotland a great place to work so that we can attract and retain a highly skilled workforce who provide high- quality audit services.

Headline: We are managing our workforce effectively and investing in learning and development. Financial planning and budget management are effective.

Objectives	2016-17				2017-18				Actions
	Q1	Q2	Q3	Q4	Q1				
We manage our resources effectively	G	G	G	G	G				
We maximise our efficiency					G				Efficiency report to Audit Committee September 2017 2017/18 efficiency review programme in place.
We manage information and intelligence effectively (internal)	A	A	A	A	A				Digital Strategy development and implementation.
We empower and support our people to be engaged, highly skilled and perform well	A	A	A	A	A				Implementation of BaBO, including new role profiles, career development gates, time place and travel, review of 3D and developing a new approach to professional leadership. Annual Best Companies Survey.

Key Performance Indicators

People	Resources
<ul style="list-style-type: none"> Staff complement (w.t.e) : 98.3% of 274.9 establishment at the end of the quarter (99.4% of 278.1 in Q4 2016/17) Absence rate: 0.69% (1.03% in 2016/17) Turnover rate: 2.48 % (1.37% in Q1 2016) L&D events: 17 in-house events covering 251 places Exams : 9 exams with 67% pass rate for professional trainees Career progression: 6 vacancies all filled externally. 4 on-going secondments. 131 (46%) colleagues have flexible one organisation contracts. 	<ul style="list-style-type: none"> Net Operating Cost : £74k less than budget – variance of 7.3% of net operating expenditure budget Staff costs : £28k less than budget – variance of 0.7% Capital investment : £22k Property costs: £4k less than budget – variance of 1.9%. (13.7% variance in 2016/17) Travel and subsistence expenditure: £3k more than budget– variance of 1.5%. (16.7% variance in 2016/17).

Appendix 2 - Performance Detail



We conduct relevant and timely audits and report in public.

Key Performance Questions	RAG				Actions
	Q1	Q2	Q3	Q4	
Are relevant audits being delivered?	G				
Are audits delivered on time?	G				
Are audits delivered on budget?	G				

Relevant

Following consultation, the rolling five year work programme was published on the [website](#) in April. The web pages have been extensively redeveloped and provide information and contact details on the audits. This was complemented by an extensive external communication programme with external stakeholders on the content of the work programme and our approach to programme development.

The National Scrutiny Plan for local government was published during Quarter 1 in order to avoid the moratorium for the local government elections in May.

Timely/ in public

In Q1 we published a follow up audit on the Scottish Government's Common Agricultural Policy 'Futures' programme, the Scotland's Colleges overview reports, and the first of the new Best Value Assurance Reports (BVARs) on Inverclyde Council. A briefing titled *Principles for a digital future* was also published to support public bodies embarking on ICT projects.

The number of annual audit reports published to date is in line with our expectations. Reports are scheduled with some flexibility to allow publication of statutory reports and other audit work which may arise during the year or to allow for changes in the scope/complexity of an audit. Published reports are summarised shown in the table on page 7.

Three statutory reports in the college sector were laid and published in April 2017.

On budget

	2017/18			
	Budget	Actual	£ Variance	% Variance
ASG	7,201,717	6,646,428	- 555,289	-7.71%
AST	2,088	2,104	+16	+0.8
PABV	284,998	279,417	-5,581	-1.96
Total	7,203,805	6,648,532	-555,273	-7.71

In 2017/18, we plan to publish 497 audit plans, audit and performance reports. Variation in the schedule is shown as ✓ = delivered, (QX) = rescheduled to /from quarter identified in the brackets.

	Q1	Q2	Q3	Q4
Annual Audit Plans – AS (126)	✓2 FE			10 NHS 65 LG 49 CG
Annual Audit Plans – Firms (126)	✓19 FE			13 NHS 40 LG 28 CG
Audit – Audit Scotland (126)	✓10 NHS ✓ 6 CG	65 LG 35 CG	2 FE 7 CG	1 CG
Audit – Firms (100)	✓13 NHS ✓ 5 CG	40 LG	19 FE 28 CG	
Performance Audit (8)	✓CAP Futures update	NHS Workforce Self Directed Support 2 Equal Pay	Ferry services in Scotland	Early learning and childcare Managing Scotland's new financial powers Scottish Fire and Rescue Service
Best Value Assurance Report (6)	✓Inverclyde	Renfrewshire	East Renfrewshire West Lothian	Clackmannanshire Orkney
Best Value follow up (2)			East Dunbartonshire	Falkirk
Overview Report (4)	✓Scotland's Colleges 2017		NHS in Scotland 2017 Local government: a financial overview 2016/17	Local government: performance and challenges
Housing benefit (9)	✓Stirling ✓East Dunbartonshire ✓HB Annual report	Scottish Borders Moray	Eilean Siar Shetland Islands	West Dunbartonshire City of Edinburgh
Statutory (13)	✓S22 Edinburgh College (Q4 16/17) ✓S22 Lews Castle College (Q4 16/17) ✓S22 Moray College (Q4 16/17)	S22 Scottish Government consolidated accounts	S22 NHS Tayside S22 Scottish Police Authority *potential 2x Health and 1x central government	*potential 3x FE and 1x local government
Other (3)	✓Principles for a Digital Future ✓ National Scrutiny Plan			National Scrutiny Plan
Planned (497)	66	147	64	220
Published	66			

The planned outputs make provision for a number of statutory reports.

Annual Audit Plans (AAPs) for the 2016/17 Annual Audits:

This is a new indicator. For completeness the number of AAPs and the percentage of plans completed to schedule for the previous quarter are shown in the table below.

	Q4 (16/17)
Annual Audit Plans – AS (126)	✓10 NHS (90%) ✓65 LG (98%) ✓49 CG (78%)
Annual Audit Plans – Firms (100)	✓13 NHS (100%) ✓40 LG (95%) ✓28 CG (93%)

Best Value

In Q1 we published the first of the Best Value Assurance Reports (BVAR). We plan to publish 6 BVARs in 2017/18, with BVARs for the remaining 26 Councils published over the course of the next four years of the audit appointments.

Q1 BVARs	Planned	Actual	Commentary
BVAR report	1	1	
BVAR (days)	250	292	The budgeted days consisted of 150 days from ASG and 100 days from PABV. The audit was completed in 292 days (165 ASG and 127 PABV). This was the first of the new style audits with significant investment up front in setting up tools for data collection and analysis, as well as establishing effective joint working arrangements in line with the new approach and methodology. Tools and lessons learned from Inverclyde have been shared with other BVAR teams, including those scheduled in year 2, therefore the investment in additional time for Inverclyde should aid the efficient delivery of later audits. Recording evidence in MKI took longer than originally planned as these were new programmes following a new methodology. As the audit progressed the team had to schedule more meetings with all political parties represented on the council than was initially planned.
BVAR (£)			This is under development

Each year we plan to allocate 650 days across the councils not subject to a Best Value Assurance Report. For the year to date, 55.05 days have been used for work on the 26 non-BVAR councils. This is lower than we had anticipated for this point in the year, and in part reflects a conscious decision to focus resources on the 6 initial BVAR councils. We are also reviewing our approach to allocating resources to particular councils in a link capacity to ensure we are available to support continuous Best Value work at non-BVAR councils.

Issues/ risks/ actions:

- In Q1 ASG audits are underspent, this position is likely to change at the end of Q2 when the majority of ASG's audits reach completion. Budgets will continue to be monitored closely and reported to ASG Management Team.
- Tools and lessons learned from Inverclyde being shared with other BVAR teams, including those scheduled for year 2.
- Further development of the BV £ budgeting/ reporting indicator.

Forward look:

- During Q2 the second of the new BVARs will be published on Renfrewshire Council.
- Performance audits on the NHS Workforce in Scotland, Self Directed Support, and Equal Pay in councils will be published during the quarter.

Trend data: (Under development)



We make clear and relevant recommendations for improvement

Key Performance Questions	RAG				Actions
	Q1	Q2	Q3	Q4	
Are there practical, clear and relevant recommendations in everything published?	G				

Performance

Reports published in Q1 contained clear recommendations.

Audit Strategy has reviewed the annual audit plans (AAP's) on health boards and issued a report. The AAP's were reviewed to confirm that auditors were complying with the new Code expectations in relation to audit planning and documentation.

Overall, the audit plans reviewed were of a high standard and in general all the plans meet the requirements of the Code. The report:

- provides an overall conclusion on compliance of AAP's with the Code
- summarises the significant risks identified in the 2016/17 audit plans
- categorise them as either financial statement risks or wider audit dimension risks
- considers the appropriateness of disclosures around materiality
- identifies any Code compliance omissions, areas of best practice and makes suggestions for improving AAPs.

Issues/ risks/ actions:

- The new quality framework will cover the quality of recommendations as well as the quality of the process across all of the audit work.

Forward look:

- Q2 - analysis of local government Annual Audit Plans for auditors, the Auditor General and the Accounts Commission.



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

Key Performance Questions:	RAG				Actions
	Q1	Q2	Q3	Q4	
Are we assured about the quality of our work?	G				
Are we improving the quality of our work?	G				The Audit Quality project is progressing to schedule.

Assurance

In Q1 we published [the 2016/17 Annual Quality Report](#). The report concluded ‘*Audit Scotland teams and the appointed firms have effective audit quality arrangements*’ and ‘*our appraisal work has shown that high-quality audits are being delivered*’.

Improvement

Significant progress has been made on the Audit Quality Framework project. This is detailed in the Q1 Becoming World Class Improvement programme update report and includes the development of a suite of KPIs covering quality across all of our audit work, both in-house and by the firms.

PABV Quality Group has made several changes to the Audit Management Framework to strengthen the approach to records management within audits. These include specifying key checkpoints for managing information and where appropriate declaring records throughout the audit, and the inclusion of a key post audit responsibility to clear redundant information and declare records.

The PABV Learning and Development Group has identified training on ‘Issues and investigation matrices’ and recording evidence as a learning and development priority for the year ahead. This training, scheduled for Q2 will cover business processes and skills crucial to the effective delivery of audit work.

Issues/ risks/ actions:

Forward look:

- Internal audit will publish a report on the quality management arrangements in Q2.
- The new Quality Framework is due for approval in October.



We get our messages out effectively

Key Performance Questions:	RAG			
	Q1	Q2	Q3	Q4
Are we getting messages getting out effectively?	G			

Performance:

There were two publication moratoria in place between 13 March – 4 May and 27 April – 8 June.

- There was extensive media coverage for CAP Futures Update report and this was mirrored by the highest download figures for the quarter
- The S22 on the Scottish Police Authority 2015/16 accounts was the subject of extensive political and media scrutiny via committee inquiries. The previous health and social care reports were also referenced extensively.
- There was local coverage on NHS Fife's annual accounts for 2016/17, including the publication of an interim audit governance report. This was a useful demonstration of local interest in the annual audit process and outputs at different stages of the audit cycle.
- In Q1 we published the Annual Audit Plans on our website for the first time.

The Health & Sport Committee referred to the evidence session on the NHS in Scotland 2016 overview report within its annual report, reaffirming the importance of this work to the Committee.

Our NHS in Scotland 2016 report, the first report on health and social care integration, and our recent output on the NHS workforce were all referenced heavily in a report published this month by the Nuffield Trust called 'Learning from Scotland's NHS'.

In a parliamentary chamber debate on the preventative health agenda, the Convenor of the Health & Sport Committee, quoted the *Changing models in health and social care* report twice. He highlighted the key messages, and also referenced the recommendation to address the gap in cost information and to evidence the impact of new models.

Due to the nature of the publication, promotion of *Principles for a digital future briefing* was limited to online/social media promotion and stakeholder engagement i.e. Govdelivery mailshot, PAPLS briefing, conference appearances – no news release was issued to the media. Despite this, the briefing achieved the second highest number of downloads for the quarter and its podcast was the second most popular in the quarter (behind Inverclyde BVAR).

The refreshed rolling work programme was formally launched in Q1, supported by an extensive range of engagement activity. This included new online content on the Accounts Commission and Audit Scotland websites, podcasts and blogs, and a flyer issued to interested parties across the public sector, parliament and central government.

The *Local government overview* reports, and the *How Councils Work: roles and working relationships* report with supporting material, have been considered by councils at various committee meetings.

There were also seven corporate reports published in Q1.

- Accounts Commission annual report / strategy and action plan / engagement plan
- Corporate plan - 2017 update
- Audit Scotland annual report and accounts
- Audit quality and International annual reports
- Health, Safety and Wellbeing annual report

The annual reports experienced higher numbers of downloads than in the previous years. The supplementary reports, such as engagement plan update and equality outcomes and mainstreaming, was consistent with the previous year.

Audit Strategy holding a NFI training and awareness day for all NFI participants. This stimulated useful discussion, follow up questions and match investigation work after the event.

Getting our message out

	Q1	Q2	Q3	Q4	YTD	16/17
Media	329					1,528
Downloads	179,531					704,996
Engagements*	5932					15,470
Retweets	751					3,952

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

Correspondence

Audit Scotland handles a wide range of correspondence from members of the public, elected representatives and organisations. Although we have no statutory duty to investigate issues of concern or respond to correspondence, we do so under our Code of Audit Practice. Due to a change in recording the total cases does not compare directly with the previous years because in previous years the totals included general enquiries. In Q1 there were 41 new correspondence cases identified shown in the table below:

New correspondence cases	Q1	Q2	Q3	Q4	YTD	16/17
Number of cases	41					119
Acknowledgement within five working days	100					90%
Final response within 30 working days	90					87%

Two final response cases are pending (5%). Both are still currently within 30 working day deadline. Two cases (5%) missed the deadline due to time taken to obtain answers and conflict with final account deadlines. For the same quarter last year we reported 28 new cases with 100% acknowledgement and 96% final response targets achieved (one response target missed). In addition we had 51 audit enquiries (compared to 29, Q1 16/17)– relating to queries about our work (e.g. figures within our reports, guidance and access to materials/reports).

The BIU/PSQI developed a new template for annual audit reports which is being used by all audit teams in all sectors for the first time in 2017. The feedback on the format and clarity of the new template from audit committees and client officers has been positive.

Issues/ risks/ actions:

Forward look:

Trend data: (Under development)



We systematically deliver impact through our work

Key Performance Questions:	RAG				Action
	Q1	Q2	Q3	Q4	
Is our work delivering impact?	G				
Are our recommendations leading to improvements?	Y				Further quantitative measures to be developed to supplement qualitative assessments.

Performance:

A large part of the audit work is focussed on identifying the risks faced by the audited bodies. Annual audit plans highlight the most significant risks and these the action taken to mitigate the risk are reported in the auditors' annual audit reports. We ensure that the responses given by client officers to address the risks are adequate to address the concerns.

Our external plain English advisors provided helpful and constructive feedback on the new Best Value audit guidance and the drafts of the initial tranche of Best Value Assurance reports. This feedback has been shared with BVAR teams to ensure later reports are well placed to make clear and relevant recommendations, backed up by a clear and concise report.

Examples of where our work has made a positive impact

Financial management

- **NHS Board** - the audit of the accounts identified significant errors that were corrected by the board in the final set of accounts and highlighted in the AAR. One error for £7m+ related to the treatment of depreciation which did not comply with accounting requirements.

Financial sustainability

- **NHS Forth Board** – the audit of the accounts **identified** an error in the PFI model used to calculate PFI liability and interest payment. This resulted in a reduction in interest costs of £1.4m per annum over the next 3 years (and beyond that over the term of the agreement).
- **Scotland's Colleges overview** - Colleges are now working with the Scottish Funding Council on more reasonable assumptions on aspects of their finances that will help to support longer-term financial planning in the sector.

Governance and transparency

- **NDPB** – the team identified that the accounts had previously not been compliant with the requirements of the FReM. The accounts for 2016/17 have been improved considerably and now meet minimum compliance levels. Further improvements are expected next year.
- **Scotland's Colleges overview** - As a result of our work on calculating an underlying deficit (or surplus) for colleges, the Scottish Funding Council has been working with colleges to agree a set of adjustments that should lead to colleges reporting this position on a consistent basis within their accounts.

Value for money
<ul style="list-style-type: none"> • ISD Scotland has published 'Outcomes Count - Re-design and use of the community Indicator of Relative Need (ioRN2)'. It relates to a recommendation in the Audit Scotland 2014 report on Reshaping care for older people: <i>The Scottish Government should work with NHS boards, councils and their partners to:use a consistent tool to assess dependency in older people.</i> This information is important to ensure that needs are met and to help inform the planning future services

Issues/ risks/ actions:

- Development of metrics to supplement narrative capture of impact. Likely to include numbers of recommendations, agreed, implemented.
- PABV short life working group on approach to follow up and impact reporting

Forward look:



We offer insight and foresight through our work

Key Performance Questions:	RAG				Action
	Q1	Q2	Q3	Q4	
Are we making information and intelligence available to others?	G				Development of an assessment framework and more systematic approach to measuring this objective.

Performance:

The *Principles for a digital future* briefing, published in May shares our knowledge and experience of ICT projects with public bodies, drawing on recent audit work such as CAP Futures, NHS24 and the i6 Scottish Police system.

Colleagues from local government audit in all business groups are collaborating on an analysis tool to make more effective use of the Local Government Benchmarking Framework data. This will support on-going local government programme development and risk monitoring, as well as annual accounts and Best Vale assurance work. The tool and interface will be available to PABV colleagues and appointed auditors within ASG and the audit firms.

In Q1 Audit strategy has continued to provide technical updates on the technical reference library and published 44 documents to the technical library. These include a cross sector technical bulletin: TB2017/2, a guidance note on the 2016/17 audit annual accounts (local authorities) in relation to statutory objections to annual accounts, guidance on the NHS injury cost recovery scheme, a guidance note on the 2016/17 independent auditor's reports (local authorities) and guidance notes on 4 grant claims.

Audit Scotland participated in the 'Let's connect' performance audit symposium in Toronto via video conference. Colleagues led a session covering our use of Tableau in our work, including the benefits / challenges of this approach, and the impact it has achieved.

Issues/ risks/ actions:

- Digital Audit Strategy for consideration by the Board in October 2017

Action:

-

Forward look:

- In Q2 we will welcome colleagues from the Indonesian Centre for State Financial Accountability Analysis. As part of our international engagement and knowledge sharing work.
- Local Government Benchmarking Analysis tool and interface to be completed during Q2.



We develop new and improved processes, products and services

Key Performance Questions:	RAG				Action
	Q1	Q2	Q3	Q4	
Are new processes, products and services being developed?	G				
Are products and study programmes suitable and appropriate for emerging issues?	G				Development work on-going on the requirements arising from the new financial powers and constitutional change.

Performance:

Examples of new products and services in Q1 include:

- The *Principles for a digital future* briefing, pulling together the learning and experience on ICT projects. It draws extensively on our recent audit work in digital / ICT projects, and seeks to provide useful guidance for public bodies in managing such projects.
- The Inverclyde Council Best Value Assurance report is the first report under the new approach to the audit of Best Value.
- New annual audit report templates have been rolled out to audit teams. The templates cover health, local government bodies (including pension funds and IJBs, central government and FE bodies). To date the templates have been used on health audits and some central government audits. Initial feedback from audited bodies has been positive.
- Data analytics are being piloted at a number of audits to assess how this can support more efficient and effective auditing procedures.

Emerging issues

We are not aware of any significant missed issues. Issues and risks continue to be monitored through processes such as the public sector risk register, current issues reporting and programme development.

Issues/ risks/ actions:

Forward look:

- Audit programmes to be updated and targeted training re changes to ISAs (October)



We manage our resources effectively and maximise efficiency

Key Performance Questions:	RAG				Action
	Q1	Q2	Q3	Q4	
Are we managing our resources effectively	G				
Are we maximising efficiency?	G				Efficiency review programme 2017/18 under-way

Resource management

- In the three months to June 2017 Audit Scotland's Net Operating Expenditure at £942k was £74k less than budget.
- Total income recorded in the three months to June 2017 was £72k more than the phased budget. Fee income including central charges was £44k higher than budget. Other income earned from staff on secondment to other organisations totalled £30k.
- Expenditure was very close to budget. Favourable variances were recorded for own staff costs £28k, legal, professional and consultancy £23k, training £28k, printing and office £18k and information technology (IT) £17k. These favourable variances were partly offset by increased expenditure on approved auditors £79k and agency and seconded staff £45k. Further details are provided in section 2.

Net operating (cost) to June 2017

	Q1	Q2	Q3	Q4	16/17
Actual	(942)				(7,350)
Budget	(1016)				(7,423)
Variance	-7.3%				-1%

Staff costs

Staff costs in the three months to June 2017 were £28k less than budget. The average number of staff employed in the three months to June 2017 at 269.4 w.t.e was 5.5 w.t.e. lower than the establishment figure of 274.9 w.t.e.

The staff budget for 2017/18 assumes a 2% vacancy factor and therefore the average number of staff employed in the period was in line with the numbers funded in the budget. Lower than budgeted average actual salary costs per employee was the main contributor to the favourable variance.

Agency and secondment costs were £45k greater than budget. The balance of the adverse variance £6k, was due to agency expenditure incurred by Digital Services to cover a maternity/paternity absence, offset by a £3k agency underspend in ASG in the year to date.

Total staff costs to 30 June 2017 including agency and secondment expenditure and net of secondment income were £13k less than budget.

	Q1	Q2	Q3	Q4	16/17
2017/18 establishment w.t.e:	274.9				278.1
Average number of staff employed in 2016/17 w.t.e:	269.4				276.4
No. of staff at end of quarter w.t.e:	270.3				270.8

Capital expenditure - Capital investment in the three months to June 2017 totalled £22k. Investment in new furniture and fittings for the Glasgow office refurbishment was £16k. £6k was spent on additional RSA security tokens and software to trial mobile capture of expenses.

Estate - Property costs in the year to June 2017.

£000 YTD	Q1	Q2	Q3	Q4	16/17
Actual spend	211				896
Budget	215				935
Prior year spend	206	442	672	896	

Costs of travel - Travel costs in the year to June 2017

£000 YTD	Q1	Q2	Q3	Q4	16/17
Actual spend	204				863
Budget	201				985
Prior year spend	198	417	615	863	

IT network up time Q1:

The majority of the downtime this quarter was due to connection issues in Glasgow and an exchange outage.

IT Network	Q1	Q2	Q3	Q4	16/17
IT uptime	99.9				99.9
Working hours lost	220				67.25
Average time lost per person (minutes)	<1				13.1

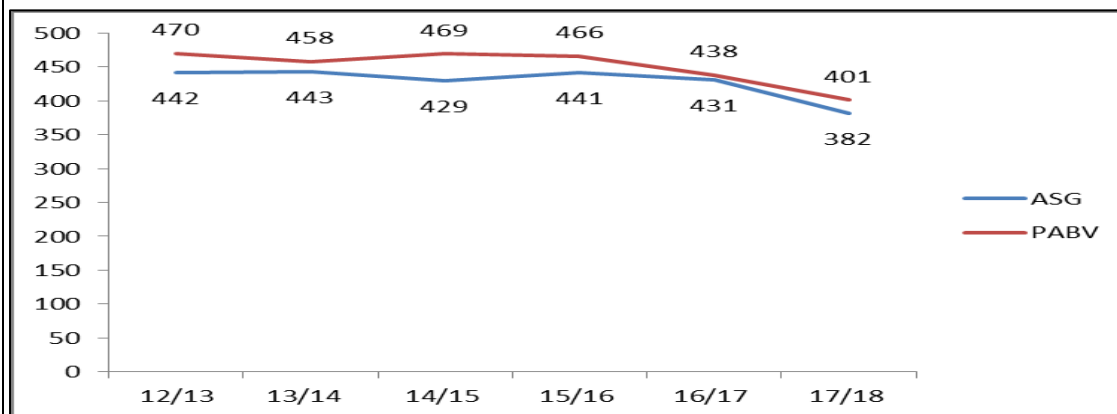
IT Incident management summary

- 94.61% (1001/1058) of incidents were accepted within the response time SLA.
- 98.96% (1047/1058) of requests were closed within the fix time SLA
- An average of 3.7 incidents were logged per user.

Business group productivity:

Business group productivity remains broadly consistent with productivity/ planning assumptions.

	17/18					16/17			
	Q1	Q2	Q3	Q4	YTD	Q1	Q2	Q3	Q4
ASG	57					60	78	51	73
PABV	76					68	69	65	73

Average cost per Audit Day**Issues/ risks/ actions:**

- Further analysis of the business group productivity and the average cost per audit day to be done to consider consistency and comparability.

Forward look:

- The Board will consider resourcing and budget proposals at its meeting on 23 August 2017 including requirements re new financial powers and fiscal framework.
- 2017/18 Efficiency Programme agreed by Management Team in Q1.
- Delivering Best Value in Audit Scotland report the Board (August 2017).

Trend data: (Under development)



We manage information and intelligence effectively (internal)

SWCA Objectives	2016-17				2017-18				Actions
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Are we managing information and intelligence effectively (Internal)	A	A	A	A	Y				Digital Strategy development and implementation.

Performance:

- We continue to develop the data warehouse through a series of data sprints – the warehouse now contains 107 data sets covering a variety of sector areas including, Local Government, Scotland Demographics, Employment and Health.
- Yammer is increasingly being used to share ideas and information, over 80% of colleagues are registered and 41 per cent were active users in Q1.
- We are currently reviewing the links between our cluster work, current issues reporting, and the risk register to better use our collective audit intelligence
- We welcomed two student placements from the University of Edinburgh as part of the [Q-Step](#) programme in Q1. The programme links students with a quantitative social science background with employers. Both students have been involved in developing our use of data, and developing tools to support key aspects of our work such as Best Value. They have also worked with colleagues in Audit Strategy quality assurance work. This is the second year we have hosted students through Q-step.

Issues/ risks/ actions:

- Digital audit strategy – October 2017

Forward look:

- Best Companies Survey Q3 2017



We empower and support our people to be engaged, highly skilled and perform well

Key Performance Questions:	RAG				Actions
	Q1	Q2	Q3	Q4	
Are our people empowered and engaged?	G				BaBO programme implementation
Are our people highly skilled?	G				L&D strategy implementation
Are people performing well?	Y				Review of 3D process to be reported to Audit Committee (September 2017)
How effective is communication and collaboration across the organisation?	G				
Are career paths offered across the organisation?	G				
Do we understand and support diversity within the workforce?	G				

Empowered and engaged - Audit Scotland Pay and Offer 2017 was accepted by PCS and was implemented with the April payroll. Work continues on revising the Role Profiles and designing the Career Development Gates (CDG) process. The first iteration of CDG was presented to the BaBO programme board and improvements are now being made. CDG were also given a preliminary equality review and the initial signs are good and CDGs are on target for October. Leadership Group have had two sessions exploring what leadership means and looks like in Audit Scotland.

The new PABV Programme Management Group includes colleagues from across all grades in its membership. Feedback from Best Companies and subsequent workshops had identified a desire from colleagues to have more involvement in strategic and operational planning. Membership will rotate every 6-12 months to ensure colleagues across the team have opportunities to participate.

Wellbeing - The Wellness International Health Check results were considered at the HSW meeting on 25 April. We have drafted an integrated Wellness Plan for which responds to the health check results and other priorities outlined in the HSW strategy for 2017/18. It has been shared with both the HSW group and Sports & Social Committee and will be shared with colleagues with August.

Absence levels - Absence levels have dropped in relation to previous quarters.

	Q1 days	Q2 days	Q3 days	Q4 days	ytd days
Audit Scotland - 17/18	0.69				
Audit Scotland - 16/17	1.03	1.37	1.27	1.28	5.32
Audit Scotland - 15/16	0.89	0.98	1.49	2.05	5.62
Audit Scotland - 14/15	1.12	0.87	0.99	1.31	4.59
Audit Scotland - 13/14	1.6	1.14	1.57	1.40	5.99

Staff turnover - turnover has increased compared to the previous quarter. There were 5 resignations and 2 redundancies.

2017/18	Q1	Q2	Q3	Q4	YTD	CIPD benchmark	16/17
Resignations %	1.77				1.77	5.5	4.16
All Leavers %	2.48				2.48	13.6	11.11

Highly skilled - L&D events are summarised below.

	No. of Events	No. of Attendees
Health & Safety	0	-
Knowledge Cafes	7	171
Learning & Development	0	-
Management Development	2	16
Organisational Development	3	3
Technical Training	5	61
Total	17	251

Other examples of L&D work include

- Audit Quality work - ways we can improve how we learn and develop, how we identify the priority skills for the organisation, and also how we record our learning and skills more comprehensively.
- Self-directed learning pilot in PABV – 16 colleagues are progressing development through this process. The outcome of the pilot will take place Autumn 2017.
- Feedback from colleagues suggests that the four Learning & Innovation Groups (LIG's) are working well, and having a positive impact. All the groups contain a broad mix of colleagues from across all business groups and grades.

Exam results:

In Q1 there were 9 exams taken and 6 passes.

	Q1	Q2	Q3	Q4	YTD	16/17
Exams taken	9					158
Exams passed	6					143
% pass rate	67					90.5%

One organisation working continues, examples in Q1 include:

- The post audit review of the first BVAR found that despite this being a new process, the joint team worked well. The respective strengths and skills of colleagues from financial audit and PABV were harnessed effectively and team members agreed this was a positive experience.
- Colleagues from across grades in PABV are supporting final accounts work. We are also seeking to increase knowledge of the final accounts process across the wider organisation. Colleagues are also developing skills in areas such as financial analysis and reporting through this work.
- Colleagues from Audit Services and Audit Strategy are contributing to key audits, for example during Q1 to the NHS in Scotland 2017, and Local Government: financial overview audits. This includes short term discrete assignments to longer term core membership of the audit team.
- Professional trainees also spend some time within ASG and some time within PABV.
- Audit Strategy and BIU colleagues provided targeted training/ guidance on ISAs

Career paths and secondments

4 members of staff benefited from a new **career opportunity** this quarter, through a permanent promotion or fixed-term acting up and there were 6 external appointments. No new **secondments** were recorded this quarter and 4 existing secondments remain in place. 131 (46 %) members of staff now have **flexible contracts**. At present, there are 2 inward and 2 outward secondments.

Vacancies filled	17/18 YTD	16/17
Internal	0	29
External	6	33
Total	6	62

Secondments	17/18	16/17
17/18 - New	0	4
17/18 - Existing	4	9

Equalities

In Q1 we published two reports on Equality and Diversity, one looking back on Mainstreaming Equality Outcomes and one on planning the way forward for Equality Outcomes. Audit Scotland's percentage of employees with disabilities is three per cent compared to Scottish population of 19 per cent. The Equality and Diversity steering group is working on strategies to encourage more applications from people with disabilities.

Issues/ risks/ actions:

Forward look:

- Time Place Travel re-surveyed in July to understand the practical impact it has had on the organisation.
- PDGG met on the 1 August to discuss the L&D report and L&D plan for 2017/18 and career development gateways and next steps.
- Work is under-way with Recruitment Matters, an external training provider, on how we prepare and train the CDG panellists.
- Band profiles will be shared with the colleagues for comment.
- Strategic leadership conversations under way will continue, including the review of reward package.
- The 2017/18 integrated Wellness Plan/calendar will be shared with colleagues in August 17. This includes a series of discrete events, awareness campaigns and on-going health and wellbeing offerings.

Trend data: (Under development)

AUDIT SCOTLAND BOARD

23 AUGUST 2017

REPORT BY THE ASSISTANT DIRECTOR, CORPORATE PERFORMANCE AND RISK

Q1 BECOMING WORLD CLASS IMPROVEMENT PROGRAMME REPORT 2017/18

1. Purpose of Report

To invite the Board to consider the progress made to date on the Becoming World Class (BWC) improvement programme and the planned actions.

2. Background

The BWC strategic improvement programme is a key enabler for achieving our vision to be a world class audit organisation. The last quarterly BWC update report was considered by the Board on 6 June 2017.

3. Progress on the BWC improvement programme

We continue to make good progress on the programme, particularly in the context of a full programme of audit work. Progress headlines since the last report include:


- *Securing World Class Audit* – where:
 - we are identifying the resources required for additional work arising from new financial powers and constitutional change
 - the audit quality review of quality is progressing, including the development of the framework, resourcing for the quality function and tender for external reviews
 - proposals for the future of audit strategy services have been developed.
- *Building a Better Organisation (BaBO)* – where:
 - we have reviewed the 3D process and surveyed colleagues about time, place and travel
 - role profiles, bands and gateway arrangements have been developed and refined
 - completed the Glasgow office refurbishment
 - agreed an efficiency review programme for 2017/18.
- *Making a Difference* – where:
 - the second of the new BV audits has been reported to the Accounts Commission
 - the second phase of parliamentary engagement is under- way
 - we have developed a Digital Audit strategy

The appendix provides additional information on each of the BWC workstreams.

4. Recommendation


The Board is invited to note the progress made to date and the next steps.

Appendix

 SECURING WORLD CLASS AUDIT	<p>Our objective is to ensure that public audit in Scotland: • applies the highest professional and ethical standards • is efficient, proportionate and risk based • is informed by an excellent understanding of the strategic and operational context • responds effectively to changing circumstances and emerging issues • reports clearly and authoritatively • follows the public pound wherever it is spent • promotes transparency, accountability and Best Value.</p>
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Project/ initiative/ product	Status update	Next steps
Review of Audit Quality	<p>The Audit Committee considered an update report at its meeting on 17 May 2017. Since the last update report development work has focussed on:</p> <ul style="list-style-type: none"> Refining the new quality framework Assessing the options for external quality review and developing the invitation to tender (ITT) Developing the governance and reporting arrangements for audit quality <p>The Audit Committee will consider a further update report at its meeting on 13 September 2017.</p>	<p>The key milestones are:</p> <ul style="list-style-type: none"> New framework in place – October ITT closure and evaluation – October Contract award - November KPI data capture & audit quality manual – November Cold reviews using new framework – December <p>2018</p> <ul style="list-style-type: none"> External assurance review (Audit Scotland) – January 2018 External assurance review (Firms) – February Quality assurance reporting – March/April Client/firms/staff survey – May/June Project review – September
Future of Audit Strategy	<p>Project group established to develop the vision and proposals for a range of audit strategy services and identify and appraise service delivery options.</p>	<p>Management Team to consider the vision and options at its meeting on 22 August 2017. An implementation plan to then be developed.</p>
New financial powers and constitutional change	<p>The Board considered a detailed update report at its meeting on 6 June 2017. Since then:</p> <ul style="list-style-type: none"> The Social Security Bill was introduced to Parliament on 20 June, setting out the overarching legislative framework for the administration of the devolved social security powers. The Budget Process Review Group published its final report on 30 June. This included a recommendation for Parliamentary committees to make more use of our audit 	<p>The key milestones are:</p> <ul style="list-style-type: none"> The Board will consider resourcing and budget proposals at its meeting on 23 August 2017. We will then undertake more detailed workforce and recruitment planning. The AGS will discuss the scope of the next performance audit with the audit team on 28 August.


Project/ initiative/ product	Status update	Next steps
	<p>reports when evaluating and scrutinising the Scottish budget.</p> <p>We are currently:</p> <ul style="list-style-type: none"> refining resourcing and budget proposals to help us accommodate additional work in this area that will inform the budget setting process for 2018/19 scoping the next in the series of performance audits on the new financial powers engaging with the NAO on the 2016/17 audit of the implementation of the Scottish Rate of Income Tax continuing to engage with the Scottish Government on the draft framework for audit and accountability arrangements for devolved services. 	<ul style="list-style-type: none"> The AGS and Mark Taylor are providing an update on the new financial powers at the SCPA planning session on 31 August. We will appoint auditors for the Scottish Fiscal Commission and Crown Estate Scotland in October

	<p>Our objective is to make Audit Scotland a great place to work so that we can attract and retain a highly skilled workforce. We want to make the best use of our resources so that we can deliver audit work that improves the use of public money.</p>
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Project/ initiative/ product	Status update	Next steps
<p>How we work together</p> <p>Job Design</p> <p>Reward & Recognition</p> <p>Performance Appraisal</p>	<p>All Band Profiles have been reviewed and refined and development work on the gateways is progressing. The first pool of 'gateway panellists' have been identified.</p> <p>The Band 4 role profile for Leadership Group is being refined and is being informed by the strategic leadership conversations referenced below. IES have been meeting with groups of LG members to inform the pay and reward options.</p> <p>The survey on Time, Place and Travel (TPT) closed at the end of July. The responses are now being analysed.</p> <p>Management Team considered a review report on 3D at it's meeting on 27 June.</p>	<p>The key milestones are:</p> <ul style="list-style-type: none"> Leadership conversations at LG – August 2017 Refined band profiles to be considered by the BaBO programme board and published on ishare – September 3D review report to Audit Committee - September Training for gateway panellists – October Report to HR & RemCo - October Consultation on the TPT survey results with PCS - September/ October

Project/ initiative/ product	Status update	Next steps
How we learn and develop Planning careers, developing skills, professional training schemes, becoming better managers and leaders	The PDG has updated the Learning and Development Strategy and plan. An extensive learning and development programme continues.	The key milestones are: <ul style="list-style-type: none"> • Publication of the 2017/18 Learning and Development Strategy on ishare (August 2017) • 2017/18 review of professional training scheme
Strategic leadership	<p>Building on the success of BaBO, we have recognised the need to take forward a strategic conversation about our approach to leadership in Audit Scotland. The Leadership Group (LG) have been engaging in a series of strategic leadership conversations in June, July and August. These have included discussion about the broad principles for the kind of organisation we want Audit Scotland to be in the next 3-5 years and the leadership approach required to deliver that.</p> <p>The Leadership Group's most recent workshop session took place on 16 August 2017.</p>	The key milestones are: <ul style="list-style-type: none"> • Management Team consideration of pay and reward options – September 2017 • Report to Human Resources and Remuneration Committee – October 2017 • LG strategic leadership discussion with external stakeholders – from October 2017 • Leadership development - ongoing
Office accommodation	The Glasgow office refurbishment is complete. Colleagues returned to the office on 9 August and the feedback to date has been very positive. The refurbishment has delivered more workspaces, a business lounge area and a more flexible workspace.	
Programme of efficiency reviews	<p>On 11 April the Management Team considered options for the focus of efficiency reviews in 2017/18. The efficiency review programme includes:</p> <ul style="list-style-type: none"> • Efficiency report(s) considered by Management Team on 8 August. • How we spend our time review (HWSOT) – Management Team agreed the scope of this review at its meeting on 27 June. The outputs will be a report setting out the results from the data analysis followed by a report setting out proposals for improvement, based on the initial report and engagement with colleagues across the organisation. 	<p>The key milestones are:</p> <ul style="list-style-type: none"> • Efficiency report for consideration by the Board at its meeting on 23 August 2017 <p>HWSOT milestones are:</p> <ul style="list-style-type: none"> • Review of data and summary of how we spend our time and questions to inform the second stage of work - September 2017 • Getting underneath the data – engaging with colleagues to understand what it is telling us, and identify areas for action & recommendations - December 2017

Project/ initiative/ product	Status update	Next steps
	<ul style="list-style-type: none"> Capacity (including consultants, agencies, legal and internal audit) – Management Team agreed the scope on 25 July 	<p>Capacity milestones are:</p> <ul style="list-style-type: none"> Analysis and sample survey – August/ September 2017 Report to Management Team – September 2017

	Our objective is to maximise the difference our audit work makes to public services, the people that they serve, the outcomes that those people experience and the use of public money.
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Project/ initiative/ product	Status update	Next steps
Auditing Best Value (BV) in councils	<p>The new approach to auditing BV is well under-way. The first of the six scheduled Best Value Assurance Reports (BVARs) for 2016/17 was considered by the Accounts Commission at its meeting on 11 May 2017 and was published in June. The Commission considered the second report at its meeting on 10 August 2017.</p> <p>The quality assurance arrangements for audits have been reviewed and now include all audit work on BV.</p> <p>The Accounts Commission's BV steering group continues to meet to inform and monitor developments as required.</p> <p>The Scottish Government working group's review of the statutory BV guidance continues. The group is planning to put the guidance out for consultation in the autumn of 2017.</p>	<p>The key milestones are:</p> <ul style="list-style-type: none"> Annual Audit Reports will reflect the wider scope audit, including findings from the new approach to auditing BV - September. Early 2018 - The first six BVARs will be reported to the Commission by January 2018 Early 2018 - the Controller of Audit's first Annual Assurance and Risks Report (AARR) to the Commission will reflect the wider scope audit and the findings reported under the new approach to auditing BV. The AARR will reflect on the Commission's Strategic Audit Priorities. Early 2018 - a review of the effectiveness of the new approach, used in the 2016/17 audits, will be discussed with the Commission's BV steering group. End of 2018 - The second tranche of six BVARs will be reported to the Commission by December 2018.
World Class Programme Development	Following consultation, the rolling five year work programme was published on the website in April. The web pages have been extensively redeveloped and provide information and contact details on the audits. This was complemented by an extensive external communication programme with external stakeholders on the content of the work programme and our approach to	<p>We will continue to develop our approach to programme development. This will include:</p> <ul style="list-style-type: none"> addressing any issues arising from the ongoing review of the links between our cluster work, current issues reporting, and the management and reporting of the Audit Scotland public sector risk register.

Project/ initiative/ product	Status update	Next steps
	<p>programme development.</p> <p>Leadership and membership of clusters has recently been reviewed in light of the content of the refreshed work programme. This has involved strengthening involvement of colleagues from ASG. The refreshed leadership of the PIE cluster has enabled us to develop stronger links between cluster work and our approach to auditing New Financial Powers.</p> <p>We are currently reviewing the links between our cluster work, current issues reporting, and the risk register to better use our collective audit intelligence.</p> <p>The 2017 work programme refresh has begun. Key activities and milestones have been put in place so we will be in a position to present proposals to the Auditor General for Scotland and the Accounts Commission in December.</p> <p>Discussions are ongoing with the Secretary to the Commission about integrating the Commission's approach to formal consultation on its work programme within routine Commission stakeholder engagement given the potential benefits this offers of raising the profile of the Commission, reflecting the objectives of the Commission's stakeholder engagement strategy and plan and shortening the timetable for approval of the programme.</p>	<ul style="list-style-type: none"> presenting refresh proposals to the Auditor General for Scotland and the Accounts Commission in December. working with the Secretary to the Commission to refine the Commission's approaches to consulting on the work programme.
Strategic approach to Parliamentary Engagement	<p>We are currently refreshing our strategy for parliamentary engagement drawing on the lessons learnt from implementation of phase 1 (understanding, informing and engaging with the Parliament), including all of the feedback we have received from the Parliament (MSPs survey, clerking teams, SPICe and colleagues).</p> <p>That refresh process also involves consultation with a wide range of colleagues to identify aspects of engagement that have worked most effectively to date, share good practice and better target our efforts moving forward. In developing the refreshed</p>	<p>The development of a refreshed strategy for parliamentary engagement that:</p> <ul style="list-style-type: none"> draws on the lessons learnt from implementation of phase 1 of our Parliamentary Engagement strategy (understanding, informing and engaging with the Parliament) converts our engagement strategy into a more detailed programme of proactive engagement linked to our work programme and aligned with parliamentary committee activity

Project/ initiative/ product	Status update	Next steps
	<p>strategy we will be seeking to set clear objectives and identify key actions that will convert our engagement strategy into a more detailed programme of proactive engagement linked to our work programme and aligned with parliamentary committee activity.</p> <p>In refreshing the strategy we will also be considering how our approach to parliamentary engagement with, and support for, the Parliament needs to evolve in response to:</p> <ul style="list-style-type: none"> • the Budget Process Review Group (BPRG) report • the Commission on Parliamentary Reform report. <p>Both of these reports recommend that the Parliament develops a stronger focus on outcomes through robustly scrutinising what budgets have achieved and aim to achieve over the long-term and may have significant implications for Audit Scotland.</p>	<ul style="list-style-type: none"> • reflects and responds to the recommendations of the Budget Process Review Group (BPRG) and Commission on Parliamentary Reform reports.
Digital Audit	<p>We have developed a Digital Audit Strategy which sets our vision for digital audit and what that means for the focus of the audit work, how the work is carried out and what capacity is required to deliver the vision. Management Team approved the strategy at its meeting on 8 August 2017.</p>	<p>The strategy will be considered by the Board at its meeting in October 2017. The strategy contains a variety of commitments for 2017/18 and beyond under three main streams of work:</p> <ul style="list-style-type: none"> • Auditing digital • Digital auditing • Digital capacity and resilience

AUDIT SCOTLAND BOARD

23 AUGUST 2017

REPORT BY THE CHIEF OPERATING OFFICER

DELIVERING BEST VALUE IN AUDIT SCOTLAND

1. Purpose of Report

The Board has previously considered interim reports on how the Audit Services Group (ASG) seeks to deliver best value, most recently at its meeting on 20 January 2017. At that meeting, the Board agreed that further analysis of value for money be provided once the 2016/17 annual accounts had been laid. The Board also requested that comparable information be provided for all business groups.

This report updates the Board on how Audit Scotland has delivered value for money, considering performance, quality and cost during the 2011/12 to 2015/16 five year audit appointment round which was concluded in our 2016/17 financial year.

The report summarises performance over the period of the previous audit appointment round. The financial information is based on the audited information in our annual reports and accounts, our budget proposals and other published documents.

This report provides the best available comparable information for each group, given the different composition and purpose of each group, and the change that has taken place in our work externally and internally over the preceding period. It also provides a summary of added value delivered in each group.

This summary provides assurance to the Board about progress in delivering value for money over the previous five years, highlights performance for each business group and sets the context for ongoing value for money work within Audit Scotland. It has been compiled by business group Directors.

The Audit Committee has recently undertaken a risk interrogation on value for money at Audit Scotland which provided assurance on the internal processes in place. This report also provides background for the development of the next corporate plan and objectives

2. Audit Scotland's performance

Audit Scotland's 2016/17 budget submission to the SCPA highlighted that we had delivered a reduction of over 20% in the cost of audit in real terms over the previous four financial years. This has been achieved alongside an increase in the volume of audits, improvements in the quality of audit work and audit outputs and also the range of audit outputs delivered.

Organisation-wide we have

- reduced the cost of public audit by more than 22% in real terms between 2012/13 and 2016/17

- enhanced the range of our audit work to include shared risk assessments, the audits of community planning partnerships, council owned charitable trusts, expanded European Agricultural Fund Audit and audits of integrated health and social care Boards
- streamlined the annual audit process
- increased the volume of audit outputs (including briefings, supplements, checklists and web based interactive data tools)
- sustained and/or improved the quality of the audit work
- restructured business groups and the management team
- realigned our staffing establishment by reducing the number of senior managers and increasing the number of staff at other grades
- rationalised the property portfolio.

3. Audit procurement

Audit procurement is an important part of our continuing efforts to deliver best value. The Auditor General for Scotland and the Accounts Commission for Scotland have adopted a mixed market approach to the delivery of public audit services.

As part of the development of the procurement strategy, the Board considered, principally in June 2015, the volume of work that should be undertaken by Audit Scotland teams and consequently the balance to be procured from external audit firms.

The Board took account of a range of factors

- reports on audit quality from previous years,
- the independence and flexibility provided by having an in house team to cope with any conflicts of interest affecting firms
- the need for an in-house team to have a critical mass of work to be sustainable and able to recruit high quality staff and trainees, and
- the previous split of work and costs and benefits of moving from that allocation.

The Board concluded that, taking account of all the factors, the split should remain at a level of approximately 66% in-house, 34% firms value. The Auditor General for Scotland and the Accounts Commission agreed the procurement strategy including the allocation of work.

The outcome of the procurement exercise was that accountancy firms were appointed to conduct 35% of the work (by value). The market mix will be considered again as part of planning for the next appointment exercise, which will start in mid 2019.

4. Audit Services Group

Key messages

Value for money has been demonstrated by the Audit Services Group at the conclusion of the 2011/12 to 2015/16 audit appointments. The group has been able to provide assurance on the quality of the audit work, delivery performance and has met targets and costs in line with those of the private firms.

Audit Strategy concluded that in 2015/16 the audit work performed by ASG, PABV and the firms satisfied the International Audit and Assurance Standards Board definition of a quality audit.

Costs

Using the 2011/12 financial year as a baseline, adjusting for inflation and after adjusting for changes in the volume of audits delivered, ASG costs have reduced by 8.7%.

ASG monitors costs per audit and reports quarterly to the Board. In addition, the Assistant Auditor General compares ASG costs with those of the private firms on a regular basis. The differences in the cost models between ASG and the firms do not allow a like-for-like comparison. ASG costs include a share of all the costs of Audit Scotland, while the private firms have commercial discretion over the discounts they offer and may not fully recover the costs they incur. However, cost comparisons still provide useful benchmark information and the latest comparison, for 2015/16 audits, is shown in the table below:

	NHS £'000	LG £'000	CG £'000	Total £'000
ASG cost	1,390	4,639	3,431	9,460
Firms				
Min discount	1,584	4,814	3,658	10,056
Ave discount	1,459	4,474	3,495	9,428
Max discount	1,326	3,908	3,211	8,445

This analysis demonstrates that, in the final year of the appointment round, ASG costs were broadly in line with those of the firms offering the average discount. In the case of health and central government, ASG costs were less than those of the firms offering the average discount. In the case of local government, ASG costs lie between the minimum and average discount.

As the Board is aware, the recent tender process has resulted in further discounts offered by the private firms and the task for ASG over the next 5-year cycle is to further improve the cost profile. Additional efficiencies have already been generated by delivering £196k of additional audit work within existing resources, following the appointment process.

People

There are currently around 150 colleagues in ASG and staff costs account for around 90% of ASG total costs.

Staff numbers reduced by 10% (16 WTE) including a senior staff reduction of 28% (12 WTE), between 2010 and 2015. Numbers increased again by 7% (10 WTE) in 2016 due to a significant increase in workload from the creation of new audit bodies (Revenues Scotland, Food Standards Scotland and integrated health and social care bodies) and an extended European agriculture audit. The increase was from the employment of additional qualified auditors and trainees.

Improvements in productivity, alongside improvements made in audit methodology and tools, have enabled staff numbers to reduce while improvements in the quality of work continue.

ASG productivity has been around 70% in recent years, with productive time defined as audit activity rather than time devoted to staff management, development or corporate work, training or leave. Although current productivity has been at the right level to sustain the delivery of high quality work in the long term - balancing delivery with activities to enhance skills and innovate for the future – we are undertaking a value for money review of how we use and allocate time across Audit Scotland as a key part of the efficiency programme.

Quality

Over the five years to 2016/17, the Transparency and Quality Reports have consistently concluded that high quality audits have been delivered for the Auditor General and the Accounts Commission. The conclusion is formed after considering evidence from cold reviews carried out by auditors and external regulators, performance information on audit delivery, product reads of auditors' outputs, thematic reviews and feedback from audited bodies.

A commitment to audit quality is central to all of Audit Scotland's work and the Board is aware that we are currently well through a fundamental review of quality processes. The ASG Professional Standards and Quality Improvement Group (PSQI) ensure that an integrated approach is taken to complying with professional standards, updating the audit approach and tools, undertaking quality reviews and developing people.

The ASG quality framework provides assurance to the Board, Auditor General and Accounts Commission on the quality of audit work. Quality review activity on ASG work in 2015/16 included a mix of internal and external validation

- Independent review of 6 completed audits by the Institute of Chartered Accountants in Scotland (ICAS).
- Thematic reviews conducted by Audit Strategy - in 2015/16 this included a review of auditors' opinions.
- Engagement lead reviews - all ASG audits were reviewed by the engagement lead to confirm they had been carried out in accordance with the audit guide and quality arrangements.
- Peer reviews were conducted on large and higher risk audits to confirm that the identified risks, judgements and audit opinions were appropriate.
- Cold reviews were undertaken on 10 completed audits to confirm compliance with auditing standards (two of which were conducted by the Wales Audit Office and the Northern Ireland Audit Office).

Details of the quality framework and the results of quality reviews are contained within the annual Transparency and Quality Reports.

Audit quality arrangements have continued to develop and improve to reflect changes across the profession and the results of both internal and external audit quality reviews.

Delivery performance

Each year the Annual Report and Accounts highlights the numbers of annual audit reports that are delivered.

	16/17	15/16	14/15	13/14	12/13	11/12
Annual Audit Reports	329	323	184	208	214	211

The significant increase in 2015/16 is accounted for by the introduction of the audits of local authority charities and some Integrated Joint Boards.

Audit reporting provides assurance and supports improvement by concluding on performance, identifying future risks and making recommendations for improvement. The key output measure is certifying financial statements and issuing annual audit reports by deadline. Performance by all auditors (ASG and the private firms) is good, with 97% of the 329 accounts audited for 2015/16 completed on time (98% in 2014/15). Failures tend to be isolated and largely due to specific issues at an audited body.

ASG's performance in submitting audit products and outputs (including interim reports) is reported quarterly to the Board. For the 2015/16 audit year 814 audit outputs were delivered, 87% were on time. In recent years performance has consistently exceeded 85%, which is good as some reports are always likely to be delayed due to unplanned work being needed or unforeseen issues with the client.

Added Value

ASG exists and operates solely to deliver the aims and objectives of the Auditor General, the Accounts Commission and Audit Scotland. This clarity of purpose helps public trust, independence and intelligence sharing. Firms bring value in their different experience and insights from the private sector and other parts of the UK, but the uniqueness of ASG's role allows longer and deeper relationships to be built and greater understanding of the Scottish public sector.

Some audits have been considered to be of such strategic significance, higher risk or heightened sensitivity that the Auditor General and the Accounts Commission have decided to allocate them to ASG. For example, from the inception of devolution in 2000 the Auditor General has personally signed the audit opinions of the Scottish Government and the Scottish Parliamentary Corporate Body and so these audits have always been undertaken by ASG. Other audits, such as Revenue Scotland, have been retained in-house due to their interaction with legislative requirements and the early stage of their existence.

Annual audit work, best value audit work and performance audit work are increasingly integrated as ASG and PABV staff focus on audit work on a holistic basis. This enables Audit Scotland to develop new forms of audit product and provide better services for the Auditor General, Accounts Commission and Controller of Audit. Working with colleagues across the organisation, ASG works flexibly to re-prioritise work as new risks arise and also lead innovation in audit approaches.

ASG is a strong in-house audit practice, providing specialist skills and continuity of expertise, primarily because of the experience and development of its staff. They provide a range of briefings and support for the Board, Auditor General, Accounts Commission and the Scottish Parliament's Public Audit and Post Legislative Scrutiny Committee. ASG works with colleagues across Audit Scotland to develop new audit approaches, such as the preparation for new devolved powers and the audit of best value. Representing Audit Scotland, ASG staff also provide professional leadership on a range of external forums and groups.

ASG operates an extensive professional training scheme for the benefit of all of Audit Scotland and the public sector as a whole. The aim of the programme is to provide sufficient talented and qualified auditors over a three to five year time frame and build a talent pool for the future to benefit the Scottish public sector. Currently there are 40 trainees in post at varying stages in their qualification and each year 10 to 14 new trainees are recruited. Between 2011/12 and 2016/17 examination pass rates have been between 89% and 94%.

5. Performance Audit and Best Value (PABV)

Key messages

PABV can demonstrate value for money because it is operating with fewer resources year on year, delivering consistent levels of outputs, while maintaining and/or improving quality and impact

PABV delivers:

- Performance audits across the public sector in Scotland.
- Support for appointed auditors on the audit of best value in councils.
- Annual overview reporting for the health, local government and college sectors.
- Special investigations (section 22 and 102 reports) and dealing with issues of concern to the public and elected members (the correspondence function).
- A proportionate and risk based approach to the monitoring of public policy and service, working closely with other scrutiny and inspection bodies.
- Wider support to the Auditor General for Scotland and the Accounts Commission.

Costs

Using the 2011/12 financial year as a baseline and after adjusting for inflation PABV costs have reduced by 8.8%.

The consultancy budget has reduced by 62%, from £555,000 in 2011/12 to £210,000 today. This is a reduction in cash terms of £345,000. This reduction is consistent with a more focussed approach to audit and development activity, better informed by analysis and intelligence, and the skills and experience of the team. Audits now have tighter scopes and are now less reliant on broad research type surveys by consultants.

People

Since 2011/12 the PABV staffing establishment has reduced by 6.9 WTE (from 68.7 WTE), a reduction of 10%.

PABV have been actively improving the grade and skill mix within the group, as opportunities have arisen, and in response to the changing operating environment. For example, over the past few years PABV have shifted the balance of staff towards increased numbers at audit delivery, rather than managerial levels. This has brought energy and fresh thinking to the business group, which now has a good blend of experience and an environment that values the sharing of knowledge and skills.

Productive time for PABV staff collectively (direct audit work and programme development activities) is consistently approaching 70% year on year. The remainder of staff time is spent on activities such as quality and improvement, learning and development, management and corporate working. Again, the corporate review of how we use and allocate time will help inform future productivity discussions.

Quality

The PABV Quality Group oversees the group's quality arrangements, including the management of quality assurance systems, in particular the Audit Management Framework, which is a core tool.

Other aspects of the PABV quality assurance arrangements include:

- peer review of all significant pieces of audit work (performance audits, overview reports, Best Value audits) before the work is completed, using experienced colleagues not involved in that project.
- 'hot' and 'cold' audit reviews to ensure judgements are appropriate and supported by evidence, lessons and learning points are identified, and assurance that audit work is of a high quality.
- obtaining additional independent and external assurance over the quality of reports through reciprocal peer reviews with UK partner audit agencies (National Audit Office, Northern Ireland Audit Office and Wales Audit Office).
- audit teams carrying out a post-project review to consider what went well and identify potential improvements to the audit process for future work. These are supplemented with 'reviews of project reviews' to identify common themes and learning points that are then shared with all audit staff to support system-wide improvement.
- Adherence to Audit Scotland's rigorous process to ensure that auditors comply with the Financial Reporting Council's Ethical Standard to avoid any actual or perceived conflicts of interest.
- The PABV Learning and development group ensures that PABV staff have the necessary skills to deliver high quality audit work.

Delivery performance

During 2016/17 PABV published 24 reports across a wide range of issues, and completed a further 3 statutory reports for the FE sector that, whilst not "laid" and therefore published until April 2017, saw costs incurred in 2016/17. This compares to 27, 29 and 23 reports in each of the previous three years.

PABV also published three impact reports, capturing the difference audit work makes and the contribution it makes to improving the use of public money.

PABV continue to explore new ways of adding value to the work to support Audit Scotland's World Class Audit ambitions. Recent examples include:

- Contributing to the work of the *New financial powers and constitutional change* group, and by working with colleagues across the organisation to ensure arrangements for the audit of the new devolved powers are appropriate and robust, and meet the expectations of the Auditor General. Programme development work in areas such as social security, and employability services, forms a further part of the contribution to this high priority area.
- Producing innovative outputs, for example the update on the roll out of Superfast broadband, and e-hubs for new financial powers and health and social care
- The use of Tableau data visualisations to better illustrate complex data in reports.

- Detailed briefings on key issues, including City Deals, Scotland's NHS Workforce, and on Scotland's new financial powers.

Added Value

PABV's work extends beyond delivering the audit programme. PABV actively plans to maximise the impact of all work and make a difference to the bodies and sectors audited. For example

- Working closely with colleagues across Audit Scotland, the firms and other scrutiny bodies to share intelligence and plan respective approaches. PABV plays the lead role in supporting the Strategic Scrutiny Group and co-ordinates the Shared Risk Assessment for local government.
- Supporting the Auditor General in her work with the Scottish Parliament, providing briefings to Committees and working closely with clerking staff on a wide range of issues.
- Supporting the Accounts Commission (and its committees), for example, in preparing papers and briefings for meetings.
- Engaging with key stakeholders to ensure the rolling work programme is, where appropriate, aligned with the work plans of parliamentary committees, areas of interest for MSPs and other such groups. To support this we have developed a new [communications and engagement strategy](#) for the Scottish Parliament, its committees and the Scottish Parliament Information Centre (SPICe).
- PABV participate in, and in some cases lead, joint intelligence sharing groups and roundtables with other public bodies, helping to coordinate efforts and maximise the sharing of information and intelligence. An example of this is the Sharing intelligence for health and care group.

PABV's cluster approach to programme development ensures that it is well placed to monitor and audit the right things at the right time, by staying abreast of developments across the public sector landscape, picking up on areas of audit risk, good practice and key developments.

Statutory reporting is often some of the most high profile and publicly visible work undertaken by PABV. Parliamentary scrutiny of audit reports, and evidence sessions with audited bodies and key stakeholders, frequently draw extensive public and press attention. Recent high profile examples include the Scottish Police Authority's i6 project, college mergers, and the Auditor General's report on the Scottish Government's consolidated accounts.

Audits are increasingly resourced across the Audit Services and PABV groups, drawing on the skills and experience from across the business. Examples include the integrated teams for the new Best Value audits, joint teams for performance audit, and PABV colleagues supporting final accounts work.

Members of the PABV team are increasingly invited to speak at or facilitate workshops at numerous conferences and events across the whole of the public sector.

6. Audit Strategy

Key messages

Audit Strategy is delivering a wide range of services focussed on supporting the delivery of high quality audit.

Costs

Using the 2011/12 financial year as a baseline and after adjusting for inflation Audit Strategy costs have reduced by 4.8%:

People

Over the same period the staffing establishment reduced from 11 to 9 WTE.

Quality

Quality assurance is one of the core services provided by the team. In terms of quality assurance on the services provided by the team itself, these include quality and performance frameworks, feedback from stakeholders and internal audit reviews.

Delivery performance

Audit Strategy provides a range of key services, including

- Developing the framework for public audit in the Code of Audit Practice.
- Supporting the appointment of local auditors by the Auditor General and the Accounts Commission.
- Providing guidance and support to appointed auditors.
- Objectively appraising the quality of auditors' work and providing assurances to the Audit Scotland Board, Auditor General and Accounts Commission.
- Co-ordinating the National Fraud Initiative in Scotland.

Added Value

Audit Strategy has been central to a number of strategic improvements, these include

- developing a new Code of Audit Practice for public audit in Scotland
- reducing the cost of public audit through the competitive tendering process
- developing improved fees and funding arrangements
- providing professional leadership through independent, specialist advice and support that informs the judgement of internal and external stakeholders
- developing and delivering the risk assessment and audits of housing benefit in councils
- promoting improvement in audit quality and leading the review of the quality management framework

In the context of the wider review of quality arrangements and the departure of the Assistant Auditor General the structure and purpose of the Audit Strategy Group is currently being reviewed.

7. Corporate Services Group (CSG)**Key messages**

CSG is delivering an extensive range of value adding support services at a reduced cost.

Costs

Using the 2011/12 financial year as a baseline and after adjusting for inflation CSG costs have reduced by 5.1%.

People

The CSG budget contains a variety of corporate costs including office accommodation and facilities. The budget has also changed to reflect internal organisational changes during the past five years, including the centralisation of training and development budgets and administrative support.

Since April 2012, CSG staffing establishment has risen from 34.6 to 51.1 WTE. This includes the creation of the Business Support Services (BSS) team in 2013/14 which transferred 11 WTE from other business groups into Corporate Services to create a more resilient shared support service. In 2016/17 we refocused the service and restructured the team, the efficiencies from which will start to flow through in 2017/18. Other additional posts strengthened the communications and IT teams to meet the demands for digital and design capacity to support a range of different outputs.

Quality

The quality assurance arrangements in place reflect the different services provided by the teams. Key quality assurance measures include

- external and internal audit programmes
- external accreditations (including ISO27001 on information security, 'two ticks' and the Digital Accessibility Centre certification on accessibility, the healthy working lives bronze award and most recently nominations for the communications team of the year award and the 2016/17 Annual Report and Accounts by the Chartered Institute of Public Relations)

Delivery performance

CSG delivers a range of professional support services

- business support services
- communications
- digital services
- finance
- governance
- human resources & organisational development

CSG has evolved considerably over time in response to changing audit responsibilities and the adoption of new business management approaches.

Added Value

CSG takes a lead role in driving organisational change and supports business groups in a wide range of areas. Working with colleagues across the organisation this has resulted in many improvements.

The Building a Better Organisation programme is transforming organisational development, recruitment, personal development and career progression. This and other initiatives have had a number of benefits including:

- 'One to Watch' status in the Best Companies survey
- Absence rates being consistently below other public sector benchmarks

We have also made significant improvements to our office accommodation.

- In 2013, we relocated from East Kilbride to Glasgow. This resulted in a better and more flexible working environment and improved transport links. The move was delivered at no additional cost.
- In 2015, we relocated from two sites on George Street in Edinburgh to a single office at West Port. This offers us a more fit-for-purpose and flexible working environment, supports more effective cross-organisational working and will generate significant savings. This move will generate savings of £2.8 million over ten years in respect of rent, rates and service charges.
- In 2016/17 we moved to new office accommodation in Inverness office, this provides a better working environment and was cost neutral.

We have worked with colleagues to ensure that we get our audit messages out effectively and maximise the impact of the audit work. In 2015/16 we introduced a new website and developed how social media is used

- Between April 2011/12 and March 2014/15 downloads increased from 169,524 to 206,268.
- Between April 2015/16 and 2016/2017 downloads increased from 606,001 to 704,996.
- Between 2015/16 and 2016/17 engagements on Twitter rose from 3,952 to 15,470
- We offer a wide range of adding value products on the website including briefings, checklists and interactive data tools.

Over the period we have improved the resilience and flexibility of digital services by maintaining and upgrading core systems and infrastructure and developing new services.

8. Conclusion and next steps

This report presents summary information on how Audit Scotland and each business group has delivered value for money, considering performance, quality and cost during the 2011/12 to 2015/16 five year audit appointment round.

Demonstrating Best Value and delivering value for money are guiding principles in our strategic planning. Having delivered significant efficiencies and cost reductions over recent years, most notably through the audit procurement process, office rationalisation and organisational restructuring, the next stage of our value for money and efficiency programme has been developed and agreed for 2017/18.

Recognising that **64%** of our budget is on staffing costs we are carrying out a strategic review of how we use our time. We are also reviewing the efficiency and effectiveness of our arrangements for supplementing capacity when we need to, including securing additional audit capacity at peak times, our use of external consultants and agency staff and our arrangements for securing legal advice and internal audit services. Efficiency is a cross cutting theme in the various improvement projects which form the Becoming World Class Improvement Programme. The Board will continue to receive quarterly updates on the programme alongside the quarterly finance and performance reports.

9. Recommendation

The Board is invited to comment on and note how Audit Scotland has demonstrated value for money over the previous five years and to consider this report as background for the development of the next corporate plan and objectives.

AUDIT SCOTLAND BOARD

23 AUGUST 2017

REPORT BY SENIOR MANAGER, PERFORMANCE AUDIT AND BEST VALUE

DIGITAL AUDIT STRATEGY

1. Purpose

To invite the Board to consider and discuss a draft digital audit

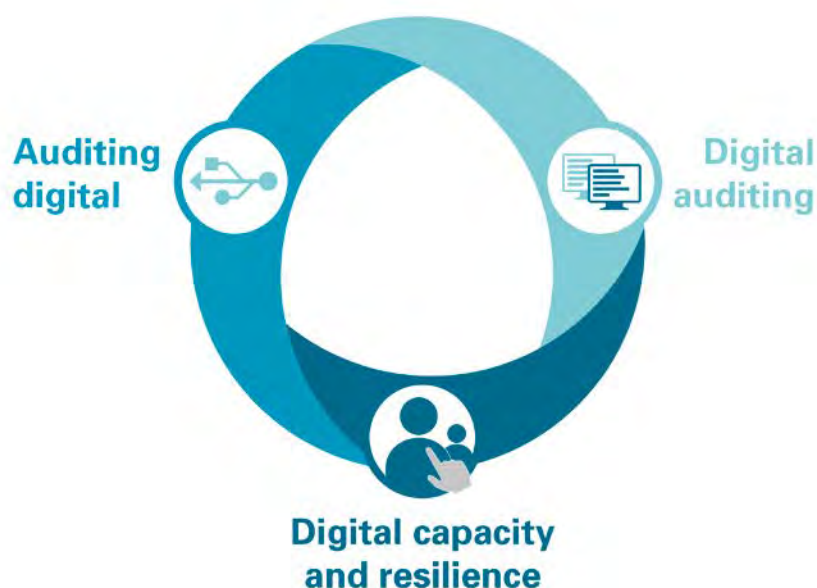
2. Background

In December 2016 Management Team held a Digital summit to bring together people across the organisation working on digital to discuss the opportunities digital presents and how we might make best use of them. In January 2017, we discussed the objectives and priorities with the Audit Scotland Board.

Subsequently, the team have had discussions with colleagues across the organisation, stakeholders, and the NAO, about potential priorities and actions to inform the development of a digital audit strategy.

3. Digital audit strategy

Digital audit can be split into three main components:



The aim of the strategy is to set out how, over the next 3 years, we can achieve a step-change in how we use digital in our audit processes, and help the rest of the public sector use digital effectively to improve public services. At the end of the strategy, digital should be embedded with our frameworks and processes, with the appropriate skills in place to support our digital work.

The strategy supports the corporate plan vision to be a world-class audit organisation. It sets out how we can deliver on the commitment to harness digital technology to inform our work, and also to report on digital transformation across the public sector. The strategy closely aligns with the aims of our strategic improvement programmes, and aims for a coordinated approach across the whole organisation.

The strategy is largely for our organisation to use to direct and prioritise digital activity, but we would also use it to explain our approach to external stakeholders. We are developing a digital e-hub on our website, where the strategy could be available, alongside other relevant materials and products.

4. Recommendation

The Board is invited to consider and discuss the digital audit strategy

Digital Audit Strategy 2017

Supporting world-class audit

DRAFT

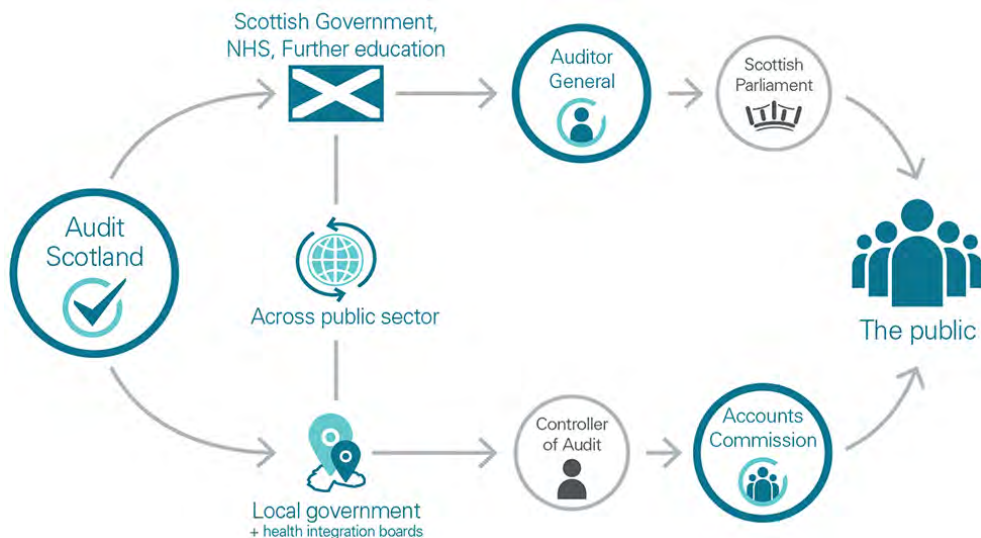


For Audit Scotland Board
23 August 2017

Who we are

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

- ✓ 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.
- ✓ 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.



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.

Contents

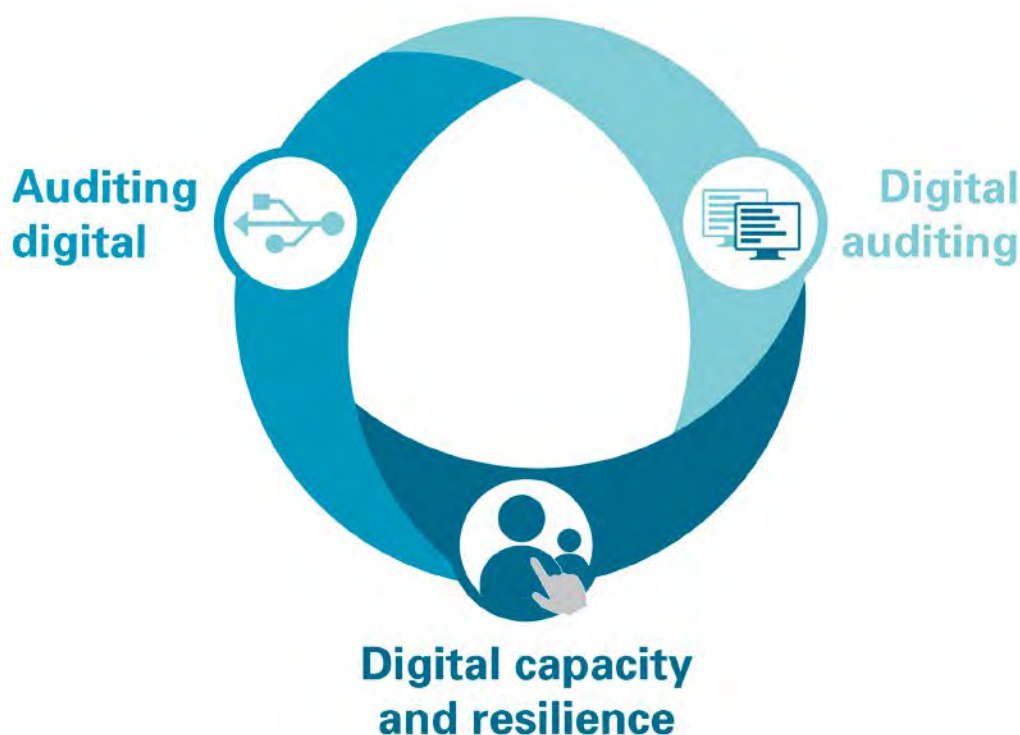
Introduction	4
Vision	5
Auditing Digital	7
Digital Auditing	10
Digital capacity and resilience	12

Introduction

- 1.** Like organisations across the public sector, at Audit Scotland we aim to continuously improve to deliver on our vision. For us, that vision is to be a world-class audit organisation. Digital plays a key role, and this strategy sets out how we can use digital in our audit processes to support this vision. Importantly, it also sets out how we can use audit to support the public sector in its use of digital to improve outcomes for citizens.
- 2.** Digital technology has become an increasingly familiar part of everyday life over the last ten years. It's part of the fabric of how we live our lives and citizens, businesses and public services are dependent on it operating successfully. This is brought into acute focus by the impact of cyber-attacks, for example hospitals needing to cancel operations and turn away patients following the WannaCry incident.
- 3.** New technology creates opportunities to deliver public services in different ways, it also creates new expectations of how public services should look and operate in this digital age. It opens new possibilities for interacting with and empowering citizens, but also creates risk that not all of society can benefit from these changes.
- 4.** This digital audit strategy recognises that over the last few years Audit Scotland has adapted to the digital age. We have introduced new technology and digital methods into our audit processes, and we have published a range of audit work looking at the implementation of digital within the public sector. However, we recognise that we can, and need to, do more. This strategy sets out the vision for a step-change in our approach to digital audit. By the end of this three-year strategy, the aim is that digital risks and thinking are embedded in our processes.
- 5.** Digital is a theme that will be assessed across our audit work, at a local, sectoral, and national level. We aim to support and encourage improvement across the public sector in using digital to help transform people's lives. This will involve thinking innovatively about how we best deliver our messages and encourage discussions about how to move forward.
- 6.** This strategy also sets out our ambition to ensure that as an organisation we are making best use of what digital can offer. Digital audit supports activity across our strategic improvement programmes, delivering added value, efficiencies, and more opportunities for cross-organisation working.
- 7.** We recognise that we need to think about what this means for our workforce: what new skills will auditors need, what specialist knowledge will we need access to, and what efficiencies in audit processes might mean for changes in the type of work we do. These are all questions at the centre of the strategy, and we set out how we will consider these as we develop our plans.
- 8.** We want to be at the forefront of the opportunities that digital offers; helping the public sector to understand and make the most of the opportunities, at the same time as grabbing the opportunities for ourselves.

Vision

9. We will use digital audit to enable our vision to be a world-class audit organisation. It will deliver activity across the strategic improvement programmes. Our approach in digital audit has three main components



- **Auditing digital** – taking a flexible and risk-based approach to auditing digital public services. Integrating digital risks into our performance and financial audits and developing products to add value to stakeholders.
- **Digital auditing** - using digital technology, tools and technologies to support and deliver audit work. Making best use of available data to inform audits
- **Digital capacity and resilience** – working across the organisation to involve the right experience and skills in the right places. To upskill our workforce to support digital audit and ensure our resilience.

10. At the centre of this activity will be the establishment of a digital centre of expertise, bringing together the people across the organisation who are involved with digital audit. This centre will act to share expertise and intelligence and coordinate audit activity.

11. This strategy outlines an approach to digital auditing that will provide:

- ✓ Common, shared intelligence
- ✓ Common priorities
- ✓ Consistent findings and judgements
- ✓ Coordinated action
- ✓ Best use of the available skills
- ✓ A flexible and rapid response

12. The strategy sets out our objectives and approach against each of the three components. It summarises our current position and outlines an action plan for the next year, and the following two years of the strategy.

Auditing Digital

Our objective is to take a flexible and risk-based approach to auditing digital public services. Integrating digital risks into our performance and financial audits and developing products to add value to stakeholders.

Our approach will be to:

- Develop a digital risk assessment to look at the risks affecting the public sector and audited bodies, and the wider external environment
- In consultation with the Auditor General and the Accounts Commission prioritise audit activity based on the risk assessment
- Take a layered and targeted approach to audit work. This would involve
 - considering those public bodies with greater digital-related risks for a differentiated audit approach
 - upskilling audit teams to ask questions about and make judgements on digital risks
 - layering digital risks into all our audit work, including performance audit reports, annual financial audits, and Best Value audit
 - considering the extent to which public bodies use digital to support service improvements.
- Develop our audit approach to ensure cyber-resilience in the Scottish public sector
- Deliver and contribute to a wide range of audit outputs. This could include:
 - guidance for auditors
 - intelligence briefings
 - annual audit reports, performance audits, and Best Value Assurance reports
 - other outputs, for example, questions for non-executives and explanatory guides on key issues and risks such as agile project management or data protection arrangements, and contributing to conferences and round-tables

Progress to date

We have:

- ✔ undertaken IT audit activity in individual audited bodies, reporting issues through the annual audit report where appropriate
- ✔ published statutory reports on significant issues with a digital dimension (including [CAP futures](#), [NHS24](#) and the Police Scotland [i6 project](#))
- ✔ undertaken performance audits and published reports on issues, including superfast [broadband](#), and reviews of processes within the Scottish Government to improve the [management of ICT contracts](#).
- ✔ produced a different-style output pulling together the key lessons from previous ICT programmes into a set of [digital principles](#) to help support improvement.
- ✔ shared information on digital risks with auditors and developed some specific audit programmes, e.g. cyber-security
- ✔ gathered intelligence for cluster briefings and monitored a risks relating to digital transformation as one of the strategic risks for the Scottish public sector
- ✔ developed networks with relevant organisations and stakeholders

Priorities for 2017/18

We will:

- develop and undertake a digital risk assessment of the external environment and public bodies and decide on the digital themes we are to prioritise
- develop a differentiated audit approach for those public bodies which face significant digital risk, ensuring that the audit teams have access to appropriate skills and experience
- use the planning guidance to direct all auditors to ask questions, gather evidence, make judgements, and report on, some of the prioritised digital themes
- develop guidance and training for auditors to enable them to undertake the digital audit work
- agree the audits in the forward work programme where digital should feature as a key theme, and put in place arrangements for digital expertise to feed into the audit
- produce statutory reports on individual digital programmes as required
- consider and develop our audit approach to cyber resilience and security across the Scottish public sector.

Priorities for 2018-2020

Over the following two years we will:

- integrate digital risks into audit processes, through updating risk assessments and audit programmes, and regular inclusion of digital risks in the planning guidance
- assess the differentiated audit approach for higher digital risk public bodies, and refine and continue as required
- work with auditors to assess the level and type of support required. Hold information sessions and produce briefings as required.
- deliver the performance audits on digital in central government and health, and local government included in the forward work programme, and report on significant individual digital programmes as required

Digital Auditing

Our objective is to use digital technology, tools and technologies to support and deliver audit work. Also to make the best use of available data to inform audit work.

Our approach will be to make the best use of digital technology, data and analytics to:

- **support risk assessments** - including decisions on the future work programme, and audit planning, by:
 - analysing data within, and across, policy, places and sectors to gather intelligence on emerging risks and patterns
 - using data to support appraisals of potential future audits
- **enhance the audit process** - including analysing financial and non-financial data trends and outliers, and undertaking transactions testing, by:
 - using data analysis to support audit evidence and judgements and help target our work to identify potentially fraudulent activity
 - using appropriate tools to support the sorting and testing of financial transactions data
 - discussing and sharing intelligence on different tools and techniques with other audit organisations
- **getting our messages out** - find new ways to present our messages and audit work, including data analysis tools, greater use of social media, and e-hubs on our website, by:
 - embedding the use of data presentation software, e.g. interactive data graphics in our audit reporting
 - considering new ways to use technology to engage stakeholders and audiences for our reports, including social media, our website, video

Our approach will also ensure that our use of digital to undertake audits will be secure and information gathered will also be held securely. It will be compliant with the requirements of the Data Protection Act and the new General Data Protection Regulation which comes into force in May 2018.

Progress to date

We have:

- ✔ completed phase 1 of the audit intelligence project delivering a data warehouse which currently includes a range of core datasets and data around health and social care. Phase 2 is underway to include more core datasets.
- ✔ embedded a cross-organisation data analytics group to share intelligence and trial new software and approaches

- ✓ created an audit data analytics group to pilot new tools and techniques in the annual audit process
- ✓ used interactive data graphics to present, and allow access to, data from a number of our performance audit reports
- ✓ developed e-hubs on our website to provide a central place to promote our work on new financial powers and health and social care
- ✓ used animations to help showcase our work to new audiences
- ✓ used social media and online surveys to gather public opinion and experience for our Self-Directed Support follow-up audit and our audit of Early Learning and Childcare

Priorities for 2017/18

We will:

- use data analysis to support several audits in the work programme, including the sector overviews, infrastructure investment financing and Best Value Assurance Reviews
- deliver phase 2 of the Audit Intelligence project by integrating more outcome and financial datasets and expanding the use of analytics tools.
- complete the pilots of new analysis tools within the annual audit process and review the process.
- consider how digital audit techniques will be subject to quality assurance and review.
- develop an e-hub to present our work on digital audit
- discuss with other audit organisations the progress they are making with digital audit techniques and consider new ideas

Priorities for 2018-2020

- review the development of the data warehouse and identify priority datasets to include
- roll-out and embed the use of analysis tools in the audit process
- embed the use of data analytics across our audit work
- Continue to develop and deliver innovative ways to consult and engage with stakeholders and report our messages using digital technology

Digital capacity and resilience

Our objective is to work as one organisation to ensure that we have the people with the right skills and experience, the appropriate technology, and the right digital culture, to support all audit work

Our approach is to:

- ensure that we identify the relevant digital skills of staff across the organisation and bring it together to create added value for our audit work
- identify digital skills and capacity gaps and take action to address them
- ensure that our workforce is fit for a digital future and that all staff can participate in digital audit activity
- make effective use of digital technology to support our audit work, focussing on resilience and innovation
- prioritise digital security and resilience as a key part of organisational activity
- develop a culture that is digitally aware and open to the opportunities digital can provide

Progress to date

We have:

- ✓ a wide-range of people across the organisation working on digital-related activity, including:
 - ICT auditors
 - digital services team
 - performance audit teams
 - senior managers with digital policy responsibilities
 - team members with data analysis skills
 - the communications team
 - the data analytics group
- ✓ developed our knowledge and capacity by:

- welcoming students from the Edinburgh University [Q step programme](#). The programme links students with quantitative social science skills doing social/political science degrees with employers
- delivering introductory training in data analytics to 45 colleagues across the organisation
- organising training sessions on new areas and tools, including agile development and IDEA
- supported staff to attend relevant specialist training, e.g. Agile programme development

Priorities for 2017/18

We will:

- invest in technology, services and expertise through the new Digital Services Strategy
- create the digital centre of expertise to bring together digital skills, knowledge and experience across the organisation. Develop areas for sharing intelligence and mechanisms for prioritising activity and making decisions
- work with auditors to assess the skills requirements to be able to undertake audit work against digital priorities. Develop plans to fill these gaps in the short-term.
- organise knowledge cafes with external speakers from across the digital environment to raise awareness of digital across the organisation
- maintain and build on relationship with key stakeholders, including working scrutiny partners, attending networking events and engaging with international audit colleagues

Priorities for 2018-20

We will:

- based on a review of the first year of activity and forecasting future activity, undertake an assessment of the skills and capacity we require to undertake digital audit. Update workforce plans, learning and development plans, and recruitment plans for these needs
- assess the potential for digital audit to create efficiencies in audit processes and the subsequent impact on workforce and audit activity
- engage with public sector programmes to help recruit appropriately skilled staff where required
- continue to improve our digital security and engage expert external security

AUDIT SCOTLAND BOARD

23 AUGUST 2017

REPORT BY THE ASSISTANT DIRECTOR, CORPORATE PERFORMANCE AND RISK OPENNESS AND TRANSPARENCY OF BOARD BUSINESS

1. Purpose of Report

This paper forms part of the Board's ongoing development agenda which has included development workshops, self evaluation reviews and the consideration of governance arrangements. It offers options to further increase the openness and transparency around how the Board conducts its business. The report also includes contextual information on how other public bodies conduct business and on the Scottish Government 'On Board' guidance.

2. Background

In our [Corporate Plan](#) we state that *'we expect high standards of governance of the organisations we audit and we set high standards for our own governance. We believe that a world-class organisation requires world-class governance arrangements'*.

Good governance depends on robust systems and processes, appropriate leadership behaviours, good professional working relationships, and the necessary capacity (in terms of people, skills and time) to deliver an organisation's objectives.

It is also worth noting that that what makes for good governance in one organisation may not necessarily work for another and that the approaches adopted need to reflect the scale and nature of the organisation and the business being conducted.

It is therefore helpful to focus on the core principles of good governance and how they can best be applied in different circumstances. The good practice principles have been set out in a range of different publications, including:

- The UK Corporate Governance Code. Financial Reporting Council (2016).
- The CIPFA International Framework: Good Governance in the Public Sector (2016).
- On Board. A guide for members of statutory boards. Scottish Government (2017).

These all cover similar core principles

- clarity of organisational purpose
- ethics and behaviours
- skills and capacity
- systems and processes
- transparency
- performance reporting
- public accountability.

The onus on any organisation is for it to demonstrate that it has carefully considered how it can demonstrate good governance and explain the underlying logic for any decisions it makes. The most effective boards recognise this and keep arrangements under review and look externally to make sure that their approach reflects best practice. The Board is committed to the continuous improvement of Audit Scotland's governance arrangements. Over the course of the last two years it has considered

- How it operates as a group, including
 - self assessment exercises
 - facilitated meetings and a workshop to inform its development agenda
 - annual reports from the Board's committees, which form part of the broader assurance framework.
- Governance arrangements, including
 - the focus, structure, format and content of meetings, agendas and reports
 - Board composition and working arrangements
 - openness and transparency, including the publication of reports in addition to agendas and minutes
 - a rolling programme of policy reviews
 - regular reviews of, and refinements to, the Standing Orders as required.

3. Openness and transparency

Openness and transparency forms one part of good governance and can take a variety of forms.

In the 2010 [‘Role of Boards’](#) report the Auditor General recommended that boards ‘maximise the openness and accessibility of their board meetings and papers’. The report also recommended that the Scottish Government update its guidance for non-executive board members.

The Scottish Government published revised [On Board](#) guidance for board members of Non-Departmental Public Bodies (NDPBs) in April 2015. In March 2017 the Scottish Government issued [guidance](#) for members of Statutory Boards. This guidance mirrors the 2015 On Board guidance.

The guidance is for non-executive board members of NDPBs. The guidance also notes ‘due to the differing responsibilities of bodies, parts of the guidance may not be wholly appropriate for Board members of other public bodies. However Board members of other bodies may also find sections of the guidance helpful’.

Audit Scotland is classified in the [National Public Bodies Directory](#) as one of 21 ‘other Significant Bodies’ which are defined as those which ‘do not fall within the recognised categories of public bodies set out above but they have a direct relationship with either the Scottish Government or the Parliament and operate within a framework set by Ministers’.

The guidance is set out in five parts

- Public Service Delivery and Reform (Guidance Note 1)
- Principles of Corporate Governance (Guidance Note 2)
- Roles, Responsibilities and Relationships (Guidance Note 3)
- Effective Financial Management (Guidance Note 4)
- Ethics and Standards of Behaviour (Guidance Note 5)

4. Current position

Under the heading of 'communications with stakeholders' (p41) the guidance recommends that boards should consider

- holding an Annual Open Meeting
- holding Board meetings in public, unless there is a good reason not to
- publishing summary reports and/or minutes of meetings
- inviting evidence from members of the public in relation to matters of public concern
- consulting stakeholders and users on a wide range of issues
- making corporate plans and the annual report and accounts widely available.

The Board has considered all of these areas and the current position is set out below.

Publishing summary reports/ minutes - Agendas, minutes and the reports submitted to Board meetings are published on the website. In addition the minutes of the Board's Audit Committee and the Management Team are also published on the website. Committee papers are included in the Audit Scotland publications scheme and are available on request. Registers of interest are also published on the website. In addition, our 'business as usual' approach to Freedom of Information requests provides access to the vast majority of our documents.

Raising matters of public concern - Our existing correspondence and whistleblowing arrangements provide a mechanism for members of the public to contact us to raise issues of public concern and submit evidence about public bodies. These arrangements were the subject of a strategic review during 2014/15 and have been regularly refined since then. Our complaints process provides a mechanism for members of the public to raise any matters of concern about Audit Scotland.

Consulting stakeholders – we have extensive arrangements in place for consulting with stakeholders, this includes our strategic approach to parliamentary engagement, the communications and engagement strategy and consultation on the Code of Audit Practice and the new approach to Best Value audit. We consult with interested parties on the rolling five year audit work programme on behalf of the Auditor General and the Accounts Commission and with individual audited bodies as part of the risk assessment process and on an ongoing basis during the audit work.

Corporate Plans and annual reports – we publish a wide range of strategic plans and a suite of annual reports including the annual report and accounts and reports on quality, international work, climate change and diversity and equality.

5. Meeting in public

The guidance encourages organisations to consider holding meetings in public and/or an annual public meeting.

Annual open meetings

The experience of annual open meetings elsewhere in the public sector has been mixed. Some public bodies have tried them and found that they are poorly attended and that there are better ways for board members to engage with the public and stakeholders. Other bodies hold public meetings and sometimes these provide the forum for the annual performance review with the relevant Scottish Minister.

Holding board meetings in public

The *Role of Boards* report and the *On Board* guidance recommended that organisations consider maximising openness and transparency and holding board meetings in public. Since these were published the expectations around openness and transparency have increased, this has been most apparent in the exchanges in the Scottish Parliament and associated reporting in the media.

It may be helpful to consider the arrangements elsewhere in the public sector by way of context. The openness of meetings elsewhere in the public sector is summarised below

- Local government – council and committee meetings are held in public¹.
- Health – most boards meet in public, public committee meetings are less common.
- Central government – more variable for both boards and committees.
- Further education – most boards and committees do not currently meet in public.

The organisations/ forums below may also be of interest

- The Accounts Commission has met in public since 2011 and agreed to extend the range of agenda items to be taken in public at its meeting in 2015. The Commission's committees do not currently meet in public.
- The Scottish Commission for Public Audit (SPCA) meets in public.
- The Scottish Parliamentary Corporate Body (SPCB) does not meet in public.

Where boards and committees meet in public there are provisions for items to be taken in private.

6. Committee business

The Board may also wish to consider the arrangements for its committees. The *Role of Boards* report and the *On Board* guidance do not make specific recommendations in relation to committees.

The Board may wish to discuss the relative merits of publishing committee papers in addition to agendas and minutes. Elsewhere in the public sector the publication of papers tends to reflect the public/ not public nature of the meetings. In local government committee reports are routinely published along with agendas and minutes. The publication of committee papers in health, central government and further education is more varied and less common than in local government.

If the Board was minded to publish papers, it is recommended that the publication criteria and supporting administrative arrangements mirror those in place for the Board.

The Board may also wish to consider whether its committees should meet in public. The arrangements in other organisations are set out on the page above and, as with the publication of papers, it is recommended that any administrative arrangements mirror those in place for the Board.

¹ In local government the principle of holding meetings of the council and its committees in public is well established. [Section 50](#) of the Local Government (Scotland) Act 1973 sets out requirements in relation to meetings of the council (and its committees) being held in public, access to agendas and connected reports, and the arrangements for dealing with items and reports in private.

7. Recommendations

The Board is invited to

- note the recommendations in the On Board guidance and the extent to which the current arrangements meet those expectations
- note contextual information on the arrangements in other public bodies
- consider any changes the Board may wish to make with regard to
 - the Board/its committees meeting in public
 - the publication of committee papers.

AUDIT SCOTLAND BOARD

23 AUGUST 2017

REPORT BY THE CORPORATE GOVERNANCE MANAGER

ANNUAL REVIEW OF INFORMATION GOVERNANCE POLICIES

1. Purpose of Report

This report invites the Audit Scotland Board to re-approve Audit Scotland's information governance policies.

2. Annual review of information governance policies

Audit Scotland has in place policies and procedures to ensure compliance with the Freedom of Information (Scotland) Act 2002 (FOISA), the Data Protection Act 1998 (DPA) and the Public Records (Scotland) Act 2011 (PRSA).

The policies are reviewed each year to ensure they are up-to-date and are submitted to the KITGG, Management Team and Board for approval and as part of the annual assurance process leading to the Accountable Officers Governance Statement.

A review of our Freedom of Information (FOI), Data Protection (DP) Records Management (RM) and Clear Desk (CD) policies took place in June 2017. The review found that all three policies were up-to-date with no amendments required. PCS has not been consulted as the policies remain up-to-date.

A Progress Update Review (PUR) is a new requirement for public bodies to undertake each year in support of the Public Records Scotland Act 2011 and our Records Management Plan (RMP). Our RMP was approved by the Keeper of the Records in 2013. The PUR was undertaken and submitted to the Public Records (Scotland) Act assessment team in July as part of the review of our Records Management policy. The PUR report from the assessment team (which is attached) is favourable and supportive of the action we have and are taking to comply with the 2011 Act.

Please note that the DP policy will be reviewed again and subject to re-approval by May 2018 to reflect changes required by the introduction of the new General Data Protection Regulation on 25 May 2018.

3. Recommendation

The Board is invited to re-approve Audit Scotland's information governance policies.

Freedom of Information and Environmental Information Policy

Owned and maintained by:	Corporate Governance Manager				
Approved from:	September 2017	Next review:	August 2018	Version:	08

Introduction

1. The Freedom of Information (Scotland) Act 2002 (FOISA) and the Environmental Information (Scotland) Regulations 2004 (EIRs) places a duty on us to prepare and implement systems and processes to comply with the legislation. Under these Acts a person who requests information from a Scottish public authority which holds it is entitled to be given it by the authority.

Our approach

2. Reporting in public is a principle of the public audit model. It contributes to openness and transparency in the conduct of public bodies in Scotland. Our audit work is carried out in the public interest and we believe that it is enhanced by the principles of the Freedom of Information and Environmental Information legislation. We embrace the legislation and are committed to its continued successful implementation.
3. There are some special considerations which relate to the audit process and these are recognised in the legislation. We will make use of relevant exemptions and exceptions only where we consider that this is necessary in the public interest.
4. We have one Publication Scheme covering the Auditor General, the Accounts Commission and Audit Scotland and we will follow a consistent approach to information handling and requests.
5. A professional relationship with the bodies we audit and other stakeholders is very important. If a request is made to us for disclosure of information obtained from a public body as part of our audit work we will, where reasonably practical, consult the body before complying with the request. We will also continue to liaise with other audit and scrutiny bodies in developing best practice in this area.

Scope

6. This policy applies to the Auditor General, the Accounts Commission and Audit Scotland.

Roles and responsibilities

7. Audit Scotland provides support to the Auditor General and the Accounts Commission and therefore we have established clear information management roles and responsibilities. The Auditor General is Audit Scotland's Accountable Officer and to support her duties under this legislation we have established the Knowledge, Information & Technology Governance Group (KITGG).
8. It is the KITGG's remit to ensure that information risks are assessed and mitigated to an acceptable level by having in place robust policies, procedures and processes.
9. The KITGG have established an Information Requests Panel to meet and decide on using exemptions in complex FOI requests and exceptions in EIR requests.

Information we hold

10. We are committed to openness and transparency in our work. We are committed to supplying information to a request unless there is a valid reason for withholding it under the legislation.
11. When a request is received for information you must not alter, deface, block, erase, destroy or conceal applicable information with intent to prevent disclosure. To do so is an offence under the Act and will result in action under Audit Scotland's disciplinary policy and could incur a risk of personal prosecution.

Training and awareness

12. We are committed to full staff awareness and training in Freedom of Information, Environmental Information and Data Protection legislation and its implications for our work. We are committed to maintaining effective systems for information requests to meet our obligations under this legislation.
13. Guidance on the application of FOISA and the EIRs are available on [ishare](#).

Charges

14. Audit Scotland may invoke a charge for providing information, which is not contained in our publication scheme, in accordance with the costing threshold within FOISA and the EIRs.
15. When a request is estimated to exceed £600 to fulfil, we will, whenever possible, attempt to narrow its scope and provide what we can within the threshold rather than refusing it outright.

Supplementary documentation

16. The following documents should be used to support and supplement this policy:
 - Freedom of Information (Scotland) Act 2002
 - Freedom of Information (Scotland) Act 2002 section 60 and 61 codes of practice.
 - Environmental Information (Scotland) Regulations 2004

Data Protection Policy

Owned and maintained by:	Corporate Governance Manager				
Approved from:	September 2017	Next review:	August 2018	Version:	12

Introduction

1. The Data Protection Act 1998 (DPA) places a duty on us to protect the personal information that we collect and hold and to provide individuals with access to the personal information we possess about them.
2. Audit Scotland collects and processes personal information covered by the DPA. Examples include information on current, past and prospective employees, clients, suppliers, complainants, people covered by the audit process and others with whom we communicate.
3. Audit Scotland recognises the benefits of the DPA for both the organisation and the individual (data subject), and the seriousness of failing to comply with it and the risk of prosecution. Therefore, we are committed to:
 - full staff awareness and on-going training in data protection legislation, its implications for our work, our data protection arrangements and our data loss/incident process
 - ensuring that all personal information is stored and processed properly and securely in keeping with the eight data protection principles
 - implementing effective systems for handling data subject access requests (requests from individuals to access their personal information)
 - implementing effective systems for handling security breaches and data loss.

Scope

4. This policy applies to the Auditor General, the Accounts Commission and Audit Scotland.
5. This policy does not cover personal information stored on our network by any other organisation as part of a shared service agreement.
6. Data-matching exercises as part of the National Fraud Initiative are subject to a detailed Code of Data-Matching Practice which complies with this policy.

Definition

7. The DPA defines personal data as information about a living, identifiable individual and requires that all personal data is stored securely and processed properly. It applies to information held on paper, on a computer, or stored on any other medium.

Principles

8. The DPA contains eight data protection principles which specify the standards that must be met when obtaining, handling, processing, transporting and storing personal data. We are committed to these principles.
9. To comply with the eight data protection principles we will:
 - 9.1. collect and process personal information fairly and lawfully
 - 9.2. collect, store and process personal information only for the purposes originally specified, which must fall within our remit
 - 9.3. ensure that personal information we collect, store and process is confined to what is required for our purposes and is not disclosed improperly
 - 9.4. ensure the accuracy of personal information and, where necessary, keep the information up to date
 - 9.5. destroy personal information when it is no longer needed for the purpose it was originally collected
 - 9.6. process personal information in accordance with the rights of data subjects and ensure that any data subject access requests and rights are handled fairly, courteously and completed within 40 days of a valid request
 - 9.7. protect the personal information we collect, process, store and transport from unauthorised access, abuse, loss or damage by providing appropriate security, both technical and organisational
 - 9.8. ensure that personal information is not transferred to people or other organisations outside the European Economic Area.

Disclosure of personal information

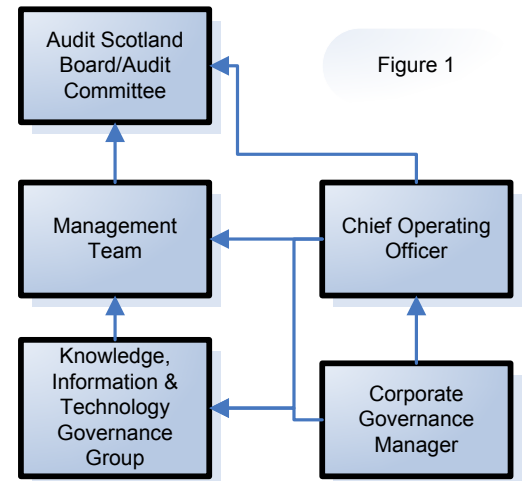
10. We will supply personal information to:
 - those who are entitled to the information
 - any authority we are required to do so by law eg HMRC
 - anyone to whom we are required to disclose it, such as staff seeking to access their own personal data.

Roles, responsibilities and governance arrangements

11. The Corporate Governance Manager's role is to:
 - maintain and update the data protection register for Audit Scotland, the Auditor General and the Accounts Commission
 - manage any data subject access requests
 - manage any data security breaches or data loss incidents

- provide advice and assistance for staff on data protection issues and where necessary commission legal advice
- provide data protection training and guidance for staff
- maintain and update the data protection policy and associated documentation
- advise the management team on compliance with the DPA
- manage personal data audits if required by the management team.

12. Figure 1 shows the reporting arrangements. The Corporate Governance Manager (CGM) reports directly to the Chief Operating Officer and attends the meetings of the Knowledge, Information & Technology Governance Group (KITGG).
13. The KITGG is responsible for overseeing and developing our data protection arrangements and presenting them to Audit Scotland's management team and/or Board/Audit Committee for approval.
14. You can contact the CGM at dataprotection@audit-scotland.gov.uk



15. Data protection is the responsibility of everyone and this principle is embedded in our Code of Conduct. We are all expected to ensure that we collect, process, store, share and dispose of personal data in accordance with this policy and the Data Protection Act, and to undergo training as required.

Training and awareness

16. We are committed to full staff awareness and training in Data Protection, Freedom of Information and Environmental Information Regulations legislation and its implications for our work. We are committed to maintaining effective systems for handling personal data to meet our obligations under this legislation.
17. Guidance on the application of data protection is available on [ishare](#).

Misuse of employee and audit data

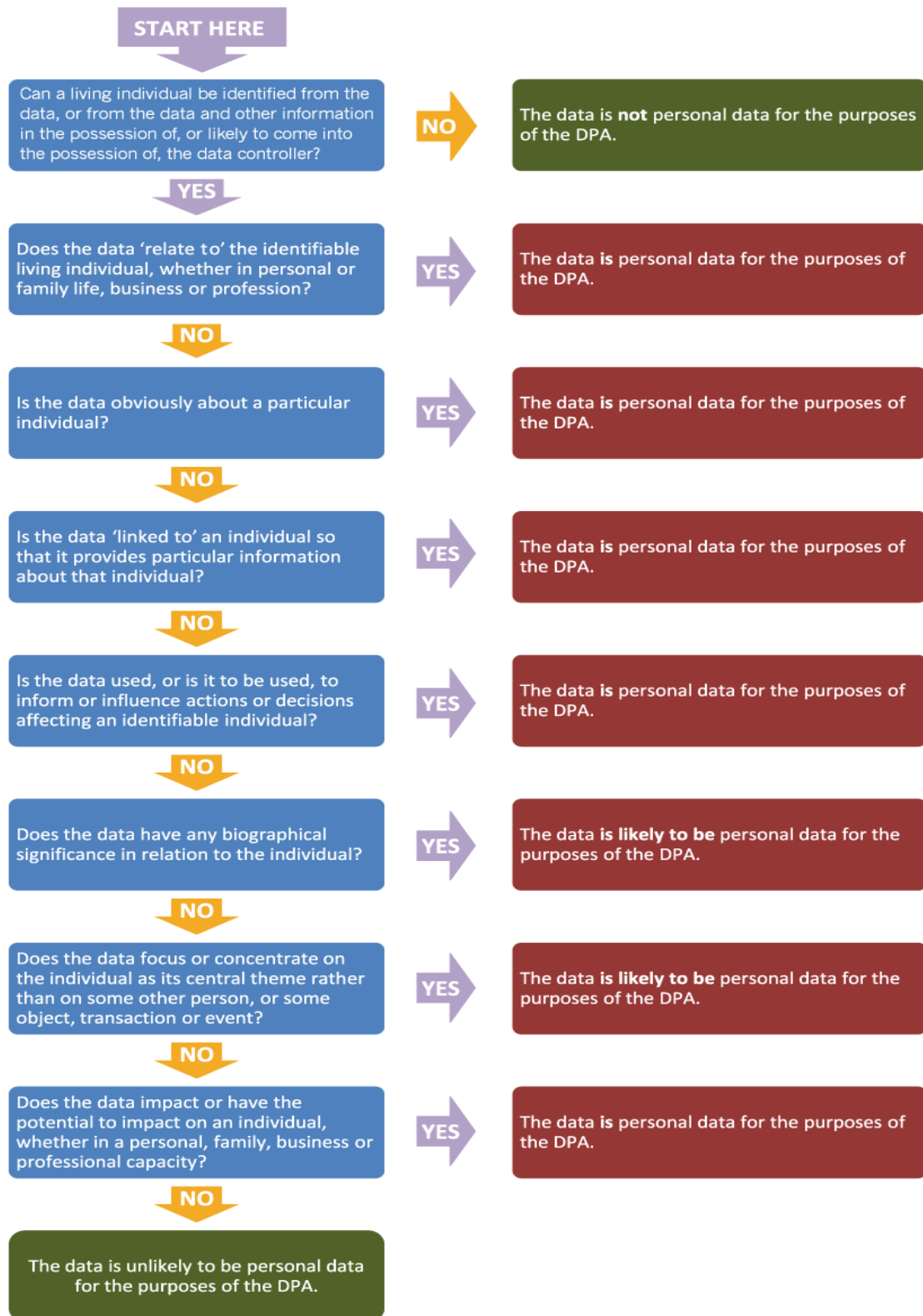
18. It is an offence under the DPA for staff to disclose personal data of others to third parties or procure the disclosing of such personal data to third parties without the consent of Audit Scotland. This includes personal information we hold as a result of our audit work.
19. Failure of staff to comply with this policy and the eight data protection principles may result in action under Audit Scotland's disciplinary policy and could incur a risk of personal prosecution.

Supplementary documentation

20. The following Acts, policies, standards, procedures and guides should be used to support and supplement this policy:
- Data Protection Act 1998.
 - The personal data checklist (see Appendix 1), which enables staff to identify if information is covered by the DPA.
 - The data subject access procedure, which defines the process to be followed for a data subject access request.
 - The data loss procedure, which defines the process to be followed for a data security breach or loss of data.
21. Current versions of these documents can be found on Audit Scotland's intranet – [ishare](#).

Appendix 1 - Personal data checklist

Use this flow chart to help you decide if the information you hold is personal data and therefore covered by the Data Protection Act.



Records Management Policy

Owned and maintained by:	Corporate Governance Manager				
Approved from:	September 2017	Next review:	August 2018	Version:	05

Introduction

1. The Public Records (Scotland) Act 2011(the Act) places a duty on us to prepare and implement a records management plan which sets out proper arrangements for the management of our public records.
2. We recognise that the efficient management of our knowledge, information and records is essential to support our work, to facilitate our governance and management, to manage risk and to comply with our legal obligations under the Act and other legislation as enacted from time to time.
3. Records, like any other company asset, are vital to our past, present and future work. They show decisions made and the steps taken towards those decisions. Records and the information they contain form part of our corporate memory and therefore must be managed systematically from creation to disposal.
4. Records help with our professional standards and best practices.

Scope

5. This records management policy applies to Audit Scotland, the Accounts Commission and the Auditor General.

Definition

6. A record is information in any medium, created, received and maintained as evidence and information by an organisation or person, in pursuance of legal obligations or in the transaction of business.

Roles and responsibilities

7. The Chief Operating Officer is responsible for ensuring there are appropriate arrangements for managing information and records.
8. In support of the Chief Operating Officer the Corporate Governance Manager is responsible for the day-to-day records management arrangements for Audit Scotland, the Accounts Commission and the Auditor General. The security of our electronic information systems is the responsibility of Audit Scotland's Digital Services manager.

9. It is the Knowledge, Information & Technology Governance Group's (KITGG) role to ensure this policy remains relevant, represents good practice and is implemented effectively.
10. However, records management is the responsibility of everyone and this principle is embedded in our Code of Conduct. We are all expected to ensure the effective management of our records and the information we collect, create, store, share and dispose of, and to under go training as required.

The principles of good records management

11. It is our policy to fully comply with the Public Records (Scotland) Act 2011 and to apply the guiding principles of records management to ensure that information is available when and where it is needed, in an organised and efficient manner, and in a well maintained environment.
12. We must therefore ensure that our records are:

1. Authentic

It must be possible to prove that records are what they purport to be and who created them is known, by keeping a record of their management through time. Where information is later added to an existing document within a record, the added information must be signed and dated. With electronic records, changes and additions must be identifiable through audit trails.

2. Accurate

Records must accurately reflect the transactions and other business activities that they describe.

3. Accessible

Records must be readily available when needed.

4. Complete

Records must be sufficient in content, context and structure to reconstruct the relevant activities and transactions that they describe.

5. Comprehensive

Records must document the complete range of an organisation's business.

6. Compliant

Records must comply with any record keeping requirements resulting from legislation, audit rules, professional standards and other relevant regulations.

7. Effective

Records must be maintained for specific purposes and the information contained in them must meet those purposes. Records will be identified and linked to the business process to which they are related.

8. Secure

Records must be securely maintained to prevent unauthorised access, alteration, damage or removal. They must be stored in a secure environment, the degree of security reflecting the sensitivity and importance of the contents. Where records are migrated across changes in technology, the evidence preserved must remain authentic and accurate.

13. Guidance in support of this policy has been prepared and is available to all staff in ishare.

Training and awareness

14. It is vital that everyone understands their information and record management responsibilities as set out in this policy. Therefore, directors and managers will ensure that staff are appropriately trained/briefed on how to manage records in accordance with this policy and our records management guidance.
15. In addition, training has been established to ensure that all staff are aware of their information obligations regarding Data Protection, Data Security and Freedom of Information.

Supplementary documentation

16. The following Acts, policies, standards, procedures and guides should be used to support and supplement this policy:
- Public Records (Scotland) Act 2011
 - Data Protection Act 1998
 - Freedom of Information (Scotland) Act 2002 (FOISA)
 - Audit Scotland's Data Protection Policy
 - Audit Scotland's Freedom of Information Policy
 - Audit Scotland's Clear Desk and Screen Policy
 - Audit Scotland's Information Security Management Policy
 - FOSIA section 61 Code of Practice on records management
 - Managing records - a staff guide
 - Procedure for transferring information to the National Archive of Scotland
 - Audit Scotland's records retention schedule
 - Audit requirements:
 - Audit standards eg ISA's
 - Audit Services audit and MKI guidance
 - Performance Management Framework.

The Public Records (Scotland) Act 2011

**Audit Scotland
Auditor General for Scotland
Accounts Commission for Scotland**

Progress Update Review (PUR) Final Report by the PRSA Assessment Team

14 August 2017

Contents

1. The Public Records (Scotland) Act 2011..... 3

2. Progress Update Review (PUR) Mechanism..... 4

3. Executive Summary..... 5

4. Authority Background..... 5

5. Assessment Process..... 6

6. Records Management Plan Elements Checklist and PUR Assessment..... 8-24

7. The Public Records (Scotland) Act Assessment Team’s Summary..... 24-25

8. The Public Records (Scotland) Act Assessment Team’s Evaluation..... 25

1. Public Records (Scotland) Act 2011

The Public Records (Scotland) Act 2011 (the Act) received Royal Assent on 20 April 2011. It is the first new public records legislation in Scotland since 1937 and came into force on 1 January 2013. Its primary aim is to promote efficient and accountable record keeping by named Scottish public authorities.

The Act has its origins in *The Historical Abuse Systemic Review: Residential Schools and Children's Homes in Scotland 1950-1995* (The Shaw Report) published in 2007. The Shaw Report recorded how its investigations were hampered by poor recordkeeping and found that thousands of records had been created, but were then lost due to an inadequate legislative framework and poor records management. Crucially, it demonstrated how former residents of children's homes were denied access to information about their formative years. The Shaw Report demonstrated that management of records in all formats (paper and electronic) is not just a bureaucratic process, but central to good governance and should not be ignored. A follow-up review of public records legislation by the Keeper of the Records of Scotland (the Keeper) found further evidence of poor records management across the public sector. This resulted in the passage of the Act by the Scottish Parliament in March 2011.

The Act requires a named authority to prepare and implement a records management plan (RMP) which must set out proper arrangements for the management of its records. A plan must clearly describe the way the authority cares for the records that it creates, in any format, whilst carrying out its business activities. The RMP must be agreed with the Keeper and regularly reviewed.

2. Progress Update Review (PUR) Mechanism

Under section 5(1) & (2) of the Act the Keeper may only require a review of an authority's agreed RMP to be undertaken not earlier than five years after the date on which the authority's RMP was last agreed. Regardless of whether an authority has successfully achieved its goals identified in its RMP or continues to work towards them, the minimum period of five years before the Keeper can require a review of a RMP does not allow for continuous progress to be captured and recognised.

The success of the Act to date is attributable to a large degree to meaningful communication between the Keeper, the Assessment Team, and named public authorities. Consultation with Key Contacts has highlighted the desirability of a mechanism to facilitate regular, constructive dialogue between stakeholders and the Assessment Team. Many authorities have themselves recognised that such regular communication is necessary to keep their agreed plans up to date following inevitable organisational change. Following meetings between authorities and the Assessment Team, a reporting mechanism through which progress and local initiatives can be acknowledged and reviewed by the Assessment Team was proposed. Key Contacts have expressed the hope that through submission of regular updates, the momentum generated by the Act can continue to be sustained at all levels within authorities.

The PUR self-assessment review mechanism was developed in collaboration with stakeholders and was formally announced in the Keeper's Annual Report published on 12 August 2016. The completion of the PUR process enables authorities to be credited for the progress they are effecting and to receive constructive advice concerning on-going developments. Engaging with this mechanism will not only maintain the spirit of the Act by encouraging senior management to recognise the need for good records management practices, but will also help authorities comply with their statutory obligation under section 5(1)(a) of the Act to keep their RMP under review.

3. Executive Summary

This Final Report sets out the findings of the Public Records (Scotland) Act 2011 (the Act) Assessment Team's consideration of the Progress Update template submitted for **Audit Scotland**, **Auditor General for Scotland**, and **Accounts Commission for Scotland**. The outcome of the assessment and relevant feedback can be found under sections 6 – 8.

4. Authority Background

Audit Scotland assists the Auditor General and the Accounts Commission to ensure organisations that spend public money in Scotland use it properly, efficiently and effectively. They check whether organisations manage their finances to the highest standards and achieve the best possible value for public money. They support public scrutiny that is fair, equal and open, and that leads to more effective financial management and value for money.

The post of Auditor General for Scotland was created under the Scotland Act 1998, prior to devolution in 2000. The appointment is made by the Crown. The Auditor General is responsible for auditing directorates of the Scottish Government, government agencies (e.g. the Scottish Prison Service, Transport Scotland), NHS bodies, further education colleges and all Non Departmental Public Bodies (for example Scottish Enterprise and VisitScotland). Annual financial audit reports are produced.

The Accounts Commission for Scotland is the public spending watchdog for local government. They hold councils in Scotland to account and help them improve. They operate impartially and independently of councils and of the Scottish Government, and meet and report in public. The Accounts Commission for Scotland was established in 1975 by the Local Government (Scotland) Act 1973. It is a body of at least six and no more than 12 members. Members are appointed by Scottish Ministers, following open recruitment under the public appointments procedures. Ministers also appoint one of the members to chair the Commission and one to be deputy chair. The role of the Commission has evolved and been modified in a variety of ways since 1975. Its current role can be summarised as 'to secure the audit of Scottish local government and to consider reports arising from that audit'.

5. Assessment Process

A PUR submission is evaluated by the Act's Assessment Team. The self-assessment process invites authorities to complete a template and send it to the Assessment Team one year after the date of agreement of its RMP and every year thereafter. The self-assessment template highlights where an authority's plan achieved agreement on an improvement basis and invites updates under those 'Amber' elements. However, it also provides an opportunity for authorities not simply to report on progress against improvements, but to comment on any new initiatives, highlight innovations, or record changes to existing arrangements under those elements that had attracted an initial 'Green' score in their original RMP submission.

The assessment report considers statements made by an authority under the elements of its agreed Plan that included improvement models. It reflects any changes and/or progress made towards achieving full compliance in those areas where agreement under improvement was made in the Keeper's Assessment Report of their RMP. The PUR assessment report also considers statements of further progress made in elements already compliant under the Act.

Engagement with the PUR mechanism for assessment cannot alter the Keeper's Assessment Report of an authority's agreed RMP or any RAG assessment within it. Instead the PUR Final Report records the Assessment Team's evaluation of the submission and its opinion on the progress being made by the authority since agreeing its RMP. The team's assessment provides an informal indication of what marking an authority could expect should it submit a revised RMP to the Keeper under the Act, although such assessment is made without prejudice to the Keeper's right to adopt a different marking at that stage.

Key:

G	The Assessment Team agrees this element of an authority's plan.		A	The Assessment Team agrees this element of an authority's progress update submission as an 'improvement model'. This means that they are convinced of the authority's commitment to closing a gap in provision. They will request that they are updated as work on this element progresses.		R	There is a serious gap in provision for this element with no clear explanation of how this will be addressed. The Assessment Team may choose to notify the Keeper on this basis.
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6. Records Management Plan Elements: Checklist


Audit Scotland, Auditor General for Scotland, and Accounts Commission for Scotland

N. B. For simplicity, as the plan relates to the records management provision for all three public authorities, the use of 'Audit Scotland' should be taken to refer to that organisation as well as the Auditor General for Scotland and the Accounts Commission for Scotland.

Element	Status of elements under agreed Plan, November 2013	Status of evidence under agreed Plan, November 2013	Progress assessment status, 2017	Keeper's Report Comments on Authority's Plan, November 2013	Self-assessment Update as submitted by the Authority since November 2013	Progress Review Comment, 2017
1. Senior Officer	G	G	G	Update required on any change	No change, still D McGiffen, Chief Operating Officer	No immediate action required. Update required on any future change.
2. Records Manager	G	G	G	Update required on any change	No change, still A Devlin, Corporate Governance Manager	No immediate action required. Update required on any future change.
3. Policy	G	G	G	Update required on any change	Policy reviewed yearly and reapproved by the Audit Scotland Board. Next re-approval 23 August 2017.	Audit Scotland continue to take their records management responsibilities seriously as evidenced by the

					<p>Only minor amendments made to 2013 version.</p>	<p>regular review of their Policy and the involvement of the Board in approving and signing-off the Policy. Ensuring organisational high-level engagement in records management policies is commended by the Assessment Team.</p> <p>Should the next scheduled review in August prompt significant changes to the Policy, the Assessment Team would like to be informed of these during the next PUR invitation process.</p> <p>The Assessment Team recognises the on-going initiative being undertaken by the authority under this element.</p>
4. Business Classification	G	G	G	Update required on any change. The Keeper is interested to hear news of the re-arrangement of the Business Classification Scheme (BCS)/Information Asset Register along	With the implementation of SharePoint our business classification was implemented on functional lines. The main focus of our work is auditing and this forms one of the largest	Audit Scotland has submitted a sample page from SharePoint demonstrating the new functional arrangement of the current Business Classification Scheme. This appears to comprehensively

				functional lines	<p>section of SharePoint, auditing is further split by type of audit and audit sector. The other high level sections are:</p> <ul style="list-style-type: none"> • Working groups (cross organisation working e.g. international audits/support), • Business groups (includes the Audit Scotland Board and Executive, Auditor General and the Accounts Commission), • Reference (supporting the business in areas such as corporate governance, legislation, FOI, complaints, etc.), • External engagement. <p>Example below:</p>	<p>cover all the authority's functions and the types of records created during the exercise of those functions. This will help the authority identify and retrieve the records it creates.</p> <p>Although such arrangement must remain a business decision for Audit Scotland, the Assessment Team would like to acknowledge that a functional system is currently considered 'best practice'.</p> <p>In Audit Scotland's agreed RMP the authority was considering developing a single document encompassing both the Business Classification Scheme and the Retention Schedule. The Assessment Team have been notified that the authority have opted to retain a separate retention schedule to ensure the on-going management of records held outwith the SharePoint</p>
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					 <p>As a result of implementing SharePoint we have decided to retain a separate retention schedule to ensure records retained outwith SharePoint are effectively managed.</p>	<p>system. This is a sensible approach for safeguarding records not encompassed by SharePoint. The Assessment Team thanks Audit Scotland for the update.</p> <p>The Assessment Team recognises the on-going initiative being undertaken by the authority under this element.</p>
5. Retention Schedule	G	G	G	Update required on any change. The Keeper would welcome updates on the alignment of the retention schedule with the BCS along functional lines and the imposition of retention periods at point of record creation using the SharePoint system	<p>Record retention schedule reviewed and updated on implementation of SharePoint and again in 2015. SharePoint libraries can be set with a retention period applicable to that library. In practice most of our retention periods are seven years this reflects the requirement for conducting audits.</p> <p>Documents are given 18 months from last change to deletion. If the document is to</p>	<p>Audit Scotland have developed and imposed appropriate arrangements for this element. The implementation of SharePoint, and use of the Library tool in particular, ensures records are assigned pre-determined retention/disposal dates. The retention of most records of seven years is entirely appropriate for this authority to conduct its functions.</p>


					<p>be kept as a record it is declared and kept for up to seven years when a manual intervention is required to review the record and a decision taken to delete it or to retain it for a further period (this includes Board records which will be kept for the life of the business but reviewed every seven years).</p> <p>Regular reports from SharePoint are sent to the business groups IAO's for review to decide on the future of that record or document.</p>	<p>The authority has also made provision for the archiving of records by requiring that records to be kept for their enduring value are subject to manual intervention to either destroy or retain them for a further period. This is considered good practice as it will reduce the risk of records of permanent value being disposed of accidentally.</p> <p>The Assessment Team welcome the permanent retention of high-level organisational records such as Board records.</p> <p>Audit Scotland's approach of involving business group Information Asset Owners to review and decide on the future of documents is commendable. Staff engagement should ensure retention periods remain relevant to the organisation.</p> <p>Undertaking regular reviews</p>
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						<p>and updating the retention schedule is similarly considered good practice. Should future reviews bring about significant changes, the Assessment Team would like to be informed of these.</p> <p>The Assessment Team recognises the on-going initiative being undertaken by the authority under this element.</p>
6. Destruction Arrangements	G	G	G	Update required on any change	<p>No change.</p> <p>However, procurement under way for a new archiving company. They will be responsible for destruction of paper records. Any change will take place circa August/September 2017.</p> <p>Potential new archiving companies have confirmed they hold ISO 9001 and ISO 27001 thereby ensuring no detriment to our handling, storage and secure</p>	<p>Currently paper records are held and destroyed by an off-site storage specialist who is ISO compliant. However, Audit Scotland is undertaking a procurement process for a new contractor.</p> <p>Audit Scotland continue to take this element seriously by ensuring that any potential new archiving company is compliant with ISO 9001 and ISO 27001. This should ensure that the storage and secure disposal of the</p>

					<p>destruction of our records.</p> <p>Electronic records are deleted after review by Information Asset Owners.</p>	<p>authority's records continues to be managed appropriately.</p> <p>Due to the significance of this change, the Assessment Team would like sight of updates and evidence following the adoption of a new record destruction contractor in future PUR submissions.</p> <p>The destruction of electronic records after review by Information Asset Owners is commended as a sensible approach to ensuring that those records which are no longer needed are destroyed in a timely manner.</p>
7. Archiving and Transfer	G	G	G	Update required on any change	<p>No change.</p> <p>However see 6 above regarding a re-tender for our archiving/destruction contract. Supplier may change circa August/September 2017.</p>	<p>As per Element 6, in the event that Audit Scotland enter into a contract with a new supplier, the Assessment Team will request sight in future PUR submissions of documentation demonstrating that archiving arrangements remain robust and compliant</p>

					<p>The external archiving provision will hold records either until their destruction date or transfer date to the National Records of Scotland for permanent preservation.</p>	<p>with regulatory and legal obligations.</p> <p>Audit Scotland has made it clear that any potential change in archival provision relates to the storage of semi-current records at an external facility. There will be no change to the transfer of records of enduring value to the National Records of Scotland (NRS).</p>
8. Information Security	G	G	G	Update required on any change	<p>Audit Scotland now has ISO 27001 – Information Security Management certification. It was achieved in November 2016, certificate image below.</p>	<p>Audit Scotland has supplied certification showing their compliance with ISO 27001 – Information Security Management. This demonstrates the authority's continuing commitment to the protection of its records and the work being done to ensure their systems remain relevant and fit for purpose. The Assessment Team commends this endeavour.</p> <p>The Assessment Team recognises the on-going</p>


Assessment Report


						initiative being undertaken by the authority under this element.
9. Data Protection	G	G	G	Update required on any change	<p>Policy reviewed yearly and reapproved by the Audit Scotland Board.</p> <p>Next re-approval 23 August 2017. Only minor amendments made to 2013 version.</p>	<p>The Assessment Team endorse Audit Scotland's regular review of key records management policies such as those surrounding data protection. The re-approval of these policies by the Audit Scotland Board indicates that records management provisions remain a priority at the highest levels of the authority.</p> <p>Should the next scheduled</p>

						<p>review in August prompt significant changes to the Policy the Assessment Team would like to be informed of these during the next PUR invitation process.</p> <p>The Assessment Team recognises the on-going initiative being undertaken by the authority under this element.</p>
10. Business Continuity and Vital Records	G	G	G	<p>Update required on any change. The Keeper would welcome any updates concerning further implementation of the recommendations outlined in the internal audit report on 'Business Continuity and IT Disaster Recovery'</p>	<p>Business Continuity Arrangements reviewed yearly and approved by Audit Scotland's Audit Committee.</p> <p>Last approved November 2016, next approval November 2017.</p> <p>BDO our Internal Auditors conducted an internal audit of our arrangements in May 2017 and we achieved substantial assurance on our arrangements. Copy of report attached below.</p>	<p>The guidance to the Keeper's Model Plan stresses that business continuity arrangements must be regularly reviewed, tested, and revised to ensure they remain fit for purpose. Audit Scotland's annual review of its business continuity arrangements and the conducting of a test scenario at least once every twelve months are therefore commended by the Assessment Team as indicative of good practice.</p>


[illegible]

						<p>the Chief Operating Officer, is evidence of senior management involvement and commitment in ensuring compliance under this element. This is welcomed by the Assessment Team.</p> <p>The submitted Report offers two recommendations with implementation dates of June and November 2017. The Assessment Team would be pleased to learn of the implementation of these recommendations in future PUR submissions.</p> <p>The Assessment Team recognises the on-going initiative being undertaken by the authority under this element.</p>
11. Audit Trail	G	G	G	The Keeper would be keen to learn how the SharePoint technology is operating in so far as the audit trail of electronic records.	<p>No change to audit trail for paper records. SharePoint records now fully operational.</p> <p>Each business groups Information Asset Owner is</p>	<p>The Keeper's original Report on Audit Scotland's RMP noted a commitment by the authority to focus their audit trail development on electronic media. As</p>

				<p>The Keeper agrees that Audit Scotland's current 'audit trail' systems meet the requirements for this element and looks forward to reviewing the new policies when appropriate</p>	<p>sent an expiring file report on a regular basis (Excel spreadsheet). The reports are reviewed to establish if the document or record should be kept for a further period of time or deleted in line with our records retention schedule.</p> <p>In addition each member of staff can run an adhoc report on their expiring files.</p> <p>Expiring files report extract below:</p> 	<p>SharePoint is now fully operational this should now ensure that audit trail functionality such as tracking and locating electronic records, and preventing their unauthorised alteration or destruction, is now operational.</p> <p>The Assessment Team commends the rolling out of SharePoint as it will provide a means of comprehensively tracking the lifecycle of electronic records.</p> <p>The inclusion of an Expiring File Report also demonstrates Audit Scotland's efforts to ensure records are destroyed in a structured, timely manner in line with business needs. The involvement of Information Asset Owners in reviewing documents scheduled for deletion is considered a suitable approach.</p>
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						The Assessment Team recognises the on-going initiative being undertaken by the authority under this element.
12. Competency Framework	G	G	G	Update required on any change	<p>Generally no change however the staff guide to records management is reviewed yearly and re-issued.</p> <p>Latest version attached.</p> 	<p>The Assessment Team welcomes the regular review and re-issuing of the Guide for Staff on Managing Records. This should ensure that staff are up-to-date on procedures and their obligations in handling records in an authorised manner.</p> <p>The Team are particularly impressed by the comprehensive nature of the Guide submitted as evidence (dated July 2017). Not only are useful examples included to help explain the nature of records, their “lifecycle”, and how they should be managed within SharePoint, but it also relates to many of the compulsory elements of the</p>

						<p>RMP, including information security, vital records, and the archiving and transfer of records of enduring value.</p> <p>Should future annual reviews prompt significant changes in staff instructions, the Assessment Team would be pleased to have sight of the relevant documentation.</p> <p>The Assessment Team recognises the on-going initiative being undertaken by the authority under this element.</p>
13. Assessment and Review	G	G	G	Update required on any change	<p>No Change.</p> <p>Every year each business group has to undertake a review of their records management practices using our RM Checklist. The result of this is incorporated, along with other assurances, into our Accountable Officer's statement of internal control. The checklist is shown below.</p>	<p>The annual, scheduled review of records management practices is welcomed as an example of good practice in ensuring arrangements within each business group remain fit for purpose.</p> <p>The use of the Records Management Checklist supplied as evidence is an appropriate tool for</p>

					 <p>The logo for the 'Records Management Compliance Self-Assessment Checklist 2017' is displayed. It features the title in blue and black text, a graphic of three yellow cubes and a blue arrow pointing right, and the 'AUDITSCOTLAND' logo at the bottom.</p>	<p>conducting such reviews. The checklist comprehensively addresses key issues necessary for on-going compliance, such as information security, staff awareness of policies and procedures, and the retention, destruction or transfer of records.</p> <p>The Assessment Team similarly commend the involvement of senior management in reporting on the finding of these reviews.</p> <p>The Assessment Team will need to be informed if any considerable amendments occur or new policies are introduced following these regular self-assessments.</p> <p>The Assessment Team recognises the on-going initiative being undertaken by the authority under this element.</p>
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14. Shared Information	G	G	G	Update required on any change	No Change.	No immediate action required. Update required on any future change.
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Version

The progress update submission which has been assessed is the one received by the Assessment Team on 18 July 2017. The author of the progress update submission is Alex Devlin, Corporate Governance Manager.

The progress update submission makes it clear that it is a submission for Audit Scotland, Auditor General for Scotland, and Accounts Commission for Scotland.

7. PRSA Assessment Team's Summary

The Assessment Team has reviewed **Audit Scotland, Auditor General for Scotland, and Accounts Commission for Scotland** Progress Update submission and agrees that the proper record management arrangements outlined by the fourteen elements in the authority's plan continue to be properly considered. The Assessment Team commends this authority's efforts to keep its Records Management Plan under review.

General Comments

This authority continues to demonstrate compliance with the Act through their commitment to maintain and develop their records management arrangements. Particularly admirable is the regular, scheduled review of key policies and procedures and the willingness to commission, and respond to, internal audits and self-assessments.

The implementation of SharePoint should improve the authority's effectiveness in a range of key recordkeeping areas including record retention and disposal, identifying vital records, and audit trail functionality.

The authority has highlighted that they are currently engaged in the procurement of a new off-site storage specialist. Whilst the authority has guaranteed that any new contractor will be sufficiently compliant, this signifies a significant change in provision since the RMP was agreed by the Keeper. The Assessment Team would therefore welcome updates and accompanying evidence in future Progress Update Review submissions.

Where 'no change' has been recorded under the update on provision by the authority, the Assessment Team is happy to agree that these elements require no further action for the time being.

8. PRSA Assessment Team's Evaluation

Based on the progress update assessment the Assessment Team considers that **Audit Scotland, Auditor General for Scotland, and Accounts Commission for Scotland** continue to take their statutory obligations seriously and are working hard to maintain all elements of their records management arrangements in full compliance with the Act and fulfil the Keeper's expectations.

- The Assessment Team recommends authorities consider publishing PUR assessment reports on their websites as an example of continued good practice both within individual authorities and across the sector.

This report follows the Public Records (Scotland) Act Assessment Team's review carried out by,



.....
Neil Adams
Public Records Officer

AUDIT SCOTLAND BOARD

23 AUGUST 2017

REPORT BY THE COMMUNICATIONS ADVISER, CORPORATE SERVICES

GIVING SOMETHING BACK OVERVIEW

1. Purpose of Report

This report introduces a presentation to advise of the fundraising activities undertaken by colleagues across the organisation in support of our new corporate charity The Brain Tumour Charity. This is part of our corporate activity aimed at “Giving something back” as measured in our Best Companies survey.

2. Recommendation

The Board is invited to note our fundraising activities.

Audit Scotland Board

23 August 2017

Giving something back





- Supported the charity for three years (until Dec 2016)
- Our final event for Alzheimer's Research UK, on 21 September 2016 raised **£1,004.06**
- **Raised a total £7,698.45**
- Alzheimer's UK now use Audit Scotland as a great example of a corporate fundraising

- First major fundraiser in March – **raised £708**.
- Kids from Edinburgh's Wardie Primary After School Club and 14th Motherwell Rainbows & Brownies created unique bandanas for us to sell
- Massive bake sales in Edinburgh and Glasgow, quizzes, guess the mystery cake ingredients



Supporting The Brain Tumour Charity



The **BRAIN
TUMOUR
CHARITY**



- Baking and bandanas:
£708
- Glasgow pub quiz :
£588.75
- Marathon relay teams
£1,757.24
- East vs West footie match:
£72
- Money from dress down days

Our big supporters

- Members of the social committees in Glasgow and Edinburgh
- BSS
- Finance
- Communications



Fundraising extra





August Underbelly festival event

September Knowledge Café:
colleagues & charity

October Book swap week,
Guess the baby comp
10k Twilight Walk
Edinburgh's BIG Quiz

December Pyjama bag collection
& bag filling

Xmas jumper day

Xmas party raffle

Other ways to get involved

- Link in with other local businesses raising funds for The Brain Tumour Charity
- Arrange visits to Brain Tumour Charity funded research labs
- Talk from a neurosurgeon
- Other ways to donate, eg time
- Awareness raising, eg case studies, signs & symptoms, research focus
- Aim to have one event or initiative each month



Agenda

Wednesday 25 October 2017, 12.00pm

Audit Scotland offices, 102 West Port, Edinburgh EH3 9DN

1. Private Meeting
2. Welcome and apologies
3. Declarations of interest

Standing items

4. Chair's report – verbal update
5. Accountable Officer's report – verbal update
6. Accounts Commission Acting Chair's report – verbal update
7. Review of minutes: For approval
 - Board meeting, 23 August 2017
8. Review of actions tracker For information

Strategy and planning

9. 2018/19 Draft Budget For approval
10. 2017/18 Spring Budget Revision For approval
11. Review of Audit Quality For approval
12. Digital Audit Strategy For information
13. Digital Services Strategy 2018-2021 For information
14. 2016/17 Carbon Scrutiny Annual Report For approval

Governance

15. Corporate governance policies update For approval
16. Arrangements for Board meetings For discussion
17. 2018 proposed Board meeting dates For approval

Conclusion

18. Publication of reports

19. Any other business

20. Review of meeting

21. Date of next meeting

Minutes

Wednesday 25 October 2017, 12.00pm

Audit Scotland offices, 102 West Port, Edinburgh EH3 9DN

Present:

I Leitch (Chair)
C Gardner
H Logan
R Hinds
R Griggs

Apologies:

None

In attendance:

D McGiffen, Chief Operating Officer
R Frith, Assistant Auditor General
M Walker, Assistant Director, Corporate Performance and Risk
S Dennis, Corporate Finance Manager
E Boyd, Assistant Director, Appointments and Assurance Team
G Diamond, Senior Manager, Performance Audit and Best Value
D Robertson, Digital Services Manager
C Sweeney, Assistant Director, Performance Audit and Best Value
A Devlin, Corporate Governance Manager
J Webber, Senior Executive Assistant

1. Private meeting

A private meeting was held by the Chair and Board members, prior to the start of the Board meeting. There were no matters raised in addition to those items on the agenda, which had been previously circulated.

2. Welcome and apologies

Russel Griggs advised of his apologies for the latter part of the meeting and the Board noted he required to leave the meeting at 1.20pm.

3. Declarations of interest

There were no declarations of interest.

4. Chair's report

Ian Leitch provided a verbal update on meetings with Caroline Gardner and Diane McGiffen on business matters and advised of his attendance at the Public Body Chairs' networking event on Tuesday 24 October 2017.

The members welcomed the update.

5. Accountable Officer's report

Caroline Gardner invited the Board to note that following the Parliamentary recess the Public Audit and Post Legislative Scrutiny Committee had a busy agenda following up from previous audit reports and considering in due course the reports recently published on the Scottish

Government, this week's Transport Scotland's ferry services report, the 2016/17 audit of NHS Tayside and the NHS in Scotland 2017. She also invited the Board to note that the recommendations made by Budget process review group had been accepted and would lead to a written agreement between Parliament and Government in 2018 to support the scale of implementation of the new financial powers.

Turning to other engagements, Caroline advised members of the meeting of the UK and Irish Auditors General on Friday 27 October in Belfast which followed the meeting Diane McGiffen attended of the Chief Operating Officers from the respective UK audit agencies on Friday 13 October.

Caroline invited the Board to note that 15 new graduate trainees had started work with Audit Scotland. She also invited members to note that the annual Best Companies survey had launched and results would be reported early in 2018.

The Board welcomed the update.

6. Accounts Commission report

Ronnie Hinds, the Acting Chair of the Accounts Commission, provided a verbal update on the meeting of the Accounts Commission on 12 October 2017 which had considered a Best Value report on East Renfrewshire Council.

Ronnie advised of his meeting with the Local Government Committee meeting on Tuesday 24 October on the findings in the Self Directed Support audit published earlier in the year and discussed the importance for the Commission of parliamentary engagement.

Ronnie invited the Board to note that an announcement was expected on the appointment of the new Accounts Commission Chair, effective from 1 November 2017.

The Board welcomed the update and the Board thanked Ronnie for his valuable contribution during his temporary role.

7. Review of minutes

Board meeting, 23 August 2017

The Board considered the minutes of the meeting on 23 August 2017, which had been previously circulated and subject to a minor correction in the Accountable Officer's report, agreed that these were an accurate record of the meeting.

8. Review of actions tracker

The Board noted the updates provided by the action tracker. Martin Walker provided a verbal update on item ASB49 on the work with Young Scot. Martin advised that an awareness raising Knowledge Café had taken place, involving Young Scot and the Children's Parliament, that a panel is being established to inform the scoping and reporting of audits and that Young Scot had been helpful in considering the scoping and methodology for the performance audit on children's and adolescents mental health which is due to publish in 2018.

Diane McGiffen also invited the Board to note that Josh Hardwick, our modern apprentice, was a finalist in this year's Young Scot Awards in recognition of his voluntary work.

9. 2018/19 Draft Budget

Stuart Dennis, Corporate Finance Manager, joined the meeting

Stuart Dennis, Corporate Finance Manager, introduced the 2018/19 Draft Budget report, a copy of which had been previously circulated.

Stuart invited the Board to approve the draft budget proposal which was based on the assumptions previously considered and approved by the Board at its meeting on 23 August 2017.

The Board noted that the budget continued to deliver real terms cost reductions on fees while supporting additional work on the new financial powers.

During discussion, Heather Logan sought and received clarification on the pay assumptions. In considering other costs, she also noted the costs incurred for the National Fraud Initiative were static and queried the provision for corporation tax.

Heather sought clarification of the figures reported under efficiencies. Stuart advised that the full cost of the additional work on the new financial powers was £667k, but that £187k of that work was being absorbed into existing resourcing, therefore delivering an overall efficiency of £471k. The Chair requested further explanation be added to the budget proposal.

Russel Griggs queried whether the GDP deflator of 1.6% was consistent with the measure used by public bodies. Caroline confirmed this was the deflator used consistently for setting audit fees and in assessing provisions.

Ronnie Hinds noted the cost of the Accounts Commission is met by the SCPA and Russell Frith advised funding for this changed following the fees and funding review in 2016/17. Ronnie also queried whether the apportionment of costs for section 122 reports followed the same basis as that for Best Value reports. Russell advised that these costs were assumed as part of the cost of the Audit Scotland audit team and were therefore allocated across the sector. Ronnie advised that he would like to consider the allocation of costs further with the Accounts Commission.

Following discussion, the Board approved the budget proposal.

Action ASB61: Stuart Dennis to include an explanatory note on efficiencies into the budget proposal prior to submission. (November 2017)

10. 2017/18 Spring Budget Revision

Stuart Dennis, Corporate Finance Manager, introduced the report 2017/18 Spring Budget Revision, a copy of which had been previously circulated.

Stuart invited the Board to approve Audit Scotland's 2017/18 Spring Budget Revision proposal which sought resources of £2,826k to cover additional pension charges.

Russel Griggs queried his understanding of the technical accounting requirement in deciding the pension discount. Stuart confirmed that the actuarial valuation of the scheme takes place at a fixed point in time.

Following discussion, the Board approved Audit Scotland's 2017/18 Spring Budget Revision proposal.

Stuart Dennis, Corporate Finance Manager, left the meeting

11. Quality Framework

Elaine Boyd, Assistant Director, Appointments and Assurance Team, joined the meeting

Elaine Boyd, Assistant Director, introduced the report Review of Audit Quality, which had been previously circulated.

Elaine invited the Board to consider and approve the updated Audit Quality Framework which had been finalised following extensive engagement with Management Team, the Audit Committee and the Accounts Commission.

The Chair advised he would prefer principal changes set out in a covering report or as revisions marked on the draft framework to highlight the changes made following consultation. Russell Frith advised members that the main changes had been to strengthen the statement on the fundamental importance of quality to the Auditor General and the Accounts Commission by inserting new paragraphs 2 and 31. He advised that the remaining changes were final drafting changes to simplify the overall structure of the document.

Russel Griggs queried the potential conflict of the Director of Audit Services being the Chair of the Audit Quality Committee and queried how the KPIs would drive improvement. Russell Frith advised that the Director of Audit Services as the senior audit professional would not be conflicted in chairing the committee focussed on enhancing Audit Scotland's audit quality and that all audit firms were required to make such arrangements under international standards in audit quality. He also advised that the KPIs had been designed to inform and drive improvement and reporting on quality and that these may evolve over time.

Ronnie Hinds summarised the Accounts Commission's appreciation of the good work undertaken to deliver the Audit Quality Framework and Russell thanked the Acting Chair of the Accounts Commission.

Heather also welcomed the updated report.

The Board approved the Audit Quality Framework.

Elaine Boyd, Assistant Director, Appointments and Assurance Team, left the meeting

12. Digital Audit Strategy

Gemma Diamond, Senior Manager, Performance Audit and Best Value and David Robertson, Digital Services Manager, joined the meeting.

Gemma Diamond, Senior Manager, Performance Audit and Best Value introduced the Digital Audit Strategy report, which had been previously circulated.

Gemma invited the Board to note that the strategy sets out Audit Scotland's ambition to achieve a step change in using digital audit processes and in auditing the public sector's use of digital to improve services.

Russel Griggs commented that security should be at the centre of any digital based strategy and Gemma advised that the Digital Audit Strategy and Audit Scotland's Digital Services Strategy had security at its core.

Russel Griggs left the meeting at 1.20pm.

Heather Logan asked for further explanation on how the resources to deliver the strategy had been determined. Gemma advised that the digital strategy group had collated information from a range of Scottish Government projects, the work of the local government's digital office and Best Value reports on how digital is supporting services as well as contact with the National Audit Office and engagement with and access to firms' data.

The Chair asked about social media and Gemma advised this is covered under the digital auditing section of the strategy.

Following discussion, the Board welcomed the report and discussion.

13. Digital Services Strategy 2018-2021

David Robertson, Digital Services Manager, joined the meeting.

David Robertson, Digital Services Manager introduced the Digital Services Strategy 2018-2021 report, which had been previously circulated.

David invited the Board to consider Audit Scotland's digital services strategy for 2018-21 which had been developed following a review of Audit Scotland's operating environment and engagement with colleagues to understand the demands of the changing digital environment and key business drivers for the next three years. David advised that the strategy focussed on key priorities: security, integration and ongoing in digital skills.

During detailed discussion, the Board sought assurance around any known points of failure, overall system protection and managing cloud based services. David advised of the ongoing management of points of failure, the cost of protection available as part of the Scottish Government procurement programme and assured members that proper arrangements were in place for using cloud based services.

Heather Logan requested that the forthcoming Business Continuity report for the Audit Committee captures the relevant IT elements.

Following discussion, the Board welcomed the strategy.

Gemma Diamond, Senior Manager, Performance Audit and Best Value and David Robertson, Digital Services Manager, left the meeting.

14. 2016/17 Carbon Scrutiny Annual Report

Claire Sweeney, Assistant Director, Performance Audit and Best Value, joined the meeting

Claire Sweeney, Assistant Director, Performance Audit and Best Value, introduced the 2016/17 Carbon Scrutiny Annual Report, which had been previously circulated.

Claire invited the Board to consider and approve the annual report and comment on future areas of focus.

The Board noted the continued reduction in carbon emissions across all three environmental areas of energy, waste and transport with focus on behaviour to achieve more next year around travel.

Following discussion, the Board approved the report for publication.

Claire Sweeney, Assistant Director, Performance Audit and Best Value, left the meeting

15. Corporate Governance Policies Update

Alex Devlin, Corporate Governance Manager, joined the meeting.

Alex Devlin, Corporate Governance Manager, introduced the Corporate Governance Policies Update, which had been previously circulated.

Alex invited members to consider and approve the amendments to the Financial Regulations required to reflect the need for Audit Scotland to have a bank account through the Government Banking Service, minor amendments to the Scheme of Delegation and Members' Code of Conduct and the Staff Code of Conduct and updated Standing Orders to set out the responsibilities of the Audit Committee with regard to audit quality.

Following discussion, the Board approved policies for a further year.

16. Arrangements for Board meetings

Alex Devlin, Corporate Governance Manager, introduced the Arrangements for board meetings report, which had previously been circulated.

The Chair invited members' views on the frequency of holding Board meetings in public. During discussion, the members reflected on their desire for business to be conducted openly and transparently and agreed that all Board meetings should be held in public from January 2018.

Following discussion, the Chair requested the Standing Orders be updated to reflect the changes which would take effect from January 2018.

Action ASB62: Alex Devlin to update the Standing Orders to reflect the public meetings of the Board from January 2018. (January 2018)

Alex Devlin, Corporate Governance Manager, left the meeting.

17. 2018 proposed Board meeting dates

Diane McGiffen, Chief Operating Officer, introduced the 2018 proposed Board meeting dates report, which had previously been circulated.

Heather Logan asked whether the Audit Committee and Remco meetings scheduled in February and March respectively could be accommodated on the same day. Diane McGiffen advised that the planning schedule would be reviewed in advance of the Audit Committee meeting on 15 November 2017.

Action ASB63: Diane McGiffen to consider the proposed meeting dates for 2018 and report to the Audit Committee. (November 2017)

18. Publication of reports

The Board approved the publication of reports with the exception of items 9, 10, 11 and 14 on the basis that these draft papers would be published in due course.

19. Any Other Business

There was no further business.

20. Review of meeting

The members agreed the meeting had been conducted effectively and the Chair thanked everyone for their contribution.

21. Date of Next Meeting

It was noted that the next Audit Scotland Board meeting was scheduled for 29 November 2017 in the offices of Audit Scotland, 102 West Port, Edinburgh.

Ref	FORUM	Agenda Item No	Item Title	Action Description	Meeting Date	Due Date	Responsible	Assigned to	Complete/Ongoing	Reported Yes/No	Progress Notes
	Board	8	Spring Budget Revision	Scottish Commission for Public Audit for a £1,716k Spring	20/11/2014	30/11/2014	Diane McGiffen	David Hanlon	Complete		Complete
ASB16	Board	15	Corporate Governance Policies and Code of Conduct Review	The Corporate Governance Manager to review the Financial Regulations, Scheme of Delegation and staff Code of Conduct annually and report to the Board.	18/08/2016	23/08/2017	Alex Devlin	Alex Devlin	Complete	No	The review is item 15 on today's agenda.
ASB24	Board	9	Securing World Class Audit - Developments in Audit	The Chief Operating Officer to schedule an update report on the Becoming World Class and world class audit.	27/10/2016	20/01/2017	Diane McGiffen	Russell Frith	Complete	No	The audit quality framework is item 11 on today's agenda.
ASB30	Board	10	Making a Difference: Digital Audit	Diane McGiffen, Chief Operating Officer, to schedule a report for a Board meeting later in the year.	20/01/2017	05/05/2017	Diane McGiffen	Martin Walker	Complete	No	The Digital Audit Strategy is item 12 on today's agenda.
ASB33	Board	13	Making a Difference: Demonstrating Value for Money Update	Fiona Kordiak, Director of Audit Services, to liaise with Heather Logan and take on board comments from members before issuing a further draft for their consideration by correspondence.	20/01/2017	22/02/2017	Fiona Kordiak	Fiona Kordiak	Complete	Yes	Report considered by the Board at its meeting on 23/08/17.
ASB47	Board	14	Q3 Performance Report 2016/17	Martin Walker, Assistant Director, Corporate Performance and Risk, to consider how best to focus the narrative on objectives and performance in future reports.	31/03/2017	30/06/2017	Martin Walker	Martin Walker	Complete	Yes	The Q4 performance report provided 2016/17 a performance summary for each of the strategic objectives.
ASB49	Board	18	Making a Difference: Public Engagement Work with Young Scot	Diane McGiffen, Chief Operating Officer, to schedule an update report in March 2018.	31/03/2017	01/03/2018	Diane McGiffen	Joy Webber	Ongoing	No	This item will be scheduled for 18 March 2018.
ASB51	Board	8	Review of Actions Tracker	Diane McGiffen, Chief Operating Officer to arrange for the updated Demonstrating Value for Money report to be circulated to the Board in June 2017.	05/05/2017	30/06/2017	Diane McGiffen	Diane McGiffen	Complete	Yes	Report considered by the Board at its meeting on 23/08/17.
ASB55	Board	10	Q4 Corporate performance 2016/17	Martin Walker, Assistant Director, Corporate Performance and Risk, to review the format of the report to ensure actions to address amber indicators are clearly identified.	06/06/2017	27/09/2017	Martin Walker	Martin Walker	Complete	Yes	2017/18 quarterly reports use action focussed format. Q1 was considered by the Board at its meeting in August 2017.
ASB56	Board	11	Q4 Becoming world class improvement programme	Russell Frith, Assistant Auditor General to consider annual reporting by the audit firms as part of the audit quality review programme. (August 2017)	06/06/2017	23/08/2017	Russell Frith	Russell Frith	Complete	No	The audit quality framework is item 11 on today's agenda.
ASB57	Board	16	Draft annual report and accounts – Year End 31 March 2017	Caroline Gardner, Auditor General to sign the annual report and accounts 2016/17.	06/06/2017	13/06/2017	Caroline Gardner	Caroline Gardner	Complete	Yes	Caroline Gardner signed the annual report and accounts on 13/06/2017.
ASB58	Board	18	2016/17 Annual report on international work and international strategy 2017-20	Antony Clark, Chair of International Steering Group to consider the longer term impact of international work in future reporting.	06/06/2017	01/06/2018	Antony Clark	Sarah Pollock	Ongoing	No	A report will be scheduled by June 2018.

ASB59	Board	21	Any other business	Diane McGiffen, Chief Operating Officer to schedule a report on openness and transparency for the Board meeting on 23 August 2017.	06/06/2017	23/08/2017	Diane McGiffen	Martin Walker	Complete	Yes	The Board considered a report at its meeting on 23/08/17 and will consider a further report as item 16 on 25/10/17.
ASB60	Board	14	Openness and transparency	Martin Walker, Assistant Director, Corporate Performance and risk, to report back with detailed options and proposals on the practicalities and arrangements for supporting public meetings of the Board. (October 2017)	23/08/2017	25/10/2017	Martin Walker	Martin Walker	Complete	No	The report is item 16 on today's agenda.

AUDIT SCOTLAND BOARD

25 OCTOBER 2017

REPORT BY SENIOR MANAGER, PERFORMANCE AUDIT AND BEST VALUE

DIGITAL AUDIT STRATEGY

1. Purpose

This report invites the Board to consider and discuss the digital audit strategy.

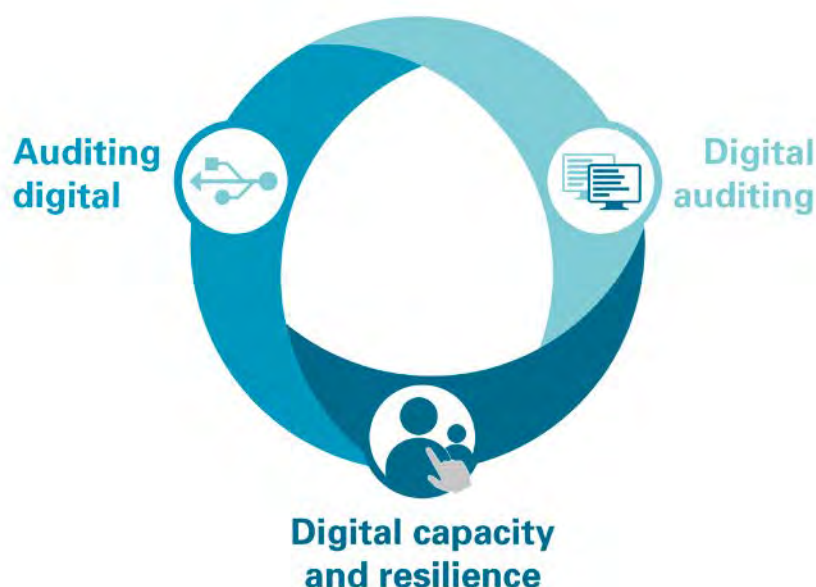
2. Background

In December 2016 Management Team held a Digital summit to bring together people across the organisation working on digital to discuss the opportunities digital presents and how we might make best use of them. In January 2017, we discussed the objectives and priorities with the Audit Scotland Board.

Subsequently, the team have had discussions with colleagues across the organisation, stakeholders, and the NAO, about potential priorities and actions to inform the development of a digital audit strategy.

3. Digital audit strategy

Digital audit can be split into three main components:



The aim of the strategy is to set out how, over the next 3 years, we can achieve a step-change in how we use digital in our audit processes, and help the rest of the public sector use digital effectively to improve public services. At the end of the strategy, digital

should be embedded within our frameworks and processes, with the appropriate skills in place to support our digital work.

The strategy supports the corporate plan vision to be a world-class audit organisation. It sets out how we can deliver on the commitment to harness digital technology to inform our work, and also to report on digital transformation across the public sector. The strategy closely aligns with the aims of our strategic improvement programmes, and aims for a coordinated approach across the whole organisation.

The strategy is largely for our organisation to use to direct and prioritise digital activity, but we would also use it to explain our approach to external stakeholders. We are developing a digital e-hub on our website, where the strategy could be available, alongside other relevant materials and products.

4. Recommendation

The Board is invited to consider and discuss the digital audit strategy.

Digital Audit Strategy 2017

Supporting world-class audit

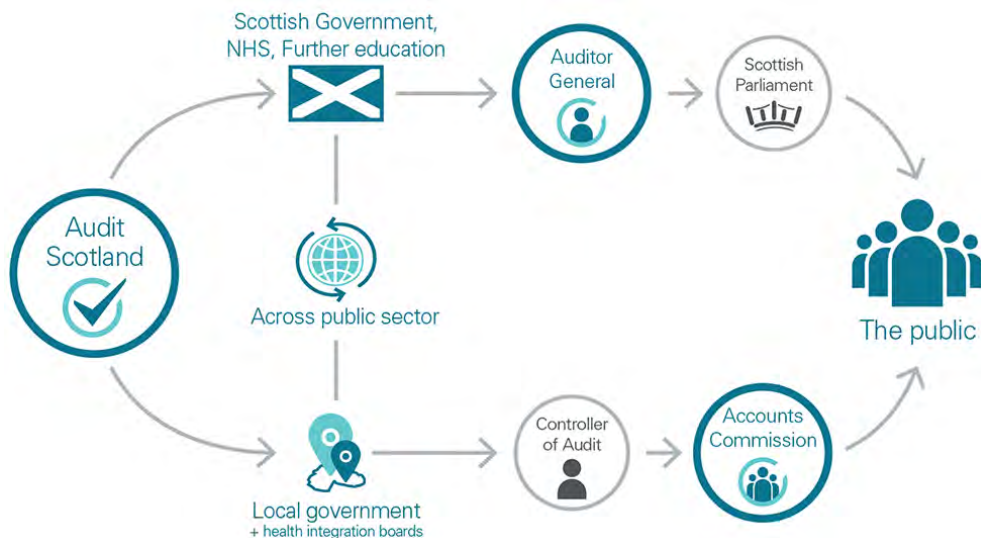


For the Audit Scotland Board
October 2017

Who we are

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

- ✓ 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.
- ✓ 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.



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.

Contents

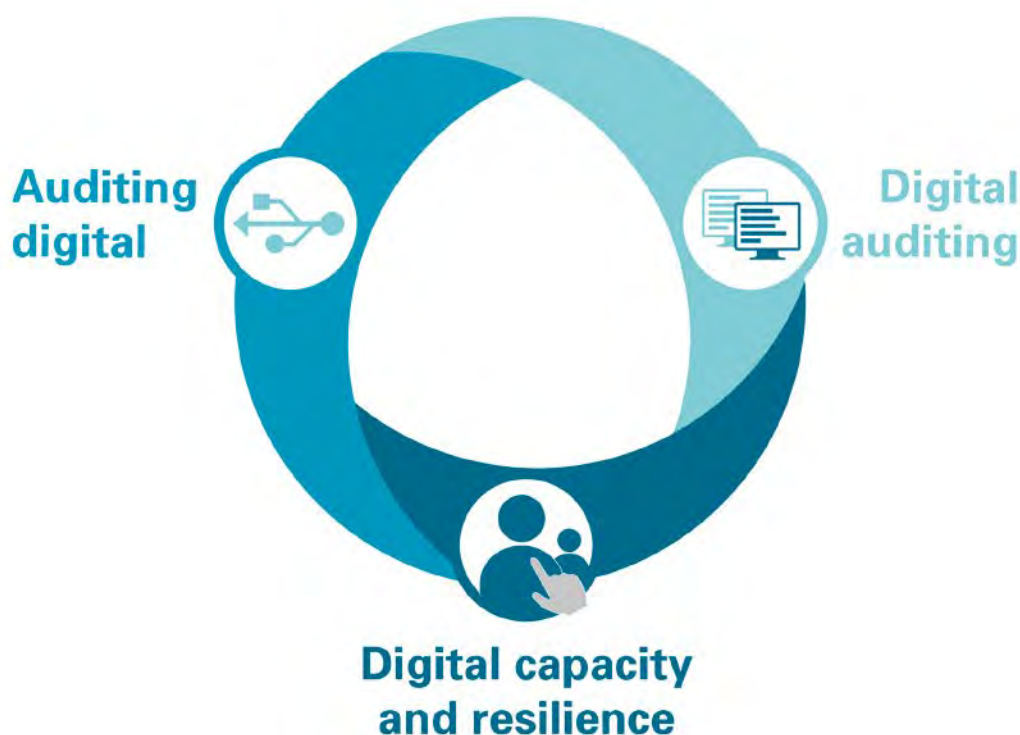
Introduction	4
Vision	5
Auditing Digital	7
Digital Auditing	10
Digital capacity and resilience	12

Introduction

- 1.** Like organisations across the public sector, at Audit Scotland we aim to continuously improve to deliver on our vision. For us, that vision is to be a world-class audit organisation. Digital plays a key role, and this strategy sets out how we can use digital in our audit processes to support this vision. Importantly, it also sets out how we can use audit to support the public sector in its use of digital to improve outcomes for citizens.
- 2.** Digital technology has become an increasingly familiar part of everyday life over the last ten years. It's part of the fabric of how we live our lives and citizens, businesses and public services are dependent on it operating successfully. This is brought into acute focus by the impact of cyber-attacks, for example hospitals needing to cancel operations and turn away patients following the WannaCry incident.
- 3.** New technology creates opportunities to deliver public services in different ways, it also creates new expectations of how public services should look and operate in this digital age. It opens new possibilities for interacting with and empowering citizens, but also creates risk that not all of society can benefit from these changes.
- 4.** This digital audit strategy recognises that over the last few years Audit Scotland has adapted to the digital age. We have introduced new technology and digital methods into our audit processes, and we have published a range of audit work looking at the implementation of digital within the public sector. However, we recognise that we can, and need to, do more. This strategy sets out the vision for a step-change in our approach to digital audit. By the end of this three-year strategy, the aim is that digital risks and thinking are embedded in our processes.
- 5.** Digital is a theme that will be assessed across our audit work, at a local, sectoral, and national level. We aim to support and encourage improvement across the public sector in using digital to help transform people's lives. This will involve thinking innovatively about how we best deliver our messages and encourage discussions about how to move forward.
- 6.** This strategy also sets out our ambition to ensure that as an organisation we are making best use of what digital can offer. Digital audit supports activity across our strategic improvement programmes, delivering added value, efficiencies, and more opportunities for cross-organisation working.
- 7.** We recognise that we need to think about what this means for our workforce: what new skills will auditors need, what specialist knowledge will we need access to, and what efficiencies in audit processes might mean for changes in the type of work we do. These are all questions at the centre of the strategy, and we set out how we will consider these as we develop our plans.
- 8.** We want to be at the forefront of the opportunities that digital offers; helping the public sector to understand and make the most of the opportunities, at the same time as grabbing the opportunities for ourselves.

Vision

9. We will use digital audit to enable our vision to be a world-class audit organisation. It will deliver activity across the strategic improvement programmes. Our approach in digital audit has three main components



- **Auditing digital** – taking a flexible and risk-based approach to auditing digital public services. Integrating digital risks into our performance and financial audits and developing products to add value to stakeholders.
- **Digital auditing** - using digital technology, tools and technologies to support and deliver audit work. Making best use of available data to inform audits.
- **Digital capacity and resilience** – working across the organisation to involve the right experience and skills in the right places. To upskill our workforce to support digital audit and ensure our resilience.

10. At the centre of this activity will be the establishment of a digital centre of expertise, bringing together the people across the organisation who are involved with digital audit. This centre will act to share expertise and intelligence and coordinate audit activity.

11. This strategy outlines an approach to digital auditing that will provide:

- ✔ common, shared intelligence
- ✔ common priorities
- ✔ consistent findings and judgements
- ✔ coordinated action
- ✔ best use of the available skills
- ✔ a flexible and rapid response.

12. The strategy sets out our objectives and approach against each of the three components. It summarises our current position and outlines an action plan for the next year, and the following two years of the strategy.

Auditing Digital

Our objective is to take a flexible and risk-based approach to auditing digital public services. Integrating digital risks into our performance and financial audits and developing products to add value to stakeholders.

Our approach will be to:

- Develop a digital risk assessment to look at the risks affecting the public sector and audited bodies, and the wider external environment.
- In consultation with the Auditor General and the Accounts Commission prioritise audit activity based on the risk assessment.
- Take a layered and targeted approach to audit work. This would involve
 - considering those public bodies with greater digital-related risks for a differentiated audit approach
 - upskilling audit teams to ask questions about and make judgements on digital risks
 - layering digital risks into all our audit work, including performance audit reports, annual financial audits, and Best Value audit
 - considering the extent to which public bodies use digital to support service improvements.
- Develop our audit approach to ensure cyber-resilience in the Scottish public sector.
- Deliver and contribute to a wide range of audit outputs. This could include:
 - guidance for auditors
 - intelligence briefings
 - annual audit reports, performance audits, and Best Value Assurance reports
 - other outputs, for example, questions for non-executives and explanatory guides on key issues and risks such as agile project management or data protection arrangements, and contributing to conferences and round-tables.

Progress to date

We have:

- ✔ undertaken IT audit activity in individual audited bodies, reporting issues through the annual audit report where appropriate
- ✔ published statutory reports on significant issues with a digital dimension (including [CAP futures](#), [NHS24](#) and the Police Scotland [i6 project](#))
- ✔ undertaken performance audits and published reports on issues, including superfast [broadband](#), and reviews of processes within the Scottish Government to improve the [management of ICT contracts](#)
- ✔ produced a different-style output pulling together the key lessons from previous ICT programmes into a set of [digital principles](#) to help support improvement
- ✔ shared information on digital risks with auditors and developed some specific audit programmes, e.g. cyber-security
- ✔ gathered intelligence for cluster briefings and monitored a risks relating to digital transformation as one of the strategic risks for the Scottish public sector
- ✔ developed networks with relevant organisations and stakeholders.

Priorities for 2017/18

We will:

- develop and undertake a digital risk assessment of the external environment and public bodies and decide on the digital themes we are to prioritise
- develop a differentiated audit approach for those public bodies which face significant digital risk, ensuring that the audit teams have access to appropriate skills and experience
- use the planning guidance to direct all auditors to ask questions, gather evidence, make judgements, and report on, some of the prioritised digital themes
- develop guidance and training for auditors to enable them to undertake the digital audit work
- agree the audits in the forward work programme where digital should feature as a key theme, and put in place arrangements for digital expertise to feed into the audit
- produce statutory reports on individual digital programmes as required
- consider and develop our audit approach to cyber resilience and security across the Scottish public sector.

Priorities for 2018-2020

Over the following two years we will:

- integrate digital risks into audit processes, through updating risk assessments and audit programmes, and regular inclusion of digital risks in the planning guidance
- assess the differentiated audit approach for higher digital risk public bodies, and refine and continue as required
- work with auditors to assess the level and type of support required. Hold information sessions and produce briefings as required
- deliver the performance audits on digital in central government and health, and local government included in the forward work programme, and report on significant individual digital programmes as required.

Digital Auditing

Our objective is to use digital technology, tools and technologies to support and deliver audit work. Also to make the best use of available data to inform audit work.

Our approach will be to make the best use of digital technology, data and analytics to:

- **support risk assessments** - including decisions on the future work programme, and audit planning, by:
 - analysing data within, and across, policy, places and sectors to gather intelligence on emerging risks and patterns
 - using data to support appraisals of potential future audits.
- **enhance the audit process** - including analysing financial and non-financial data trends and outliers, and undertaking transactions testing, by:
 - using data analysis to support audit evidence and judgements and help target our work to identify potentially fraudulent activity
 - using appropriate tools to support the sorting and testing of financial transactions data
 - discussing and sharing intelligence on different tools and techniques with other audit organisations.
- **getting our messages out** - find new ways to present our messages and audit work, including data analysis tools, greater use of social media, and e-hubs on our website, by:
 - embedding the use of data presentation software, e.g. interactive data graphics in our audit reporting
 - considering new ways to use technology to engage stakeholders and audiences for our reports, including social media, our website, video.

Our approach will also ensure that our use of digital to undertake audits will be secure and information gathered will also be held securely. It will be compliant with the requirements of the Data Protection Act and the new General Data Protection Regulation which comes into force in May 2018.

Progress to date

We have:

- ✓ completed phase 1 of the audit intelligence project delivering a data warehouse which currently includes a range of core datasets and data around health and social care. Phase 2 is underway to include more core datasets
- ✓ embedded a cross-organisation data analytics group to share intelligence and trial new software and approaches

- ✓ created an audit data analytics group to pilot new tools and techniques in the annual audit process
- ✓ used interactive data graphics to present, and allow access to, data from a number of our performance audit reports
- ✓ developed e-hubs on our website to provide a central place to promote our work on new financial powers and health and social care
- ✓ used animations to help showcase our work to new audiences
- ✓ used social media and online surveys to gather public opinion and experience for our Self-Directed Support follow-up audit and our audit of Early Learning and Childcare.

Priorities for 2017/18

We will:

- use data analysis to support several audits in the work programme, including the sector overviews, infrastructure investment financing and Best Value Assurance Reviews
- deliver phase 2 of the Audit Intelligence project by integrating more outcome and financial datasets and expanding the use of analytics tools
- complete the pilots of new analysis tools within the annual audit process and review the process
- consider how digital audit techniques will be subject to quality assurance and review
- develop an e-hub to present our work on digital audit
- discuss with other audit organisations the progress they are making with digital audit techniques and consider new ideas.

Priorities for 2018-2020

Review the development of the data warehouse and identify priority datasets to include:

- roll-out and embed the use of analysis tools in the audit process
- embed the use of data analytics across our audit work
- continue to develop and deliver innovative ways to consult and engage with stakeholders and report our messages using digital technology.

Digital capacity and resilience

Our objective is to work as one organisation to ensure that we have the people with the right skills and experience, the appropriate technology, and the right digital culture, to support all audit work.

Our approach is to:

- ensure that we identify the relevant digital skills of staff across the organisation and bring it together to create added value for our audit work
- identify digital skills and capacity gaps and take action to address them
- ensure that our workforce is fit for a digital future and that all staff can participate in digital audit activity
- make effective use of digital technology to support our audit work, focussing on resilience and innovation
- prioritise digital security and resilience as a key part of organisational activity
- develop a culture that is digitally aware and open to the opportunities digital can provide.

Progress to date

We have:

- ✓ a wide-range of people across the organisation working on digital-related activity, including:
 - ICT auditors
 - digital services team
 - performance audit teams
 - senior managers with digital policy responsibilities
 - team members with data analysis skills
 - the communications team
 - the data analytics group.

☑ developed our knowledge and capacity by:

- welcoming students from the Edinburgh University [Q step programme](#). The programme links students with quantitative social science skills doing social/political science degrees with employers
- delivering introductory training in data analytics to 45 colleagues across the organisation
- organising training sessions on new areas and tools, including agile development and IDEA
- supported staff to attend relevant specialist training, e.g. Agile programme development.

Priorities for 2017/18

We will:

- invest in technology, services and expertise through the new Digital Services Strategy
- create the digital centre of expertise to bring together digital skills, knowledge and experience across the organisation. Develop areas for sharing intelligence and mechanisms for prioritising activity and making decisions
- work with auditors to assess the skills requirements to be able to undertake audit work against digital priorities. Develop plans to fill these gaps in the short-term
- organise knowledge cafes with external speakers from across the digital environment to raise awareness of digital across the organisation
- maintain and build on relationship with key stakeholders, including working scrutiny partners, attending networking events and engaging with international audit colleagues.

Priorities for 2018-20

We will:

- based on a review of the first year of activity and forecasting future activity, undertake an assessment of the skills and capacity we require to undertake digital audit. Update workforce plans, learning and development plans, and recruitment plans for these needs
- assess the potential for digital audit to create efficiencies in audit processes and the subsequent impact on workforce and audit activity
- engage with public sector programmes to help recruit appropriately skilled staff where required
- continue to improve our digital security and engage expert external security.

AUDIT SCOTLAND BOARD

25 OCTOBER 2017

REPORT BY THE DIGITAL SERVICES MANAGER

DIGITAL SERVICES STRATEGY 2018-2021

1. Purpose of Report

This report presents Audit Scotland's Digital Services Strategy for the period 2018-21.

2. Background

The current Information Services Strategy was agreed in September 2015. Since then we have implemented a modern, secure and resilient digital infrastructure which supports our strategic objectives and provides colleagues with the tools and services they need to do their work. This includes:

- innovative, digitally connected workspaces in all our main offices
- modern, reliable and flexible smart phones
- the secure, innovation and open zones
- high speed and reliable network connectivity across remote sites
- significantly improved security for our servers, applications and networks
- the development of the data warehouse and phases 1 & 2 of the Audit Intelligence project
- ISO 27001:2013 certification.

3. Digital Services Strategy 2018-21

The new strategy covers the period 2018-21. It has been informed by a review of our operating environment and business drivers and extensive engagement with colleagues.

The strategy has been developed as a companion piece to the Digital Audit Strategy. It reflects on, and responds to, the rapidly changing digital environment and the new (and anticipated) business drivers over the course of the next three years.

The strategy consolidates our key objectives of resilience and innovation; it also brings additional focus on security and integration and anticipates the need to strengthen the digital skills of all our colleagues.

Management Team approved the Digital Services Strategy on 10th October 2017.

4. Recommendation

The Board is invited to consider and note the Digital Services Strategy 2018-21.

Digital Services Strategy

2018-2021



Prepared for the Audit Scotland Board
October 2017

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

Contents

Introduction.....	4
The operating environment.....	5
Strategic objectives	6
Resilience.....	7
Always secure – security first	7
Always available – robust and high quality services	9
Any device – supporting choice, remaining secure.....	10
Innovation.....	12
Digital skills - supporting our colleagues.....	12
Digital working - supporting a digital community	13
Open data – maximising the benefits	13
Business intelligence – making the most of our own data.....	14
Agile development – promoting a culture of innovation.....	15
Implementing the strategy	16
Investing in our future – building a better organisation.....	16
Investing in our digital capacity.....	17
Timeline	19
Appendix – Ideas Map	20

Introduction

1. In 2015 we developed a three year Information Services strategy. This was informed by extensive consultation with our colleagues and focused on supporting delivery of our strategic objectives set out in the Corporate Plan 2015-18.
2. The strategy was structured around two priority areas, resilience and innovation and these provided the foundation for us to deliver our digital services. We have lead and supported significant improvement projects in these areas:
 - **Innovation** – The relocation of Edinburgh and Inverness offices, together with the refurbishment of the Glasgow office provides modern, digitally connected and provisioned workspaces. Phase 1 & 2 of our Audit Intelligence project has delivered a data warehouse providing a variety of data analytics and presentation services. All staff have access to modern smart phones with a secure app store allowing colleagues to communicate better and work while traveling. Yammer is changing the way we communicate with colleagues, moving from static, one way broadcasts to targeted conversations
 - **Resilience** – Our connectivity has enhanced significantly, we have an improved infrastructure of high speed networks connected to our new dedicated business continuity centre. We have delivered high speed mobile network access, through dedicated units and company wide mobile phone hotspots. Our information security has been significantly strengthened by a new managed perimeter defence system, network segregating, virtualising servers and real time patching. In 2016 we achieved ISO 27001:2013 certification and we test the effectiveness of our business continuity and security provision through a range of independent annual audits.
3. There are some areas where we haven't met all of the requirements of our colleagues and where the challenges and opportunities have changed since the last strategy. This strategy responds to these.
4. This strategy, covering the period 2018-21, has been informed by a review of our operating environment and business drivers and extensive engagement with colleagues.
5. The strategy has been developed as a companion piece to the Digital Audit Strategy. It reflects on, and responds to, the rapidly changing digital environment and the new (and anticipated) business drivers over the course of the next three years.
6. While consolidating the resilience and innovation work streams this new strategy brings additional focus on security and integration and anticipates the need to strengthen the digital skills of all our colleagues.
7. This strategy will help us to deliver digital services that will enable colleagues to deliver high quality audits, get our messages out effectively and run the business efficiently. It is driven by the business, for the business.

The operating environment

8. In developing the strategy, we have carefully considered the complexity and opportunities of the digital world.
9. **Listening to our customers** – to inform this strategy we carried out a wide-ranging consultation programme. We asked our colleagues what they needed, what had worked, what hadn't and what they'd like in the future. Colleagues most value easy access to solid and reliable core systems like ishare and MKI. There was also a demand for light-weight portable devices for on-site and remote audit work. Some colleagues wanted more help with new technology whilst others wanted more freedom to learn and experiment themselves. They asked for more integration of our corporate data to provide clear business reporting and management information. All the feedback received has been condensed into the Appendix Idea Map.
10. **Security** – In 2015 there were, on average, 7,250 ransomware attacks a month targeting businesses. By 2017 this had risen to 33,600 attacks per month with an increased targeting of public sector organisations. The WannaCry ransomware attack in May led to 70,000 possibly infected devices in the NHS due to a lack of adequate security patching. In response to the continued and increasing threat the Scottish Government has initiated a Cyber Resilience action plan. This required Scottish public sector bodies to achieve a baseline of cyber security by March 2018.
11. **Cloud** – In 2015, 6% of U.K. businesses were utilising the cloud. By 2021 it is estimated that 80% of U.K. business will be using the cloud as their primary data repository. The growth of cloud services, and the competition between suppliers has seen a decrease in cost and an increase in quality and security. The U.K. and Scottish governments are actively encouraging public sector bodies to move to private or public cloud providers to take advantage of the resilience and high levels of availability they provide.
12. **Mobile** – Personal smartphone ownership and usage is now the norm, 85% of the U.K. population have access to a mobile phone and 68% have access to a tablet. 91% of adults used their smartphone daily. Business transition to mobile is far slower and where deployed smartphones are generally limited to email and telephony. Tablet use is even more limited and is used primarily by senior management for email and document review.
13. **Big Data** – Data underpins everything we do with the private sector having made substantial investment in big data technologies and machine learning for significant commercial gain. The public sector lags the private sector, in part as it does not have the same profit and commercial motive. Both the U.K. and Scottish government's digital transformation initiatives are promoting the delivery of public services via the effective use of data through open data and the data sharing code of practice.
14. **Recruitment** – The recruitment and retention of digital/IT specialists is very difficult. There is a significant shortage in skilled experienced staff worldwide and the U.K. could face an especially acute shortage if Brexit results in E.U. staff leaving the U.K. job market. This shortage in skilled specialists has driven up salaries. Since 2009/10 digital/IT specialist

salaries have risen 30% in real terms on average, while over the same period public sector wages have fallen by 4% in real terms.

15. **Legislation** – The 2012 and 2016 Scotland acts introduced new responsibilities for taxes, social security and borrowing which will require appropriate scrutiny and digital solutions will have an important part to play in this. Also, the General Data Protection Regulation (GDPR) will come into effect in May 2018. Both these legislative changes will require new resources and changes to existing systems and processes.

Strategic objectives

16. Our two main objectives remain; Resilience and Innovation.
17. **Resilience** – We will continue to ensure that we have robust, accessible and dependable systems in place to support all colleagues to work efficiently and effectively. Together with:
- a significant increase in security measures and resources
 - delivering flexible, sharable mobile devices
 - strengthening the capacity and skills of the Digital Services Team.
18. **Innovation** – We will continue to develop digital solutions to support our ambition to be a world-class audit organisation. Together with:
- integrating our internal information using big data and machine learning
 - continuously improving our digital delivery and work ethic by adopting new agile methodologies
 - encouraging and supporting the development of digital skills for colleagues of all abilities.
19. We will deliver these objectives by:
- Investing in our future – by providing flexible high quality digital services and through using data efficiently and effectively
 - Investing in our digital capacity – through learning, development and recruitment, and by supporting innovation and a digitally enabled workforce.
20. This strategy sets out the work streams required to deliver the two objectives over a three-year period.

Resilience

21. Improving our resilience will increase our security, productivity and efficiency. We will continue to enhance our existing security systems while introducing new proactive defensive measures. We will continue to improve system availability ensuring colleagues can use the services, applications and information they need to carry out their work.
22. The resilience objective consists of three workstreams:
 - Always secure
 - Always available
 - Any device.

Always secure – security first

23. Our colleagues need confidence that their information is safe and secure and that we can provide assurance that we are following best practice. We will adopt a security first approach to all our systems and information. Always ensuring, before anything else, that the most appropriate controls are in place to protect the integrity, privacy and availability of our information.
24. We will:
 - Increase the security of all our digital systems, improving our existing malware protection and network security and implement advanced threat management systems
 - Securely configure and rapidly patch all systems
 - Diversify our platforms and segregating networks wherever possible
 - Manage, safeguard and encrypt all our controlled and personal data
 - Expand our system monitoring and enhance our incident management processes
 - Strengthen and upskill the Digital Services Team to help improve our security and incident management approach
 - Reshape our management arrangements to implement an enhanced risk management regime and ensure we can provide a 24/7 response to any security incidents
 - Continue to educate and inform our colleagues on developing security risks
 - Maintain ISO27001:2013 certification
 - Implement the National Cyber Security Centre's (NCSC) 10 Steps to Cyber Security (Figure 1) and achieve Cyber Essentials PLUS certification
 - Actively participate in the NCSC's Cyber Security Information Sharing Partnership (CiSP).

Figure 1 - 10 Steps to Cyber Security



Always available – robust and high quality services

25. Our colleagues work in multiple locations and need access to information and digital services at all times. If there is an issue, they need to know immediately and be updated on its resolution. They also want to be assured that we are using efficient and effective hardware, software and systems that support them do their work.
26. We will:
 - Continue to move business critical systems to managed secure cloud services
 - Continue to replicate all our information and services to a secure location which is highly resistant to failure
 - Ensure that we are using and maintaining high quality systems to support our audit work and business management
 - Provide shared, lightweight and secure mobile devices that can be used as both a laptop and tablet
 - Ensure all our information is accessible from the internet via a browser or app, independent of our infrastructure
 - Continue to provide multiple independent wired connections, together with WiFi and high speed mobile data for our systems
 - Enhance our WiFi provision to maximise bandwidth for our innovation zone and personal devices
 - Perform proactive monitoring of our services, providing live updates of service availability to all our colleagues.

Maximising flexibility and resilience

27. Transitioning to cloud based services will provide colleagues access to our information at any time in a way that suits them best.
28. 80% of our systems and information is stored on servers situated in our offices and replicated to our secure business continuity site. Continuing to transition to Office 365 will allow us to move our existing on site systems to online services, which provide 99.9% uptime, automated patching, maintenance, capacity management, backups and business continuity. Online services are independent of our infrastructure and are accessible on any modern device by an app or modern web browser. This ultimately means colleagues will have improved access to the services and data they need.
29. We will:
 - Provide all our colleagues with Microsoft Office services from the cloud with direct secure access via mobile app and modern web apps
 - Provide cloud based SharePoint (ishare) and OneDrive (my site) to store and synchronise all our information which can be accessed anywhere from a modern web

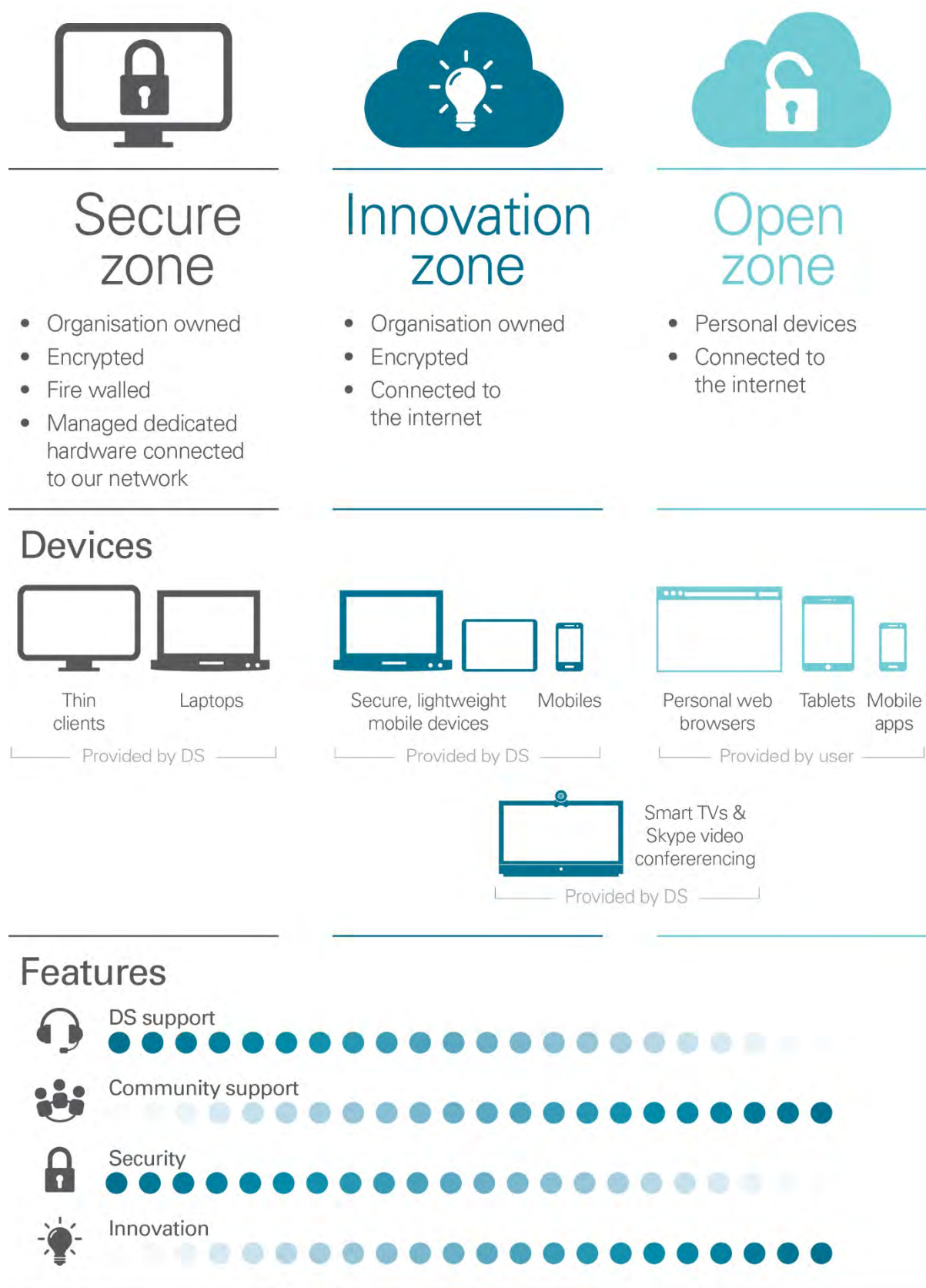
browser or mobile device. In doing this we will assist the business to greatly simplify records management and the requirement for metadata

- Continue the transition from desk phones to mobile and web devices – allowing colleagues to receive and make calls from any mobile device or web browser as well as video conference, share screens and transfer files
- Pilot moving our virtualized non-Office 365 systems such as MKI to a secure private cloud
- Provide Audit Intelligence services on a highly scalable and sharable cloud service, elements of which will be available to other public sector bodies and members of the public.

Any device – supporting choice, remaining secure

30. Our colleagues are looking for the additional flexibility they experience with personal mobile devices while retaining the benefits of the traditional thin clients and laptops.
31. Ever increasing security threats require increased security, but locked and high security environments can make it difficult for colleagues to be innovative and work efficiently. The introduction of different zones to allow colleagues to work flexibly while staying secure has proven very successful. We will continue to provide '**zones**' where colleagues can select the most appropriate working environment which balances security and innovation and which suits their task. The zones (Figure 2) are:
 - **Secure zone** – using laptops and thin clients in a highly protected and managed environment where security is paramount. In this zone, all data is encrypted and backed up, internet and email access is protected, filtered and managed and all systems are proactively managed by the Digital Services Team
 - **Innovation zone** – using mobile devices, which can be used anywhere, for specific tasks and where innovation is encouraged. In this zone internet access is less restricted and colleagues have the freedom to install apps from a managed app store. Innovation zone devices are encrypted and can be remotely wiped if required. Organisational information is accessed through the secure channels of Citrix and Office 365. Colleagues are encouraged to develop and share their own skills in using innovation zone devices and services
 - **Open zone** – colleagues use their own devices, smart TVs and conference systems. In this zone, colleagues can access information via Office 365 and Citrix in a managed environment where we can restrict actions, such as sharing and wiping only Audit Scotland data. Visitors can also connect to TVs, audio and conference systems for presentation purposes.

Figure 2 - Zones



Innovation

32. We want to both drive and support an environment where:
- understanding our information is paramount and the tools we use to manage and analyse information becomes secondary
 - colleagues are encouraged to explore and experiment with different tools to develop inventive solutions
 - innovation becomes central to our continuous improvement.
33. These will drive efficiency, productivity and effectiveness, support our strategic objectives and help us to achieve our corporate vision.
34. Five workstreams support this objective:
- Digital skills – supporting our colleagues
 - Digital working – supporting a digital community
 - Open data – maximising the benefits
 - Business intelligence – making the most of our own data
 - Agile development – promoting a culture of innovation

Digital skills - supporting our colleagues

35. It is widely recognised in the audit profession that digital skills are both a requirement and will be an area of growth in the years to come. Our consultation told us that some colleagues want more help with using new devices and systems, others requested greater access to self learning material, while others wanted better ways to share their new ways of working.
36. The speed at which systems change has increased significantly, with mobile and web apps updating on monthly cycles. The old methods of staged, controlled releases with delivered customised training are no longer viable. Colleagues also work outside standard hours and will need to access a variety of educational material appropriate to their needs and skills.
37. We will:
- Work with the Personal Development and Growth Group to understand the digital development needs of our colleagues and identify solutions
 - Provide a library of inclusive online learning material that colleagues can use at any time
 - Expand the use of colleague knowledge and skill sharing via social media
 - Develop regular events where colleague can meet specialists to get guided hands on experience
 - Implement a no resistance, simple ticketing system to help provide directed support from any device.

Digital working - supporting a digital community

38. Our colleagues tell us that they can sometimes find it difficult to locate the information most relevant to them. They also want to easily but safely communicate and share information with colleagues and stakeholders.
39. The digital environment reduces the cost of communicating and sharing to almost nothing. This allows low value information to be broadcast to everyone making it more difficult to extract the relevant 'high value information' from the irrelevant 'low value information'. Businesses can waste significant resources managing low or no value information, particularly in the form of email. We will provide colleagues with more tools to avoid the 'low value noise' and focus their communication on high value information, to increase business efficiency.
40. We will:
 - Continue to promote high value information systems such as group messaging, where colleagues find and follow staff or people outside the organisation that are working in similar fields and thus building a community of experts. At the same time, we will deprecate low value systems such as broadcast email with the aim to increase business efficiency
 - Provide expansive personal cloud storage where colleagues have a searchable online area available anywhere on any modern mobile device. Where they can easily share information with colleagues and stakeholders
 - Provide a large capacity email system which provides active and passive filtering to organise and triage email based on individual colleagues needs
 - Embed accurate personalised search across all systems and promote a cultural change where colleagues search for content rather than navigate to a possible location.

Open data – maximising the benefits

41. The digital economy generates enormous amounts of data and we must continue to expand our skills and systems to collect, collate and analyse this data. Colleagues need access to a range of tools to explore data sets, answer analytical questions and present data in ways that identify underlying patterns and trends. These analytical techniques will allow us to better understand and plan our own business.
42. The sharing of data benefits the entire U.K. public sector, allowing for more accurate forecasting and planning and by reducing inefficiency. We want to continue to play an active role in the open data community and ensure appropriate data is available to third parties who can verify and expand on our analysis and use it to inform debate and policy development and support scrutiny.
43. Our objective is to provide maximum flexibility and integration with all our systems and other external services by using open data and complying with accredited open industry standards that define the methods and procedures for software which connects data and services.

44. We will:

- Implement phase 3 of the Audit Intelligence project which aims to migrate the infrastructure to the cloud, embed data analytics into the audit process and push for improved data analysis skillsets. Colleagues will have immediate access to automatically imported data and can access data from anywhere on any device
- Continue to provide a suite of analytical and presentation solutions for both numeric and textual data. As the data is open and conforms to appropriate standards, colleagues can either select from the solutions we will provide or chose from web based open source solutions that integrate with open data standards
- Make our public audit data available in an open format to use without restrictions and which can be downloaded from the internet
- Require that all systems and services we develop or procure comply with an open data requirement and open industry standards
- Phase out legacy non-standard compliant/open data systems and replace them with compliant systems
- Adopt a web and 'mobile first' approach for all new solutions, wherever possible selecting open source solutions, and ensure all our internal development is open source.

Business intelligence – making the most of our own data

45. Our colleagues tell us they would like to better understand and explore our management information. We collect operational information such as time recording, HR records and audit team rotations but it sits on different systems in different formats. Colleagues would like a solution that combines all this information in an easily accessible way.
46. Many of our corporate systems are based on legacy software, much of which uses proprietary data formats and does not comply with open industry standards. This makes integrating data for meaningful reporting difficult.
47. We will:
- Support the business to procure or develop new corporate systems that support open data and open industry standards
 - Develop solutions based on our Audit Intelligence system to integrate our corporate information into a suite of Management Information reports allowing colleagues to explore, analyse and present corporate information
 - Work with Morgan Kai to access and report on our audit information from our core auditing application
 - Use workflow solutions to integrate our corporate information into automated Office 365 management information dashboards

- Pilot 'machine learning' systems to provide deeper insights into our own business processes and resource transactions.

Agile development – promoting a culture of innovation

48. Through proactive research and experience the Digital Services Development Team are constantly adapting and evolving with the goal to continuously improve on current work processes. We integrate new technology and methodologies into our workflows, we prototype and adopt – or discard if they don't fit. Agile development provides significant cost savings by preventing resources being lost on non-viable projects.
49. We will:
 - Encourage and promote successful working methods to the rest of the business
 - Run our development team as a start-up team, trying new ideas quickly with virtually no overhead and fully implement where prototypes are successful
 - Celebrate success but also accept failure as a potential outcome, learning from the experience
 - Adopt a 'fail fast' approach, using regular and quick reviews to identify where continued investment in a project would be false economy
 - Develop in-house code which works across different platforms and devices and which integrates with open cloud based data
 - Use a streamlined agile project management framework tailored to best suit the team and business
 - Implement projects using lightweight and focused 'sprints' where project work is priority and distractions are reduced
 - Deploy regular outputs from sprints which offer immediate access to new functionality.

Implementing the strategy

50. This strategy lays out an expanded three-year framework to continue to deliver an ambitious programme of change that will help achieve our vision of being a world-class audit organisation. It provides the architecture needed to transition our digital systems to a security first, cloud based infrastructure where our mobile colleagues can access our corporate information and analyse data from any device. It increases flexibility and choice, encouraging an innovative knowledge sharing culture.
51. The strategy delivers a road map for supporting both the technical and cultural changes needed to participate in the digital economy, while ensuring appropriate levels of security and compliance.

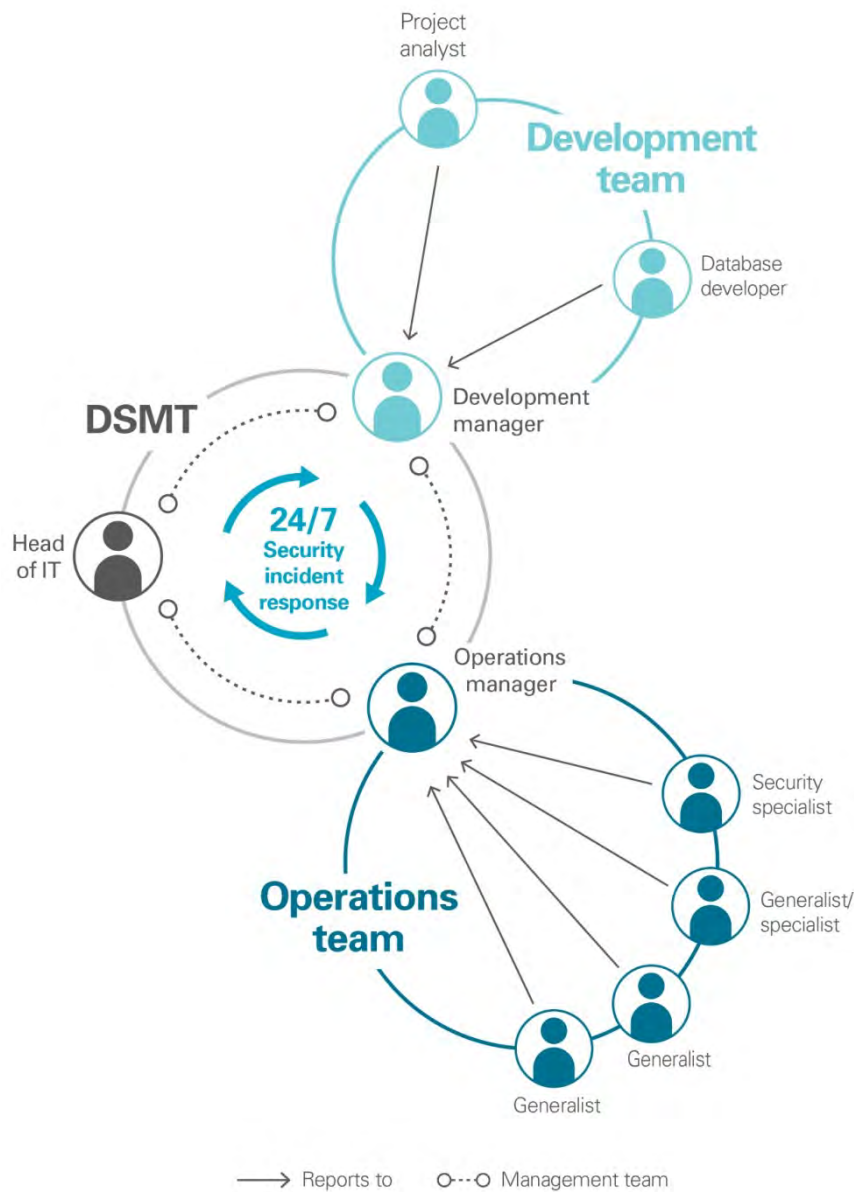
Investing in our future – building a better organisation

52. We will deliver the service and device components of the strategy within the existing revenue and capital budget projections.
53. Over the previous three years the cost of digital devices has decreased while the quality and functionality has increased. Cloud based computing continues to promise considerable savings on physical hardware, but while in the transition phase we will continue to replace hardware as required.
54. Open data, open industry standards and open source solutions offer considerable savings and flexibility. As we look to replace our legacy corporate systems we must ensure we are in the best position to maximise these savings and reduce our reliance on long-term and inflexible contracts.
55. Due to the extremely difficult recruitment market our workforce budget requires sufficient flexibility, delivered as part of our Building a Better Organisation programme, to recruit and maintain digital specialists as needed.
56. We have projected a slight increase in revenue expenditure from 2018/19 as we increase our investment in ongoing security systems and strengthen our workforce to support this change.
57. Our capital expenditure will support resilience and innovation through investment in security appliances, replacement servers and an increasing focus on going mobile.
58. We will:
 - Develop detailed workstream resource plans through our Project Management Office (PMO), reporting on a quarterly basis
 - Provide KPI's to measure our efficiencies over time and in comparison, with other SAI's.

Investing in our digital capacity

59. Our skilled digital team is a critical resource. With such a high demand for skilled digital staff, average salaries are being driven upwards such that even employers offer alternative benefits and flexible ways of working are having to offer additional remuneration to retain key digital experts. We therefore need to develop a market aware remuneration process, consistent with new recruitment flexibility delivered through our Building a Better Organisation approach. This will help us to recruit, retain and reward expert digital staff while structuring our team to ensure that staff turnover does not disrupt digital provision and projects. As we continue to transition to cloud services, we are shifting our skills to support this. With the increased focus on security all our digital staff will be required to expand their skill set accordingly. Our resilient team structure is presented in figure 3.
60. We will:
- Provide a resilient and flexible Digital Services Management Team that has the experience and authority to manage, at any time, the increasing threats to digital security
 - Expand our PMO role to take over day-to-day project management allowing specialist digital staff to focus on service delivery and incident management
 - Provide specialist security training and accreditation for all Digital Services staff
 - Provide flexible remuneration that accounts for individual skills and alleviates external market pressures.

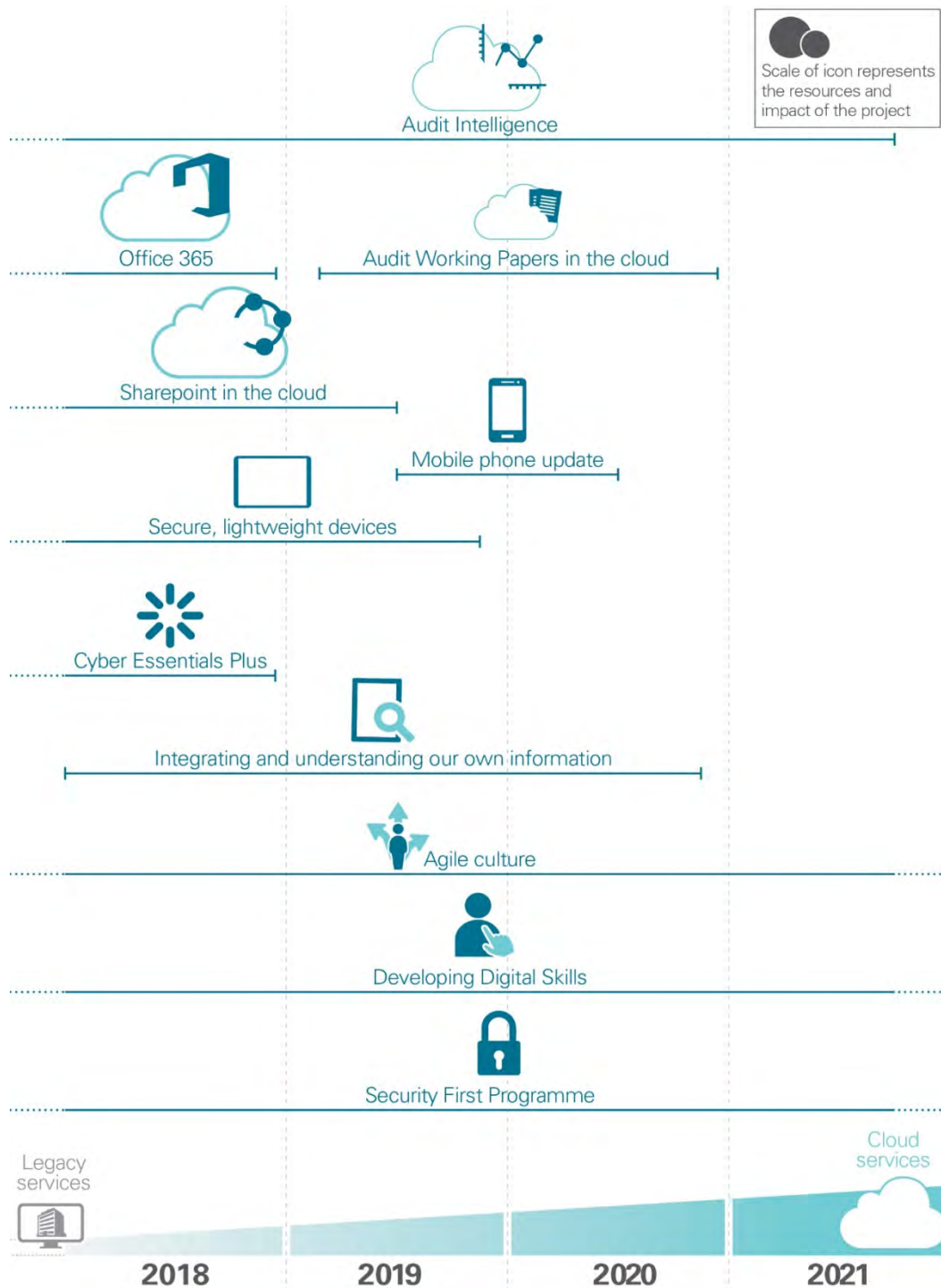
Figure 3 – Digital Services Resilient Structure



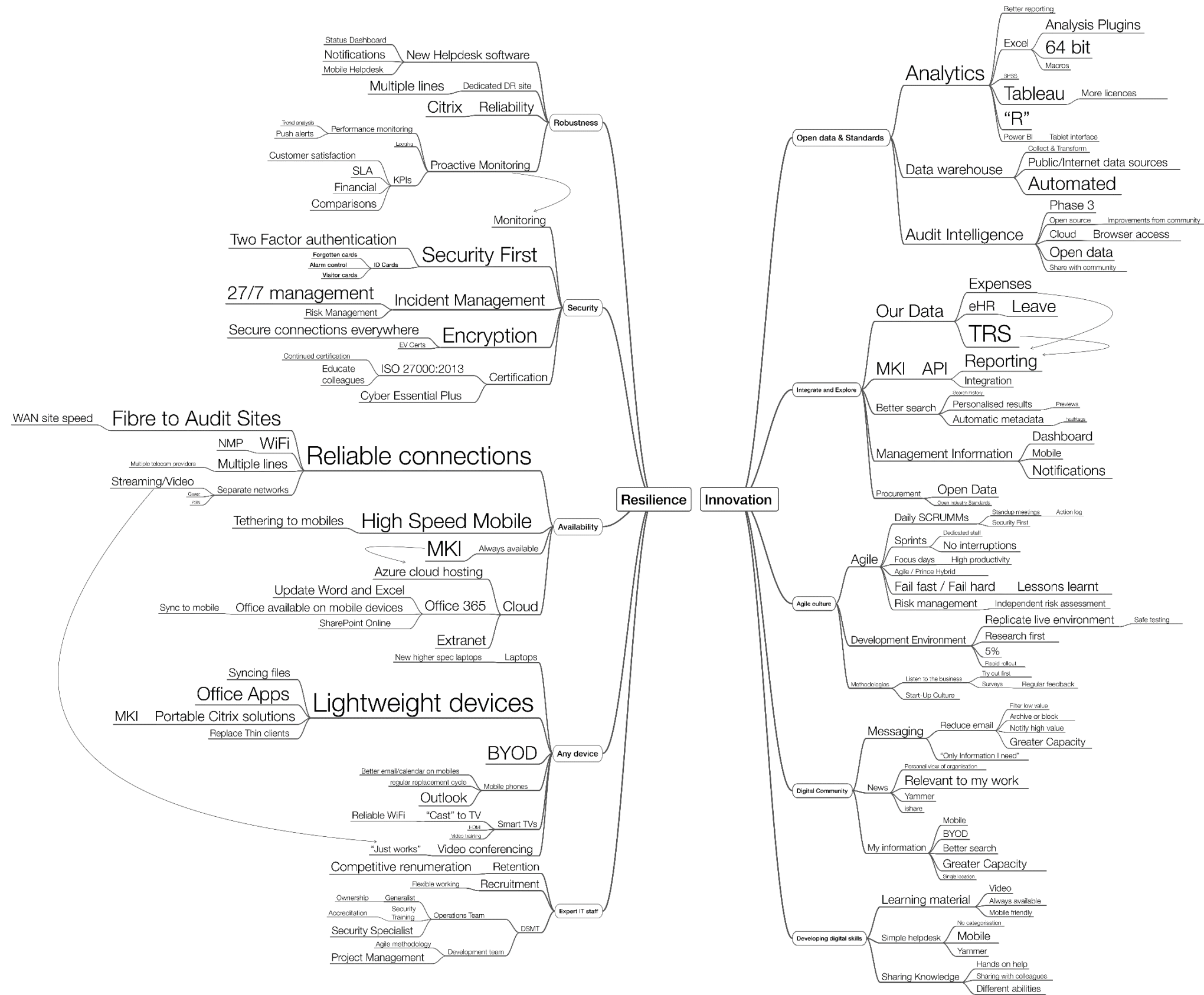
Timeline

62. An indicative timeline for the works programme is presented in figure 4.

Figure 4 – Timeline



Appendix – Ideas Map



AUDIT SCOTLAND BOARD

25 OCTOBER 2017

REPORT BY THE CORPORATE GOVERNANCE MANAGER

CORPORATE GOVERNANCE POLICIES UPDATE

1. Purpose of Report

This paper invites the Board to note the annual review of the Corporate Governance Policies and Codes of Conduct and re-approve them for a further year.

2. Update to the corporate governance policies

The Standing Orders state that Audit Committee is to keep under review the Standing Orders, Financial Regulations and Scheme of Delegation and recommend to the Board any amendments.

The Audit Committee's Terms of Reference (TOR) states that they will advise the Board on corporate governance requirements and are to be provided with a report on policy documentation reviews.

This paper covers the annual review of Audit Scotland's Corporate Governance Policies - Financial Regulations, Scheme of Delegation and the members' and staff Codes of Conduct.

The review found that:

- Amendments were required to the Financial Regulations to reflect the budget process, HM Treasury's requirement that public bodies have to operate a bank account through the Government Banking Service and a modification to the tendering process.
- The Scheme of Delegation was up to date with only minor changes required.
- The Members' Code of Conduct remains up to date with only a minor amendment made to a data protection reference on page 10.
- The Staff Code of Conduct required the same update to a reference to data protection, Ethical Standards being issued by the FRC and the removal of a reference to the PAD system. PCS have not been consulted as the changes were minor.

At its meeting on 13 September the Audit Committee agreed to recommend the Board re-approve the policies for a further year.

The Standing Orders were last approved on 6 June 2017. Since then, the Standing Orders have been further updated to reflect the Audit Committee responsibilities with regard to audit quality. This change was agreed by the Audit Committee at its

meeting on 13 September 2017 and can be found at appendix 1 – Audit Committee Terms of Reference in the revised Standing Orders.

3. Recommendation

The Board is invited to:

- note the annual review of the Corporate Governance Policies and Codes of Conduct
- note the changes recommended by the Audit Committee
- approve the following governance documents for a further year
 - Standing Orders
 - Scheme of Delegation
 - Financial Regulations
 - Members code of conduct
 - Staff code of conduct.

Financial Regulations



Prepared for Audit Scotland
August 2017

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

Contents

Financial regulations	4
Introduction	4
Definitions and interpretation	4
Corporate Plan	5
Budget.....	5
Budgetary control and reporting	5
Accounting	6
Bank accounts.....	6
Credit Cards	7
Income	7
Investments and borrowings.....	7
Insurance	8
Tendering procedures	8
Payment of accounts.....	9
Audit.....	10
Security and Fraud Prevention	10
Salaries, wages and pensions.....	11
Travelling, subsistence, expenses and other allowances.....	12
Observance of Financial Regulations	12
Variation of Financial Regulations	12

Financial regulations

Introduction

1. Audit Scotland is a body corporate established under section 10 of the Public Finance and Accountability (Scotland) Act 2000. It came into existence on 1 April 2000 under the Public Finance and Accountability (Scotland) Act 2000 (Commencement) Order 2000 (SSI 2000 Number 10(c.1)).
2. The Board of Audit Scotland consists of the Auditor General, the Chairman of the Accounts Commission and three other members appointed by the Scottish Commission for Public Audit, one of which will be appointed as Chair.
3. Audit Scotland's function is to provide such assistance and support as the Auditor General and the Accounts Commission require in the exercise of their respective functions and, in particular, is to provide them, or ensure that they are provided, with the property, staff and services which they require for the exercise of those functions.
4. Audit Scotland may impose reasonable charges in respect of the exercise of its functions. In determining the amounts of the charges Audit Scotland must seek to ensure that the total sum received in respect of the charges is, taking one year with another, broadly equivalent to its expenditure. Any expenditure not met out of sums received is payable out of the Consolidated Fund.
5. The Scottish Commission for Public Audit (SCPA), established under section 12 of the Public Finance and Accountability (Scotland) Act 2000, has the duty to designate an accountable officer for Audit Scotland. The SCPA has designated the Auditor General as the Accountable Officer. The responsibilities of the Accountable Officer are set out in section 18 of the 2000 Act. They are:
 - 5.1. signing the accounts of the expenditure and receipts of Audit Scotland;
 - 5.2. ensuring the propriety and regularity of the finances of Audit Scotland; and
 - 5.3. ensuring that the resources of Audit Scotland are used economically, efficiently and effectively.
6. All members of the Board and all employees, shall conduct their business with diligence and with a view to the security of the property of Audit Scotland, avoiding loss, exercising economy and efficiency in the use of resources and conforming with the requirements of Standing Orders, Financial Regulations and the Scheme of Delegation.
7. The Board has made Standing Orders, these Regulations and a Scheme of Delegation to govern the operation of Audit Scotland. They should be read together.

Definitions and interpretation

8. In these Regulations terms will have the following meanings:

- 8.1. “the 2000 Act” means the Public Finance and Accountability (Scotland) Act 2000
- 8.2. “the 1973 Act” means the Local Government (Scotland) Act 1973
- 8.3. “the Board” means the members of Audit Scotland acting together to discharge the functions of Audit Scotland
- 8.4. “the Management Team” consists of the Auditor General, the Assistant Auditor General, the Chief Operating Officer and the Audit Scotland Directors, or such other combination of officers as may be determined from time to time by the Board.

Corporate Plan

- 9. A Corporate Plan will be prepared and will be reviewed annually by the Board. It will set out the strategic approach to be adopted by Audit Scotland in performing its functions. So far as possible, it will outline the financial consequences of proposals contained in it.
- 10. The Corporate Plan will be approved by the Board.

Budget

- 11. The financial year of Audit Scotland is 1 April to 31 March.
- 12. Proposals for the use of resources and expenditure for each financial year will be submitted to the SCPA at such times as the Commission requires to enable it to examine the proposals and report to the Parliament under section 11(9) of the 2000 Act.
- 13. Estimates of expenditure and income will be submitted as budget proposals to the Board for approval prior to the submission to the SCPA. Provided the SCPA report has been submitted to and approved by Parliament, a final version of the budget will be submitted to the Board not later than 31 March in the year preceding the financial year to which it relates.
- 14. In the event that Parliament has not approved the budget, a version of the budget that includes our best estimate of operational changes will be submitted to the Board by 31 March. A final version to be submitted when the Scottish Government budget is passed.
- 15. No expenditure will be incurred unless there is provision for the expenditure within the overall budget approved by the Board. Approval of expenditure where there is no provision within the overall budget will be made by the Board. (Scheme of delegation 3.1)
- 16. There may be virement within the budget, in accordance with the Scheme of Delegation. (Scheme of delegation 3.2 and 3.3)

Budgetary control and reporting

- 17. Financial performance will be monitored against budget and reported regularly to the Management Team and at least quarterly to the Board.
- 18. Systems of budgetary control will be devised and maintained to include:

- 18.1. Regular financial reports as prescribed above containing -
 - 18.1.1. income and expenditure to date and, when relevant, forecast year end position
 - 18.1.2. explanations of any material variations
 - 18.1.3. details of any corrective action necessary
 - 18.1.4. virement
 - 18.2. The issue of timely, accurate and comprehensible advice on financial reports to each budget holder covering the areas for which they are responsible
 - 18.3. Arrangements for the authorisation of virement.
19. Each budget holder will be responsible for the management of their budgets within the approved policies of the Board.

Accounting

- 20. An effective system of internal financial control will be maintained including detailed financial procedures and systems incorporating the principles of separation of duties and internal checks. These will be documented and maintained.
- 21. Proper records will be maintained to show and explain Audit Scotland's transactions in order to disclose, with reasonable accuracy, the financial position of Audit Scotland at any time.
- 22. Accounting policies will be set consistent with appropriate guidance and all accounting procedures and records will be consistent with any form of accounts prescribed. Accounting policies will be approved by the Board. (Scheme of delegation 3.4)
- 23. Annual Accounts will be prepared and submitted to the Board for approval no later than 31 August in respect of the financial year finishing on the 31 March.

Bank accounts

- 24. HM Treasury require public bodies to operate a bank account through the Government Banking Service (GBS), to allow the transfer of monies from central accounts to public bodies and vice-versa.
- 25. Apart from the requirement to use a bank specified by the GBS for the transfer of central funds, Audit Scotland will, for day to day banking and transactions, make arrangements for the appointment of bankers in accordance with the provisions for the letting of contracts set out in these Regulations.
- 26. No Audit Scotland monies will be held in any bank accounts outwith those approved by the Board.
- 27. Detailed arrangements and instructions on the operation of bank accounts will be prepared and maintained as Treasury Management Procedures by the finance department, and will include:

- 27.1. The conditions under which each bank account is to be operated.
- 27.2. The limit to be applied to any overdraft.
- 27.3. Those authorised to sign cheques or other orders drawn on Audit Scotland's bank accounts, and the limits of their authority in accordance with the Scheme of Delegation.
- 28. Banking arrangements will be reviewed at regular intervals to ensure that they reflect best practice and represent best value for money.
- 29. Controlled stationery (e.g. cheques) will be held securely at all times and proper records will be maintained in relation to such stationery.

Credit Cards

- 30. Credit cards will be offered to members of the Management Team automatically. Credit cards will also be offered to other members of staff, with the specific approval of the Accountable Officer and the Chief Operating Officer, where there is an on-going requirement for credit card use.
- 31. The default credit limit for all cards will be set in the Scheme of Delegation and variations for individual cards will be approved by the Management Team. (Scheme of delegation 3.5)

Income

- 32. Systems will be designed and maintained for the proper recording, invoicing, collection and coding of all monies due to Audit Scotland.
- 33. All monies received will be banked promptly.
- 34. Arrangements will be made for appropriate recovery action on all outstanding debts.
- 35. Fees and charges, including fees to audited bodies, will be determined in accordance with policies decided by the Board.

Investments and borrowings

- 36. No borrowing or investments will be made without the expressed agreement of the Board. In exceptional circumstances the Accountable Officer may consult with the Chair of the Board and agree a short term borrowing strategy, but this must be reported to, and ratified by the full Board at the earliest opportunity.
- 37. All short term borrowings will be kept to the minimum period of time possible, consistent with the overall cash flow position.
- 38. Any long term borrowing must be consistent with policies decided by the Board.
- 39. Detailed procedural instructions will be prepared on the operation of investment accounts and regular reports will be made to the Board on the performance of any investments held.

Insurance

- 40. Arrangements will be made to ensure that all insurance cover is effected, periodically reviewed and adjusted as necessary.
- 41. Insurance arrangements will be reviewed regularly and the market will be competitively tested and costs will be sought for insurance services in accordance with the provisions set out in these Regulations at least every three years.

Tendering procedures

- 42. Tendering procedures are contained in the Procurement Handbook, which is published on the intranet. This document provides information on the procedures to be adopted by Audit Scotland staff when purchasing any goods and services and the need to follow value for money principles when carrying out this activity.
- 43. No contract for the supply of goods and materials, the provision of services or for the execution of works will be made where the probable cost, over the contract period, exceeds £50,000 unless tenders have been invited by advertisement on Public Contracts Scotland, the Scottish Government procurement system.
- 44. In exceptional circumstances the Chair of the Board, on a report by the Accountable Officer, may except a contract from the above provisions and direct adoption of such other procedure for the letting of the contract as seems appropriate. The decision will be notified to the full Board at the earliest opportunity.
- 45. Standing contracts for the provision of goods, materials, services or works will be kept under review and competitive tenders for such standing contracts will be sought at least every three years, or later if the contract has been extended under the terms of the original contract. No extension will be greater than three additional years before retendering.
- 46. The overall value of the tender will determine who is required to approve the acceptance of the tender and place the order for the goods, materials or service. The Scheme of Delegation will list those authorised to accept and place orders. (Scheme of delegation 3.6)
- 47. All orders will be printed on Audit Scotland headed stationery unless generated through the electronic ordering system. Orders on headed stationery will be signed by the member of staff authorised under the Scheme of Delegation to do so. Where the order has been generated electronically it will be sent for authorisation in accordance with the procedure contained within the Scheme of Delegation (Scheme of Delegation 3.10). All orders must be made in accordance with the procedures and controls and within the terms of the Scheme of Delegation.
- 48. Official orders will be issued for all work, goods or services to be supplied to Audit Scotland except for supplies of public utility services or periodical payments such as rent or rates or such other exceptions as may be approved by the Management Team.

- 49. Directives by the Council of the European Union prescribing procedures for awarding forms of contracts shall have effect as if incorporated in these Regulations and Audit Scotland's Procurement Handbook should be followed as appropriate.
- 50. The appointment of auditors under section 97(6) of the 1973 Act and section 21(3) of the 2000 Act will be recommended to the Accounts Commission and the Auditor General respectively at such intervals as they require. With the exception of the interval between awards (see paras 42-44), the procedure relating to these contracts should follow the procedure set out in these Regulations.

Payment of accounts

- 51. Before an invoice is paid the certifying officers will satisfy themselves that the account has not been previously passed for payment and is a proper liability of Audit Scotland and that:
 - 51.1. The works, goods or services to which the account relates have been received or carried out satisfactorily.
 - 51.2. Prices, extensions, calculations, trade discounts, other allowances, credits and tax are correct.
 - 51.3. The expenditure has been authorised and is within the relevant estimate provisions.
- 52. All duly certified invoices shall be authorised for payment by the officer authorised under the Scheme of Delegation. (Scheme of delegation 3.8)
- 53. An officer shall not add any additional items to an invoice rendered to Audit Scotland by a supplier.
- 54. When an order has been placed using the electronic purchase ordering (EPO) system, this process incorporates authorisation of the payment prior to an order being placed. In these circumstances the authoriser will be advised of the cost of the goods or services, or an estimate if a firm cost is not available, at the time they receive the EPO. Authorisers are required to satisfy themselves that the cost displayed is reasonable and represents value for money, before they electronically sign the order. Once an EPO is signed the system will not allow any changes to the order by the authoriser or the originator.
- 55. The EPO system maintains a list of staff with delegated authority to authorise expenditure, as per para. 51 above.
- 56. When the goods or services have been received the originator records the receipt through the EPO system.
- 57. On receipt of the invoice, Finance will check whether the goods or services have been marked as received. The invoiced amount charged will be checked against the EPO submitted and, if the amount is within the parameters agreed by the Management Team, the invoice will be accepted and paid. (Scheme of delegation 3.10)

- 58. Management Team will set agreed parameters and if the value of the invoice is outwith the agreed parameters it will be sent back to the authoriser for an additional manual authorisation. The invoice will not be paid until the second authorisation has been received. (Scheme of delegation 3.11)
- 59. The receipt, certification and payment of accounts to approved auditors are subject to separate arrangements under the Scheme of Delegation. (Scheme of delegation 3.12)

Audit

- 60. The Board will establish an Audit Committee with clearly defined terms of reference under Standing Orders.
- 61. The external auditor is appointed by the SCPA to report on whether expenditure and income have been applied lawfully and the accounts comply with the accounts direction. The external auditor will report to the SCPA who must lay the report and accounts before Parliament and publish them.
- 62. The internal auditor is appointed by Audit Scotland and reports to the Management Team and the Audit Committee on systems of internal control.
- 63. The external and internal auditor are entitled to:
 - 63.1. enter any Audit Scotland establishment at all reasonable times with or without previous notice;
 - 63.2. have access to all records, documents and correspondence (including computer records) relating to financial and other transactions of Audit Scotland;
 - 63.3. require and receive explanations as are necessary concerning any matter under examination;
 - 63.4. require any employee of Audit Scotland to produce cash, equipment or any other property under his/her control; and
 - 63.5. direct access to the Chair of the Audit Committee.

Security and Fraud Prevention

- 64. Arrangements will be made to develop and document effective policies on:
 - 64.1. Prevention of fraud and irregularity.
 - 64.2. IT security.
 - 64.3. Security of assets.
- 65. Proper security must be maintained, at all times, for all buildings, stores, furniture, equipment, cash, information, etc.

66. A register of secure key containers will be maintained by Business Support and kept under review by the Chief Operating Officer. Keys removed from the secure key containers will be signed for and are to be kept safe at all times until returned. The loss of any such keys must be reported immediately to Business Support staff.
67. A register of staff ID (office access) badges and building access fobs will be maintained by Business Support. The loss of ID badges will be reported immediately to Business Support and the Corporate Governance Manager. The ID badges will be deactivated immediately.
68. The Chief Operating Officer is responsible for maintaining proper security and privacy relative to information held in the computer installations.
69. Under the terms of the Counter Fraud Policy, employees are required to notify their Director or Assistant Director of any financial irregularity or suspected irregularity. Such concerns may be raised under the terms of the Whistleblowing Policy if considered appropriate. The employee, or senior management to whom the concerns are reported, must also advise the Chief Operating Officer. Details of these policies are to be available to all staff through the staff handbook.

Salaries, wages and pensions

70. Arrangements will be made for the payment of all salaries, wages, pensions, compensation and other emoluments due to all employees or former employees of Audit Scotland or the Accounts Commission, the Auditor General for Scotland, appropriate members of the Board and to members of the Accounts Commission.
71. Salaries and other payments will normally be paid by direct transfer to a nominated bank account.
72. A record of all matters affecting the payment of such emoluments shall be kept and in particular the following information will be recorded:
 - 72.1. appointments, resignations, dismissals, suspensions, secondments and transfers;
 - 72.2. absences from duty for sickness or other reason, including approved leave;
 - 72.3. changes in remuneration, including those arising from normal increments and pay awards and agreements of special and general application;
 - 72.4. information necessary to maintain records of service for superannuation, income tax, national insurance and the like;
 - 72.5. particulars of any deduction from salary for loans, subscriptions and the like, and the authority for such deduction.
73. All deductions and changes in gross pay entitlement will be certified by Human Resources or other appropriate person and checked by a second officer prior to payment.
74. Pension payments are paid to former staff through the appropriate pension agency. Audit Scotland's role is to make the required deductions from salary and to provide the information

which is required from time to time by the pension supplier to allow them to maintain their records, provide information about pensions and make payments.

75. There are special arrangements in place relating to pensions for former Ombudsman staff and the former Auditor General for Scotland, which are separate from the arrangements for Audit Scotland.

Travelling, subsistence, expenses and other allowances

76. The Secretary to the Accounts Commission shall review, authorise and ensure all travelling or other allowances are paid to Commission Members and advisers who are entitled to claim them upon receipt of a fully completed expense claim form.
77. The Chief Operating Officer shall review, authorise and ensure all travelling or other allowances are paid to Board members and advisers who are entitled to claim them upon receipt of a fully completed expense claim form.
78. All claims by staff for payment of car mileage allowances, subsistence allowances, travelling and incidental expenses and any advances shall be submitted duly certified and made up to the end of each month and in accordance with the current travel and subsistence policy, published in the staff handbook, and the expenses procedures published on the intranet. The officers authorised to certify such records shall be determined by the Scheme of Delegation. Initial delegation is £2,000. (Scheme of delegation 3.13)

Observance of Financial Regulations

79. It shall be the duty of the Accountable Officer to ensure that these regulations are made known to the appropriate Audit Scotland staff and to ensure that they are adhered to.
80. Any breach or non-compliance with these Regulations must, on discovery, be reported immediately to the Chief Operating Officer who will discuss the matter with the Accountable Officer in order to determine the proper action to be taken. Such concerns may be raised under the terms of the Whistleblowing Policy if considered appropriate.

Variation of Financial Regulations

81. These Regulations may be varied from time to time by the Board on receipt of a report and recommendations from the Accountable Officer.
82. The Chair of the Board may authorise, on a report from the Accountable Officer, exceptional treatment of a matter covered by these Regulations. Any such exceptions will be reported in writing to the next available meeting of the Board.

Scheme of Delegation

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

Contents

SCHEME OF DELEGATION 4

 Introduction 4

 Conditions of delegation 4

 Reservations to the Board 4

 Quorum for Management Team 5

 Making, revocation and variation 5

 Schedule 6

Scheme of Delegation

Introduction

1. The Board remains responsible for the exercise of all the functions of Audit Scotland. Regardless of the provisions of this Scheme of Delegation the Board may at any time determine any matter within the competence of Audit Scotland either at the Board's initiative or on the recommendation of an officer to whom the matter is delegated.
2. This Scheme sets out the matters reserved for determination by the Board. All powers which have not been retained as reserved to the Board or specifically delegated in this Scheme will be exercised by the Management Team or their nominees.

Conditions of delegation

3. The delegations made in this Scheme are subject to the following conditions:
 - 3.1. All delegated powers will be exercised in accordance with the relevant policies decided by the Board.
 - 3.2. Before exercising any delegated function all appropriate consultations will be undertaken and, in particular, decisions with financial or personnel consequences will be the subject of consultation with the Chief Operating Officer.
 - 3.3. Delegated powers will not be exercised in a manner which is likely to be a cause for public concern.

Reservations to the Board

4. The following matters are reserved for determination by the Board:
 - 4.1. Approval of the Corporate Plan.
 - 4.2. Approval of annual estimates of expenditure and income.
 - 4.3. Approvals of strategic policies relating to the governance of Audit Scotland are a matter for the Board. (Approval of operational policies of Audit Scotland are a matter for the Accountable Officer and the Management Team).
 - 4.4. Approval of Standing Orders, Financial Regulations and Scheme of Delegation.
 - 4.5. Approval of Annual Accounts and Annual Reports.
 - 4.6. Approval of internal audit arrangements.
 - 4.7. Approval of conditions of service affecting all employees.
 - 4.8. Approval of specific matters referred to in the attached Schedule.

5. In exceptional circumstances where a decision of the Board is required and it is not possible to convene a meeting of the Board, a member of the Management Team in consultation with the Chair, or another Board member if the Chair is unavailable, may take the necessary decision and report the action taken to the next meeting of the Board.

Quorum for Management Team

6. The quorum for the Management Team is three, comprising of the Accountable Officer or the Chief Operating Officer plus two others.

Making, revocation and variation

7. The matters reserved to the Board and delegated to officers of Audit Scotland are as detailed above and as shown in the Schedule.
8. This Scheme of Delegation may be varied or revoked by the Board.

Schedule

	Matter	Reserved or delegated to	Comment
1	Appointment of employees		
1.1	Appointment of Management Team	Board	
1.2	Appointment of Assistant Directors	Management Team	
1.3	All other appointments	Management Team, Directors or their nominees	The Accounts Commission Chair/members will select for appointment the Secretary to the Accounts Commission
1.4	Appointment of Controller of Audit	Not applicable	The Board does not have a role here. The Controller of Audit is appointed by the Accounts Commission
2	Personnel matters		
2.1	Disciplinary action, including dismissal	Appeals Committee and as per approved disciplinary procedure	See Discipline Policy in staff handbook
2.2	Grading of Management Team posts	Board	See also Job Evaluation procedure in staff handbook
2.3	Grading of Assistant Director posts and all other posts	Management Team	See also Job Evaluation procedure in staff handbook
2.4	Changes to Management Team	Board	
2.5	Changes to approved establishment below Management Team	Management Team	
2.6	Variation of conditions of service for members of the Management Team	Board	

2.7	Variation of conditions of service for Assistant Directors and all other staff	Management Team	All staff have a right of appeal to the Remuneration & Human Resources Committee or the Board following discussion by the Remuneration & Human Resources Committee
2.8	Decisions on applications for early retirement: <ul style="list-style-type: none"> • Management Team • All other employees 	Board Management Team	
3	Financial matters		
3.1	Approval of expenditure for which there is no provision in the overall budget.	Board	Financial Regulations 14
3.2	Approval of virement within agreed budget: <ul style="list-style-type: none"> • Virement between budget groups • Virement between budget heads • Virement between budget lines 	Management Team Relevant Directors Budget Holders	Financial Regulations 15
3.3	Virement of salary budget over £250,000, cumulatively in one year	Board	Financial Regulations 15
3.4	Approval of Accounting Policies	Board	Financial Regulation 21
3.5	Approval for the issue of credit cards to members of staff and credit limit to be applied. (To be reported at next Management Team meeting) Credit Card default limits: <ul style="list-style-type: none"> • Management Team £1,500 • Other staff £1,000 	Accountable Officer and Chief Operating Officer	Financial Regulation 28 – 29 See also Credit Card Procedures. Default amounts may be varied by Management Team for individuals on either a permanent or temporary basis.

3.6	<p>Acceptance of tenders and placing of orders:</p> <ul style="list-style-type: none"> • Above £250,000 • Between £100,000 and £250,000 • Up to £100,000 • Below £50,000 	<p>Board</p> <p>Accountable Officer and Chief Operating Officer</p> <p>Management Team</p> <p>Budget Holders</p>	<p>Financial Regulations 45</p> <p>See also the Procurement Handbook</p>
3.7	<p>Acceptance of offers for disposal of assets</p>	<p>As for acceptance of tenders and placing of orders</p>	
3.8	<p>Approval of expenditure within agreed budget:</p> <ul style="list-style-type: none"> • Any budget group • Specific budget group • Specific cost centre budget 	<p>Management Team</p> <p>Relevant Director</p> <p>Budget Holder</p>	<p>Financial Regulations 51</p>
3.9	<p>Payment of accounts other than to approved auditors:</p> <ul style="list-style-type: none"> • Above £50,000 • Below £50,000 	<p>Management Team</p> <p>Member of Management Team or as delegated</p>	<p>Financial Regulations 50 – 57</p> <p>Delegated signatories are approved by Management Team and are responsible for the expenditure approved. As evidence a delegated purchasing authority letter will be issued. Those with delegated authority may request authority to be passed to members of their staff, but the limit of authority granted must be notified to Management Team and Finance who will maintain a list of those approved.</p>
3.10	<p>Payment of accounts for orders placed using electronic purchase orders.</p>	<p>Member of Management Team or as delegated</p>	<p>Electronic purchase orders are sent, via email, to be authorised. The process requires the authoriser to</p>

			be selected from a list, maintained within the finance system, of signatories delegated to sign for the cost centre and for the value of goods or services being ordered. The signatories are the same as those delegated in the previous section.
3.11	Parameters for automatic payment of electronic purchase orders.	Management Team	<p>Financial Regulations 57</p> <p>Where an invoice is received as the result of an order placed using the electronic purchase order system it can be processed by Finance for payment if:</p> <ul style="list-style-type: none"> • The order has been marked as received in the electronic purchase order system, • The value shown on the invoice is within the parameters of +5% or - 10% of the value authorised for that order. <p>Any invoice where the value is outwith these parameters must be sent for an additional, manual, authorisation before payment can be made.</p>
3.12	<p>Certification of accounts for payment to approved auditors:</p> <ul style="list-style-type: none"> • Interim invoices up to £50,000 and final invoices up to £10,000 • Interim invoices over £50,000 and final invoices over £10,000 	<p>Audit Strategy senior manager</p> <p>Assistant Auditor General or member of Management Team</p>	Financial Regulations 58

3.13	Miscellaneous expenditure (including travel & subsistence)	The Chief Operating Officer, Secretary to the Accounts Commission, senior managers & other line managers as appropriate. (Details available in Finance)	Financial Regulations 75 - 77 Delegation requires appropriate Director approval and notification to Finance. The initial delegation is £2,000. Variations from this amount may be agreed by the Budget Holder and notified to the Management Team and Finance who will maintain a list of those approved.
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Budget Holders comprise: Management Team members, and Corporate Services managers.

Note: Management Team is defined in section 8 of the Financial Regulations as follows “the Management Team consists of the Auditor General, the Assistant Auditor General, the Chief Operating Officer and the Audit Scotland Directors, or such other combination of officers as may be determined from time to time by the Board”. Decisions can only be made by Management Team when they are quorate as defined in section 6 of this document as follows “The quorum for the Management Team is three, comprising of the Accountable Officer or the Chief Operating Officer plus two others”.

Code of Conduct Policy

Author:	Human Resources
Date:	August 2017
Next reviewed:	August 2018

Introduction

1. Audit Scotland and our staff must demonstrate high standards of corporate and personal conduct. This can be achieved by embracing our core values, which are:
 - Independence, integrity and objectivity.
 - Valuing people and ensuring equality and fairness.
 - Effective communication.
2. This Code of Conduct gives you clear and helpful advice about the standards of behaviour expected of you as a member of staff. The Code will be reviewed regularly and is subject to change. A serious breach of the Code may lead to disciplinary action.
3. In addition, you are expected to comply with the principles of the Ethical Standards for Auditors issued by the Financial Reporting Council. Guidance on the use of those standards can be found in the Staff Handbook ('Ethical Standards'). Our Ethical Standards cover:
 - Integrity, objectivity and independence.
 - Financial, business, employment and personal relationships.
 - Long association with the audit engagement.
 - Fees, remuneration and evaluation policies, litigation, gifts and hospitality.
4. You should also keep to the Codes of Conduct of the professional bodies of which you are a member.
5. The general principles upon which this Code of Conduct is based are:
 - Duty - You have a duty to uphold the law and act in accordance with the law and the public trust placed in you. You have a duty to act in the interests of Audit Scotland of which you are a staff member and in accordance with its core functions and duties.
 - Selflessness - You have a duty to take decisions solely in terms of public interest. You must not act in order to gain financial or other material benefit for yourself, family or friends.
 - Integrity - You must not place yourself under any financial, or other, obligation to any individual or organisation that might reasonably be thought to influence you in the performance of your duties.
 - Objectivity - You must make decisions solely on merit and in a way that is consistent with the functions of Audit Scotland when carrying out public business including making appointments, awarding contracts or recommending individuals for rewards and benefits.

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- Accountability and stewardship - You are accountable for your decisions and actions to the public. You have a duty to consider issues on their merits, taking account of the views of others and must ensure that Audit Scotland uses its resources prudently and in accordance with the law.
 - Openness - You have a duty to be as open as possible about your decisions and actions, giving reasons for your decisions and restricting information only when the wider public interest clearly demands.
 - Honesty - You have a duty to act honestly. You must declare any private interests relating to your public duties and take steps to resolve any conflicts arising in a way that protects the public interest.
 - Leadership - You have a duty to promote and support these principles by leadership and example, and to maintain and strengthen the public's trust and confidence in the integrity of Audit Scotland and its members in conducting business.
 - Respect - You must respect colleagues and the role they play, treating them with courtesy at all times. Similarly you must respect members of the public when performing duties as a staff member of Audit Scotland.

Diversity and Equality

6. We value and promote diversity and equality of opportunity. We expect you to carry out your work following the principles within our Diversity and Equality policy.

Relationships

7. You may have contact with audited bodies, other organisations or members of the public. You should deal fairly, equitably and consistently with those you come in contact with, and you should always be polite and portray a positive and professional image of Audit Scotland.
8. People may develop a relationship with you to influence our work or to acquire confidential or sensitive information for personal gain. They may also offer a financial or other benefit to supply them with information. These relationships are inappropriate and bring risks to your personal reputation and that of Audit Scotland (see Bribery and Corruption paragraphs 39 - 41). You must tell your line manager of any such approaches, relationships or offers of financial or other benefits, and you should do this as soon as possible so that Audit Scotland can support and advise you.
9. Audit Scotland recognises that close personal or domestic relationships with colleagues may exist or develop during the course of their employment. In order that Audit Scotland's business is conducted and perceived to be conducted in a professional and proper manner it is necessary to distinguish between, and take account of, personal relationships which overlap with professional ones in the workplace. If you have any close personal or domestic relationships where that relationship may impinge on your duties and responsibilities this must be declared in confidence to your line manager or senior manager. If necessary upon disclosure of such a relationship and after consultation with both parties, reasonable

arrangements will be made to ensure that future working arrangements and potential conflicts do not arise.

Contractors, suppliers and consultants

10. You must be fair and impartial in your dealings with contractors, suppliers and consultants. If you are involved in the procurement or tendering process to appoint contractors, suppliers or consultants you must follow Audit Scotland's procurement handbook, and any other guidance issued.
11. If you have access to confidential information on tenders or costs for contractors, suppliers or consultants you must not show that information to any unauthorised person or organisation.
12. All private relationships with actual or potential contractors, suppliers or consultants must be declared, as set out in paragraph five below.

Independence, objectivity and conflicts of interest

13. It is important that you carry out your work with independence and objectivity, and that you do not allow any private interest to influence your decisions. You must not use your position to further your own interests or the interests of others who do not have a right to benefit from our work.
14. You, or a member of your family or household, may have a private interest which relates to the work of Audit Scotland. It may be a financial one or one which a member of the public might reasonably think could influence your judgement. For example, you may be a member of a public body, an organisation or club and membership might lead to a conflict of interest with your work. This also applies to membership of organisations or clubs which are not open to the public e.g. Freemasonry.
15. You must declare all such interests to your Compliance Partner / Compliance Manager. A Compliance Partner is appointed for each business group within Audit Scotland. The best way of making such a declaration is to use the [Fit & Proper Self-Assessment Form](#). This information is then retained in a secure area of ishare for three years, after which it is destroyed. The Compliance Partner / Manager will contact you and discuss any issues arising from your disclosure, as appropriate.
16. Fit & Proper Self-Assessment forms are completed by all new staff and other workers when starting their employment / assignment with Audit Scotland. Audit Scotland annually requests that the Form is refreshed. If, between the annual cycle, your circumstances change and you have information that should be reported to the Compliance Partner then it is your responsibility to do so immediately.
17. The Fit & Proper Self-Assessment Form is available to download from the Staff Handbook within ishare. Your completed form should be emailed to one of the following mailbox addresses:

Business Group	Compliance Partner	Email address
Audit Services Group	Fiona Kordiak	Fitandproper@ishare.audit-scotland.gov.uk
Audit Strategy Group	Russell Frith	ASfitandproper@ishare.audit-scotland.gov.uk
Corporate Services Group	Diane McGiffen	CSfitandproper@ishare.audit-scotland.gov.uk
Performance Audit & Best Value	Fraser McKinlay	PABVfitandproper@ishare.audit-scotland.gov.uk

Openness, disclosure and protection of information

18. Audit Scotland carries out its work in the public interest and is committed to the principle of openness. You should follow the Freedom of Information (Scotland) Act and our FOI policy.
19. There are occasions when information gathered during the course of your work must be kept confidential, both inside and outside the organisation and after leaving Audit Scotland. For example, when its disclosure would prejudice an investigation, breach confidentiality or contravene Data Protection legislation. This does not apply where there is a legal duty to provide information. You should follow our information management policy and procedures, including completing information management training if asked to do so.
20. We take information security very seriously. You must protect our information from inappropriate access, abuse, loss or damage. You must report any instance of this as quickly as possible and help fully in any investigation. Any breach of confidentiality or security may lead to an investigation under our discipline policy. Any wilful breach, such as unauthorised access or supply of information to others, could lead to the termination of your employment and to a criminal prosecution under Data Protection legislation. If you are in any doubt about a matter of confidentiality or security, please check with your manager.
21. If you are involved in an act that could cause Audit Scotland reputational risk or bring us into disrepute, e.g. you are arrested or charged for a criminal offence, you must tell Audit Scotland as soon as possible.

Paid employment outside Audit Scotland

22. We will normally allow you to undertake paid employment outside Audit Scotland in your own time unless there is a conflict of interest, or it is likely to have an adverse effect on the work of Audit Scotland or on your own performance. A conflict of interest can arise where a member of staff seeks to do work for an audited body or to carry out work which relates to the work of Audit Scotland. Outside employment can adversely affect the work of Audit Scotland if it damages the organisation's reputation. It can affect your own performance if it significantly reduces your ability to carry out your duties. If you do work outside Audit Scotland you must first get the approval of your director/assistant director and then advise the Human Resources team. This procedure is in your interests and will protect you. It will also allow us to meet our legal obligations in relation to family friendly benefits and Working Time Regulations. You are not allowed to use the equipment and resources of Audit Scotland in any outside employment.
23. If you receive a fee for a publication, broadcast, speech or lecture where you have used official information or your own work experience you must remit that fee to Audit Scotland.

This also applies to external work carried out in working hours which attracts a fee. You may keep tokens of appreciation such as book tokens or commemorative items. You should let the Chief Operating Officer know of any tokens received as it will be recorded in a register kept for that purpose.

Hospitality

24. You should not accept or offer hospitality connected with your work unless you can justify it and be sure that it will not lead to criticism from colleagues or the public. In general, modest hospitality may be acceptable in some circumstances for example, a sandwich lunch.
25. Accepting, declining or giving of hospitality should be declared and recorded in the register kept for that purpose. When accepting or giving hospitality you should get approval from your director/assistant director and then let the Chief Operating Officer know. Hospitality given must be recorded in the register and the expenditure detailed in our financial accounting system. You must make sure that you charge the hospitality to the hospitality code 1255 and the appropriate cost centre for your business group. All reimbursement claims for hospitality given through expenses must follow the travel and expenses policy.
26. To help you decide what to declare, the following guidance may be useful:

Reporting hospitality received

27. Items *not* requiring declaration and recording are:
 - Working lunches at audited bodies, partner firms, working groups/committees, boards, professional institutes and other public bodies.
 - Meals and accommodation related to attendance at conferences, seminars and workshops.
28. Items that *would* require disclosure include:
 - Meals in external restaurants, whether working or not.
 - Attendance at functions organised/hosted by professional bodies.
 - Receptions held by public bodies, partner firms or other parties where there is a widespread range of attendees, e.g. gallery viewings.
 - Functions where the focus of the event is an awards ceremony which involves a public sector element.
 - Meals paid for by visiting delegations from other audit offices and Parliaments/Governments.
29. You should not accept offers to attend social or sporting events unless it would be of benefit to Audit Scotland or where Audit Scotland would expect to be represented.
30. In exceptional circumstances it may be appropriate to accept hospitality in order to avoid embarrassment or offence for example, hospitality offered from overseas hosts when we are carrying out international work.

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31. You should not accept repeated hospitality from the same source.

Reporting hospitality declined

32. Any offers of hospitality that you decline must be recorded.

Reporting hospitality given

33. Items *not* requiring declaration and recording are:

- Working lunches when hosting meetings and conferences with audited bodies, partner firms, working groups/committees/boards, professional institutes and other public bodies. Lunches should be modest in scale and may typically consist of a buffet/sandwiches and tea and coffee throughout the day.
- Travel costs as part of recruitment.
- Consultant travel and accommodation costs where this is part of the consultant's fee.

34. Items that *would* require disclosure would therefore include:

- Meals provided in external restaurants whether working or not.
- Meals provided to international visitors/groups.
- Provision of overnight accommodation.
- Provision of travel, e.g. flights or train tickets.
- Hospitality at or the provision of theatre or sporting event tickets.

Gifts

35. As a general rule, you must not accept personal gifts although you may keep isolated gifts of a trivial character such as a pen or diary, the token value of which must not exceed £50. Sometimes it may be appropriate to accept a gift of more than token value, for example where refusal would embarrass Audit Scotland or damage an important relationship. The acceptance of such a gift should be approved by your director/assistant director. Where an inappropriate gift is received and you are unable to return it or the donor refuses to accept its return, you should report the circumstances to your director/assistant director.
36. All gifts above token value will belong to Audit Scotland and are not a personal gift to you. The Chief Operating Officer keeps a register to record gifts, whether they are accepted or declined and to show that acceptance was authorised. The International Liaison Manager keeps a sub-section of the gifts register for work with other countries. Any gifts received while carrying out work for other countries should be recorded in the register.
37. The giving of gifts is generally limited to international visits, the rules for which are set out in the Policy on visits, and the provision and acceptance of gifts & hospitality in relation to work with other countries. Gifts to visiting delegations are given as mementoes of their visit to Audit Scotland. They should be of modest value (e.g., book, Quaich, paper weight) and should exclude alcohol. Gifts given to non-international visitors or organisations should be recorded in the hospitality and gifts register. Items that would not require disclosure are modestly priced books and pens; alcohol should not be given as a gift.

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38. Gifts recorded in the register must have the expenditure detailed in our financial accounting system. You must make sure that you charge the gift to the hospitality code 1255 and the appropriate cost centre for your business group. All reimbursement claims for gifts given through expenses must follow the travel and expenses policy.

Bribery and corruption

39. Bribery is the offering, giving, receiving, or soliciting of any item of value or advantage to influence the actions of an official or any other person in charge of a public or legal duty.
40. It is a serious criminal offence for you to:
- give, receive or solicit a bribe (i.e., to corruptly receive or give any gift, loans, fee, reward or advantage) in return for doing or not doing anything
 - show favour or disfavour to any person in the course of your work.
41. An act of bribery by an individual may make Audit Scotland liable of committing an offence. We have a zero tolerance to bribery and corruption, and such an act can lead to dismissal and prosecution.

Use of resources

42. You and your colleagues serve the public, and you must remember this principle when you use Audit Scotland's equipment, materials and resources to ensure value for money and economy, efficiency and effectiveness.
43. The equipment of Audit Scotland is available to you for use in your personal affairs, provided that:
- it is in your own time
 - the cost of any consumables, e.g. paper, postage, telephone calls is met by you
 - you are not receiving any fee or reward for the purpose
 - you don't store your personal (non-work related) information on Audit Scotland equipment
 - you follow our policy on the use of electronic media such as email and the Internet.

Appointments

44. All appointments must be made on merit. If you are involved in the recruitment and selection process and have any kind of relationship which might affect your ability to be impartial, it must be declared to your director/assistant director. Your director/assistant director and the person chairing the selection process will decide whether you can take part in the process. The same procedure must be followed in other HR processes such as grievance, discipline or performance reviews.
45. You must not try to influence board members or a colleague either directly or indirectly to secure your own appointment or promotion, or the appointment or promotion of another

person. You must report any instances of this occurring to your director/assistant director and the HR & OD Manager.

Media

46. In your work with Audit Scotland, any contact with the media is likely to come from the Audit Scotland Communications team. If you are approached directly by the media, you should speak with the Communications Manager or one of the communications officers, unless circumstances make that impossible and it is better for you to respond to the media enquiry. In this case you must tell the Communications team afterwards. More detailed advice for Audit Services staff can be found in the Audit Manual. Media training is available for staff most likely to need it. Contact the Communications team or your line manager for more information.

Political neutrality

47. The public expects you to carry out your work in a politically neutral way. You must follow our policies, despite any personal views, and you must not do anything which might call into question the independence and political neutrality of Audit Scotland. You have the right to be a member of a political party, but it would be unsuitable to take part in high profile public party political activity. If you are in any doubt, you should take advice from your director/assistant director.

Health and safety at work

48. We have a duty to ensure that all reasonable steps are taken to provide staff with a safe and healthy working environment. We will comply with the Health and Safety at Work Act, any other associated legislation and statutory codes of practice.
49. You have a duty under the Health and Safety at Work Act for the health, safety and welfare of yourself and others, including members of the general public who may be affected by what you do or fail to do at work. You must comply with our Health and Safety policy and co-operate with us in our compliance with health and safety legislation.

Fair and reasonable treatment at work

50. You should expect fair and reasonable treatment from your colleagues and managers. If you feel that you have been unfairly treated or have been discriminated against, there is a grievance procedure that you can use.
51. We expect you to support and comply with our policies, practices and procedures, both in your dealings with colleagues and those outside the organisation. You should not do anything which might undermine or adversely affect any position or decision of Audit Scotland.
52. We also have a whistleblowing policy. You should refer to this if you feel that you have been required to act in a way, or have become aware of practices in the organisation, which might be illegal, improper, unethical or in conflict with the principles of this Code.

Members' Code of Conduct



Prepared for Audit Scotland Board
August 2017

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

Contents

Guidance on the Code of Conduct	5
Introduction	5
Key principles of the Code of Conduct.....	5
General conduct.....	7
Conduct at meetings	7
Relationships with Board Members, employees of Audit Scotland and others	7
Remuneration, allowances and expenses	7
Bribery and corruption	7
Gifts and hospitality	8
Confidentiality requirements	9
Use of Audit Scotland's facilities	10
Appointment to partner organisations	10
Registration of Interests	11
Introduction	11
Remuneration.....	11
Related undertakings	12
Contracts.....	12
Houses, land and buildings	12
Interest in shares and securities	13
Non-financial interests	13
Related party disclosure	13
Declaration of interests	15
Introduction	15
Interests which require declaration	15
Your financial interests	16
Your non-financial interests	16
The financial interests of other persons	17
The non-financial interests of other persons	17
Making a declaration	18
Frequent declarations of interest	18

Lobbying and access to members of public bodies..... 19

 Introduction 19

 Rules and guidance..... 19

Appendix 1: Definitions 21

Guidance on the Code of Conduct

Introduction

1. The Scottish public has a high expectation of those who serve on the boards of public bodies and the way in which they should conduct themselves in undertaking their duties for the public body. You must meet those expectations by ensuring that your conduct is above reproach and by embracing our core values, which are:
 - Independence, integrity and objectivity.
 - Valuing people and ensuring equality and fairness.
 - Effective communication.
2. As a member of Audit Scotland, it is your responsibility to make sure that you are familiar with, and that your actions comply with, the provisions of this Code of Conduct.
3. You must observe the rules of conduct contained in this Code. It is your personal responsibility to comply with these and review regularly, and at least annually, your personal circumstances with this in mind, particularly when your circumstances change. You must not at any time advocate or encourage any action contrary to the Code of Conduct.
4. The Code has been developed in line with the key principles listed in paragraph 6 and provides additional information on how the principles should be interpreted and applied in practice. No Code can provide for all circumstances and if you are uncertain about how the rules apply, you should seek advice from the Chief Operating Officer. You may also choose to consult your own legal advisers and, on detailed financial and commercial matters, seek advice from other relevant professionals.
5. You should familiarise yourself with the Scottish Government publication “On Board – a guide for board members of public bodies in Scotland”. This publication will provide you with information to help you in your role as a member of a public body in Scotland and can be viewed on the Scottish Government website.

Key principles of the Code of Conduct

6. The general principles upon which this Code of Conduct are based are:
 - **Duty**

You have a duty to uphold the law and act in accordance with the law and the public trust placed in you. You have a duty to act in the interests of Audit Scotland of which you are a member and in accordance with its core functions and duties.

- **Selflessness**

You have a duty to take decisions solely in terms of public interest. You must not act in order to gain financial or other material benefit for yourself, family or friends.

- **Integrity**

You must not place yourself under any financial, or other, obligation to any individual or organisation that might reasonably be thought to influence you in the performance of your duties.

- **Objectivity**

You must make decisions solely on merit and in a way that is consistent with the functions of Audit Scotland when carrying out public business including making appointments, awarding contracts or recommending individuals for rewards and benefits.

- **Accountability and stewardship**

You are accountable for your decisions and actions to the public. You have a duty to consider issues on their merits, taking account of the views of others and must ensure that Audit Scotland uses its resources prudently and in accordance with the law.

- **Openness**

You have a duty to be as open as possible about your decisions and actions, giving reasons for your decisions and restricting information only when the wider public interest clearly demands.

- **Honesty**

You have a duty to act honestly. You must declare any private interests relating to your public duties and take steps to resolve any conflicts arising in a way that protects the public interest.

- **Leadership**

You have a duty to promote and support these principles by leadership and example, to maintain and strengthen the public's trust and confidence in the integrity of Audit Scotland and its members in conducting public business.

- **Respect**

You must respect fellow members of Audit Scotland and its employees and the role they play, treating them with courtesy at all times. Similarly you must respect members of the public when performing duties as a member of Audit Scotland.

7. You should apply the principles of this Code to your dealings with fellow members of Audit Scotland, its employees and other stakeholders. Similarly you should also observe the principles of this Code in dealings with the public when performing duties as a member of a public body.

General conduct

8. The rules of good conduct in this section must be observed in all situations where you act as a member of Audit Scotland.

Conduct at meetings

9. You must respect the chair, your colleagues and employees of Audit Scotland in meetings. You must comply with rulings from the chair in the conduct of the business of these meetings.

Relationships with Board Members, employees of Audit Scotland and others

10. You will treat your fellow board members and any staff employed by Audit Scotland with courtesy and respect. It is expected that fellow board members and employees will show you the same consideration in return. It is good practice for employers to provide examples of what is unacceptable behaviour in their organisation. Public bodies should promote a safe, healthy and fair working environment for all. As a board member you should be familiar with the policies of Audit Scotland in relation to bullying and harassment in the workplace and also lead by exemplar behaviour.
11. Relationships may be developed with you by others to influence our work or to acquire confidential or sensitive information for personal gain. Those seeking to develop a relationship with you may also offer a financial or other benefit to supply them with information. These relationships are inappropriate and bring risks to your personal reputation and that of Audit Scotland (see Section on Bribery and Corruption). You must inform the Chair of the Board and Chief Operating Officer of any such approaches, relationships or offers of financial or other benefits, and you should discuss any concerns about any such issues as soon as possible so that Audit Scotland can support and advise you.

Remuneration, allowances and expenses

12. You must comply with any rules of Audit Scotland regarding remuneration, allowances and expenses.

Bribery and corruption

13. Bribery is the offering, giving, receiving, or soliciting of any item of value or advantage to influence the actions of an official or any other person in charge of a public or legal duty.
14. It is important that you are aware that it is a serious criminal offence for you to:
- give, receive or solicit a bribe (ie to corruptly receive or give any gift, loans, fee, reward or advantage) in return for doing or not doing anything
 - show favour or disfavour to any person in the course of your work with Audit Scotland.

15. It is also important to be aware that an act of bribery by an individual may render Audit Scotland liable of committing an offence.
16. Audit Scotland has a zero tolerance to bribery and corruption therefore corrupt actions, including bribery, can lead to dismissal and prosecution.

Gifts and hospitality

17. You must never ask for gifts or hospitality.
18. You must not accept any offer by way of a gift or hospitality which could give rise to a real or substantive personal gain or reasonable suspicion of influence on your part to show favour, or disadvantage, to any individual or organisation. You should also consider whether there may be any reasonable perception that any gift received by your spouse or cohabitee or by any company in which you have a controlling interest, or by a partnership of which you are a partner, can or would influence your judgement. The term 'gift' includes benefits such as relief from indebtedness, loan concessions, or provision of services at a cost below that generally charged to members of the public.
19. You are personally responsible for all decisions connected with the offer or acceptance of gifts or hospitality offered to you and for avoiding the risk of damage to public confidence in Audit Scotland. As a general guide, it is usually appropriate to refuse offers except:
 - isolated gifts of a trivial character, the value of which must not exceed £50;
 - normal hospitality associated with your duties and which would reasonably be regarded as appropriate; or
 - gifts received on behalf of Audit Scotland.
20. You must not accept any offer of a gift or hospitality from any individual or organisation which stands to gain or benefit from a decision Audit Scotland may be involved in determining, or who is seeking to do business with us, and which a person might reasonably consider could have a bearing on your judgement. If you are making a visit in your capacity as a member of Audit Scotland then, as a general rule, you should ensure that Audit Scotland pays for the cost of the visit.
21. You must not accept repeated hospitality from the same source.
22. Members of Audit Scotland should familiarise themselves with the terms of the Bribery Act 2010 which provides for offences of bribing another person and offences relating to being bribed.
23. You must declare the giving and acceptance of any gifts or hospitality received by you or gifts and hospitality declined in your capacity as a member of Audit Scotland to the Chief Operating Officer who will record the declaration in a register kept for that purpose.

Audit Scotland only recognises and approves the giving of gifts or hospitality if recorded in the register and the expenditure is detailed in our financial accounting system. All reimbursement

claims for gifts or hospitality given through expenses must be in accordance with the remuneration, allowances and expenses policy.

To assist Members the following guidance indicates items that do not require recording or disclosure:

- Working lunches at audited bodies, partner firms, working groups/committees/boards, professional institutes and other public bodies.
- Meals and accommodation incidental to the attendance at conferences, seminars and workshops.
- Giving or receiving gifts of modest value such as a pen or book.

Items that do require disclosure would therefore include:

- Isolated gifts in excess of £50.
- Meals in external restaurants whether working or not.
- Attendance at functions organised/hosted by professional bodies eg Institute Annual Dinners.
- Receptions held by public bodies, partner firms or other parties where there is a widespread range of attendees eg gallery viewings.
- Functions where the focus of the event is an awards ceremony which involves a public sector element.
- Meals paid for by visiting delegations from other audit offices, organisations and Parliaments/Governments.
- Provision of accommodation, travel or corporate hospitality to others.

24. Details of any gift or hospitality will be made available for public inspection through publication of the register on Audit Scotland's website.

Confidentiality requirements

25. Audit Scotland carries out its work in the public interest and is committed to the principle of openness. However, there may be times when you will be required to treat discussions, documents or other information relating to the work of Audit Scotland in a confidential manner. You will often receive information of a private nature which is not yet public, or which perhaps would not be intended to be public. There are provisions in other legislation on the categories of confidential and exempt information and you must always respect and comply with the requirement to keep such information private.
26. It is unacceptable to disclose any information to which you have privileged access, for example derived from a confidential document, either orally or in writing. In the case of other documents and information, you are requested to exercise your judgement as to what should or should not be made available to outside bodies or individuals. In any event, such information should never be used for the purpose of personal or financial gain, or used in such a way as to bring Audit Scotland into disrepute.

27. Breaches of confidentiality or information security will be treated with utmost seriousness and could prompt an investigation. Any wilful breach such as, unauthorised access or supply of information to others could lead to termination of your position with Audit Scotland and could lead to a criminal prosecution under Data Protection legislation. If you are in any doubt about a matter of confidentiality or information security, please check with the Chief Operating Officer.
28. If you are involved in an act that could cause Audit Scotland reputational risk or bring the organisation into disrepute e.g. you are arrested or charged for a criminal offence, you must inform Audit Scotland at the earliest available opportunity.

Use of Audit Scotland's facilities

29. Members of Audit Scotland must not misuse facilities, equipment, stationery, telephony, computer, information technology equipment and services, or use them for party political or campaigning activities. Use of such equipment and services, etc must be in accordance with Audit Scotland's policy and rules on their usage. Care must also be exercised when using social media networks not to compromise your position as a member of Audit Scotland.

Appointment to partner organisations

30. You may be appointed, or nominated by Audit Scotland, as a member of another body or organisation. You are bound by the rules of conduct of these organisations and should observe the rules of this Code in carrying out the duties of that body.
31. Members who become directors of companies as nominees of Audit Scotland will assume personal responsibilities under the Companies Acts. It is possible that conflicts of interest can arise for such members between the company and Audit Scotland. It is your responsibility to take advice on your responsibilities to Audit Scotland and to the company. This should include questions of declarations of interest.

Registration of Interests

Introduction

32. The following paragraphs set out the kinds of interests, financial and otherwise which you have to register. These are called 'Registerable Interests'. You must at all times ensure that these interests are registered, when you are appointed and whenever your circumstances change in such a way as to require change or an addition to your entry in the Register. It is your duty to ensure any changes in circumstances are reported within one month of them changing. It is a breach of this Code not to comply with these requirements.
33. You should review regularly and at least once a year your personal circumstances. The interests which require to be registered are those set out in the following paragraphs and relate to you. It is not necessary to register the interests of your spouse or cohabitee.

Remuneration

34. You have a registrable interest where you receive remuneration by virtue of being:
- employed;
 - self-employed;
 - the holder of an office;
 - a director of an undertaking;
 - a partner in a firm; or
 - undertaking a trade, profession or vocation or any other work.
35. In relation to 34 above, the amount of remuneration does not require to be registered and remuneration received as a member does not have to be registered.
36. If a position is not remunerated it does not need to be registered under this category. However, you must note that unremunerated directorships may need to be registered under the category of 'Related undertakings'.
37. If you receive any allowances in relation to membership of any organisation, the fact that you receive such an allowance must be registered.
38. When registering employment, you must give the name of the employer, the nature of its business, and the nature of the post held in the organisation.
39. When registering self-employment, you must provide the name and give details of the nature of the business. When registering an interest in a partnership, you must give the name of the partnership and the nature of its business.
40. When registering a directorship, it is necessary to provide the registered name of the undertaking in which the directorship is held and give a broad indication of its business.

41. Where you undertake a trade, profession or vocation, or any other work, the detail to be given is the nature of the work and its regularity. For example, if you write for a newspaper, you must give the name of the publication and the frequency of articles for which you are paid.
42. Registration of a pension is not required as this falls outside the scope of the category.

Related undertakings

43. You must register any directorships held which are themselves not remunerated but where the company (or other undertaking) in question is a subsidiary of, or a parent of, a company (or other undertaking) in which you hold a remunerated directorship.
44. You must register the name of the subsidiary or parent company or other undertaking and the nature of its business, and its relationship to the company or other undertaking in which you are a director and from which you receive remuneration.
45. The situations to which the above paragraphs apply are as follows:
 - You are a director of a board of an undertaking and receive remuneration declared under remuneration - and
 - You are a director of a parent or subsidiary undertaking but do not receive remuneration in that capacity.

Contracts

46. You have a registrable interest where you (or a firm in which you are a partner, or an undertaking in which you are a director or in which you have shares of a value as described in 50 below) have made a contract with the public body of which you are a member:
 - under which goods or services are to be provided, or works are to be executed; and
 - which has not been fully discharged.
47. You must register a description of the contract, including its duration, but excluding the consideration.

Houses, land and buildings

48. You have a registrable interest where you own or have any other right or interest in houses, land and buildings, which may be significant to, of relevance to, or bear upon, the work and operation of Audit Scotland to which you are appointed.
49. The test to be applied when considering appropriateness of registration is to ask whether a member of the public acting reasonably might consider any interests in houses, land and buildings could potentially affect your responsibilities to the organisation to which you are appointed and to the public, or could influence your actions, speeches or decision making.

Interest in shares and securities

50. You have a registerable interest where you have an interest in shares comprised in the share capital of a company or other body which may be significant to, of relevance to, or bear upon, the work and operation of (a) the body to which you are appointed and (b) the nominal value of the shares is:
- (i) greater than 1% of the issued share capital of the company or other body; or
 - (ii) greater than £25,000.
51. Where you are required to register the interest, you should provide the registered name of the company in which you hold shares; the amount or value of the shares does not have to be registered.

Non-financial interests

52. You may also have a registerable interest if you have non-financial interests which may be significant to, of relevance to, or bear upon, the work and operation of Audit Scotland to which you are appointed. It is important that relevant interests such as membership or holding office in other public bodies, clubs, societies and organisations such as trades unions and voluntary organisations, are registered and described.
53. In the context of non-financial interests, the test to be applied when considering appropriateness of registration is to ask whether a member of the public might reasonably think that any non-financial interest could potentially affect your responsibilities to the organisation to which you are appointed and to the public, or could influence your actions, speeches or decision-making.

Related party disclosure

54. Related Party Disclosures is a requirement of International Accounting Standard 24. It is a requirement of the Code of Conduct that Board Members and Directors sign an annual declaration at the financial year end stating that you were not aware of any related party transactions in the year.
55. A related party is a person or entity that is related to the entity that is preparing its financial statements.
- (a) A person or a close member of that person's family is related to a reporting entity if that person:
 - (i) has control or joint control over the reporting entity;
 - (ii) has significant influence over the reporting entity; or
 - (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
 - (b) An entity is related to a reporting entity if any of the following conditions applies:

- (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment defined benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Declaration of interests

Introduction

56. The key principles of the Code, especially those in relation to integrity, honesty and openness, are given further practical effect by the requirement for you to declare certain interests in proceedings of Audit Scotland. Together with the rules on registration of interests, this ensures transparency of your interests which might influence, or be thought to influence, your actions.
57. Public bodies inevitably have dealings with a wide variety of organisations and individuals and this Code indicates the circumstances in which a business or personal interest must be declared. Public confidence in Audit Scotland and its members depends on it being clearly understood that decisions are taken in the public interest and not for any other reason.
58. In considering whether to make a declaration in any proceedings, you must consider not only whether you will be influenced but whether anybody else would think that you might be influenced by the interest. You must, however, always comply with the objective test ('the objective test') which is whether a member of the public, with knowledge of the relevant facts, would reasonably regard the interest as so significant that it is likely to prejudice your discussion or decision making in your role as a member of Audit Scotland.
59. If you feel that, in the context of the matter being considered, your involvement is neither capable of being viewed as more significant than that of an ordinary member of the public, nor likely to be perceived by the public as wrong, you may continue to attend the meeting and participate in both discussion and voting. The relevant interest must however be declared. It is your responsibility to judge whether an interest is sufficiently relevant to particular proceedings to require a declaration and you are advised to err on the side of caution. If a board member is unsure as to whether a conflict of interest exists, they should seek advice from the board chair.
60. As a member of Audit Scotland you might serve on other bodies. In relation to service on the boards and management committees of limited liability companies, public bodies, societies and other organisations, you must decide, in the particular circumstances surrounding any matter, whether to declare an interest. Only if you believe that, in the particular circumstances, the nature of the interest is so remote or without significance, should it not be declared. You must always remember the public interest points towards transparency and, in particular, a possible divergence of interest between Audit Scotland and another body. Keep particularly in mind the advice in paragraph 31 of this Code about your legal responsibilities to any limited company of which you are a director.

Interests which require declaration

61. Interests which require to be declared, if known to you may be financial or non-financial. They may or may not cover interests which are registerable under the terms of this Code. Most of the interests to be declared will be your personal interests but, on occasion, you will have to consider whether the interests of other persons require you to make a declaration. The

paragraphs which follow deal with (a) your financial interests (b) your nonfinancial interests and (c) the interests, financial and non-financial, of other persons.

62. You will also have other private and personal interests and may serve, or be associated with, bodies, societies and organisations as a result of your private and personal interests and not because of your role as a member of Audit Scotland. In the context of any particular matter you will need to decide whether to declare an interest. You should declare an interest unless you believe that, in the particular circumstances, the interest is too remote or without significance. In reaching a view on whether the objective test applies to the interest, you should consider whether your interest (whether taking the form of association or the holding of office) would be seen by a member of the public acting reasonably in a different light because it is the interest of a person who is a member of Audit Scotland as opposed to the interest of an ordinary member of the public.

Your financial interests

63. You must declare, if it is known to you, any financial interest (including any financial interest which is registerable under any of the categories prescribed in the remuneration section of this Code).
64. There is no need to declare an interest which is so remote or insignificant that it could not reasonably be taken to fall within the objective test.
65. You must withdraw from the meeting room until discussion of the relevant item where you have a declarable interest is concluded. There is no need to withdraw in the case of an interest which is so remote or insignificant that it could not reasonably be taken to fall within the objective test.

Your non-financial interests

66. You must declare, if it is known to you, any non-financial interest if:
- (i) that interest has been registered under Non Financial Interests (paragraphs 52 and 53) of the Code; or
 - (ii) that interest would fall within the terms of the objective test.
67. There is no need to declare an interest which is so remote or insignificant that it could not reasonably be taken to fall within the objective test.
68. You must withdraw from the meeting room until discussion of the relevant item where you have a declarable interest is concluded. There is no need to withdraw in the case of an interest which is so remote or insignificant that it could not reasonably be taken to fall within the objective test.

The financial interests of other persons

69. The Model Code requires only your financial interests to be registered. You also, however, have to consider whether you should declare any financial interest of certain other persons.
70. You must declare if it is known to you any financial interest of:-
- (i) a spouse, a civil partner or a co-habitee;
 - (ii) a close relative, close friend or close associate;
 - (iii) an employer or a partner in a firm;
 - (iv) a body (or subsidiary or parent of a body) of which you are a remunerated member or director;
 - (v) a person from whom you have received a registerable gift or registerable hospitality;
 - (vi) a person from whom you have received registerable expenses.
71. There is no need to declare an interest if it is so remote or insignificant that it could not reasonably be taken to fall within the objective test.
72. You must withdraw from the meeting room until discussion of and voting on the relevant item where you have a declarable interest is concluded. There is no need to withdraw in the case of an interest which is so remote or insignificant that it could not reasonably be taken to fall within the objective test.
73. This Code does not attempt the task of defining “relative” or “friend” or “associate”. Not only is such a task fraught with difficulty but is also unlikely that such definitions would reflect the intention of this part of the Code. The key principle is the need for transparency in regard to any interest which might (regardless of the precise description of relationship) be objectively regarded by a member of the public, acting reasonably, as potentially affecting your responsibilities as a member of Audit Scotland and, as such, would be covered by the objective test.

The non-financial interests of other persons

74. You must declare if it is known to you any non-financial interest of:-
- (i) a spouse, a civil partner or a co-habitee;
 - (ii) a close relative, close friend or close associate;
 - (iii) an employer or a partner in a firm;
 - (iv) a body (or subsidiary or parent of a body) of which you are a remunerated member or director;
 - (v) a person from whom you have received a registerable gift or registerable hospitality;
 - (vi) a person from whom you have received registerable expenses.

- 75. There is no need to declare an interest if it is so remote or insignificant that it could not reasonably be taken to fall within the objective test.
- 76. There is only a need to withdraw from the meeting if the interest is clear and substantial.

Making a declaration

- 77. You must consider at the earliest stage possible whether you have an interest to declare in relation to any matter which is to be considered. You should consider whether agendas for meetings raise any issue of declaration of interest. Your declaration of interest must be made as soon as practicable at a meeting where that interest arises. If you do identify the need for a declaration of interest only when a particular matter is being discussed you must declare the interest as soon as you realise it is necessary.
- 78. The oral statement of declaration of interest should identify the item or items of business to which it relates. The statement should begin with the words “I declare an interest”. The statement must be sufficiently informative to enable those at the meeting to understand the nature of your interest but need not give a detailed description of the interest.

Frequent declarations of interest

- 79. Public confidence in Audit Scotland is damaged by perception that decisions taken by us are substantially influenced by factors other than the public interest. If you would have to declare interests frequently at meetings in respect of your role as a board member you should not accept a role or appointment with that attendant consequence. If members are frequently declaring interests at meetings then they should consider whether they can carry out their role effectively and discuss with their chair. Similarly, if any appointment or nomination to another body would give rise to objective concern because of your existing personal involvement or affiliations, you should not accept the appointment or nomination.

Lobbying and access to members of public bodies

Introduction

81. In order for Audit Scotland to fulfil its commitment to being open and accessible, it needs to encourage participation by organisations and individuals in the decision-making process. Clearly however, the desire to involve the public and other interest groups in the decision-making process must take account of the need to ensure transparency and probity in the way in which Audit Scotland conducts its business.
82. You will need to be able to consider evidence and arguments advanced by a wide range of organisations and individuals in order to perform your duties effectively. Some of these organisations and individuals will make their views known directly to individual members. The rules in this Code set out how you should conduct yourself in your contacts with those who would seek to influence you. They are designed to encourage proper interaction between members of public bodies, those they represent and interest groups.

Rules and guidance

83. You must not, in relation to contact with any person or organisation who lobbies, do anything which contravenes this Code of Conduct or any other relevant rule of Audit Scotland or any statutory provision.
84. You must not, in relation to contact with any person or organisation who lobbies, act in any way which could bring discredit upon Audit Scotland.
85. The public must be assured that no person or organisation will gain better access to, or treatment by, you as a result of employing a company or individual to lobby on a fee basis on their behalf. You must not, therefore, offer or accord any preferential access or treatment to those lobbying on a fee basis on behalf of clients compared with that which you accord any other person or organisation who lobbies or approaches you. Nor should those lobbying on a fee basis on behalf of clients be given to understand that preferential access or treatment, compared to that accorded to any other person or organisation, might be forthcoming from another member of Audit Scotland.
86. Before taking any action as a result of being lobbied, you should seek to satisfy yourself about the identity of the person or organisation who is lobbying and the motive for lobbying. You may choose to act in response to a person or organisation lobbying on a fee basis on behalf of clients but it is important that you know the basis on which you are being lobbied in order to ensure that any action taken in connection with the lobbyist complies with the standards set out in this Code.
87. You should not accept any paid work:

- which would involve you lobbying on behalf of any person or organisation or any clients of a person or organisation
 - to provide services as a strategist, adviser or consultant, for example, advising on how to influence Audit Scotland and its members. This does not prohibit you from being remunerated for activity which may arise because of, or relate to, membership of Audit Scotland, such as journalism or broadcasting, or involvement in representative or presentational work, such as participation in delegations, conferences or other events.
88. If you have concerns about the approach or methods used by any person or organisation in their contacts with you, you must seek the guidance of Audit Scotland.

Appendix 1: Definitions

1. “Remuneration” includes any salary, wage, share of profits, fee, expenses, other monetary benefit or benefit in kind. This would include, for example, the provision of a company car or travelling expenses by an employer.
2. “Undertaking” means:
 - (a) a body corporate or partnership; or
 - (b) an unincorporated association carrying on a trade or business, with or without a view to profit.
3. “Related undertaking” is a parent or subsidiary company of a principal undertaking of which you are also a director. You will receive remuneration for the principal undertaking though you will not receive remuneration as director of the related undertaking.
4. “Parent undertaking” is an undertaking in relation to another undertaking, a subsidiary undertaking, if a) it holds a majority of voting rights in the undertaking; or b) it is a member of the undertaking and has the right to appoint or remove a majority of its board of directors; or c) it has the right to exercise a dominant influence over the undertaking (i) by virtue of provisions contained in the undertaking’s memorandum or articles or (ii) by virtue of a control contract; or d) it is a councillor of the undertaking and controls alone, pursuant to an agreement with other shareholders or councillors, a majority of voting rights in the undertaking.
5. “Group of companies” has the same meaning as “group” in section 474(1) of the Companies Act 2006. A “group”, within s 474(1) of the Companies Act 2006, means a parent undertaking and its subsidiary undertakings.
6. “A person” means a single individual or legal person and includes a group of companies.
7. “Any person” includes individuals, incorporated and unincorporated bodies, trade unions, charities and voluntary organisations.
8. “Spouse” does not include a former spouse or a spouse who is living separately and apart from you.
9. “Cohabitee” includes a person, whether of the opposite sex or not, who is living with you in a relationship similar to that of husband and wife.
10. “Code” code of conduct for members of public bodies.

Standing Orders

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

Contents

Standing orders	5
Introduction	5
Constitution	5
Chair	6
Meetings	6
Agenda.....	6
Conduct of Business	6
Minutes	7
Vacancy	7
Code of Conduct	7
Committees.....	7
Deeds and Documents.....	8
Advisers and Committee Co-optees	8
Openness and Transparency	8
Board Effectiveness	8
Application of Standing Orders.....	8
Alteration.....	8
Appendix 1: Audit Committee remit	9
Internal Control and Corporate Governance	9
Internal Audit	9
External Audit.....	10
Annual Accounts	10
Standing Orders, Financial Regulations and Scheme of Delegation.....	10
Other duties.....	10
Appendix 2: Remuneration & Human Resources Committee remit	11
Remuneration & Human Resources Committee responsibilities	11
Other duties.....	12
Appendix 3: Appeals Committee remit.....	13
Appendix 4: Co-option procedure	14
Introduction	14

Reasons for co-option	14
Nominations process.....	14
Application process	14
Term of Office	14
Remuneration.....	15
Conduct of co-opted members	15

Standing orders

Introduction

1. The Constitution and membership of Audit Scotland is unusual in having both members appointed by the Scottish Parliament and members with or having access to Direction giving powers. The Board will seek to operate on a consensus basis recognising that on occasion a majority decision may be reached and that the Auditor General and the Accounts Commission may issue Directions for the purpose of or in connection with the exercise of Audit Scotland's functions in relation to either or both of them.

Constitution

2. Audit Scotland is a body corporate established under section 10 of the Public Finance and Accountability (Scotland) Act 2000 ("the Act").
3. The function of Audit Scotland is to provide such assistance and support as the Auditor General and the Accounts Commission require in the exercise of their respective functions and, in particular, to provide them, or ensure that they are provided, with the property, staff and services which they require for the exercise of those functions. The Auditor General and the Accounts Commission may give directions to Audit Scotland in connection with the exercise of their functions. Detailed provisions about the operation of Audit Scotland are contained in Schedule 2 to the Act as amended by the Public Services Reform (Scotland) Act 2010.
4. The Board remains responsible for the exercise of all functions of Audit Scotland. It exercises its powers and authorities through the Scheme of Delegation, which it determines and approves.
5. The members of Audit Scotland are the Auditor General, the Chairman of the Accounts Commission and three other members appointed by the Scottish Commission for Public Audit.
6. The three other members will be appointed under terms and conditions, including remuneration, as determined by the Scottish Commission for Public Audit. The Auditor General and the Chairman of the Accounts Commission may not receive any remuneration as members of Audit Scotland.
7. Members of Audit Scotland may terminate their appointments at any time by notifying, in writing, the appropriate appointing body, and following the prescribed period in the letter of engagement.
8. In these Standing Orders the members of Audit Scotland meeting together to discharge their functions are referred to as the Board.

Chair

9. The Scottish Commission for Public Audit will appoint one of the members of Audit Scotland which it has appointed to preside at the meetings of the Board ("the Chair").

Meetings

10. Meetings will be held at times, dates and places agreed by the members. In addition, a meeting may be called at any time by the Chair or by not less than three members giving the Chief Operating Officer a written request for such a meeting stating the business to be transacted. The use of video or telephone conferencing by members will be deemed as attendance at the meeting.

Agenda

11. At least three clear working days before a meeting of the Board the Chief Operating Officer will send written notice of the time and place of the meeting and of the business to be transacted to each member. So far as possible, reports and other papers relating to agenda items will be circulated with the agenda.

Conduct of Business

12. The Chair, if present, will preside. If the Chair cannot be present the Board must appoint one of the other members appointed by the Scottish Commission for Public Audit to preside at the meeting.
13. No business other than that stated in the notice of the meeting will be transacted at that meeting other than with the consent of the Chair and a minuted explanation of why the matter had to be conducted without the standard notice.
14. The Chair of the meeting will decide all questions of order, relevancy and conduct of business during the meeting.
15. A quorum for a meeting of the Board is three members including those present by telephone or video conference call. The Auditor General and the Chair of the Accounts Commission must be present for a quorum to be constituted, save that in the event that the Auditor General and/or the Chair of the Accounts Commission are unable to attend a meeting of the Board, either may confirm, by giving notice in writing, by email or where circumstances require verbally by telephone prior to the commencement of the meeting, that (i) they consent to the meeting proceeding in their absence; (ii) that the meeting may be deemed to be quorate notwithstanding their absence provided the other requirements for a quorum to be constituted as set out in paragraphs 15, 16 and 17 are met; and (iii) that any business detailed on the agenda circulated pursuant to paragraph 11 and transacted at the meeting shall be deemed to be transacted validly provided that all other requirements of these Standing Orders are complied with.

16. Where the Auditor General and/or the Chair of the Accounts Commission consents to a meeting proceeding in their absence, they shall, within five working days of the date of the meeting, be provided with a copy of the draft minutes of the meeting produced pursuant to paragraph 19.
17. No business which is not detailed on the agenda circulated pursuant to paragraph 11, and which the Board deems to be material to the operation of Audit Scotland, shall be transacted at a meeting at which either the Auditor General and/or the Chair of the Accounts Commission is not present.
18. At any meeting the Board may suspend Standing Orders for the duration of the meeting or of any item of business provided a majority of the members present so agree.

Minutes

19. Minutes of every meeting of the Board will be drawn up and will be approved at the following meeting.

Vacancy

20. The proceedings of the Board will not be invalidated by any vacancy in membership or by any defect in the appointment of any person.

Code of Conduct

21. Each member will abide by the Code of Conduct for Members of the Audit Scotland Board current at any time.

Committees

22. The Board may appoint standing or ad hoc committees consisting of such numbers as the Board may determine. Committees may consist of members and other suitable persons chosen by the Board.
23. The Board will establish an Audit Committee with the terms of reference contained in Appendix 1.
24. The Board will appoint a Remuneration & Human Resources Committee with the terms of reference contained in Appendix 2.
25. The Board will establish an Appeals Committee with the terms of reference contained in Appendix 3.
26. Any committee will operate within the terms of remit and any delegation made to it by the Board.

Deeds and Documents

- 27. Any deed or document requiring formal execution by Audit Scotland will be signed for and on behalf of Audit Scotland by the Chairman of the Accounts Commission or the Auditor General for Scotland and the Chief Operating Officer.

Advisers and Committee Co-optees

- 28. The Board may appoint advisers and/or co-optees to Committees and pay them such remuneration and expenses as the Board decide. The co-option appointment procedure is contained in Appendix 4.
- 29. Employees of Audit Scotland, advisers and others may attend meetings of the Board at the invitation of the members.

Openness and Transparency

- 30. The Board will publish agendas, minutes and papers of a non confidential nature on the Audit Scotland website.

Board Effectiveness

- 31. The Board will conduct a self-evaluation of its effectiveness on an annual basis.

Application of Standing Orders

- 32. These Standing Orders will apply to meetings of committees of the Board subject to any due modification of details.

Alteration

- 33. These Standing Orders may be altered by the Board provided that the alteration is approved by a majority of the members of the Board.

Appendix 1: Audit Committee remit

34. The Audit 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 Audit Committee, and may pay them such remuneration and expenses as the Board decides. The Chair of the Board and the Accountable Officer may not be members of the Audit Committee but may attend meetings.
35. The purposes of the Audit Committee are detailed in the Audit Committee terms of reference. The key points are:

Internal Control and Corporate Governance

36. To evaluate the framework of internal control, strategic processes for risk and corporate governance comprising the following components:
- Control Environment.
 - Risk Management.
 - Information and Communication.
 - Control Procedures.
 - Monitoring and Corrective Action
 - Audit quality monitoring and arrangements.
37. To review the system of internal financial control, which includes:
- The safeguarding of assets against unauthorised use and disposal.
 - The maintenance of proper accounting policies and records and the reliability of financial information used within the organisation or for publication.
 - To ensure that Audit Scotland's activities are within the law and regulations governing them.
 - To monitor performance and best value by reviewing the economy, efficiency and effectiveness of operations.
 - To present an annual statement of assurance to the Board to support the Accountable Officer's governance statement.

Internal Audit

- To review the Terms of Reference and appointment of the internal auditors.
- To review and approve the internal audit strategic and annual plans.
- To monitor audit progress and review audit reports.

- To monitor the management action taken in response to the audit recommendations through an appropriate follow up mechanism.
- To consider internal audit's annual report and assurance statement.
- To review the operational effectiveness of internal audit by considering the audit standards, resources, staffing, technical competency and performance measures.
- To ensure that there is direct contact between the Audit Committee and internal audit and that the opportunity is given for discussions with internal audit who should attend every meeting of the Committee.

External Audit

38. To consider all audit material, in particular:
 - Audit Reports.
 - Annual Reports.
 - Management Letters.
 - Management Reports.
39. To monitor management action taken in response to all external audit recommendations.
40. To hold meetings with the external auditors at least once per year and, as required, without the presence of senior management.
41. To review the extent of co-operation between external and internal audit.
42. The external auditor will be appointed by the Scottish Commission for Public Audit under Section 25 of the 2000 Act. The external auditor will examine and certify the account and report on the account to the Commission. The Commission must lay before the Parliament a copy of the account and the auditor's report and publish the account and that report.

Annual Accounts

43. To review and recommend approval of the Annual Accounts.

Standing Orders, Financial Regulations and Scheme of Delegation

44. To keep under review the Standing Orders, Financial Regulations and Scheme of Delegation and recommend to the Board any amendments.

Other duties

45. The Audit Committee may take on other duties as determined by the Audit Scotland Board.

Appendix 2: Remuneration & Human Resources Committee remit

46. 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.
47. The purposes are detailed in the Remuneration & Human Resources Committee terms of reference.

Remuneration & Human Resources Committee responsibilities

48. In relation to members of Audit Scotland's Management Team, are to:
- Review and approve all terms & conditions of employment, including job descriptions, all pay and benefit reward elements associated with each post.
 - Ensure remuneration policy and strategy is aligned to the relevant public sector policies being implemented by the UK and Scottish Governments.
 - Set and review the overall reward structure, including the value of pay ranges and general annual pay award strategy.
 - Assure itself that effective arrangements are followed for performance assessments in respect of Audit Scotland's Management Team, including any changes to pay and benefits arising from the assessment of performance during the review period.
 - Review talent management and succession planning arrangements.
 - Approve remuneration packages for newly appointed members of the Management Team.
 - Recommend appointments and changes affecting Management Team to the Board.
 - Decide on applications for early retirement.
 - Determine compensation payments for loss of office.
 - Agree, oversee and review the operation of expenses policy.
 - Review the expense claims of the Accountable Officer on an annual basis.
49. In relation to other staff employed by Audit Scotland, are to:
- Determine the remuneration policy governing all terms and conditions of employment, including pay, benefits, retirement policy and other policies relating to compensation for loss of office.

- Ensure remuneration policy and strategy is aligned to the relevant public sector policies being implemented by the UK and Scottish Governments.
- Approve the parameters for the annual pay award cycle.
- Review, not less than annually, the application of remuneration policy.
- Assure itself about any issues relating to the overall performance of employees.

Other duties

50. The Remuneration & Human Resources Committee may take on other duties as determined by the Audit Scotland Board.

Appendix 3: Appeals Committee remit

51. The Appeals Committee will consist of at least 2 members of the Board.
52. The purpose of the Appeals Committee is:
- To consider and dispose of any matters requiring independent deliberation which may be referred to it by the Board.
 - To hear and dispose of appeals by members of the Management Team under the Audit Scotland disciplinary and grievance procedures.

Appendix 4: Co-option procedure

Introduction

53. Audit Scotland's standing orders state that:

- The Board may appoint standing or ad hoc committees consisting of such numbers as the Board may determine. Committees may consist of members and other suitable persons chosen by the Board.
- The Board may appoint advisers and/or co-optees to Committees and pay them such remuneration and expenses as the Board decide. Employees of Audit Scotland, advisers and others may attend meetings of the Board at the invitation of the members.

Reasons for co-option

54. There may be times when specialist expertise is required which the Board may be unable to fulfil, or when the current or future balance of skills available to the Board's committees may need strengthened.
55. The Board should discuss and agree the specification of skills and experience being sought through co-option.

Nominations process

56. If the Board agrees to co-opt to its committees to fulfil requirements identified under 49 above, an advertisement seeking expressions of interest will be placed on Audit Scotland's website.

Application process

57. Applicants for co-option should provide a written statement of their relevant skills and a CV.
58. Following a shortlisting process, applicants will be interviewed by the Chair of the Board and the Chair of the relevant committee, plus one other member of the Board.
59. Candidates and interviewers must declare any relationships or potential conflicts of interest to the Chair.
60. The Board should approve the final recommendation from the Chair.

Term of Office

61. Co-option is intended to provide specific skills for a fixed term as determined by the Board.
62. There is potential for renewal, subject to the approval of the Board.

Remuneration

63. Remuneration, where applicable, will be determined by the Board and will be no greater than the rate set by the SCPA for Board members.

Conduct of co-opted members

64. Co-opted members will be required to follow the Audit Scotland Code of Conduct for Board members, and the associated disclosure requirements, and their appointment may be terminated by the Chair, subject to the approval of the Board.

AUDIT SCOTLAND BOARD

25 OCTOBER 2017

REPORT BY THE CORPORATE GOVERNANCE MANAGER

ARRANGEMENTS FOR BOARD MEETINGS

1. Purpose of Report

This report forms part of the Board's considerations on the openness and transparency of how the Board conducts its business. This report provides options and proposals on the practical arrangements for supporting public meetings.

2. Background

In our [Corporate Plan](#) we state that *'we expect high standards of governance of the organisations we audit and we set high standards for our own governance. We believe that a world-class organisation requires world-class governance arrangements'*. Openness and transparency forms one element of good governance.

In the ['Role of Boards'](#) report the Auditor General recommended that boards 'maximise the openness and accessibility of their board meetings and papers'. The updated Scottish Government [On Board](#) guidance 2017 also makes a number of recommendations on communicating with stakeholders. These include publishing summary reports and/ or meeting minutes and also making business and corporate plans and annual reports widely available.

The current arrangements already go beyond these expectations as we publish a suite of strategies, plans and annual reports, publish board agendas, minutes and papers and also publish minutes of the Audit Committee and Management Team. We also publish a wide range of other [relevant information](#) including registers of interest, hospitality and gifts, expenditure and policies and procedures.

The On Board guidance also recommended that boards should consider 'holding Board meetings in public unless there is a good reason not to do so'. At its meeting on 23 August 2017 the Board agreed that it should meet in public and requested a paper be prepared with options and detailed proposals on the supporting arrangements.

3. Arrangements for holding meetings in public

In order to make public meetings meaningful and effective a number of changes would need to be made to the administrative arrangements.

Notification of planned meetings

We would create a new page on the Audit Scotland website, linked from the home page. This would advise of upcoming meetings, provide advice for those wishing to attend and provide access to agendas, minutes and reports (Appendix 1).

Agendas, papers and minutes

The Chief Operating Officer will prepare a draft Board agenda for discussion with the Chair approximately 14 working days prior to the scheduled meeting. This will indicate if any items should potentially be considered in private. The criteria for taking papers in private will be based on that currently used for the publication of board papers (Appendix 2).

The final Board agenda will be approved by the Chair approximately 10 working days prior to the scheduled meeting. An illustrative future agenda is attached (Appendix 3).

The agenda and all papers will be sent to the Board members one week in advance of the meeting.

The Chief Operating Officer will authorise the publication of the agenda and public papers on the Monday prior to the scheduled meeting.

Admission to the meeting

Front of house Business Support Staff, supported by the Chief Operating Officer's Executive Assistant, will maintain a list of internal and external people that have indicated they wish to attend a Board meeting.

The Chair is to be advised on the number of known attendees prior to the start of the meeting.

Meeting room arrangements

To transact Board business efficiently and effectively EH1 will be used and set up as shown in Appendix 4. This will minimise any disruption from people entering and leaving the meeting.

Meeting structure

When meeting in public the first three items on the agenda will be:

1. Welcome and apologies
2. Declarations of interest
3. Items to be taken in private.

Thereafter, the agenda follows the normal structure (Standing Items, etc.) with items to be taken in private coming towards the end of the meeting.

Post meeting administration

A consolidated pack consisting of the agenda, public papers and approved minutes from the previous meeting will continue to be published on the Audit Scotland website within one week of the meeting.

The general flow of business and respective roles and responsibilities is attached as a diagram (Appendix 5).

The On Board guidance also recommended that boards could consider 'holding an annual open meeting.'

The experience of annual open meetings elsewhere in the public sector has been mixed. Some public bodies have tried them and found that they are poorly attended and that there are better ways for board members to engage with public and stakeholders. Other bodies continue to hold public meetings and sometimes these provide the forum for an annual performance review with the relevant Scottish Minister.

If the Board were minded to go with an open annual meeting the June meeting would initially seem the most appropriate. However, there are some practicalities which make this sub optimal such as the number of draft annual reports, including the annual report and accounts that would typically be considered in private, before being published shortly thereafter. It is also the case that our annual budget and performance are subject to parliamentary and public scrutiny through the meetings of the Scottish Commission for Public Audit.

3. Recommendation

The Board is invited to:

- note and approve the arrangements for holding meetings in public
- consider whether to hold all or some meetings in public.

Attending meetings – web text

Audit Scotland's Board meetings are held in public and you are welcome to attend.

You don't have to let us know in advance. But if you could that would be helpful, so we can ensure there is sufficient seating and cover any access arrangements that might be needed. You can contact us by phoning 0131 625 1500 or email us at info@audit-scotland.gov.uk.

While you are welcome to attend the meeting, we ask visitors to respect the conduct of business and so you will not be invited to contribute to the discussion.

The Board may decide to consider some items in private. The agenda for each meeting sets out the items which are likely to be considered in private and the reasons why. The Board will make a decision about taking items in private at the start of each meeting. When any business is considered in private, the minutes will record the nature of the business considered and any decisions reached.

Public/private criteria

The criteria to inform decisions on taking items in private are based on the existing criteria for the publication of papers. The presumption is that Board business will be conducted in public unless they contain information and/ or are likely to include discussion which falls into one of the following categories:

- Statutory/ security/ legal issues: including
 - Personal information
 - Danger to health and safety
 - Danger to security
 - Prohibitions on disclosure
 - Legally privileged information
 - Information provided in confidence.
- Commercial sensitivity.
- Effective conduct of business: including:
 - Prejudicing the free and frank provision of advice/ exchange of views for the purposes of deliberation/ conduct of public affairs
 - Information intended for future publication.

Illustrative agenda

Agenda



Wednesday 6 June 2018, 11.00am

Audit Scotland offices, 102 West Port, Edinburgh EH3 9DN

1. Welcome and apologies
 2. Declarations of interest
 3. Decision on items to be taken in private For approval
-

Standing Items

4. Chair's report – verbal update
 5. Accountable Officer's report – verbal update
 6. Accounts Commission Chair's report – verbal update
 7. Review of minutes: For approval
 - Board meeting, 2 May 2018
 8. Review of actions tracker For information
-

Strategy and Planning

9. New financial powers and constitutional change For information
-

Business Management

10. Q4 Corporate performance For information
11. Q4 Becoming world class improvement programme For information
12. Q4 Financial performance For information
13. 2017/18 annual report from the Chair of the Audit Committee to the Board For approval
14. 2017/18 annual report from the Chair of the Remuneration and Human Resources Committee For approval
15. 2017/18 governance statement on internal control and certificate of assurance For approval

Governance

16. Review of Whistleblowing and Counter Fraud policies

For approval

Conclusion

17. Any other business

18. Review of meeting

19. Date of next meeting etc.

Items to be taken in private

20. Draft annual report and accounts

[Taken in private as the Board will consider and approve the report before the Accountable Officer and external auditors sign the accounts prior to submission to SCPA and publication on the Audit Scotland website]

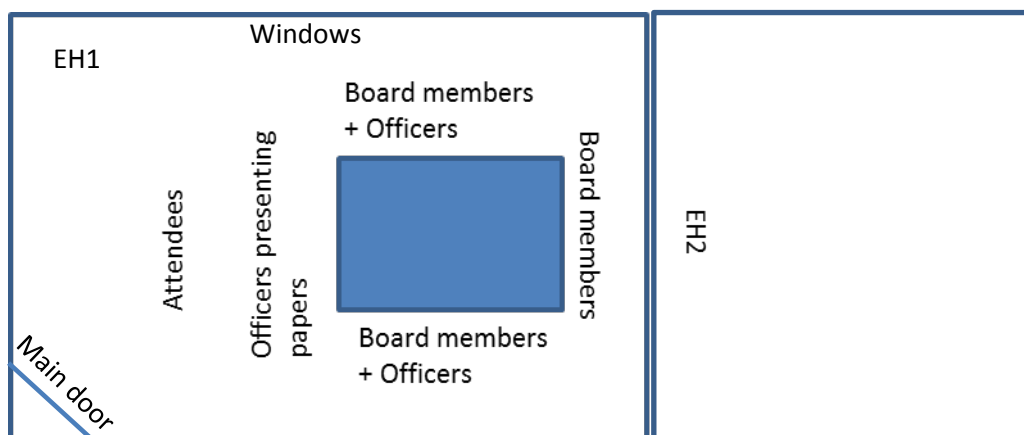
For approval

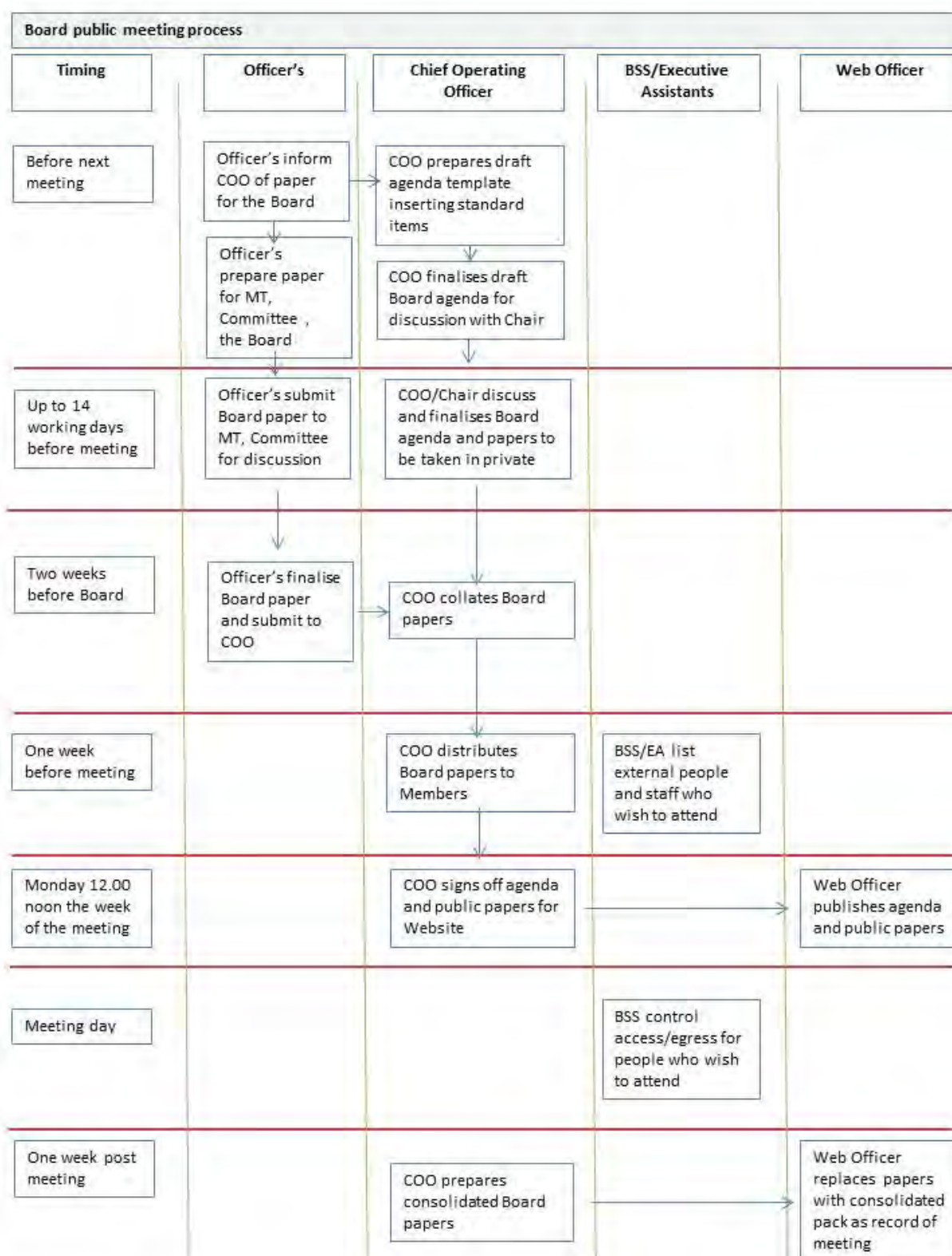
21. 2017/18 Annual report on international work

[Draft report for discussion, approval and future publication]

For approval

Room set-up





AUDIT SCOTLAND BOARD

25 OCTOBER 2017

REPORT BY THE CHIEF OPERATING OFFICER

PROPOSED MEETING DATES 2018

1. Purpose

This report seeks the Board's approval for the proposed schedule of meeting dates for 2018. The proposed dates have been scheduled taking account of the Board's commitment to hold committee meetings on a different date to the Board, the confirmed schedule of meetings of the Accounts Commission and known parliamentary commitments throughout the year.

The suggested meeting dates for 2018 are detailed below.

Audit Committee	Remco	Board
		31 January 2018
7 February 2018		28 February 2018
	14 March 2018	28 March 2018
23 May 2018*	23 May 2018*	2 May 2018
6 June 2018 (AR&Accs)		6 June 2018 (AR&Accs)
		22 August 2018
19 September 2018*	19 September 2018*	26 September 2018
		31 October 2018
14 November 2018*	14 November 2018*	28 November 2018

* Meetings to be held in Glasgow.

2. Recommendation

The Board is invited to approve the proposed schedule of meeting dates.

Agenda

Wednesday 29 November 2017, 10.00am

Audit Scotland offices, 102 West Port, Edinburgh EH3 9DN

1. Private Meeting
2. Welcome and apologies
3. Declarations of interest

Standing items

4. Chair's report – verbal update
5. Accountable Officer's report – verbal update
6. Review of minutes: For approval
 - Board meeting, 25 October 2017
7. Review of actions tracker For information

Strategy and planning

8. New financial powers and constitutional change update For information

Governance

9. Q2 Financial performance report 2017/18 For information
10. Q2 Corporate performance report 2017/18 For information
11. Q2 Becoming world class improvement programme report 2017/18 For information
12. Evaluation of Board effectiveness For discussion
13. Corporate governance policies update For approval

Conclusion

14. Publication of reports
15. Any other business
16. Review of meeting

17. Date of next meeting

Minutes

Wednesday 25 October 2017, 12.00pm

Audit Scotland offices, 102 West Port, Edinburgh EH3 9DN

Present:

I Leitch (Chair)
C Gardner
H Logan
R Hinds
R Griggs

Apologies:

None

In attendance:

D McGiffen, Chief Operating Officer
R Frith, Assistant Auditor General
M Walker, Assistant Director, Corporate Performance and Risk
S Dennis, Corporate Finance Manager
E Boyd, Assistant Director, Appointments and Assurance Team
G Diamond, Senior Manager, Performance Audit and Best Value
D Robertson, Digital Services Manager
C Sweeney, Assistant Director, Performance Audit and Best Value
A Devlin, Corporate Governance Manager
J Webber, Senior Executive Assistant

1. Private meeting

A private meeting was held by the Chair and Board members, prior to the start of the Board meeting. There were no matters raised in addition to those items on the agenda, which had been previously circulated.

2. Welcome and apologies

Russel Griggs advised of his apologies for the latter part of the meeting and the Board noted he required to leave the meeting at 1.20pm.

3. Declarations of interest

There were no declarations of interest.

4. Chair's report

Ian Leitch provided a verbal update on meetings with Caroline Gardner and Diane McGiffen on business matters and advised of his attendance at the Public Body Chairs' networking event on Tuesday 24 October 2017.

The members welcomed the update.

5. Accountable Officer's report

Caroline Gardner invited the Board to note that following the Parliamentary recess the Public Audit and Post Legislative Scrutiny Committee had a busy agenda following up from previous audit reports and considering in due course the reports recently published on the Scottish

Government, this week's Transport Scotland's ferry services report, the 2016/17 audit of NHS Tayside and the NHS in Scotland 2017. She also invited the Board to note that the recommendations made by Budget process review group had been accepted and would lead to a written agreement between Parliament and Government in 2018 to support the scale of implementation of the new financial powers.

Turning to other engagements, Caroline advised members of the meeting of the UK and Irish Auditors General on Friday 27 October in Belfast which followed the meeting Diane McGiffen attended of the Chief Operating Officers from the respective UK audit agencies on Friday 13 October.

Caroline invited the Board to note that 15 new graduate trainees had started work with Audit Scotland. She also invited members to note that the annual Best Companies survey had launched and results would be reported early in 2018.

The Board welcomed the update.

6. Accounts Commission report

Ronnie Hinds, the Acting Chair of the Accounts Commission, provided a verbal update on the meeting of the Accounts Commission on 12 October 2017 which had considered a Best Value report on East Renfrewshire Council.

Ronnie advised of his meeting with the Local Government Committee meeting on Tuesday 24 October on the findings in the Self Directed Support audit published earlier in the year and discussed the importance for the Commission of parliamentary engagement.

Ronnie invited the Board to note that an announcement was expected on the appointment of the new Accounts Commission Chair, effective from 1 November 2017.

The Board welcomed the update and the Board thanked Ronnie for his valuable contribution during his temporary role.

7. Review of minutes

Board meeting, 23 August 2017

The Board considered the minutes of the meeting on 23 August 2017, which had been previously circulated and subject to a minor correction in the Accountable Officer's report, agreed that these were an accurate record of the meeting.

8. Review of actions tracker

The Board noted the updates provided by the action tracker. Martin Walker provided a verbal update on item ASB49 on the work with Young Scot. Martin advised that an awareness raising Knowledge Café had taken place, involving Young Scot and the Children's Parliament, that a panel is being established to inform the scoping and reporting of audits and that Young Scot had been helpful in considering the scoping and methodology for the performance audit on children's and adolescents mental health which is due to publish in 2018.

Diane McGiffen also invited the Board to note that Josh Hardwick, our modern apprentice, was a finalist in this year's Young Scot Awards in recognition of his voluntary work.

9. 2018/19 Draft Budget

Stuart Dennis, Corporate Finance Manager, joined the meeting

Stuart Dennis, Corporate Finance Manager, introduced the 2018/19 Draft Budget report, a copy of which had been previously circulated.

Stuart invited the Board to approve the draft budget proposal which was based on the assumptions previously considered and approved by the Board at its meeting on 23 August 2017.

The Board noted that the budget continued to deliver real terms cost reductions on fees while supporting additional work on the new financial powers.

During discussion, Heather Logan sought and received clarification on the pay assumptions. In considering other costs, she also noted the costs incurred for the National Fraud Initiative were static and queried the provision for corporation tax.

Heather sought clarification of the figures reported under efficiencies. Stuart advised that the full cost of the additional work on the new financial powers was £667k, but that £187k of that work was being absorbed into existing resourcing, therefore delivering an overall efficiency of £471k. The Chair requested further explanation be added to the budget proposal.

Russel Griggs queried whether the GDP deflator of 1.6% was consistent with the measure used by public bodies. Caroline confirmed this was the deflator used consistently for setting audit fees and in assessing provisions.

Ronnie Hinds noted the cost of the Accounts Commission is met by the SCPA and Russell Frith advised funding for this changed following the fees and funding review in 2016/17. Ronnie also queried whether the apportionment of costs for section 122 reports followed the same basis as that for Best Value reports. Russell advised that these costs were assumed as part of the cost of the Audit Scotland audit team and were therefore allocated across the sector. Ronnie advised that he would like to consider the allocation of costs further with the Accounts Commission.

Following discussion, the Board approved the budget proposal.

Action ASB61: Stuart Dennis to include an explanatory note on efficiencies into the budget proposal prior to submission. (November 2017)

10. 2017/18 Spring Budget Revision

Stuart Dennis, Corporate Finance Manager, introduced the report 2017/18 Spring Budget Revision, a copy of which had been previously circulated.

Stuart invited the Board to approve Audit Scotland's 2017/18 Spring Budget Revision proposal which sought resources of £2,826k to cover additional pension charges.

Russel Griggs queried his understanding of the technical accounting requirement in deciding the pension discount. Stuart confirmed that the actuarial valuation of the scheme takes place at a fixed point in time.

Following discussion, the Board approved Audit Scotland's 2017/18 Spring Budget Revision proposal.

Stuart Dennis, Corporate Finance Manager, left the meeting

11. Quality Framework

Elaine Boyd, Assistant Director, Appointments and Assurance Team, joined the meeting

Elaine Boyd, Assistant Director, introduced the report Review of Audit Quality, which had been previously circulated.

Elaine invited the Board to consider and approve the updated Audit Quality Framework which had been finalised following extensive engagement with Management Team, the Audit Committee and the Accounts Commission.

The Chair advised he would prefer principal changes set out in a covering report or as revisions marked on the draft framework to highlight the changes made following consultation. Russell Frith advised members that the main changes had been to strengthen the statement on the fundamental importance of quality to the Auditor General and the Accounts Commission by inserting new paragraphs 2 and 31. He advised that the remaining changes were final drafting changes to simplify the overall structure of the document.

Russel Griggs queried the potential conflict of the Director of Audit Services being the Chair of the Audit Quality Committee and queried how the KPIs would drive improvement. Russell Frith advised that the Director of Audit Services as the senior audit professional would not be conflicted in chairing the committee focussed on enhancing Audit Scotland's audit quality and that all audit firms were required to make such arrangements under international standards in audit quality. He also advised that the KPIs had been designed to inform and drive improvement and reporting on quality and that these may evolve over time.

Ronnie Hinds summarised the Accounts Commission's appreciation of the good work undertaken to deliver the Audit Quality Framework and Russell thanked the Acting Chair of the Accounts Commission.

Heather also welcomed the updated report.

The Board approved the Audit Quality Framework.

Elaine Boyd, Assistant Director, Appointments and Assurance Team, left the meeting

12. Digital Audit Strategy

Gemma Diamond, Senior Manager, Performance Audit and Best Value and David Robertson, Digital Services Manager, joined the meeting.

Gemma Diamond, Senior Manager, Performance Audit and Best Value introduced the Digital Audit Strategy report, which had been previously circulated.

Gemma invited the Board to note that the strategy sets out Audit Scotland's ambition to achieve a step change in using digital audit processes and in auditing the public sector's use of digital to improve services.

Russel Griggs commented that security should be at the centre of any digital based strategy and Gemma advised that the Digital Audit Strategy and Audit Scotland's Digital Services Strategy had security at its core.

Russel Griggs left the meeting at 1.20pm.

Heather Logan asked for further explanation on how the resources to deliver the strategy had been determined. Gemma advised that the digital strategy group had collated information from a range of Scottish Government projects, the work of the local government's digital office and Best Value reports on how digital is supporting services as well as contact with the National Audit Office and engagement with and access to firms' data.

The Chair asked about social media and Gemma advised this is covered under the digital auditing section of the strategy.

Following discussion, the Board welcomed the report and discussion.

13. Digital Services Strategy 2018-2021

David Robertson, Digital Services Manager, joined the meeting.

David Robertson, Digital Services Manager introduced the Digital Services Strategy 2018-2021 report, which had been previously circulated.

David invited the Board to consider Audit Scotland's digital services strategy for 2018-21 which had been developed following a review of Audit Scotland's operating environment and engagement with colleagues to understand the demands of the changing digital environment and key business drivers for the next three years. David advised that the strategy focussed on key priorities: security, integration and ongoing in digital skills.

During detailed discussion, the Board sought assurance around any known points of failure, overall system protection and managing cloud based services. David advised of the ongoing management of points of failure, the cost of protection available as part of the Scottish Government procurement programme and assured members that proper arrangements were in place for using cloud based services.

Heather Logan requested that the forthcoming Business Continuity report for the Audit Committee captures the relevant IT elements.

Following discussion, the Board welcomed the strategy.

Gemma Diamond, Senior Manager, Performance Audit and Best Value and David Robertson, Digital Services Manager, left the meeting.

14. 2016/17 Carbon Scrutiny Annual Report

Claire Sweeney, Assistant Director, Performance Audit and Best Value, joined the meeting

Claire Sweeney, Assistant Director, Performance Audit and Best Value, introduced the 2016/17 Carbon Scrutiny Annual Report, which had been previously circulated.

Claire invited the Board to consider and approve the annual report and comment on future areas of focus.

The Board noted the continued reduction in carbon emissions across all three environmental areas of energy, waste and transport with focus on behaviour to achieve more next year around travel.

Following discussion, the Board approved the report for publication.

Claire Sweeney, Assistant Director, Performance Audit and Best Value, left the meeting

15. Corporate Governance Policies Update

Alex Devlin, Corporate Governance Manager, joined the meeting.

Alex Devlin, Corporate Governance Manager, introduced the Corporate Governance Policies Update, which had been previously circulated.

Alex invited members to consider and approve the amendments to the Financial Regulations required to reflect the need for Audit Scotland to have a bank account through the Government Banking Service, minor amendments to the Scheme of Delegation and Members' Code of Conduct and the Staff Code of Conduct and updated Standing Orders to set out the responsibilities of the Audit Committee with regard to audit quality.

Following discussion, the Board approved policies for a further year.

16. Arrangements for Board meetings

Alex Devlin, Corporate Governance Manager, introduced the Arrangements for board meetings report, which had previously been circulated.

The Chair invited members' views on the frequency of holding Board meetings in public. During discussion, the members reflected on their desire for business to be conducted openly and transparently and agreed that all Board meetings should be held in public from January 2018.

Following discussion, the Chair requested the Standing Orders be updated to reflect the changes which would take effect from January 2018.

Action ASB62: Alex Devlin to update the Standing Orders to reflect the public meetings of the Board from January 2018. (January 2018)

Alex Devlin, Corporate Governance Manager, left the meeting.

17. 2018 proposed Board meeting dates

Diane McGiffen, Chief Operating Officer, introduced the 2018 proposed Board meeting dates report, which had previously been circulated.

Heather Logan asked whether the Audit Committee and Remco meetings scheduled in February and March respectively could be accommodated on the same day. Diane McGiffen advised that the planning schedule would be reviewed in advance of the Audit Committee meeting on 15 November 2017.

Action ASB63: Diane McGiffen to consider the proposed meeting dates for 2018 and report to the Audit Committee. (November 2017)

18. Publication of reports

The Board approved the publication of reports with the exception of items 9, 10, 11 and 14 on the basis that these draft papers would be published in due course.

19. Any Other Business

There was no further business.

20. Review of meeting

The members agreed the meeting had been conducted effectively and the Chair thanked everyone for their contribution.

21. Date of Next Meeting

It was noted that the next Audit Scotland Board meeting was scheduled for 29 November 2017 in the offices of Audit Scotland, 102 West Port, Edinburgh.

Ref	FORUM	Agenda Item No	Item Title	Action Description	Meeting Date	Due Date	Responsible	Assigned to	Complete/Ongoing	Reported Yes/No	Progress Notes
	Board	8	Spring Budget Revision	Scottish Commission for Public Audit for a £1,716k Spring	20/11/2014	30/11/2014	Diane McGiffen	David Hanlon	Complete		Complete
ASB16	Board	15	Corporate Governance Policies and Code of Conduct Review	The Corporate Governance Manager to review the Financial Regulations, Scheme of Delegation and staff Code of Conduct annually and report to the Board.	18/08/2016	23/08/2017	Alex Devlin	Alex Devlin	Complete	No	The annual review of the policies was considered by the Audit Committee on 15/11/2017 and subject to item 14 of today's agenda, recommended to the Board.
ASB24	Board	9	Securing World Class Audit - Developments in Audit	The Chief Operating Officer to schedule an update report on the Becoming World Class and world class audit.	27/10/2016	20/01/2017	Diane McGiffen	Russell Frith	Complete	Yes	The audit quality framework was considered and approved by the Board at its meeting on 25/10/2017.
ASB30	Board	10	Making a Difference: Digital Audit	Diane McGiffen, Chief Operating Officer, to schedule a report for a Board meeting later in the year.	20/01/2017	05/05/2017	Diane McGiffen	Martin Walker	Complete	Yes	The Digital Audit Strategy was considered by the Board at its meeting on 25/10/2017.
ASB49	Board	18	Making a Difference: Public Engagement Work with Young Scot	Diane McGiffen, Chief Operating Officer, to schedule an update report in March 2018.	31/03/2017	01/03/2018	Diane McGiffen	Joy Webber	Ongoing	No	This item will be scheduled for 18 March 2018.
ASB56	Board	11	Q4 Becoming world class improvement programme	Russell Frith, Assistant Auditor General to consider annual reporting by the audit firms as part of the audit quality review programme. (August 2017)	06/06/2017	23/08/2017	Russell Frith	Russell Frith	Complete	Yes	The audit quality framework was considered and approved by the Board at its meeting on 25/10/2017.
ASB58	Board	18	2016/17 Annual report on international work and international strategy 2017-20	Antony Clark, Chair of International Steering Group to consider the longer term impact of international work in future reporting.	06/06/2017	01/06/2018	Antony Clark	Sarah Pollock	Ongoing	No	A report will be scheduled by June 2018.
ASB59	Board	21	Any other business	Diane McGiffen, Chief Operating Officer to schedule a report on openness and transparency for the Board meeting on 23 August 2017.	06/06/2017	23/08/2017	Diane McGiffen	Martin Walker	Complete	Yes	The Board considered a report at its meeting on 23/08/17 and will consider a further report as item 16 on 25/10/17.
ASB60	Board	14	Openness and transparency	Martin Walker, Assistant Director, Corporate Performance and risk, to report back with detailed options and proposals on the practicalities and arrangements for supporting public meetings of the Board. (October 2017)	23/08/2017	25/10/2017	Martin Walker	Martin Walker	Complete	Yes	The report is item 16 on today's agenda.
ASB61	Board	9	2018/19 Draft Budget	Stuart Dennis, Corporate Finance Manager, to include an explanatory note on efficiencies into the budget proposal prior to submission. (November 2017)	25/10/2017	29/11/2017	Stuart Dennis	Stuart Dennis	Complete	Ongoing	An explanatory note regarding efficiencies has been incorporated into the budget proposal ahead of submission to the SCPA in December 2017.

ASB62	Board	16	Arrangements for Board meetings	Alex Devlin, Corporate Governance Manager, to update the Standing Orders to reflect the public meetings of the Board from January 2018. (January 2018)	25/10/2017	31/01/2018	Alex Devlin	Alex Devlin	Complete	No	The report is item 14 on today's agenda.
ASB63	Board	17	2018 proposed Board meeting dates	Diane McGiffen, Chief Operating Officer, to consider the proposed meeting dates for 2018 and report to the Audit Committee. (November 2017)	25/10/2017	29/11/2017	Diane McGiffen	Diane McGiffen	Complete	No	A report was submitted and the 2018 dates approved by the Audit Committee on 15 November 2017.

AUDIT SCOTLAND BOARD

29 NOVEMBER 2017

REPORT BY ASSISTANT DIRECTOR, AUDIT SERVICES AND PABV

NEW FINANCIAL POWERS AND CONSTITUTIONAL CHANGE UPDATE

1. Purpose

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

2. Background

We provided an update to the Board in June 2017 on the new financial powers and constitutional change. In August, the Board approved proposals for growth in Audit Scotland's budget for 2018/19, to accommodate additional work in response to financial devolution. The paper also outlined projections for further increases in the budget to 2021/22. Significant developments since then include:

- We have assessed the nature and extent of the new work we anticipate in 2018/19 and identified the resources required to deliver it. We have started to build capacity for additional work in the current year, including increasing our intake of professional trainees in October.
- The Scottish Government announced it will publish its draft budget for 2018/19 on 14 December 2017. In advance of this, the Scottish Government has published a discussion paper on the role of income tax in the budget. The Scottish Fiscal Commission will publish its first set of five-year forecasts alongside the budget.
- The Budget Process Review Group published its final report in June, which included 59 recommendations to deliver significant changes to the current budget process.
- The Social Security Bill was introduced to Parliament in June, setting out the overarching legislative framework for the administration of the devolved social security powers in Scotland. In September, the First Minister announced that the new social security agency will be co-located in Dundee and Glasgow.
- In October, the Finance Secretary announced that the devolved Air Departure Tax may not be introduced on 1 April 2018 as expected. This is due to EU state-aid rules and exemptions that currently apply to passengers flying from Highlands and Islands airports.
- The Scottish Government's Programme for Scotland included a commitment to introduce a Crown Estate Bill to Parliament in 2017/18. This will establish a long-term framework for the management of Crown Estate assets in Scotland, including opportunities for local management of these assets.

- The European Union (Withdrawal) Bill was introduced to the UK Parliament in July. The Scottish and Welsh Governments have stated that they will not give consent to the Bill unless it is substantially amended, and have jointly published a list of proposed amendments.

3. Scottish budget

The Scottish Government will publish its Draft Budget 2018/19 on 14 December 2017, three weeks after the UK budget is published on 22 November. The Scottish Fiscal Commission will publish its first set of five-year forecasts of tax revenues, social security spending and onshore GDP on the same day. Parliamentary scrutiny of the budget will take place through to 25 January 2018, when the Budget Bill will be introduced.

The Scottish Government has published a discussion paper on the role of income tax in the budget. It sets out:

- how the Scottish budget is set, the Scottish Parliament's income tax powers, and the income taxpayer base
- what taxes pay for, policy choices available to the Scottish Government, and the tests against which the Scottish Government will assess any policy changes
- analysis of income tax proposals of all the parties represented in the Scottish Parliament
- possible alternative income tax approaches, aimed at encouraging debate on how the powers can be used.

On publishing the paper, the First Minister stated "With all the pressures we now face, we must consider if the time has come for those who earn the most to pay a modest amount more to enable us to do so." The Scottish Government intends to discuss approaches to income tax with opposition parties and representatives from business, trade unions, civic society and the tax profession, before the draft budget is published.

The Budget Process Review Group (BPRG) published its final report on 30 June. This included 59 recommendations, which would deliver significant changes to the current budget process. The AGS and Dr Angela O'Hagan gave evidence on the report's findings and recommendations to the Finance and Constitution Committee in September, on behalf of the BPRG. The recommendations are intended to:

- make a shift to a more continuous, year-round budget process
- improve transparency and raise public understanding of the budget
- ensure a greater focus on what spending has achieved and what budgets aim to achieve over the long-term
- separate the factual content of the budget from any political narrative
- provide clear financial information about the operation of 2012 and 2016 Scotland Act powers.

The Cabinet Secretary for Finance and the Constitution welcomed the findings of the BPRG and has committed to implement the recommendations "as quickly as possible, including implementing recommendation 44 on increasing transparency in time for Draft Budget 2018-19." We will assess the extent to which the Scottish Government has done this as part of our analysis of the draft budget. The majority of the remaining recommendations are set to be implemented for the 2019/20 budget, starting with publication of the first Medium Term Financial Strategy by June 2018.

The BPRG's recommendations have major implications for parliamentary scrutiny, and for Audit Scotland's role in supporting Parliament. We are considering the implications for our role and working with colleagues in the Scottish Parliament to help communicate and implement the recommendations.

4. Social security powers

The Social Security (Scotland) Bill was introduced to Parliament on 20 June 2017. The Bill sets out the overarching legislative framework for the administration of the devolved social security powers in Scotland and moves 11 existing social security benefits into Scottish legislation. Once the Bill enters into law it will be followed by a significant body of secondary legislation providing detail on each benefit and the operation of the social security system. It is anticipated that this secondary legislation will come into force within the current parliamentary term (i.e. by the end of 2020/21).

In September, the First Minister announced that Scotland's new social security agency will be based in Dundee and Glasgow, with 1,500 new jobs expected to be created across both cities. The Scottish Government estimates it will cost £308 million to set-up the agency (over the period 2017/18 to 2020/21) and that annual running costs once the agency has been fully established (i.e. from 2020/21) will be between £144 million and £156 million.

We are examining the Scottish Government's progress in planning for and implementing the devolved social security powers as part of our latest performance audit on the implementation of the 2012 and 2016 Scotland Acts.

The AGS will appoint the auditor for both the social security agency and the payments that it administers. We have assessed the nature and extent of this work in 2018/19, and identified the resources required to deliver it. We will continue to review this and build additional capacity as more social security benefits are devolved through to 2021.

5. Air Departure Tax

On 5 October, Derek McKay, Cabinet Secretary for Finance and the Constitution, gave a ministerial statement on Air Departure Tax, which has cast doubt on whether the fully devolved tax will be introduced in April 2018 as planned.

An exemption from UK-wide Air Passenger Duty for flights from the Highlands and Islands has been in place since 2001, and the Scottish Government wants to continue to apply this exemption to the devolved Air Departure Tax. However, it has concluded that for the exemption to be compliant with EU law and state-aid regulations, it must now be notified for approval to the European Commission (this was not done when the exemption was originally introduced). As the UK is the member state, only the UK Government can do this. Mr McKay stated that the UK Government is reluctant to notify the European Commission unless the Scottish Government accepts full liability for all risks and costs.

To match the exemption for all Highland and Island flights would require the Scottish Government to forego annual revenues of more than £320 million. Mr Mackay concluded that "Air Departure Tax cannot be put into operation while significant uncertainty hangs over the Highlands and Islands". He has written to the UK Government, suggesting that the block grant adjustment is amended to enable the Scottish Government to deliver the devolved tax in a way that ensures neither the Highlands and Islands nor Scotland's public finances suffer. If a resolution has not been agreed by the time of the UK budget on 22 November it looks unlikely that devolved Air Departure Tax will be introduced in April 2018.

6. Crown Estate Scotland

Crown Estate Scotland manages assets on behalf of Scottish Ministers, including agricultural and forestry land, some of the seabed and foreshore, and commercial property. It is a public corporation that was established on an interim basis until new legislation sets out permanent arrangements. These arrangements, which are expected to be in place by the end of 2019, may involve transferring the Crown Estate to local authorities.

The Scottish Government consulted on the long-term management of the Crown Estate in January, and set out three options:¹

- Option 1: retain management of all assets at the national level
- Option 2: devolve management of all assets to local authorities or communities
- Option 3: consider on a case-by-case basis the appropriate governance arrangements for each asset.

At the time, Ministers indicated that they see option 3 as having the most merit as it avoids a one-size-fits-all approach and offers scope for further devolution.

The Scottish Government's Programme for Scotland, published in September, includes a commitment to introduce a Crown Estate Bill to Parliament in 2017/18. This will establish a long-term framework for the management of Crown Estate assets in Scotland. The Scottish Government aims to provide opportunities for local management of these assets, to benefit communities and the economy.

Crown Estate Scotland published its corporate plan for 2017-20 in early November. It sets out a commitment to launch a new scheme that will enable local authorities, development trusts and other bodies to apply to manage assets in their local area. The aim is to give local communities more control over decisions regarding Crown Estate Scotland assets. Different models will be piloted and assessed to identify which ones work best in delivering financial, social and environmental benefits.

7. EU withdrawal

In the Queen's Speech following the 2017 UK election, the UK government set out its legislative programme, including a suite of UK Bills to deliver EU withdrawal. The first of these, the European Union (Withdrawal) Bill, is currently being considered by the UK Parliament. Detailed scrutiny is due to begin in the House of Commons on 14 November. Consideration of the Bill is expected to continue until January 2018. Bills on customs, trade, immigration, fishing and agriculture are expected to follow.

The Scottish Government is not currently recommending Parliamentary support for the EU Withdrawal Bill. The Scottish and Welsh Governments have written to the Prime Minister to outline why they could not give consent to the Bill unless it was substantially amended, and have jointly published a list of proposed amendments. The amendments are intended to achieve the following objectives:

- Ensure devolved policy areas come back to the Scottish Parliament and National Assembly of Wales on withdrawal from the EU.

¹ *A consultation on the long-term management of the Crown Estate in Scotland*, Scottish Government, January 2017.

- Prevent UK ministers unilaterally changing the Scotland Act and Government of Wales Act.
- Require the agreement of the Scottish Government on necessary changes to current EU law in devolved areas after Brexit.
- Ensure additional restrictions are not placed on devolved ministers compared with UK Government ministers.

EU withdrawal will inevitably have implications for devolved government in Scotland and for Scottish public bodies and councils. An initial assessment by the UK Government has identified 111 areas where powers returning from the EU intersect with the devolution settlement in Scotland. This includes areas such as agriculture, the environment, public procurement and state aid. Scottish Parliament committees continue to take evidence on the potential implications of EU withdrawal for Scotland.

We are continuing to monitor issues as they develop and identify associated audit risks. The audit planning guidance for 2017/18 audits asks auditors to consider the extent to which public bodies are working to understand, assess and prepare for the UK leaving the EU. We have identified three broad areas where EU withdrawal is likely to impact on public bodies:

- Workforce – the extent to which potential changes to migration and trade policies are likely to affect the availability of skilled and unskilled labour.
- Funding – the extent to which potential changes to funding flows, including amounts anticipated under existing EU funding programmes, are likely to affect the finances of the organisation and the activity that such funding supports.
- Regulation – the extent to which potential changes to regulation across a broad range of areas currently overseen at an EU level are likely to affect the activities of the organisation.

We are considering the potential impact on our work and identifying any business risks. Management Team plan to discuss this in December with colleagues from across the organisation. We will pick up any operational issues through the new financial powers and constitutional change programme, including implications for workforce planning and our work programme.

8. Audit arrangements

Discussions are continuing between the Scottish Government and HM Treasury on audit and accountability arrangements for devolved services. The Scottish Government has formally consulted with Audit Scotland on a draft document, and HM Treasury consulted with the NAO. We provided a response to the Scottish Government in June, setting out our views on the draft framework and proposing amendments.

We do not know when the Scottish Government and HM Treasury aim to finalise the framework. The Public Audit and Post-legislative Scrutiny Committee is taking evidence on progress from the Scottish Government on 7 December. We will continue to engage with the Scottish Government and NAO, to help ensure the arrangements are fit for purpose and meet the needs of the Scottish Parliament. There is a risk we are unable to support the Parliament in all newly devolved areas if this is not the case.

9. Audit reporting

The AGS published a section 22 report on the 2016/17 audit of the Scottish Government consolidated accounts in September, which was considered by the Public Audit and Post-legislative Scrutiny Committee on 5 October. The key messages relating to the new financial powers were as follows:

- The implementation of new financial powers and changes that will arise from the UK's decision to leave the European Union, mean it is critical that the Scottish Government continues to strengthen its approach to public financial management and reporting.
- The Budget Process Review Group's recommendations provide a real opportunity for the Scottish Government to significantly strengthen its financial reporting and support Parliamentary and public scrutiny as we enter a new environment for public financial management in Scotland.
- The amount raised from Land and Buildings Transactions Tax and Scottish Landfill Tax in 2016/17 was £633 million. This was £38 million less than the forecast of £671 million included in the budget. As with any forecast, actual amounts are likely to differ from those predicted. The Scottish Government managed this shortfall through underspends in its overall budget.

We are currently undertaking the next performance audit in our series on the financial powers in the 2012 and 2016 Scotland Acts, on behalf of the AGS. We are examining how effectively the Scottish Government is managing the implementation of the new financial powers, with a particular focus on the devolved social security powers. The audit will assess the Scottish Government's overall capacity and capability to successfully implement and deliver the devolved powers, and will provide an update on the creation and operation of two new bodies – the Crown Estate in Scotland and the Scottish Fiscal Commission. The report is due to publish in spring 2018. It will build on our three previous reports in this area, published in 2014, 2015 and March 2017.

The National Audit Office (NAO) expects to report on its 2016/17 audit of HMRC's implementation of the Scottish Rate of Income Tax by the end of the year. As in the previous two years, the AGS will publish a report alongside this, providing additional assurance to the Scottish Parliament on the NAO's audit work in this area.

10. Organisational arrangements

In August, the Board approved proposals for growth in Audit Scotland's budget for 2018/19, to accommodate additional work in response to financial devolution and constitutional change. The paper also outlined projections for further increases in the budget to 2021/22.

We have already started to build capacity through an increased intake of trainees in October 2017, and are managing the transitional costs of this. We have been working with colleagues across the organisation to identify what specific work will be required in 2018/19, how we will deliver it, what people and skills will be required, and how best to build this capacity. We have started setting up teams and assigning responsibilities to staff for two of the biggest new pieces of work - the audits of social security and wider public financial management work.

We aim to increase capacity in a managed way, and ensure resources are available at the right time and in the right place to allow us to respond effectively as the demands on us grow. We have developed a set of principles that underpin our approach. This

includes taking a 'one organisation' approach to resourcing and capitalising on opportunities presented by BaBO, such as Career Development Gateways, to explore new and innovative ways of working.

Our programme of work in this area continues and reflects the range of activity covered by this report. We have a risk register for the programme and are managing key risks. Two of the most significant risk areas, and our immediate priorities, are workforce and recruitment planning and engaging with the Scottish Government and NAO to progress the audit and accountability framework.

11. Conclusion

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

AUDIT SCOTLAND BOARD

29 NOVEMBER 2017

REPORT BY THE CORPORATE FINANCE MANAGER

Q2 FINANCIAL PERFORMANCE REPORT 2017/18

1. Purpose

This report presents the draft financial results for the six months to September 2017.

2. Background

The Management Accounts and finance report for the six months to September 2017 is attached to this paper. The paper comprises the following sections.

- Schedule 1 Headline Results and commentary
- Schedule 2 Results Summary
- Schedule 3 Balance Sheet
- Schedule 4 Cash Flow Statement
- Schedule 5 Capital Expenditure and Funding Report
- Schedule 6a ASG Finance Report
- Schedule 6b PABV Finance Report
- Schedule 6c CSG Finance Report
- Schedule 6d BSS & FM Finance Report
- Schedule 7 WTE Staff in Post Summary 2017/18
- Schedule 8a Work in Progress 2016/17 Audit Year
- Schedule 9 2017/18 Financial year – fee income analysis

The report was discussed by Management Team on Tuesday 24 October 2017.

3. Discussion

In the six months to September 2017, Audit Scotland's Net Operating Expenditure was £1,861k which was £75k less than budget.

In-house income was £64k less than plan mainly due to the progress made on European Agricultural Fund Audit (EAFA) being delayed due to the ongoing payments problem.

Fee income earned for audits carried out by external firms net of fees and expenses paid to the firms was £8k less than budget. Although income was £178k higher than budget, this was offset by fees and expenses payable to the external firms which were £170k higher than budget. This recognises the additional work carried out by firms to generate the higher income earned.

Staff costs including agency and secondment expenditure and net of secondment income were £81k more than budget.

Other expenditure contributed £218k to the favourable position. Reduced costs were recorded for legal, professional and consultancy £52k, staff training £51k, printing and office costs £34k, and information technology £26k.

There are no matters of concern requiring discussion with Audit Committee.

Further detailed information on the financial results is provided in the attached report.

4. Virement

There were no instances of budget virement in excess of £20k in the six months to September 2017.

5. Action

The Board is invited to note the financial results for the six months to September 2017.

FINANCE REPORT

Six Months to 30 September 2017

1.1 Headline Results

1. In the six months to September 2017 Audit Scotland's Net Operating Expenditure at £1,861k was £75k less than budget.
- Total income recorded in the six months to September 2017 was £157k more than the phased budget. Fee income including central charges was £114k higher than budget. Other income earned from staff on secondment to other organisations totalled £49k. Bank interest, at £7k, was £6k less than budget.
 - Expenditure was £82k more than budget. Favourable variances were recorded for own staff costs £54k, legal, professional and consultancy £52k, training £51k, printing and office £34k and information technology (IT) £26k. These favourable variances were partly offset by increased expenditure on approved auditors £170k and agency and seconded staff £184k. Further details are provided in section 2.

1 The summary financial information to September 2017:

£000	Annual Budget	Actual	Budget	Var.	% Var.	Prior Year
Fee Income - In House	7,200	4,332	4,396	(64)	1.5%	4,921
Fee Income - Audit Firms	4,463	3,187	3,009	178	-5.9%	4,089
Central Charges	5,505	2,752	2,752	0	0.0%	2,359
Interest	25	7	13	(6)	46.2%	19
Other Income	0	49	0	49	-	61
IAS 19 Income	0	0	0	0	-	0
TOTAL INCOME	17,193	10,327	10,170	157	1.5%	11,449
Approved auditors	3,952	2,807	2,637	(170)	6.4%	3,640
Staff salaries and oncosts	15,025	7,453	7,507	54	-0.7%	7,441
Payroll provisions incl. severance	114	0	0	0	-	0
Agency and secondment costs	60	244	60	(184)	306.7%	260
IAS 19 Pension costs	90	0	0	0	-	0
Property costs	930	418	430	12	-2.8%	442
Travel and subsistence	922	428	438	10	-2.3%	417
Legal, professional and consultancy	546	97	149	52	-34.9%	190
Training	528	160	211	51	-24.2%	142
Recruitment	105	52	53	1	-1.9%	70
Printing and office costs	286	108	142	34	-23.9%	131
Information technology	436	192	218	26	-11.9%	186
Audit	60	30	30	0	0.0%	26
Depreciation	397	183	199	16	-8.0%	178
Other costs	73	16	32	16	-50.0%	32
EXPENDITURE	23,524	12,188	12,106	(82)	0.7%	13,155
NET OPERATING (EXPENDITURE)	(6,331)	(1,861)	(1,936)	75	-3.9%	(1,706)

FINANCE REPORT

Six Months to 30 September 2017

2. Income and Expenditure Summary (See Headline Table, above, and Sch. 2)

a) Income

In the six months to September 2017 total income, including central charges was £157k higher than budget.

In-house fee income - £64k adverse variance

The phased budgets for fee income have been profiled, mainly, on the basis of actual income levels recorded during the 2016/17 financial year. As the budgets have been based on the balance of expected audit fees to be collected in the financial year, variances will arise as a result of volume and price differences. Volume variances will occur when the WIP percentage reported is either above or below the percentage anticipated in the budget. Price variances will reflect the degree to which the fees have been agreed above, or below, the expected values included in the budget. The table below shows the performance by sector at September 2017 for the 2016/17 in-house audits:

2016/17	Volume		Price	Total
	Cumulative WIP %	£k	£k	£k
Local Government	-1.82	-76	+48	-28
Health	0.00	0	+7	+7
FE	+20.21	+9	+4	+13
Central Government	-3.79	-4	+19	+15
Non-statutory audits	-10.15	-75	+4	-71
Total – September 2017	-2.11	-146	+82	-64

Work in progress (WIP) completion percentages are compiled through access to ASG's Management Information System (MIS) which captures audit day inputs from the MKI audit working papers system. The system derived percentages have been submitted for review by the ASG Assistant Directors or Audit Managers, in some cases, and based on the returns received the audit completion percentages have been adjusted to provide a more representative WIP position as at the end of September 2017.

The majority of fee income relates to the 2016/17 audit year.

Income earned for in-house 2016/17 audits (excluding credits for non-chargeable audits) was £64k less than the phased budget. Audit progress for 2016/17 chargeable audits was on average -2.11% below the budget expectation which decreased income by £64k. The agreement of fees above the expected level included in the budget increased income by £82k – on average agreed fees are 1.9% higher than budget levels.

Last month the Central Government sector adverse variance related to the European Agricultural Fund Audit (EAFA). This month, in order to make this more transparent, we have separated out the non-statutory audits, principally EAFA, to highlight the impact that the delayed payments problem is having on our ability to progress. Our audit activity is based on sample testing and as the payments are later than planned this year our planned progress has slipped.

FINANCE REPORT

Six Months to 30 September 2017

External audit firms fee income - £178k favourable variance

The table, below, shows the performance for approved auditors to September 2017:

2016/17	Volume		Price	Total
	Cumulative WIP %	£k	£k	£k
Local Government	-0.67	-17	+146	+129
Health	0.00	0	+44	+44
FE	-1.22	-5	+7	+2
Central Government	-1.73	-6	+9	+3
Water	0.00	0	-	-
Total – September 2017	-0.60	-28	+206	+178

Income earned in respect of audits undertaken by external firms was £178k more than budget – audit progress information is collected from firms on a quarterly basis and the current results reflect the returns made at September 2017. The agreement of fees above the expected level included in the budget increased income by £206k – on average agreed fees are 4.7% higher than budget levels. Audit progress on average was 0.60% below that assumed in the budget, for chargeable audits, reducing income by £28k.

Further fee income information

The Management Team should note that any volume variance against fee income reported for 2016/17 audits at September 2017 will be timing related. Income will move towards budget or, where higher than expected fees have been agreed, exceed budget as recognition of the balance of the 2016/17 audit fee income is made over the next two months.

Schedule 8a details the cumulative WIP completion percentages for 2016/17 audits in each sector at September 2017. Information is also provided in terms of the budget for 2016/17 audits and a comparator with the position reported at September 2016 (2015/16 audit year). Schedule 9 provides an analysis of total fee income by sector, audit year and by provider (in-house and external firms).

Other income - £43k favourable variance

Other income recovered for staff seconded to other public sector organisations was £49k above budget. Interest received, at £7k, was £6k less than budget – an adverse trend that is likely to continue as interest rates paid by our bank have been radically adjusted downwards from 21 June, falling to 0.01% from 1.0% (interest earned on bank balances for September was just £17 compared to £1.4k in July).

b) Expenditure

Total expenditure for the six months to September 2017 at £12,188k was £82k more than budget.

Staff & Agency Costs - £130k adverse variance

Own staff costs in the six months to September 2017 were £54k less than budget. The average number of staff employed in the six months to September 2017 at 267.9 w.t.e. was 7.0 w.t.e. lower than the establishment figure of 274.9 w.t.e. The staff budget for 2017/18 assumes a 2%

FINANCE REPORT**Six Months to 30 September 2017**

vacancy factor and therefore the average number of staff employed in the period was 1.5 w.t.e. more than the numbers funded in the budget. Lower than budgeted average actual salary costs per employee was the main contributor to the favourable variance. Further information is provided in schedule 7.

Agency and secondment costs were £184k greater than budget. The largest single element of the variance, £83k, related to the secondment of two staff from other public bodies to PABV (from West Lothian Council and Scotland's Rural College). The balance of the adverse variance was split between ASG, £81k, for agency staff assisting with peak audit workload, £7k of agency expenditure incurred by Digital Services to cover a maternity/paternity absence, £4k in HR covering vacancy/maternity and £9k in Business Support to cover for a member of staff on secondment.

Total staff costs to 30 September 2017 including agency and secondment expenditure and net of secondment income were £81k higher than budget.

Approved auditors - £170k adverse variance

Fees and expenses payable to external audit firms were £170k more than budget. The fees paid to external firms were £165k greater than budget and VAT recoveries on Local Government work £12k more than budget. Expenses paid were £17k more than budget. Excluding payments made to firms for non-chargeable audits which were £10k more than budget, fees paid for chargeable audits were £160k more than budget. The increase in audit fee income reported by the audit firms has a 'knock on' effect on the amount of the fees payable to the firms that is recognised in the accounts for the period. As income earned for chargeable audits carried out by external firms was £178k more than budget the fees and expenses associated with the work were also higher than budget – due to variable discounts offered by firms and the actual mix of WIP reported at September 2017, fees for chargeable audits were £160k greater than budget.

Other expenditure - £218k favourable variance

Legal, professional and consultancy fees were £52k less than budget mainly as a result of reduced consultancy expenditure across all business groups.

Training costs in the six months to September 2017 were £51k less budget. Training expenditure was £43k less than budget and lower costs in respect of attendance at seminars/conferences, £11k. Professional trainee costs and professional subscriptions were slightly above budget at -£3k.

Expenditure on printing and office costs was £34k less than budget as a result of a number of small variances across a range of cost categories the most notable of which were photography £6k, stationery £7k, books and periodicals £10k and mobile phones £9k.

IT costs were £26k lower than budget, a mixture of variances have contributed. The main contributors to the underspend were software licences and development, £28k and communications, £6k. The main adverse variance was -£13k against software costs.

At this point in the year it is likely that many of the favourable other expenditure variances will decrease as the year progresses due to the timing of expenditure.

Management Contingency & Provision budgets

The 2017/18 budget included a contingency fund of £150k which is controlled by the Management Team. In setting our operational budget £52k was allocated to part fund the additional costs arising from the implementation of our new reward system. A further £22k has been allocated to a project for the development of the corporate performance and business management framework and a market scan of potential digital solutions. As a result £76k remains uncommitted at the end of September 2017.

A further £114k in respect of payroll reserves has been earmarked to fund additional work arising from New Financial Powers (NFP) and the impact of the EU referendum (£100k) and to

FINANCE REPORT

Six Months to 30 September 2017

support the enhanced quality regime (£14k).

3. Balance Sheet (See Sch. 3)

At 30 September 2017, net liabilities of £32,323k were recorded in the Balance Sheet. This represented a decrease in net liabilities of £210k from the audited position at 31 March 2017.

Non-current assets have reduced by £145k as result of depreciation charges on our assets being greater than new capital investment in the six months to September 2017.

The final round of billing related to the 2016/17 audits took place in September, resulting in an increase in our debtors. Overall, trade and other receivables have increased by £1,785k, our billing increased debtors by £2,826k partially offset by a £1,085k reduction in WIP accruals. Our cash balance has increased by £1,930k with monies received from our billing.

Trade and other payables increased by £3,310k due to writing back accruals and a reduction in the deferred income. The cash balance payable to the Consolidated Fund increased by £1,930k, as outlined above.

Deferred liabilities increased by £144k due to the continuing build up of the rent free provision for the new Edinburgh office. This provision is being created over the first 39 months of the lease. The provision for early retirement has reduced by £94k following payments made for BSS voluntary redundancy departures and monthly payments made for early retirements of former Accounts Commission and Local Government Ombudsmen staff.

4. Cash Flow Statement (See Sch. 4)

In the six months to September 2017 cash balances have increased by £1,930k from £1,450k at March 2017 to £3,380k at September 2017. The position includes receipts from fee invoicing and £4,000k drawn down from the Scottish Consolidated Fund.

5. Capital Expenditure and Funding Report (See Sch. 5)

Capital investment in the six months to September 2017 totalled £40k. Investment in new furniture and fittings for the Glasgow office refurbishment was £34k. £6k was spent on additional RSA security tokens and software to trial mobile capture of expenses.

The financial year capital allocation is £200k and the capital expenditure programme projects that this will be spent in full by 31st March 2018.

6. Business Group Summaries (See Sch. 6 a~d)

6.1 Audit Services Group - net operating contribution of £889k, £60k lower than budget

- Fee income (including credits for non-chargeable work) was £21k higher than budget. Adverse variances were recorded for Local Government, -£28k, and Non-statutory audits, -£72k, with all other sectors showing positive variances: NHS, £7k, FE, £13k, Central Government Chargeable, £15k, and Central Government non-chargeable, £85k. On average WIP was -0.85% less than assumed in the budget. With the budget phased broadly in line with actual experiences last year and WIP calculated on time recorded through MKI, this reported volume variance is essentially a timing difference. The agreement of fees above the expected level included in the budget increased income and income credits by £82k. Further details on income are provided in section 2, above, and schedules 8 and 9.
- Income earned from secondments was £23k above budget and related to a member of staff seconded on a part-time basis to ICAS.
- Own staff costs were £31k more than budget. The average number of staff employed in the six months to September 2017 at 144.5 w.t.e. was 0.6 w.t.e. below establishment. As

FINANCE REPORT**Six Months to 30 September 2017**

the staff budget for 2017/18 assumed a 2% vacancy factor, the average number of staff employed in the period was 2.9 w.t.e. more than the numbers funded in the budget. The additional cost of employing these staff was partly offset by lower than budgeted average actual salary costs per employee. Agency expenditure was £81k more than budget. Total staff costs including agency and net of secondment income were £99k more than budget.

- Expenditure levels in other categories were £18k less than budget mainly as a result of lower travel, subsistence and leased car costs £11k.

6.2 PABV - net expenditure £1,752k, £68k less than budget

- Total staff costs inclusive of secondment charges and net of secondment income were £35k less than budget. Two staff seconded into PABV from West Lothian Council and Scotland's Rural College increased expenditure by £83k. This expenditure was offset by lower own staff costs which were £108k less than budget (average staffing in the year was 56.4 w.t.e. compared to an establishment of 61.8 w.t.e.).
- £10k of income was received for a member of staff seconded to the Scottish Parliament in the first quarter of the financial year.
- Other expenditure in the six months to September 2017 was £33k less than budget – mainly attributable to consultancy expenditure.

6.3 Corporate Services - net expenditure £1,566k, £84k less than budget

- Own staff costs were £39k higher than budget for the period. CSG staffing at 32.8 w.t.e. was 1.0 w.t.e. above establishment, with the majority of the adverse cost variance being driven by the 2% vacancy factor. Agency staff expenditure as a result of backfilling staff on maternity/paternity leave was £11k more than budget.
- Other expenditure for Corporate Services was £139k less than budget. The main contributors to this variance were training and recruitment costs £43k, ICT expenditure £27k, consultancy £27k, and depreciation charges £16k.
- Bank interest earned in the year was £6k less than budget due to interest rates paid by the bank on deposits reducing significantly since the budget was set.

6.4 Business Support and Facilities Management - net expenditure £767k, £52k lower than budget

- Staff costs, including agency charges, were £20k lower than budget. The average number of staff employed in the year was 20.3 w.t.e., 1.9 w.t.e. below establishment. Three supernumerary members of staff left on voluntary redundancy terms in the six months to September 2017.
- £16k of income has been received for a member staff seconded to Queen Margaret University.
- Other expenditure at £438k was £16k less than budget as a result of a number of small variances the largest of which were accommodation related as a result of lower property maintenance costs, £11k.

Stuart Dennis
Corporate Finance Manager
20 October 2017

AUDIT SCOTLAND

FINANCE REPORT

RESULTS SUMMARY: 30 September 2017

Schedule 2

£(000)'s	Annual	Actual	Period	Variance	Actual	Budget	Variance
INCOME							
Fee Income - In House	7,200	697	891	(194)	4,332	4,396	(64)
Fee Income - Audit Firms	4,463	1,682	1,549	133	3,187	3,009	178
Central Charges	5,505	459	459	0	2,752	2,752	0
Rebate	0	0	0	0	0	0	0
Bank interest	25	0	2	(2)	7	13	(6)
Other Income	0	7	0	7	49	0	49
TOTAL INCOME	17,193	2,845	2,901	(56)	10,327	10,170	157
EXPENDITURE							
Commission	177	13	14	1	80	86	6
Board	31	3	3	0	16	16	0
Auditor General	233	19	19	0	115	116	1
Accounts Commission Secretary	97	7	8	1	45	48	3
Management Team	623	50	52	2	297	311	14
Audit Strategy	683	54	51	(3)	338	323	(15)
Approved Auditors	3,952	1,382	1,302	(80)	2,807	2,637	(170)
Audit Services Group	8,483	726	717	(9)	4,350	4,246	(104)
Performance Audit and Best Value	3,757	299	324	25	1,762	1,820	58
Corporate Services	3,441	268	292	24	1,574	1,663	89
Business Support & Facilities	1,640	131	137	6	783	819	36
Reserves & Provisions	331	3	4	1	21	21	0
Contingency & EYF	76	0	0	0	0	0	0
TOTAL EXPENDITURE	23,524	2,955	2,923	(32)	12,188	12,106	(82)
NET OPERATING (EXPENDITURE)	(6,331)	(110)	(22)	(88)	(1,861)	(1,936)	75
SCPA agreed Budget	(6,331)						
Budget Revision - AME pension adjustment	(6,331)						

AUDIT SCOTLAND

FINANCE REPORT

Balance Sheet As at 30 September 2017

Schedule 3

	31 March 2017 (Audited) £(000)'s	30 Sept 2017 £(000)'s
Non-Current Assets		
Property, Plant and Equipment	1,553	1,417
Intangible Assets	90	81
Total non-current assets	1,643	1,498
Current Assets		
Trade and other receivables	2,315	4,100
Cash and cash equivalents	1,450	3,380
Total current assets	3,765	7,480
Total assets	5,408	8,978
<u>Less: Current Liabilities</u>		
Trade and other payables < 1 year	3,624	6,934
Provision for early retirement < 1 year	254	160
Other provisions < 1 year	0	0
Total current liabilities	3,878	7,094
Non-current assets plus/net current assets/liabilities	1,530	1,884
Non-current liabilities		
Deferred liabilities	(545)	(689)
Provision for Early Retirement	(1,903)	(1,903)
Other provisions	(150)	(150)
Net Funded Pension Liabilities	(31,465)	(31,465)
Total non-current liabilities	(34,063)	(34,207)
ASSETS LESS LIABILITIES	(32,533)	(32,323)
<u>Represented by:</u>		
Taxpayers' Equity		
Net funded pension liabilities	31,465	31,465
General Fund	1,068	858
	32,533	32,323

**Cash Flow Statement
to 30 September 2017**

Schedule 4

£(000)'s

Cashflows from operating activities

Net Operating expenditure	(1,861)
<i>Adjustment for non cash items:</i>	
- Depreciation	183
- Other non-cash items	
(Increase)/Decrease in trade and other receivables	(1,785)
(Decrease)/Increase in trade/other payables/deferred liabilities	1,527
(Decrease)/Increase in provisions for early retirement	(94)
(Decrease)/Increase in other provisions	0

Net cash outflow from operating activities **(2,030)**

Cashflows from investing activities

Purchase of property, plant and equipment	(36)
Purchase of intangible assets	(4)
Less / (add) movement in accrued expenditure	
	(40)

Cashflows from financing activities

From Consolidated Fund (supply)	4,000
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Net increase / (decrease) in cash and cash equivalents in the period **1,930**

Cash and cash equivalents at the beginning of the period **1,450**

Cash and cash equivalents at the end of the period **3,380**

Net cash requirement

Cashflows from financing activities	4,000
(Increase)/ decrease in cash	(1,930)
	2,070

Capital Expenditure and Funding Report
As at 30 September 2017

Schedule 5

	Leasehold Buildings £(000)'s	Furniture & Fittings £(000)'s	Computer Hardware £(000)'s	Computer Software £(000)'s	TOTAL £(000)'s
ASSETS					
Cost					
At 1 April 2017	1,276	271	909	798	3,254
Reclassified in year	0	0	0	0	0
Additions for year	0	34	2	4	40
Disposals for year	0	0	(4)	0	(4)
As at 30 September 2017	1,276	305	907	802	3,290
Depreciation					
At 1 April 2017	263	85	555	708	1,611
Reclassified in year	0	0	0	0	0
Charge for Year	68	27	75	13	183
Disposals for year	0	0	(2)	0	(2)
As at 30 September 2017	331	112	628	721	1,792
Net Book Value					
As at 30 September 2017	945	193	279	81	1,498
Analysis of Asset Financing					
Owned	945	193	279	81	1,498

AUDIT SCOTLAND

FINANCE REPORT

ASG FINANCE REPORT: to 30 September 2017

Schedule 6a

£(000)'s	Annual Budget	Period	Period Budget	Variance	YTD	Budget YTD	Variance YTD
INCOME							
LG Audits	4,136	623	789	(166)	2,698	2,726	(28)
Health Audits	1,271	0	0	0	864	857	7
CG Audits	1,034	75	89	(14)	509	494	15
Non-statutory	717	(7)	0	(7)	228	300	(72)
CG Audits (non-chargeable)	1,933	280	230	50	884	799	85
FE Audits	43	6	13	(7)	32	19	13
Fees for Additional Audits	0	0	0	0	1	0	1
TOTAL FEE INCOME	9,134	977	1,121	(144)	5,216	5,195	21
Secondments Income	0	4	0	4	23	0	23
Other Income	0	0	0	0	0	0	0
OTHER INCOME	0	4	0	4	23	0	23
TOTAL INCOME	9,134	981	1,121	(140)	5,239	5,195	44
DIRECT COSTS							
Salaries	5,836	485	486	1	2,940	2,918	(22)
National Insurance	640	53	53	0	322	320	(2)
Superannuation	998	84	83	(1)	506	499	(7)
Superannuation Lump Sum	40	3	3	0	20	20	0
Class 1A NI	43	4	4	0	31	21	(10)
Agency Costs and Secondments	60	28	10	(18)	141	60	(81)
TOTAL DIRECT COSTS	7,617	657	639	(18)	3,960	3,838	(122)
EXPENDITURE							
Training & Recruitment	41	0	2	2	12	12	0
Cars	362	31	29	(2)	164	175	11
Travel & Subsistence/Relocation	413	36	39	3	195	196	1
Accommodation	0	0	0	0	5	0	(5)
Other Accommodation Costs	6	1	1	0	4	3	(1)
Printing	2	0	0	0	1	1	0
Communications	0	0	0	0	0	0	0
Stationery & Consumables	4	0	0	0	1	2	1
Postage & Distribution	3	0	0	0	1	2	1
ICT	16	0	4	4	3	8	5
Consultancy	6	0	1	1	0	3	3
Legal/Professional Fees	0	0	0	0	0	0	0
Insurance	0	0	0	0	0	0	0
Corporate Costs	8	0	1	1	3	4	1
Depreciation	0	0	0	0	0	0	0
Miscellaneous	5	1	1	0	1	2	1
TOTAL EXPENDITURE	866	69	78	9	390	408	18
GROSS EXPENDITURE	8,483	726	717	(9)	4,350	4,246	(104)
NET OPERATING CONTRIBUTION TO OVERHEADS	651	255	404	(149)	889	949	(60)

AUDIT SCOTLAND

FINANCE REPORT

PABV FINANCE REPORT: to 30 September 2017

Schedule 6b

£(000)'s	Annual Budget	Period	Period Budget	Variance	YTD	Budget YTD	Variance YTD
INCOME							
Bank Interest	0	0	0	0	0	0	0
Secondments Income	0	0	0	0	10	0	10
Other Income	0	0	0	0	0	0	0
Pension Fund Finance Income	0	0	0	0	0	0	0
OTHER INCOME	0	0	0	0	10	0	10
TOTAL INCOME	0	0	0	0	10	0	10
DIRECT COSTS							
Salaries	2,652	202	221	19	1,241	1,326	85
National Insurance	297	22	25	3	136	148	12
Superannuation	459	35	38	3	217	229	12
Superannuation Lump Sum	18	2	2	0	9	9	0
Class 1A NI	4	0	0	0	3	2	(1)
Agency Costs and Secondments	0	14	0	(14)	83	0	(83)
TOTAL DIRECT COSTS	3,430	275	286	11	1,689	1,714	25
EXPENDITURE							
Training & Recruitment	0	0	0	0	1	0	(1)
Cars	32	0	3	3	10	16	6
Travel & Subsistence/Relocation	66	6	5	(1)	29	31	2
Accommodation	0	0	0	0	0	0	0
Other Accommodation Costs	2	0	0	0	1	1	0
Printing	0	0	0	0	0	0	0
Communications	0	0	0	0	0	0	0
Stationery & Consumables	3	0	0	0	0	2	2
Postage & Distribution	0	0	0	0	0	0	0
ICT	4	0	1	1	1	2	1
Consultancy	210	16	28	12	21	50	29
Legal/Professional Fees	0	0	0	0	1	0	(1)
Insurance	0	0	0	0	0	0	0
Corporate Costs	10	1	1	0	8	4	(4)
Depreciation	0	0	0	0	0	0	0
Miscellaneous	0	1	0	(1)	1	0	(1)
TOTAL EXPENDITURE	327	24	38	14	73	106	33
GROSS EXPENDITURE	3,757	299	324	25	1,762	1,820	58
NET OPERATING (EXPENDITURE)	(3,757)	(299)	(324)	25	(1,752)	(1,820)	68

AUDIT SCOTLAND

FINANCE REPORT

CSG FINANCE REPORT: to 30 September 2017

Schedule 6c

£(000)'s	Annual Budget	Period	Period Budget	Variance	YTD	Budget YTD	Variance YTD
INCOME							
Bank Interest	25	0	2	(2)	7	13	(6)
Secondments Income	0	0	0	0	0	0	0
Other Income	0	0	0	0	1	0	1
Pension Fund Finance Income	0	0	0	0	0	0	0
OTHER INCOME	25	0	2	(2)	8	13	(5)
TOTAL INCOME	25	0	2	(2)	8	13	(5)
DIRECT COSTS							
Salaries	1,262	121	105	(16)	661	631	(30)
National Insurance	136	13	11	(2)	71	68	(3)
Superannuation	216	20	18	(2)	114	108	(6)
Superannuation Lump Sum	9	1	1	0	4	4	0
Class 1A NI	0	0	0	0	0	0	0
Agency Costs and Secondments	0	4	0	(4)	11	0	(11)
TOTAL DIRECT COSTS	1,623	159	135	(24)	861	811	(50)
EXPENDITURE							
Training & Recruitment	534	9	40	31	183	226	43
Cars	0	0	0	0	0	0	0
Travel & Subsistence/Relocation	25	3	2	(1)	11	11	0
Accommodation	0	0	0	0	0	0	0
Other Accommodation Costs	17	0	2	2	5	9	4
Printing	8	1	1	0	3	4	1
Communications	80	4	7	3	31	40	9
Stationery & Consumables	1	0	0	0	0	1	1
Postage & Distribution	4	0	0	0	0	2	2
ICT	439	39	37	(2)	192	219	27
Consultancy	65	0	16	16	3	30	27
Legal/Professional Fees	107	12	9	(3)	56	53	(3)
Insurance	70	8	6	(2)	36	34	(2)
Corporate Costs	10	1	1	0	3	5	2
Depreciation	397	31	33	2	183	199	16
Miscellaneous	39	1	3	2	7	19	12
TOTAL EXPENDITURE	1,796	109	157	48	713	852	139
GROSS EXPENDITURE	3,419	268	292	24	1,574	1,663	89
NET OPERATING (EXPENDITURE)	(3,394)	(268)	(290)	22	(1,566)	(1,650)	84

AUDIT SCOTLAND

FINANCE REPORT

BSS & FM FINANCE REPORT: to 30 September 2017

Schedule 6d

£(000)'s	Annual Budget	Period	Period Budget	Variance	YTD	Budget YTD	Variance YTD
INCOME							
Bank Interest	0	0	0	0	0	0	0
Secondments Income	0	3	0	3	16	0	16
Other Income	0	0	0	0	0	0	0
Pension Fund Finance Income	0	0	0	0	0	0	0
OTHER INCOME	0	3	0	3	16	0	16
TOTAL INCOME	0	3	0	3	16	0	16
DIRECT COSTS							
Salaries	572	42	48	6	267	286	19
National Insurance	54	4	4	0	24	27	3
Superannuation	99	7	8	1	43	50	7
Superannuation Lump Sum	4	0	0	0	2	2	0
Class 1A NI	1	0	0	0	0	0	0
Agency Costs and Secondments	0	3	0	(3)	9	0	(9)
TOTAL DIRECT COSTS	730	56	60	4	345	365	20
EXPENDITURE							
Training & Recruitment	0	0	0	0	0	0	0
Cars	4	0	0	0	0	2	2
Travel & Subsistence/Relocation	6	1	1	0	5	3	(2)
Accommodation	799	66	67	1	388	399	11
Other Accommodation Costs	29	2	3	1	13	15	2
Printing	24	2	2	0	14	12	(2)
Communications	0	0	0	0	0	0	0
Stationery & Consumables	29	1	2	1	7	14	7
Postage & Distribution	12	1	2	1	5	6	1
ICT	1	0	0	0	0	0	0
Consultancy	0	0	0	0	0	0	0
Legal/Professional Fees	0	0	0	0	0	0	0
Insurance	5	1	0	(1)	4	3	(1)
Corporate Costs	0	1	0	(1)	2	0	(2)
Depreciation	0	0	0	0	0	0	0
Miscellaneous	1	0	0	0	0	0	0
TOTAL EXPENDITURE	910	75	77	2	438	454	16
GROSS EXPENDITURE	1,640	131	137	6	783	819	36
NET OPERATING (EXPENDITURE)	(1,640)	(128)	(137)	9	(767)	(819)	52

AUDIT SCOTLAND

FINANCE REPORT

WTE Staff in Post Summary: 2017/18

Schedule 7

	Establishment	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	March	Average
Auditor General	1.0	1.0	1.0	1.0	1.0	1.0	1.0							1.0
Accounts Commission Secretary	1.0	1.0	1.0	1.0	1.0	1.0	1.0							1.0
Management Team	4.0	4.0	4.0	4.0	4.0	4.0	4.0							4.0
Audit Strategy	8.0	7.9	7.9	7.9	7.9	7.9	7.9							7.9
Audit Services Group	145.1	143.8	144.2	146.2	145.0	145.0	143.0							144.5
Performance Audit and Best Value	61.8	57.6	56.6	57.6	57.6	55.6	53.0							56.4
Finance	4.6	4.6	4.6	4.6	4.6	5.6	5.6							4.9
Human Resources	5.4	5.4	5.4	6.4	6.4	6.4	7.2							6.2
Digital Services	9.0	9.0	9.0	9.0	9.0	9.0	9.0							9.0
Communications	9.8	9.8	9.8	9.8	8.8	9.8	9.8							9.6
Corporate Planning & Projects	3.0	3.0	3.0	3.0	3.0	3.0	3.0							3.0
Corporate Services	31.8	31.8	31.8	32.8	31.8	33.8	34.6	0.0	0.0	0.0	0.0	0.0	0.0	32.8
Business Support & Facilities	22.2	22.6	21.6	19.7	19.6	19.6	18.8							20.3
TOTAL AUDIT SCOTLAND (Exc Commission)	274.9	269.8	268.1	270.3	267.9	267.9	263.3	0.0	0.0	0.0	0.0	0.0	0.0	267.9
%age of Establishment	100.0%	98.1%	97.5%	98.3%	97.5%	97.5%	95.8%							97.4%
Board	3.0	3.0	3.0	3.0	3.0	3.0	3.0							3.0
Commission	12.0	11.0	11.0	11.0	11.0	11.0	11.0							11.0
TOTAL	289.9	283.8	282.1	284.3	281.9	281.9	277.3	0.0	0.0	0.0	0.0	0.0	0.0	281.9
Agency and Secondments (w.t.e.)														
Agency estimate		1.2	0.3	1.8	11.5	15.6	8.6							6.5
Secondments to Audit Scotland		2.0	2.0	2.0	2.0	2.0	2.0							2.0
Secondments from Audit Scotland		-2.6	-2.6	-2.6	-1.6	-1.6	-1.6							-2.1
		0.6	-0.3	1.2	11.9	16.0	9.0	0.0	0.0	0.0	0.0	0.0	0.0	6.4

AUDIT SCOTLAND

FINANCE REPORT

WORK IN PROGRESS 2016/17 AUDIT YEAR

SCHEDULE 8a

AUDIT COMPLETION PERCENTAGES

	15/16 AY ACTUAL September 2016 %	2016/17 Audit Year			
		ACTUALS March 2017 %	ACTUALS September 2017 %	BUDGET September 2017 %	VARIANCE September 2017 %
In House Teams					
Local Government	97.77	31.72	95.87	97.69	-1.82
Health	100.00	38.52	100.00	100.00	0.00
FE colleges	32.46	35	100.00	79.79	20.21
Central Government	97.35	42.69	93.70	77.15	16.55
Non-statutory	66.21	15.92	45.45	55.60	-10.15
Total Chargeable	94.72	32.78	91.10	93.21	-2.11
Non Chargeable	85.17	28.06	90.20	84.55	5.65
Total In House	92.84	32.02	90.96	91.80	-0.85
Approved Auditors *					
Local Government	96.46	24.64	95.24	95.91	-0.67
Health	100.00	26.48	100.00	100.00	0.00
Water	100.00	40.00	100.00	100.00	0.00
FE colleges	43.29	3.76	34.33	35.55	-1.22
Central Government	92.06	24.68	89.99	91.72	-1.73
Total Chargeable	92.66	23.72	90.69	91.29	-0.60
Non Chargeable	75.00	22.47	100.00	100.00	0.00
Total Approved Auditors	92.48	23.66	91.17	91.75	-0.58
* To be reported quarterly					

AUDIT SCOTLAND

FINANCE REPORT

2017/18 FINANCIAL YEAR - FEE INCOME ANALYSIS £000

As at 30 September 2017

SCHEDULE 9

	Prior year adjustments			2016/17 Audit Year			2017/18 Audit Year			2017/18 Financial Year to Date			Variance analysis		
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Volume	Price *	Total
In-house Teams															
Local Government	0	0	0	2,698	2,726	(28)	0	0	0	2,698	2,726	(28)	(76)	48	(28)
Health	0	0	0	864	857	7	0	0	0	864	857	7	0	7	7
FE colleges	0	0	0	32	19	13	0	0	0	32	19	13	9	4	13
Central Government	0	0	0	509	494	15	0	0	0	509	494	15	(4)	19	15
Non-statutory	0	0	0	229	300	(71)	0	0	0	229	300	(71)	(75)	4	(71)
Total In-house teams	0	0	0	4,332	4,396	(64)	0	0	0	4,332	4,396	(64)	(146)	82	(64)
Approved Auditors															
Local Government	0	0	0	1,985	1,856	129	0	0	0	1,985	1,856	129	(17)	146	129
Health	0	0	0	748	704	44	0	0	0	748	704	44	0	44	44
Water	0	0	0	82	82	0	0	0	0	82	82	0	0	0	0
FE colleges	0	0	0	126	124	2	0	0	0	126	124	2	(5)	7	2
Central Government	0	0	0	246	243	3	0	0	0	246	243	3	(6)	9	3
Total Approved Auditors	0	0	0	3,187	3,009	178	0	0	0	3,187	3,009	178	(28)	206	178
Total															
Local Government	0	0	0	4,683	4,582	101	0	0	0	4,683	4,582	101	(93)	194	101
Health	0	0	0	1,612	1,561	51	0	0	0	1,612	1,561	51	0	51	51
Water	0	0	0	82	82	0	0	0	0	82	82	0	0	0	0
FE colleges	0	0	0	158	143	15	0	0	0	158	143	15	4	11	15
Central Government	0	0	0	755	737	18	0	0	0	755	737	18	(10)	28	18
Non-statutory	0	0	0	229	300	(71)	0	0	0	229	300	(71)	(75)	4	(71)
Total Fees	0	0	0	7,519	7,405	114	0	0	0	7,519	7,405	114	(174)	288	114
Central Charges	0	0	0	2,752	2,752	0	0	0	0	2,752	2,752	0	0	0	0
TOTAL	0	0	0	10,271	10,157	114	0	0	0	10,271	10,157	114	(174)	288	114

* Price variance includes the reduction in income to be earned as as result of procurement savings on work carried out by external firms

AUDIT SCOTLAND BOARD

29 NOVEMBER 2017

REPORT BY THE ASSISTANT DIRECTOR CORPORATE PERFORMANCE AND RISK

Q2 CORPORATE PERFORMANCE REPORT 2017/18

1. Purpose of Report

This report provides the Board with an overview of Audit Scotland's performance during quarter two of 2017/18.

2. Background

Performance reports are considered by the Management Team and the Board on a quarterly basis alongside the quarterly financial performance report and Becoming World Class improvement programme update.

The Board considered the quarter one report at its meeting on 23 August 2017. Management Team considered the Q2 report at its meeting on 14 November 2017.

The performance information is structured around the three strategic objectives of Securing World Class Audit, Making a Difference and Building a Better Organisation.

- Appendix 1 (pages 3 – 6) provides a one page summary of performance for each strategic objective
- Appendix 2 provides the detailed performance information.

This report also includes a third appendix to illustrate the positive impact of the audit work at a local level. This reflects production of local government annual audit reports in Q2 and the increased use of the impact logs.

3. Q2 performance summary

The Q2 report demonstrates strong performance over all. Performance headlines include:

- Securing World Class Audit - we are conducting relevant, timely and high quality audits:
 - 103 of 105 LG annual audits delivered to schedule in Q2
 - 40 Central government Audits delivered in Q2.
 - 5 performance/BV/statutory/HB reports published in Q2
 - 2 local government annual audit reports did not meet the deadline, this was out-with the control of the audit teams.

- Making a Difference - we are getting our messages out effectively and delivering new and improved products:
 - Substantial parliamentary mainstream media and social media interest in reports, despite Parliamentary recess
 - Substantial local impact through the annual audit reports
- Building a Better Organisation - we are managing our workforce effectively and investing in learning and development. Financial planning and budget management are effective:
 - Roles profiles agreed, career development gateway arrangements developed and learning and development plan published
 - Net operating costs, staff costs, property costs and travel and subsistence costs are below budget
 - Absence rate of 1.16%.

The areas requiring attention are principally covered in the Becoming World Class Improvement Programme. This is the subject of a separate update report on today's agenda.

4. Conclusion and Recommendations

The Board is invited to review the performance report and consider Q2 performance and whether any additional management attention is required.

Summary of 2017-18 Q2 performance



Our objective is to ensure that public audit in Scotland applies the highest professional and ethical standards, is efficient, proportionate and risk based. Audit work should be informed by an excellent understanding of the strategic and operational context and respond effectively to changing circumstances and emerging issues. We must report clearly and authoritatively and follow the public pound wherever it is spent. Audit must promote transparency, accountability and Best Value.

Headline: During quarter 2 we conducted relevant, timely and high quality audits.

Objectives	2016-17				2017-18				Actions
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
We conduct relevant and timely audits and report in public.	G	G	G	G	G	G			
We make clear and relevant recommendations for improvement	A	A	G	G	G	G			
Audits are of high quality	G	G	G	G	G	G			Audit Quality report to the Audit Committee and Accounts Commission's committees November 2017.
We systematically improve the quality of our work	G	G	G	G	G	G			Implementation of the new Audit Quality Framework.

Key performance indicators

Annual Audit <ul style="list-style-type: none"> 103 of 105 LG annual audits delivered to schedule in Q2 40 Central government Audits delivered in Q2. 	Performance/ best value/ overviews/housing benefit/Section 22 <ul style="list-style-type: none"> Three performance audits 1 BVAR and S22 report delivered in Q2.
On time in Q2 <ul style="list-style-type: none"> We planned 147 audits and reports and delivered 148. This is due to delivery of some Central Government reports earlier than expected. Four reports were not delivered to schedule (2.7%). 	
On budget <ul style="list-style-type: none"> Expenditure on audit work was £183,987 less than budget in Q2 (1.69% below budget). Renfrewshire BVAR delivered over budget in terms of BVAR days 	Quality <ul style="list-style-type: none"> New Audit Quality Framework in place and Quality report to the Audit Committee and Accounts Commission's committees November 2017.
<ul style="list-style-type: none"> The Future of Audit Strategy project was completed in this quarter resulting in changes to Audit Scotland's structure for professional support and quality arrangements. This led to the creation of two new Groups – the Appointments & Assurance Team and the Professional Support Team. 	



Our objective is to maximise the difference our audit work makes to public services in Scotland.

Headline: We continue to get our messages out effectively and there is substantial evidence of recommendations leading to improvements.

Objectives	2016-17				2017-18				Actions
	Q1	Q2	Q3	Q4	Q1				
We get our messages out effectively	G	G	G	G	G	G			
We systematically deliver impact through our work	G	G	G	G	G	G			Further quantitative measures to be developed to supplement qualitative assessments.
We offer insight and foresight through our audit work					Y	Y			Development of an assessment framework and more systematic approach to measuring this objective.
We develop new and improved processes, products and services	G	G	G	G	G	G			

Key performance indicators

- Three performance audits (NHS Workforce, Self Directed Support follow up, and Equal Pay in councils), and a statutory report on the Scottish Government Consolidated Accounts received significant Parliamentary and media interest in Q2.
- An emerging issue relating to the centrally administered Non-Domestic Rates (NDR) account was identified through the course of local audit work. This will be reported through a section 22 statutory report as part of the audit of the Scottish Government.
- We attended four meetings of the Public Audit and Post-Legislative Scrutiny Committee. This number reflects Parliamentary recess during July and August.
- 97 Percent of correspondence responses issued within 30 days (86% in 2016/17).



Our objective is to make the best use of our resources so that we can deliver audit work that improves the use of public money. We want to make Audit Scotland a great place to work so that we can attract and retain a highly skilled workforce who provide high- quality audit services.

Headline: We manage our workforce effectively and invest in learning and development.

Objectives	2016-17				2017-18				Actions
	Q1	Q2	Q3	Q4	Q1				
We manage our resources effectively	G	G	G	G	G	G			
We maximise our efficiency					G	G			Efficiency report to Audit Committee September 2017 and 2017/18 efficiency review programme in place.
We manage information and intelligence effectively (internal)	A	A	A	A	A	A			Digital Audit Strategy implementation and review of performance management framework under-way.
We empower and support our people to be engaged, highly skilled and perform well	A	A	A	A	A	A			Implementation of BaBO, including new role profiles, career development gates, time place and travel, review of 3D and developing a new approach to professional leadership. Annual Best Companies Survey.

Key Performance Indicators

People	Resources
<ul style="list-style-type: none"> Staff complement (w.t.e) : 95.8% of 274.9 establishment at the end of the quarter (98.3% of 274.9 in Q1) Absence rate: 1.16% (1.37% in Q2 2016/17) Turnover rate: 3.41% (1.37% in Q1 2016) L&D events: 7 in-house events covering 49 places Exams : 20 exams with 85% pass rate for professional trainees Career progression: Band 1-3 profiles published on BaBO ishare page and Career Development Gateways approved by Management Team and Remuneration Committee The revised Learning and Development Strategy and plan was published in August and includes an extensive programme of L&D opportunities. 	<ul style="list-style-type: none"> Net Operating Cost : £75k less than budget – variance of 3.9% of net operating expenditure budget Staff costs : £54k less than budget Capital investment : £40k including investment in new furniture and fittings Property costs: £12k less than budget – variance of 2.8% on budget and last year spend Travel and subsistence expenditure: £10k less than budget – variance of 2.2%.



We conduct relevant and timely audits and report in public.

Key Performance Questions	RAG				Actions
	Q1	Q2	Q3	Q4	
Are relevant audits being delivered?	G	G			
Are audits delivered on time?	G	G			Review of new approach to auditing BV will consider time and budget planning.
Are audits delivered on budget?	G	G			Review of new approach to auditing BV will consider time and budget planning.

Relevant/ timely/ in public

In Q2 we planned 147 audits and reports delivered 148. This is due to a number of the Central Government reports being completed earlier than scheduled.

Three performance audits (NHS Workforce, Self Directed Support follow up, and Equal Pay in councils), one Best Value Assurance Report (Renfrewshire Council) and a statutory report on the Scottish Government Consolidated Accounts were published as planned during quarter 2.

Four (2.7%) reports were delivered later than scheduled:

- The annual audit reports for two councils missed the statutory deadlines by one day in one case and 12 days. The delays were due to the councils and out-with the control of the audit teams.
- The work on two housing benefit performance has been completed and we are awaiting a formal response from the audited bodies, they will be finalised in quarter 3.

On budget

The overall picture is that audit costs are 1.69% below budget up to end of Q2.

	2017/18			
	Budget	Actual	£ Variance	% Variance
ASG	9,697,952	9,477,317	-220,635	-2.28%
AST	323,000	338,000	+15,000	+4.6%
PABV	879,795	901,443	+21,648	+2.46%
Total	10,900,747	10,716,760	-183,987	-1.69

Key: ✓ = delivered, (QX) = rescheduled to (from quarter identified in the brackets). The planned outputs make provision for a number of statutory reports.				
	Q1	Q2	Q3	Q4
Annual Audit Plans – AS (126)	✓2 FE			10 NHS 65 LG 49 CG
Annual Audit Plans – Firms (126)	✓19 FE			13 NHS 40 LG 28 CG
Audit – Audit Scotland (126)	✓10 NHS ✓ 6 CG	✓64 LG ✓28 CG	✓1 LG (Q2) 2 FE 7 CG	1 CG
Audit – Firms (100)	✓13 NHS ✓ 5 CG	✓39 LG ✓12 CG	✓1 LG(Q2) 19 FE 28 CG	
Performance Audit (8)	✓CAP Futures update	✓NHS Workforce ✓Self Directed Support 2 ✓Equal Pay	Ferry services in Scotland	Early learning and childcare Managing Scotland's new financial powers Scottish Fire and Rescue Service (Q1 18/19)
Best Value Assurance Report (6)	✓Inverclyde	✓Renfrewshire	East Renfrewshire West Lothian	Clackmannanshire Orkney
Best Value follow up (2)			East Dunbartonshire	Falkirk
Overview Report (4)	✓Scotland's Colleges 2017		NHS in Scotland 2017 Local government: a financial overview 2016/17	Local government: performance and challenges
Housing benefit (9)	✓Stirling ✓East Dunbartonshire ✓HB Annual report	X Scottish Borders(Q3) X Moray(Q3)	Eilean Siar Shetland Islands	West Dunbartonshire City of Edinburgh
Statutory (11)	✓S22 Edinburgh College (Q4 16/17) ✓S22 Levenshulme College (Q4 16/17) ✓S22 Moray College (Q4 16/17)	✓S22 Scottish Government consolidated accounts	S22 NHS Tayside S22 Scottish Police Authority S22 Non Domestic Rates (NDR)	*potential 3x FE and 1x local government
Other (3)	✓Principles for a Digital Future ✓ National Scrutiny Plan			National Scrutiny Plan
Planned (500)	66	147	67	220
Published	66	148		

Best Value

In Q2 we published the second of the Best Value Assurance Reports (BVAR).

	YTD Planned	YTD Actual	Commentary
BVAR report	2	2	The Renfrewshire Council Best Value Assurance Report (BVAR) was published in Q2 as planned.
BVAR (days)	500	555	The two BVAR reports are 11 percent over budget and the review of first year of the BVAR process will reflect on this to inform future planning and resourcing.

We plan to publish 6 BVARs in 2017/18, with reports for the remaining 26 councils published over the course of the next four years of the audit appointments. The two BVARs have been published on schedule but were 11% over the budgeted days.

Issues/ risks/ actions:

ASG are currently 2.28% under budget overall. 27 ASG audits were over their allocated budget by 25 days or more in Q2 and 11 were under budget. The total spend is under budget as those that are over tend to be smaller audits and those that are under are larger audits.

A resourcing group has been set up under an Assistant Director to review the budgeted days and spend against fees for 2016/17. This will take place in Q3 and the meetings aim to better inform the budgeted days and costs for 2017/18 audits. Budgets will continue to be monitored closely and reported to ASG Management Team

The total resource allocation, split between BVAR and non-BVAR Best Value activity and the relative contributions by ASG and PABV is being reviewed to ensure resources are targeted to the right areas.

Forward look:

- A review of the year 1 implementation of the new approach to the audit of Best Value will commence in Q3 and report to the Accounts Commission during Q4.

Trend data: [link](#)



We make clear and relevant recommendations for improvement

Key Performance Questions	RAG				Actions
	Q1	Q2	Q3	Q4	
Are there practical, clear and relevant recommendations in everything published?	G	G			

Performance

All performance audit and overview reports published during Q2 were reviewed for plain language by external reviewers to ensure the key messages and any recommendations were practical, clear and relevant to the audit and audited body in question. Draft BVARs due for publication during quarter 3 were reviewed by other BV audit teams for consistency and to ensure learning points / feedback are considered.

All Audit Scotland Annual Audit Plans (AAPs) contain an appendix highlighting the most significant risks faced by audited bodies. The risks are followed up and the action taken to mitigate the risks is reported in the annual audit reports. We ensure that the responses given by audited bodies to address the risks are adequate and that our reports and risks are considered at the appropriate level. Examples of significant risks identified by the audit process include:

- **Local Authority.** We had previously recommended that the council should develop an organisation-wide workforce plan. (The 2016/17 AAP had identified that the council's People Strategy did not contain important information such as future projections for staff numbers). The council's management team agreed a draft Strategic Workforce Plan in August 2017. Further development is required to incorporate council priorities, its long term financial strategy and its Transformation Programme into the plan. It is expected that the completed plan will be presented to Policy and Resources Committee for adoption in December.
- **Local Authority.** We had recommended that the council should develop a medium to long-term financial strategy. A long-term financial strategy (2018-19 to 2027-28) has been developed and presented to the council's Policy and Resources Committee on 19 October 2017.
- **Central Government.** Our interim report had identified that the audited body should improve the financial information provided to the board. In particular, the finance reports to the board were prepared on a cash rather than accruals basis and did not make clear how committed expenditure may impact on the year-end outturn. The audited body has since improved the format of its finance reports, these now clearly show year-to-date spending, committed expenditure and the expected year-end outturn compared with the approved budget. This ensures that the board has a clearer picture of the financial position and supports more effective scrutiny.

Issues/ risks/ actions:

- Analysis of local government and NHS Annual Audit Plans has been carried out. The resulting reports were positive and highlighted that auditors were showing a high degree of compliance with the Code of Audit Practice.

Forward look:

- The new quality framework covers the quality of recommendations as well as the quality of the process across the audit work. The first quality report will be considered by the Audit Committee and the Accounts Commission's committees in November 2017.
- A programme of 'cold' audit reviews for Best Value and performance audit reports has been approved and reviews will be taking place in Q3 and Q4 2017/18.
- The Professional Support Team will be undertaking a cold review of thirteen 2016/17 audits over Q3 and Q4. These reviews will cover the audit dimensions and Best Value and will inform future training requirements. The team will also be following up work on the streamlined controls approach introduced in 2016/17. This will assess the impact of the approach, identify any areas for improvement and consider whether any additional training will be required.
- A report containing the findings of the review of Further Education AAPs will be issued in Q3.



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

Key Performance Questions:	RAG				Actions
	Q1	Q2	Q3	Q4	
Are we assured about the quality of our work?	G	G			
Are we improving the quality of our work?	G	G			The Audit Quality project is progressing to schedule.

Assurance

An internal audit report on the quality management arrangements was considered by the Audit Committee in September 2017. The report provided reasonable assurance in terms of design and implementation. The two medium and three low level recommendations have been actioned.

Improvement

The new corporate Quality Framework has been approved by the Accounts Commission the Board in October 2017. This includes the establishment of a centrally based Appointments and Assurance Team responsible for audit procurement, contract management, the Code of audit practice, quality framework and external assurance; and a new Professional Support Team, comprising colleagues from Audit Services, PABV and the former Audit Strategy group.

The Strategic Scrutiny Group (SSG) undertook an initial review of the Shared Risk Assessment (SRA) process, identifying areas of improvement and issues for the group to consider. These included improvements that can be made to the co-ordination and planning of scrutiny, in how local scrutiny works and in the scope of the SRA process itself.

The Annual Audit Plan templates were reviewed and revised with minor amendments in Q2.

Issues/ risks/ actions:

- The new Quality Framework was finalised in October 2017 and the framework is being rolled out in Q3/Q4.

Forward look:

- Audit Quality report to the Audit Committee and Accounts Commission's committees in Q3
- The invitation to tender for external assurance has been issued and it is expected that work will commence in January 2018.
- Training on core aspects of the PABV Audit Management Framework (including issues and investigations matrices and records of evidence) will take place in Q3. All PABV staff including Assistant Directors will participate in the training.
- The new Annual Audit Planning template will be rolled out across all sectors for 2017/18 audits.
- The new Audit Guide launched in October and staff awareness of its contents will be raised at super team meetings.



We get our messages out effectively

Key Performance Questions:	RAG				
	Q1	Q2	Q3	Q4	
Are we getting messages getting out effectively?	G	G			

Performance:

Parliament was in recess during July and August. During Q2 there were four attendances at the Parliament's Public Audit and Post Legislative Scrutiny Committee and one at the Social Security Committee. These covered a range of topics relating including the Common Agricultural Policy Futures programme, Scotland's Colleges, NHS Workforce, the National Fraud Initiative (NFI), and Self Directed Support.

Colleagues participated in the Parliament's Equality and human rights committee session on the role of boards and discussed our recent and planned work in this area. An Assistant Director presented at a session on the future of the NHS in Scotland organised by the Royal College of Physicians and presented at a Directors of Public Health event.

Media:

- The NHS workforce planning was the most popular report in terms of media coverage in Q2.
- Media coverage reflected the relatively small number of reports published in Q2 and focussed on reports published earlier in Q2 and in previous quarters. This included coverage of Scotland's colleges 2017, NHS workforce planning, the update on the CAP Futures programme and the Section 22 on the Scottish Police Authority's 2015/16 accounts.
- There were two instances of coverage relating to how Audit Scotland dealt with the clearance processes for the NHS in Scotland 2016 and Scotland's Colleges 2017 reports.
- The Sunday Herald ran two extensive pieces following an interview with the Auditor General – one piece responded to the concerns highlighted in the above media coverage and the second was an in-depth profile piece.
- Other non-report related coverage included the Auditor General's input to the Budget Process Review Group's final report in July, Audit Scotland giving evidence at the Edinburgh Trams Inquiry in September, ongoing media interest in a land dispute involving a former Aberdeen City councillor and long-standing correspondence relating to Scottish Borders Council's handling of a waste treatment plant contract.
- The Public Audit & Post-Legislative Scrutiny Committee's September report following on the National Fraud Initiative also saw some media coverage that mentioned Audit Scotland.
- There was ongoing local media coverage on the 2016/17 annual audit report for NHS Fife, including the publication of an interim audit governance report. Aberdeenshire Council's 2016/17 annual audit report also attracted local media coverage. Both are useful demonstrations of local interest in the annual audit process and outputs at different stages of the audit cycle.

Downloads:

- The Self Directed Support (SDS) progress report was the most downloaded report in Q2. Supplements to the SDS progress report performed well in the first month of publication, including 340 downloads for the easy-to-read summary produced alongside the report.

Getting our message out

	Q1	Q2	Q3	Q4	YTD	16/17
Media	329	339			668	1,528
Downloads	179,531	146,283			325,814	704,996
Engagements*	5932	5592			11,524	15,470
Retweets	751	713			1,464	3,952

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

Correspondence

	Q1	Q2	Q3	Q4	YTD	16/17
New correspondence cases						
Number of cases	41	33			74	119
Acknowledgement within five working days	100	100			100	90%
Final response within 30 working days	99 95*	97			96	87%

- *Two final response cases were pending at the time of reporting Q1. Both these cases met the 30 working day deadline showing an improvement in the target figure to 95%. One case missed our final response target due to conflicting deadlines during final accounts.
- In addition we had 28 audit enquiries (compared to 32, Q2 16/17), relating to queries about our work (e.g. figures within our reports, guidance and access to materials/reports).
- The 'debt UK' campaign generated seven cases this quarter. These were all objections to the accounts of local authorities, relating to Lender Option Borrower Option (LOBOS) and PPI/PFI schemes. On further assessment only two of these were considered valid objections, with the remaining five dealt with under our normal correspondence procedure. In addition we had an objection in relation to a common good accounting at a local authority.

Issues/ risks/ actions:**Forward look:**

- The Annual Audit Conference (Q4) will have a breakout session run by our communications team and external experts from 'Work on words' on getting our message across using infographics and plain English
- The Professional Support Team (PST) will be issuing a good practice note on reporting financial performance by NHS boards for use by auditors and audited bodies. The PST will also be seeking to have the accounts manual amended to make the requirements clearer and be enhancing the guidance for auditors in the relevant 2017/18 technical guidance note.
- The Annual Audit Report templates will be reviewed in Q4 to ensure they continue to communicate key judgements effectively and maximise impact.

Trend data: [link](#)



We systematically deliver impact through our work

Key Performance Questions:	RAG				Action
	Q1	Q2	Q3	Q4	
Is our work delivering impact?	G	G			
Are our recommendations leading to improvements?	Y	G			Further quantitative measures to be developed to supplement qualitative assessments as part of the performance management framework review.

Performance:

The 2016/17 annual audit reports produced in Q2 contained many good examples of delivering impact through the audit work and prompted previous positive impacts to be recorded in impact logs. These offer numerous examples of how we make a difference at a local level across health, central and local government. Due to the number of examples and for ease of reference these are attached as appendix 3 to this report.

Issues/ risks/ actions:

- Development of further metrics to supplement narrative capture of impact. Likely to include numbers of recommendations, agreed, implemented in the short term and positive impact in the longer term.

Forward look:

- During quarter 3 a number of high profile reports will be published, including the NHS in Scotland overview report and Local government in Scotland financial overview. Based on previous experience these are likely to generate significant media coverage.
- The AARs will be further refined to include more explicit reference to progress in implementing previous years' AAR action plans.
- The PST are developing a good practice guide on IJBs that will assist audit teams in making an impact through our audit work.

Trend data: [link](#)



We offer insight and foresight through our work

Key Performance Questions:	RAG				Action
	Q1	Q2	Q3	Q4	
Are we making information and intelligence available to others?	G	G			Development of an assessment framework and more systematic approach to measuring progress on this objective.

Examples of insight and foresight through our work in Q2 include:

- Improvements to arrangements in councils arising from the annual audit process including; amendments to the valuation of assets in, improvements to commentary in the accounts to improve clarity, enhanced risk management arrangements and improved public performance reporting. Further examples and insight and foresight are captured in Appendix 3.
- The Sharing Intelligence for Health and Social Care Group published its annual report outlining the work the group had undertaken to improve the quality of health and social care through the sharing of intelligence. Audit Scotland participates in the work of the group along with the Mental Welfare Commission, the Care Inspectorate, Healthcare Improvement Scotland, NHS National Services Scotland and NHS Education for Scotland.
- Colleagues participated in the NHS National Services intelligence into action event.
- We delivered a presentation at the CIPFA pensions Network covering regulatory activity of relevance to auditors, an analysis of the annual reports and accounts 2016-17 and the audit issues arising 2016-17 relating to pensions.
-

Issues/ risks/ actions:

-

Action:

-

Forward look:

- NHS overview and LG financial overview report in Q3
- Reports on Transport Ferry Services and Scottish Government Consolidated Accounts in Q3
- Audit Quality report in Q3
- Digital Audit Strategy in Q3.
- Public audit forum – sharing experiences of data analytics in Q3.



We develop new and improved processes, products and services

Key Performance Questions:	RAG				Action
	Q1	Q2	Q3	Q4	
Are new processes, products and services being developed?	G	G			
Are products and study programmes suitable and appropriate for emerging issues?	G	G			Development work on-going on the requirements arising from the new financial powers and constitutional change.

Examples of **new processes, products and services** in Q2 include:

- a round table discussion with key internal and external stakeholders took place focussing on community engagement, the Community Empowerment Act and the implications for potential audit work in this area. The outputs from the session will inform our future approach to audit and the work programme.
- creation of the Appointments and Assurance Team and the Professional Support Team
- completion of the year 1 pilots of audit work using data analytics techniques. A discussion paper for the ASGMT has been produced which summarises the key findings from this work with options on how to progress the use of data analytics throughout ASG audits.
- publication of the 2017 Audit Guide 2017 (includes changes to the International Standards on Auditing (UK) and references to Practice Note 10 - audit of financial statements of public sector bodies in the UK, the audit dimensions and Best Value).
- updated 2017/18 planning programmes on MKI and over 30 briefing papers each focussing on a different ISA.

Emerging issues

- We identified an issue relating to the centrally administered Non-Domestic Rates (NDR) account. This was reported through the section 22 report.
- Three further potential section 102 in local government have been identified and if pursued will be reported early in 2018.
- Other issues and risks continue to be monitored through processes such as the public sector risk register, current issues reporting and programme development.

Issues/ risks/ actions:

Forward look:

- The Professional Support Team will revise all control and final account audit programmes to ensure they are fully compliant with international auditing standards and incorporate findings from quality reviews.



We manage our resources effectively and maximise efficiency

Key Performance Questions:	RAG				Action
	Q1	Q2	Q3	Q4	
Are we managing our resources effectively	G	G			
Are we maximising efficiency?	G	G			Efficiency review programme 2017/18 under-way

In the six months to September 2017 Audit Scotland's Net Operating Expenditure at £1,861k was £75k less than budget.

- Total income recorded in the six months to September 2017 was £157k more than the phased budget. Fee income including central charges was £114k higher than budget. Other income earned from staff on secondment to other organisations totalled £49k. Bank interest, at £7k, was £6k less than budget.
- Expenditure was £82k more than budget. Favourable variances were recorded for own staff costs £54k, legal, professional and consultancy £52k, training £51k, printing and office £34k and information technology (IT) £26k. These favourable variances were partly offset by increased expenditure on approved auditors £170k and agency and seconded staff £184k.
- We recruited 16 graduate Trainees and our first school leaver Modern Apprentice Trainee. This is the largest intake in our history and all new starters will commence employment in October.
- A cross organisational workforce planning summit took place in September 2017 to consider our approach to workforce and resourcing in light of the increasing audit workload as a result of Scotland's new financial powers and constitutional change. The summit will inform the approach to resourcing and the delivery of audit work within this area.
- An Internal Audit report on audit efficiency, completed in September 2017 provided substantial assurance in terms of design and operation.
- The Glasgow office in Nelson Mandela Place reopened following a refurbishment and provides an improved and more flexible working environment.

Resource management

Net operating (expenditure) to September 2017

	Q1	Q2	Q3	Q4	16/17
Actual	(942)	(1,861)			(7,350)
Budget	(1,016)	(1,936)			(7,423)
Variance	-7.3%	-3.9%			-1%

Staff

We operated at 95.8 percent of establishment at the end of Q2 and staff costs in the six months to September 2017 were £54k less than budget.

The average number of staff employed in the six months to September 2017 was 267.9 (7.0 wte. lower than the establishment figure of 274.9).

The staff budget for 2017/18 assumes a 2% vacancy factor and therefore the average number of staff employed in the period was 1.5 wte more than the numbers funded in the budget. Lower than budgeted average actual salary costs per employee was the main contributor to the favourable variance.

Total staff costs to 30 September 2017 including agency and secondment expenditure and net of secondment income were £81k higher than budget.

	Q1	Q2	Q3	Q4	16/17
2017/18 establishment w.t.e:	274.9	274.9			278.1
Average number of staff employed in 2017/18 w.t.e:	269.4	267.9			276.4
No. of staff at end of quarter w.t.e:	270.3	263.3			270.8

Capital expenditure - Capital investment in the six months to September 2017 totalled £40k. Investment in new furniture and fittings for the Glasgow office refurbishment was £34k and £6k was spent on additional RSA security tokens and software to trial mobile capture of expenses. The financial year capital allocation is £200k and the capital expenditure programme projects that this will be spent in full by 31st March 2018.

Estate - Property costs in the year to September 2017 were lower than budget in part due to as a result of lower property maintenance costs, £11k.

£000 YTD	Q1	Q2	Q3	Q4	16/17
Actual spend	211	418			896
Budget	215	430			935
Prior year spend	206	442	672	896	

Costs of travel - Travel costs in the year to September 2017 were 2.6 per cent above last years cost but lower than budget in part as a result of lower travel, subsistence and leased car costs £11k.

£000 YTD	Q1	Q2	Q3	Q4	16/17
Actual spend	204	428			863
Budget	201	438			985
Prior year spend	198	417	615	863	

IT network up time:

The majority of the downtime this quarter was due to connection issues at Saughton and Victoria Quay.

IT Network	Q1	Q2	Q3	Q4	16/17
IT uptime	99.9	99.9			99.9
Working hours lost	220	106			67.25
Average time lost per person (minutes)	<1	<1			13.1

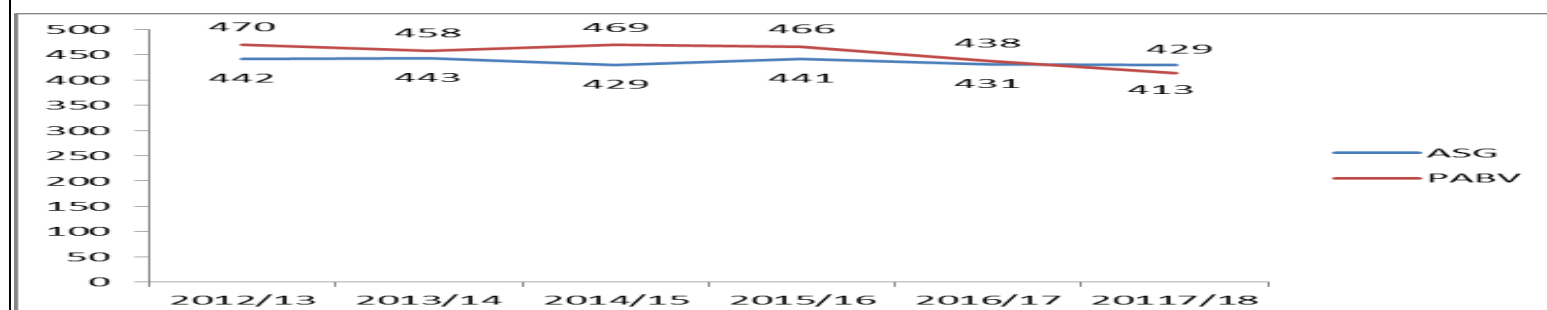
IT Incident management summary

- 95.03% (784/825) of incidents were accepted within the response time SLA.
- 98.78% (815/825) of requests were closed within the fix time SLA
- An average of 2.7 incidents logged per user.

Business group productivity: Business group productivity remains broadly consistent with productivity/ planning assumptions.

	17/18					16/17			
	Q1	Q2	Q3	Q4	YTD	Q1	Q2	Q3	Q4
ASG	57	74				60	78	51	73
PABV	76	74				68	69	65	73

Average cost per Audit Day



Issues/ risks/ actions:

- Further analysis of the business group productivity and the average cost per audit day to be done to consider consistency and comparability.

Forward look:

- 2018/19 resourcing and budget proposals will go to SCPA in December 2017.
- New reports developed by MKI provide details of productivity for staff. These are currently being tested before roll out to audit staff. These can be used by audit teams for better monitoring and allocation of their work priorities.
- Efficiency reviews on How We Spend Our Time and externally procured capacity are progressing.
- Best Companies Survey 2017 launched in October 2017 with results expected to be published in Q4.
- The review of the performance management framework is progressing and will conclude in Q3

Trend data: [link](#)



We manage information and intelligence effectively (internal)

SWCA Objectives	2016-17				2017-18				Actions
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Are we managing information and intelligence effectively (Internal)	A	A	A	A	Y	Y			Digital Services Strategy implementation. Review of performance management framework.

Performance: Examples from Q2 include:

- Joint resourcing of BV audit work across ASG and PABV
- Completion of the annual accounts database for councils and LGPS PFs which allows comparisons to be made between bodies.
- Development of an analysis tool and user interface to allow auditors to analyse the information on council performance collected under the Local Government Benchmarking Framework. This can be used by local audit teams and colleagues working on overview reports, best value audits, performance audits, shared risk assessments and programme development.
- Model independent auditor's reports were issued to auditors for the college sector ensure a consistent approach and guidance was issued for all auditors to ensure a consistent approach to auditing whole of government accounts
- A workshop with representatives from across the organisation considered our approach to auditing outcomes, and actions that could improve our approach within this area.
- A knowledge café from an Assistant Director currently on a two year secondment as Director of Performance Audit at the Office of the Auditor General Cayman Islands.
- Engagement with the Canadian Comprehensive Auditing Foundation (CCAF) to learn more about the database they have developed for performance audit work.

Issues/ risks/ actions:

-

Forward look:

- Audit Quality Report (Q3) and formation of Appointments and Assurance and Professional Support Teams
- Digital audit strategy and Digital Services Strategy (Q3) – improving the use of human and technological capacity in delivering the audit work
- Office365 / cloud project scoping (Q3) – improving the security and accessibility of information and intelligence across the business and on-site.
- Review of performance management framework (Q3) – improving access to and use of business intelligence
- New MKI tool for data analysis roll out (Q3).



We empower and support our people to be engaged, highly skilled and perform well

Key Performance Questions:	RAG				Actions
	Q1	Q2	Q3	Q4	
Are our people empowered and engaged?	G	G			BaBO programme implementation
Are our people highly skilled?	G	G			L&D strategy implementation
Are people performing well?	Y	Y			
How effective is communication and collaboration across the organisation?	G	G			
Are career paths offered across the organisation?	G	G			CDG training and awareness sessions in Q3
Do we understand and support diversity within the workforce?	G	G			

Empowered and engaged -

Work continued with colleagues on finalising the Career development gateway work packs, and consultation with PCS continued to progress. Band and role profiles have been finalised. Initial Career development gateway panellist briefing sessions have taken place, with formal training scheduled for October. This will be followed by briefing sessions open to all colleagues as part of the formal launch of the gateway process.

Wellbeing -

The Health, Safety and Wellbeing group has developed a calendar of wellbeing events and awareness raising sessions for the next year and agreed lead people for each quarter in the plan. BSS colleagues led Q2 events (Physical Activity) and worked with the Communications team to deliver and promote a range of activities under 'Lets Get Moving' including: lunchtime walking, yoga, standing wall challenge, warm up exercises, healthy eating etc.

Absence levels - Absence levels have increased in relation to previous quarters but remains low and below the same quarter last year.

	Q1 days	Q2 days	Q3 days	Q4 days	ytd days
Audit Scotland - 17/18	0.69	1.16			
Audit Scotland - 16/17	1.03	1.37	1.27	1.28	5.32
Audit Scotland - 15/16	0.89	0.98	1.49	2.05	5.62
Audit Scotland - 14/15	1.12	0.87	0.99	1.31	4.59
Audit Scotland - 13/14	1.6	1.14	1.57	1.40	5.99

Staff turnover - turnover has decreased compared to the previous quarter. There were 4 resignations, 4 end of contract and 1 retirement.

2017/18	Q1	Q2	Q3	Q4	YTD	CIPD benchmark	16/17
Resignations %	1.77	1.44			3.21	5.5	4.16
All Leavers %	2.48	3.41			5.89	13.6	11.11

Highly skilled - L&D events are summarised below.

	Q1		Q2		Q3		Q4		YTD		16/17	
	Events	Attendees	Events	Attendees	Events	Attendees	Events	Attendees	Events	Attendees	Events	Attendees
Health & Safety	0	0	0	0					0	0		
Knowledge Cafes	7	171	2	33					9	204		
Learning & Development	0	0	1	8					1	8		
Management Development	2	16	3	6					5	22		
Organisational dev't	3	3	1	2					4	5		
Technical Training	5	61	0	0					5	61		
Total	17	251	7	49					24	300	89	1,360

Exam results:

In Q2 there were 20 exams taken and 17 passes.

	Q1	Q2	Q3	Q4	YTD	16/17
Exams taken	9	20			29	158
Exams passed	6	17			23	143
% pass rate	67	85			79	90.5%

Career paths and secondments

- Band 1-3 profiles published on BaBO ishare page.
- CDG approved by Management Team and Remuneration Committee.

There was no internal recruitment in Q2 and three external appointments were made. No new secondments were recorded this quarter and four existing secondments remain in place.

Vacancies filled	17/18 YTD	16/17	Secondments	17/18	16/17
Internal	0	29	17/18 - New	0	4
External	9	33	17/18 - Existing	4	9
Total	9	62			

Issues/ risks/ actions:**Forward look:**

- Review of 3D process reported to Audit Committee in Q3.
- The Best Companies survey launched Friday 20 October and closed Friday 10 November.
- Recruitment Matters, an external training provider, training the first tranche of CDG panellists in October.
- Strategic leadership conversations under way will continue, including the review of reward package and leadership roles and responsibilities.
- Career development gateway panellist training and wider staff briefing sessions, are scheduled for Q3.
- The 2017 intake of Professional Trainees commenced employment in October. PABV will welcome four new Audit Officers joining as a result of a recent external recruitment campaign.

Trend data: [link](#)

Examples of making a difference through audit

Local government

Accounting and budgeting

- We identified £516m of errors in the accounts - the majority were gross income/expenditure errors related to treatment of IJB and internal income. We also identified a material prior year error in the valuation of PPP assets which had been undervalued by £80m. Our work on procurement identified that the council had failed to deliver £5m of procurement savings - this led to scrutiny from the audit committee and a question raised at the full council meeting.
- Following our 2016/17 Annual Audit Report (AAR) the council agreed to move from a one year budget process to implement a three year rolling budget from 2018/19.
- Members of the Local government overview team delivered a presentation and hosted a discussion session with elected members and officials of a council. Elected members had agreed a medium term financial strategy, however the council had identified instances where the aims of this strategy were not consistent with the savings required. The team reinforced the messages in the overview reports, including those directly relating to financial strategy and sustainability. The session also allowed the Accounts Commission's strategic priorities to be promoted. The session was well received by both elected members and officials.
- The amount completed and capitalised for major backlog maintenance project in the year was understated as it did not reflect the full value provided by the District Valuer when relevant assets were transferred from assets under construction to operational assets. The board reviewed its methodology and made the required adjustments to the financial statements which increased the net book value of the assets and reduced the impairment charged to the Statement of Comprehensive Net Expenditure funded through Annually Managed Expenditure by £4.1m.
- A poor set of accounts were presented for audit. This was discussed with management and the accounts were significantly revised prior to sign off along with an undertaking to improve accounts presentation in future. The process of revision has already begun for 2017/18 annual accounts.

Governance

- A council requested a workshop on the key messages and recommended good practice within the 2016 How Councils Work report on Roles and working relationships. The session took place on 27 September and also included discussion on the messages within the Local government overview reports and consideration of the local implications for governance arrangements within the council.
- A 2015 BV Report had identified member training and development as an area where improvement was required. The council developed a new members' induction programme ahead of the May 2017 elections. The BV Report also noted that on average less than half of all members attended seminars. The audit team found that attendance at the induction sessions for the new council was very high.
- Risk management processes had stalled in the council and that the corporate risk register had last been considered by elected members in June 2014. The council has now agreed to ensure the appropriate reports are considered by members.
- The scheme of delegation was not clear on delegated powers in relation to the arrangements for the approving the use of reserves. The council has agreed to review

the Standing Orders and Schemes of Administration and the council's protocol around the operation of reserves will be reviewed and updated in response to audit findings.

- The arrangements for considering and approving the Annual Report and Accounts were contrary to the approved governance arrangements. In addition, audit arrangements for the Fund were not included within the remit of the Pensions Sub-committee. The body has agreed to review the remit and terms of reference of the committee and ensure all appropriate reports are considered.
- Despite an unsuccessful application to the Public Sector Network in May 2016 the council continued to connect to the PSN without a compliance certificate. This had not been disclosed to senior officers or councillors and was reported in our AAR. Senior officers and members are now aware of this and a detailed action plan has been implemented to address the matter.

Reporting

- Significant changes were made to the financial statements to address deficiencies in the management commentary and annual governance statement.
- We encouraged officers to make significant changes to the layout and content of the Annual Report and Financial Statements. The financial statements now use the CIPFA model for pension funds, which is readable and comparable.
- The management commentary presentation and Annual Governance Statements were significantly amended at our request. Further improvements are expected for 2017/18.
- A new annual report on financial and performance information relating to bodies which are being substantially funded by the council (ALEOs) is to be provided to the council in December 2017.
- We identified that much of the performance information on the council's website was outdated. The council has agreed to update the performance information available on its website.

Feedback

- The vice-chair of the Executive Committee commended the clarity of the AAR and his appreciation, given his limited background in finance.
- The chair of the Audit and Scrutiny Committee praised the 2016/17 annual audit report and commented that it was a very comprehensive and useful read. He also commented that this shows the audit has been thorough and he found our detailed presentation of the report very useful.
- At the committee approving the accounts, the Chair remarked that our annual audit report presented clearer and more informative analysis of the pension fund than the management's own papers.
- The overview team delivered a session on financial strategy to elected members and officers. The level of engagement of those participating in the session was high, with positive feedback received from the council following the event.

Central government

- The audit identified that the audited body had been incorrectly valuing an asset, owned by its subsidiary. As a result, there was a restatement to the prior year accounts in respect of land and buildings £18.343m.
- The financial statements audit identified an error of £48 million in relation to the student loans model. The model is used to predict borrowing behaviour and estimate the likely repayments of loans. The error arose from the SG applying an incorrect discount rate resulting in a £48m adjustment to the accounts to increase investments. This impacts on the SG's assessment of the future value of student loans.

- In 2016 the Accountable Officer of a charitable NDPB had written on behalf of four national bodies to the Assistant AGS expressing concern that Audit Scotland did not have the expertise required to audit charitable trusts. Senior staff and audit committee members had a very negative attitude to the audit team during the initial planning process. However the accountable officer, senior staff and audit committee members gave us positive feedback on the way we conducted our audit and the quality of the AAR.

NHS

- The audit of the accounts identified an error in the PFI model used to calculate the health board's PFI liability and interest payment. This resulted in a reduction in interest costs of £1.4m per annum over the next 3 years (and beyond over the term of the agreement), which assists the health board in meeting its efficiency targets.
- The audit identified that RTA income was not being accounted for correctly in year. This will result in additional income for the Board of circa £4m.
- The audit identified that improvement in the forecast year end financial position was not formally reported to the Board on a timely basis, resulting in a lack of transparency. The board's 2017/18 reporting process has been refined in a number of areas. These include forecasts that reflect an assessment of best to worst case and a formalised process, led by the Chief Financial Officer of the Integrated Joint Board (IJB), to notify the health board and council on a monthly basis of the impact of the IJB's risk share arrangement.
- ISD Scotland has published *Outcomes count – re-design and use of the community indicator of relative need* (ioRN2). This relates to a recommendation within our 2014 report on *Reshaping care for older people* which stated 'the Scottish Government should work with NHS boards, councils and partners to use a consistent tool to assess dependency in older people'. This information is important to ensure that service user needs are met and to help inform planning of future services.
- During an initial meeting with the Chief Executive and Director of Finance in October 2016 the audit team discussed a review of delayed discharges. The review was carried out by the local audit team assisted by a colleague from PABV. The feedback from the Audit Committee was positive and highlighted several governance issues around the responsibility for managing the delayed discharges under the new arrangements which involve the NHS Board, IJBs and local authorities.

Further education

- The Scottish Funding Council (SFC) has recently required colleges to prepare longer-term six year financial forecasts. This follows a consistent message in our Scotland's Colleges overview reporting that colleges need to improve their medium to longer-term financial planning and forecasting arrangements.
- The SFC (through its [Accounts Direction to Colleges](#)) now requires colleges to include a figure for their underlying operating position (showing the financial position of each college in the immediate term). This follows the calculation with the 2016 Scotland's Colleges overview report, and a specific recommendation within the 2017 overview report.

AUDIT SCOTLAND BOARD

29 NOVEMBER 2017

REPORT BY THE ASSISTANT DIRECTOR, CORPORATE PERFORMANCE AND RISK

Q2 BECOMING WORLD CLASS IMPROVEMENT PROGRAMME REPORT 2017/18

1. Purpose of Report

To invite the Board to consider the progress made to date on the Becoming World Class (BWC) improvement programme and the planned actions.

2. Background

The BWC strategic improvement programme is a key enabler for achieving our vision to be a world class audit organisation. The last quarterly BWC update report was considered by the Board on 23 August 2017.

3. Progress on the BWC improvement programme

We continue to make good progress on the programme. Progress headlines since the last report include:


- *Securing World Class Audit* – where
 - the new Audit Quality framework has been agreed and the Audit Quality report published
 - the Appointments and Assurance and Professional Support teams have been established
 - resource requirements re new financial powers have been built in to the 2018/19 budget proposal for the SCPA.
- *Building a Better Organisation (BaBO)* – where
 - role profiles, bands and gateway arrangements have been agreed
 - the first tranche of Career Development Gateway panellists have been trained and awareness sessions have been held for managers and colleagues
 - the review of our performance management framework is progressing to schedule.
- *Making a Difference* – where
 - four of the six scheduled audits of Best Value scheduled for 2017/18 have been reported to the Accounts Commission
 - proposals for the refreshed rolling five year work programme have been developed
 - the second phase of parliamentary engagement is underway
 - we have developed the Digital Audit and a Digital Services strategies.

The appendix provides additional information on each of the BWC workstreams.


4. Recommendation

The Board is invited to note the progress made to date and the next steps.

Appendix

 SECURING WORLD CLASS AUDIT	<p>Our objective is to ensure that public audit in Scotland: • applies the highest professional and ethical standards • is efficient, proportionate and risk based • is informed by an excellent understanding of the strategic and operational context • responds effectively to changing circumstances and emerging issues • reports clearly and authoritatively • follows the public pound wherever it is spent • promotes transparency, accountability and Best Value.</p>	
Project/ initiative/ product	Status update	Next steps
Review of Audit Quality	<p>Over the course of August to October 2017, the audit quality framework was considered by the Board, the Audit Committee, the Accounts Commission and its FAAC and the tender for external quality appraisals was issued.</p> <p>On 25 October 2017 the Board approved the Quality Framework, the first iteration of KPIs and the timeline for future quality reports.</p> <p>The Audit Committee considered the first Audit Quality report at its meeting on 15 November 2017.</p>	<p>The key 2017 milestones are:</p> <ul style="list-style-type: none"> • First audit quality report to Accounts Commission's committees 30 November • External quality appraisals contract tender evaluation (November) and award (December) 2018 • External assurance review (Audit Scotland) – January 2018 • External assurance review (Firms) – February • Quality assurance reporting – April • Client/firms/staff survey – May/June • Project review – September.
Future of Audit Strategy	The new Appointments and Assurance Team (AAT) and Professional Support Team (PST) took effect from October 2017.	<p>Workplans and resourcing plans for the new teams are under development. The key milestones are:</p> <ul style="list-style-type: none"> • The PST are meeting on 21 November to develop a workplan, initially merging existing TSU and BIU workplans. • The AAT are currently developing a workplan and are holding a team development workshop on 4 December.
New financial powers and constitutional change	<p>An update report on the new financial powers and constitutional change is on the agenda for today's Board meeting.</p> <p>The Board considered proposals for growth in Audit Scotland's budget for 2018/19 to accommodate additional work in response to financial devolution and constitutional change, at its meeting on 23 August 2017.</p> <p>We are currently having discussions with colleagues to help.</p>	<p>The key milestones are:</p> <ul style="list-style-type: none"> • Detailed workforce and recruitment planning for 2018/19 – November 2017 to March 2018 • Incorporating any changes to ASG teams and portfolios to accommodate new work – November • Proposals for additional funding to accommodate additional work as part of the 2018/19 budget submission to the SCPA in December.


Project/ initiative/ product	Status update	Next steps
	<p>identify how we best build capacity and to inform our workforce plans for 2018/19. This includes:</p> <ul style="list-style-type: none"> • An internal workforce planning summit that explored the approaches and opportunities available to us. • A series of discussions with managers across ASG and PABV on the workforce implications of the additional work and potential changes to audit teams and portfolios. • Discussions with the Housing Benefit performance audit team on how this audit could be incorporated within wider social security audits in future. • Establishing small working groups to take forward detailed workforce planning for two of the biggest areas of new work – auditing social security and auditing changes in public financial management. 	

	<p>Our objective is to make Audit Scotland a great place to work so that we can attract and retain a highly skilled workforce. We want to make the best use of our resources so that we can deliver audit work that improves the use of public money.</p>
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Project/ initiative/ product	Status update	Next steps
<p>How we work together Job Design Reward & Recognition Performance Appraisal</p>	<p>Band profiles have been agreed and the Remuneration Committee approved the Career Development Gateways (CDGs) at its meeting on 5 October 2017. It also approved the reward structure, pay progression arrangements and transitional plan for members of the Leadership Group.</p> <p>The first CDG panellists were trained in October and we have been running awareness sessions for managers and colleagues during November.</p>	<p>The key milestones are:</p> <ul style="list-style-type: none"> • Gateways available for submissions from colleagues with effect from December 2017. • Gateway panels commence in January 2018.

Project/ initiative/ product	Status update	Next steps
How we learn and develop Planning careers, developing skills, professional training schemes, becoming better managers and leaders	<p>The revised Learning and Development Strategy and plan was published in August and includes an extensive programme of L&D opportunities.</p> <p>On 13 September the Audit Committee considered the review of the 3D process.</p> <p>On 23 October, 16 new staff joined our professional trainee scheme (15 graduates and 1 school leaver). 13 are currently working on audits in ASG and 3 on the PABV work programme.</p>	<p>The key milestones are:</p> <ul style="list-style-type: none"> • 3D coaching sessions November 2017 – January 2018 • Review of professional training scheme - feedback session for senior sponsors (November 2017) and trainees (January 2018).
Strategic leadership	<p>On 4 October Leadership Group held a workshop session on leadership roles, responsibilities and areas of focus.</p> <p>On 5 October 2017 RemCo approved the reward structure, pay progression arrangements and transitional plan for members of the Leadership Group.</p> <p>Management Team is also reviewing how to improve the strategic focus of meetings and schedule regular strategic conversations involving an extended range of internal stakeholders throughout the year.</p>	<p>The key milestones are:</p> <ul style="list-style-type: none"> • Leadership development – agreement of lead roles and remits December 2017 • Revised Management Team Terms of Reference – January 2018.
Programme of efficiency reviews	<p>The Board considered a report on audit efficiency at its meeting on 23 August 2017. We are also progressing two efficiency reviews:</p> <p>The How we spend our time (HWSOT) review has completed the analysis phase and is now engaging with business groups to identify areas for action & recommendations.</p> <p>The review on securing external capacity (consultants, agency, internal audit and legal) has progressed the analysis of expenditure and is now moving into a sample survey of contract awarders on quality and value for money.</p>	<p>The key milestones are:</p> <p>HWSOT milestones are:</p> <ul style="list-style-type: none"> • Getting underneath the data – engaging with colleagues to understand what it is telling us, and identify areas for action - December 2017 <p>External capacity review milestones are:</p> <ul style="list-style-type: none"> • Conclude analysis – December 2017 • Report to Management Team – January 2017.

Project/ initiative/ product	Status update	Next steps
Performance management and business intelligence	We have commissioned external consultancy support to review the business performance management framework and options for digital solutions to support that. The review commenced with an inception meeting at the end of September and to date the consultants have been meeting with a wide range of stakeholders and carrying out desk based research.	The key milestones are: <ul style="list-style-type: none"> • Workshop 9 November (review and prototyping) • Refined framework, review of technical constraints and assessment criteria – November • Final report – December 17 • Decisions and subsequent implementation plan will be progressed in light of the report – 2018/19.

	Our objective is to maximise the difference our audit work makes to public services, the people that they serve, the outcomes that those people experience and the use of public money.
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Project/ initiative/ product	Status update	Next steps
Auditing Best Value (BV) in councils	<p>To date BV assurance reports on four councils have been considered by the Accounts Commission and the remaining two will be completed by January 2018. All 2016/17 annual audits reports for councils include findings on the 2016/17 BV work.</p> <p>The quality assurance arrangements for audits have been reviewed and now include all audit work on BV.</p> <p>The Accounts Commission's BV steering group continues to meet to inform and monitor developments. The group approved the scope of the review of the new BV approach.</p> <p>The Scottish Government working group's review of the statutory BV guidance has concluded its work. The Scottish Government is planning to put the guidance out for consultation at the end of 2017.</p>	<p>The key milestones are:</p> <ul style="list-style-type: none"> • The remaining two BVARs for 2016/17 (Orkney and Clackmannanshire) will be reported to the Commission by January 2018 • The Controller of Audit's Annual Assurance and Risks Report will be reported to the Accounts Commission in February 2018. This will reflect on the 2016/17 BV work reported in all LG bodies. • A review of the effectiveness of the new approach, used in the 2016/17 audits, will be reported to the Accounts Commission in February 2018. • End of 2018 - The second tranche of six BVARs will be reported to the Commission by December 2018.
World Class Programme Development	<p>We will present work programme refresh proposals to the Auditor General and the Accounts Commission in December. The underpinning work programme refresh activity to achieve this is now well advanced. Since the last update:</p> <ul style="list-style-type: none"> • Initial work programme refresh proposals have been prepared by the three policy clusters (PIE, JELL, HCC) • Discussions have taken place with the Accounts Commission at its mid-year strategy seminar on how the 2017 work 	<p>The key milestones are:</p> <ul style="list-style-type: none"> • presenting refresh proposals to the Auditor General for Scotland and the Accounts Commission - December 2017.

Project/ initiative/ product	Status update	Next steps
	<p>programme refresh proposals reflect the Commission's strategic audit priorities and more recently identified areas of audit interest</p> <ul style="list-style-type: none"> Initial discussions have taken place with the Auditor General for Scotland and the Acting Chair of the Accounts Commission on the draft work programme refresh proposals and how well they reflect their key areas of interest. 	
Strategic approach to Parliamentary Engagement	<p>Work is ongoing to refresh our strategy for parliamentary engagement drawing on the lessons learnt from phase 1 (understanding, informing and engaging with the Parliament), including all of the feedback we have received from the MSPs survey, clerking teams, SPICe and colleagues.</p> <p>Our parliamentary engagement group which includes representation from PABV, ASG, Accounts Commission and Communications has:</p> <ul style="list-style-type: none"> identified aspects of engagement that have worked most effectively to date, shared good practice identified opportunities for better targeting our efforts moving forward. <p>In refreshing the strategy we have also been considering how our approach to parliamentary engagement with, and support for, the Parliament needs to evolve in response to the Budget Process Review Group and Commission on Parliamentary Reform reports.</p> <p>Both of these reports recommend that Parliament develops a stronger focus on outcomes through robustly scrutinising what budgets have achieved and aim to achieve over the long-term and may have significant implications for Audit Scotland.</p> <p>Our parliamentary engagement group is currently preparing a revised engagement plan based on its deliberations.</p>	<p>The key milestones are:</p> <ul style="list-style-type: none"> finalisation of a refreshed parliamentary engagement strategy - December 2017.

Project/ initiative/ product	Status update	Next steps
Digital Audit	<p>Management Team and the Board have approved the Digital Audit Strategy. The strategy contains a variety of commitments for 2017/18 and beyond under three main streams of work:</p> <ul style="list-style-type: none"> • Auditing digital • Digital auditing • Digital capacity and resilience <p>The Digital Services Strategy 2018-21 has also been agreed and sets out how digital services will support the delivery of the strategy and core business delivery.</p>	Implementation of the strategies 2017-21.

AUDIT SCOTLAND BOARD

29 NOVEMBER 2017

REPORT BY ASSISTANT DIRECTOR CORPORATE PERFORMANCE AND RISK EVALUATION OF BOARD EFFECTIVENESS

1. Purpose of Report

This report invites the Board to consider and agree proposals to support the Board consider its effectiveness.

2. Background

The committees of the Board carry out a self-assessment process and report to the Board each year as part of the annual assurance process.

Board members also undertake an evaluation of performance. In 2016 Board members completed self evaluation questionnaires; these informed the Board development workshop which took place in August 2016.

A number of changes were introduced following the workshop including:

- the structure and flow of board business over the course of the year
- the structure and content of agendas and reports
- the balance between strategic planning and business management items
- a review of the meeting at the end of each meeting; and
- the openness and transparency of board business.

The timing of this evaluation process has been informed by changes to membership of the Board which have taken place during 2017.

3. Proposal

Board members are invited to consider the self-evaluation questionnaire at appendix 1. The results will be used to inform the Board's next development workshop, which will take place early in 2018. The Chair of the Board and the Chief Operating Officer are currently considering the focus, format and facilitation arrangements for the workshop.

The proposed timescales are:

- Board members complete the self-evaluation form by 15 December 2017.
- Responses collated and actions identified during January 2018.
- Summary report to inform the Board development workshop early 2018.

4. Recommendation

The Board is invited to consider and agree the proposed process and timeline for the self-evaluation process.

Audit Scotland Board

Self-evaluation 2017/18



Prepared for Audit Scotland Board
November 2017

Introduction

This self-evaluation questionnaire has been prepared to help assess how well the Audit Scotland Board achieves its objectives. The criteria used are based on a self-evaluation questionnaire used by the Board and Leadership Team at the National Audit Office and augmented to reflect the specific nature of Audit Scotland.

The self-evaluation form contains seven sections:

1. Objectives strategy and remit
2. Performance management and reporting
3. Risk management
4. The Audit Committee
5. The Remuneration and Human Resources Committee
6. The Board
7. Board member contributions

There are a series of statements to help members evaluate the board's effectiveness in achieving its objectives. A Likert type scale is used to allow board members to express how much they agree or disagree with each statement.

	<i>Strongly Disagree</i>	<i>Partly Disagree</i>	<i>Partly Agree</i>	<i>Strongly Agree</i>
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1 Objectives, strategy and remit

1.1	Audit Scotland has clear objectives which meet the needs of the Auditor General and the Accounts Commission.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1.2	The objectives are clearly articulated in Audit Scotland's strategic plans.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1.3	The Board informs, considers and approves strategic plans.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1.4	The strategic plans are central to the way the organisation is run.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1.5	The strategic plans are well aligned to Audit Scotland's remit, responsibilities and its capacity, i.e. its people, assets, intellectual property, and financial and other resources.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1.6	The board devotes time to reviewing the implementation of the strategic plans.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1.7	Strategic plans are updated to reflect any changes to Audit Scotland's remit and/ or the external environment.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1.8	Audit Scotland is a Best Value organisation and delivers Value for Money for the public sector as a whole.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1.9	Significant programmes and projects are clearly aligned to the strategic plans.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1.10	Audit Scotland performs well against its objectives.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Additional comments

	<i>Strongly Disagree</i>	<i>Partly Disagree</i>	<i>Partly Agree</i>	<i>Strongly Agree</i>
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2 Performance management and reporting

- | | | | | | |
|-----|--|--------------------------|--------------------------|--------------------------|--------------------------|
| 2.1 | Overall I am satisfied with the quality of board reports I receive. | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 2.2 | Reports are coherent, logically structured and written in plain language. | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 2.3 | Significant risks are highlighted clearly. | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 2.4 | The data is of high quality. | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 2.5 | The diagrams, graphs and indicators are useful. | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 2.6 | The board receives appropriate update reports from the Auditor General and the Accounts Commission. | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 2.7 | I feel able to influence the content of the business management and risk reports to ensure they meet my needs as a board member. | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 2.8 | The board has an open and transparent approach to its discussions and decisions. | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

Additional comments

		<i>Strongly Disagree</i>	<i>Partly Disagree</i>	<i>Partly Agree</i>	<i>Strongly Agree</i>
3	Risk management				
3.1	There is a sound process in place for identifying and regularly reviewing risks.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.2	The board (through its Audit Committee) receives regular, insightful reports on the organisation's risk management and internal control systems that provide assurance over their operational effectiveness	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.3	The board is clear on Audit Scotland's tolerance to risk.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.4	The board takes full account of risk in its decisions.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.5	The board assesses the impact of changes in the external environment for its remit and the impact on Audit Scotland's strategic plans.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.6	The board is aware of changing demands on Audit Scotland and is confident that these can be met from the resources available and within the organisation's remit.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.7	The board is satisfied there have been no problems with regulatory and similar requirements in Audit Scotland's operations.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.8	In the past year no substantial, unexpected problems have emerged of which the board should have been aware earlier.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Additional comments

	<i>Strongly Disagree</i>	<i>Partly Disagree</i>	<i>Partly Agree</i>	<i>Strongly Agree</i>
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4 The Audit Committee

4.1	There is sufficient clarity regarding the role and remit of the committee.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4.2	The audit committee has sufficient expertise, support, time, and access to key staff and information to enable it to discharge its monitoring and oversight role effectively.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4.3	There is a proper discussion by the board of reports from the audit committee.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4.4	The internal audit function is independent of management, appropriately skilled and competent.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4.4	The external audit function is independent of management, appropriately skilled and competent.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4.5	The board is satisfied with the application of accounting policies.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Additional comments

	<i>Strongly Disagree</i>	<i>Partly Disagree</i>	<i>Partly Agree</i>	<i>Strongly Agree</i>
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5 The Remuneration and Human Resources Committee

- | | | | | | |
|-----|--|--------------------------|--------------------------|--------------------------|--------------------------|
| 5.1 | There is sufficient clarity regarding the role and remit of the committee. | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 5.2 | The committee has sufficient expertise, support, time, and access to key staff and information to enable it to discharge its role effectively. | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 5.3 | There is a proper discussion by the board of reports from the committee. | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

Additional comments

	<i>Strongly Disagree</i>	<i>Partly Disagree</i>	<i>Partly Agree</i>	<i>Strongly Agree</i>
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6 The Board

6.1	The board has a good shared understanding of its remit and purpose.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6.2	The board takes proper account of the unique roles of the Auditor General and the Accounts Commission.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6.3	The board combines being supportive of management with providing appropriate scrutiny and challenge.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6.4	The board is involved at the appropriate stages of significant decisions.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6.5	The board has full and open discussions before major decisions are taken.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6.6	Board meetings have a clear focus on the big issues facing the organisation.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6.7	Board members adhere to collective corporate responsibility, confidentiality and the highest standards of conduct.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6.8	Board members are able to express different points of view.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6.9	Board members work well together as a team.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6.10	The support provided to the board is of good quality.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6.11	Induction and development programmes ensure board members remain up-to-date.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6.12	The board carries out an assessment of its effectiveness on an annual basis	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6.13	The board has a development plan to improve its effectiveness	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6.14	Members of the board have personal objectives which align with its collective responsibility	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6.15	The effectiveness of Board members is reviewed on a regular basis.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Additional comments

	<i>Strongly Disagree</i>	<i>Partly Disagree</i>	<i>Partly Agree</i>	<i>Strongly Agree</i>
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7 Board member contributions

7.1	My ability to contribute is not limited by the information I receive.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7.2	I ensure that I am appropriately prepared and informed for Board meetings.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7.3	I comply with the members' code of conduct and I keep my register of interests up to date.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7.4	The board makes good use of my experience	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7.5	Working as a team, the board has the right blend of skills, expertise and personalities.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7.6	The board as a whole has an appropriate level of understanding for matters being considered.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7.7	Board members ensure that they are appropriately prepared and informed.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7.8	The non-executive members demonstrate a good understanding of the role of Audit Scotland and the requirements of the Auditor General and the Accounts Commission.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Additional comments

AUDIT SCOTLAND BOARD

29 NOVEMBER 2017

REPORT BY THE CORPORATE GOVERNANCE MANAGER

CORPORATE GOVERNANCE POLICIES UPDATE

1. Purpose of Report

This paper invites the Board to approve updates to the Standing Orders, Financial Regulations and Scheme of Delegation.

2. Update to the corporate governance policies

The Standing Orders state that Audit Committee is to keep under review the Standing Orders, Financial Regulations and Scheme of Delegation and recommend to the Board any amendments.

The Audit Committee's Terms of Reference (TOR) states that they will advise the Board on corporate governance requirements and are to be provided with a report on policy documentation reviews.

This paper covers updates to the Standing Orders, Financial Regulations and Scheme of Delegation.

Standing Orders

The Standing Orders have been updated to reflect the Board's decision to hold its meetings in public from January 2018. The Audit Committee, at its meeting on 15 November 2017, reviewed the update to the Standing Orders and agreed to recommend the Board approve the changes subject to an additional amendment to set out the arrangements for the Chair of the Board to approve the Board agenda

Financial Regulations and Scheme of Delegation

The Financial Regulations and Scheme of Delegation have been amended to reflect the changes to Audit Scotland's organisational structure. The changes are:

- The Financial Regulations has been amended to remove references to the Assistant Auditor General from the Management Team (section 8.4).
- The Scheme of Delegation has been amended to remove references to the Assistant Auditor General from the Management Team (section 6 and note on page 10) and to update the delegated authority at section 3.12.

3. Recommendation

The Board is invited to approve the Standing Orders, Financial Regulations and Scheme of Delegation with effect from 1 January 2018.

Standing Orders



Prepared for Audit Scotland
January 2018

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

Contents

Standing orders	5
Introduction	5
Constitution	5
Chair	6
Meetings	6
Agenda and Papers.....	6
Conduct of Business	6
Minutes	7
Vacancy	7
Code of Conduct	7
Committees.....	7
Deeds and Documents.....	8
Advisers and Committee Co-optees	8
Openness and Transparency	8
Board Effectiveness	8
Application of Standing Orders.....	8
Alteration.....	8
Appendix 1: Audit Committee remit	9
Internal Control and Corporate Governance	9
Internal Audit	9
External Audit.....	10
Annual Accounts	10
Standing Orders, Financial Regulations and Scheme of Delegation.....	10
Other duties.....	10
Appendix 2: Remuneration & Human Resources Committee remit	11
Remuneration & Human Resources Committee responsibilities	11
Other duties.....	12
Appendix 3: Appeals Committee remit.....	13
Appendix 4: Co-option procedure	14
Introduction	14

Reasons for co-option	14
Nominations process.....	14
Application process	14
Term of Office	14
Remuneration.....	15
Conduct of co-opted members	15

Standing orders

Introduction

1. The Constitution and membership of Audit Scotland is unusual in having both members appointed by the Scottish Parliament and members with or having access to Direction giving powers. The Board will seek to operate on a consensus basis recognising that on occasion a majority decision may be reached and that the Auditor General and the Accounts Commission may issue Directions for the purpose of or in connection with the exercise of Audit Scotland's functions in relation to either or both of them.

Constitution

2. Audit Scotland is a body corporate established under section 10 of the Public Finance and Accountability (Scotland) Act 2000 ("the Act").
3. The function of Audit Scotland is to provide such assistance and support as the Auditor General and the Accounts Commission require in the exercise of their respective functions and, in particular, to provide them, or ensure that they are provided, with the property, staff and services which they require for the exercise of those functions. The Auditor General and the Accounts Commission may give directions to Audit Scotland in connection with the exercise of their functions. Detailed provisions about the operation of Audit Scotland are contained in Schedule 2 to the Act as amended by the Public Services Reform (Scotland) Act 2010.
4. The Board remains responsible for the exercise of all functions of Audit Scotland. It exercises its powers and authorities through the Scheme of Delegation, which it determines and approves.
5. The members of Audit Scotland are the Auditor General, the Chair of the Accounts Commission and three other members appointed by the Scottish Commission for Public Audit.
6. The three other members will be appointed under terms and conditions, including remuneration, as determined by the Scottish Commission for Public Audit. The Auditor General and the Chair of the Accounts Commission may not receive any remuneration as members of Audit Scotland.
7. Members of Audit Scotland may terminate their appointments at any time by notifying, in writing, the appropriate appointing body, and following the prescribed period in the letter of engagement.
8. In these Standing Orders the members of Audit Scotland meeting together to discharge their functions are referred to as the Board.

Chair

9. The Scottish Commission for Public Audit will appoint one of the members of Audit Scotland which it has appointed to preside at the meetings of the Board ("the Chair").

Meetings

10. Meetings will be held in public at times, dates and places agreed by the members. In addition, a meeting may be called at any time by the Chair or by not less than three members giving the Chief Operating Officer a written request for such a meeting stating the business to be transacted. The use of video or telephone conferencing by members will be deemed as attendance at the meeting.

Agenda and Papers

11. The Chair will approve the Board agenda, including the consideration of items to be taken in private, 10 working days prior to the scheduled meeting, following discussion with the Chief Operating Officer.
12. At least five clear working days before a meeting of the Board the Chief Operating Officer will send written notice of the approved time and place of the meeting and of the business to be transacted to each member. So far as possible, reports and other papers relating to agenda items will be circulated with the agenda.
13. At least two clear working days before a meeting of the Board the Chief Operating Officer will publish the meeting agenda and reports and papers to be taken in public on the Audit Scotland website.

Conduct of Business

14. The Chair, if present, will preside. If the Chair cannot be present the Board must appoint one of the other members appointed by the Scottish Commission for Public Audit to preside at the meeting.
15. No business other than that stated in the notice of the meeting will be transacted at that meeting other than with the consent of the Chair and a minuted explanation of why the matter had to be conducted without the standard notice.
16. The Chair of the meeting will decide all questions of order, relevancy and conduct of business during the meeting.
17. A quorum for a meeting of the Board is three members including those present by telephone or video conference call. The Auditor General and the Chair of the Accounts Commission must be present for a quorum to be constituted, save that in the event that the Auditor General and/or the Chair of the Accounts Commission are unable to attend a meeting of the Board, either may confirm, by giving notice in writing, by email or where circumstances require verbally by telephone prior to the commencement of the meeting, that (i) they consent to the meeting proceeding in their absence; (ii) that the meeting may be deemed to be quorate

notwithstanding their absence provided the other requirements for a quorum to be constituted as set out in paragraphs 17, 18 and 19 are met; and (iii) that any business detailed on the agenda circulated pursuant to paragraph 12 and transacted at the meeting shall be deemed to be transacted validly provided that all other requirements of these Standing Orders are complied with.

18. Where the Auditor General and/or the Chair of the Accounts Commission consents to a meeting proceeding in their absence, they shall, within five working days of the date of the meeting, be provided with a copy of the draft minutes of the meeting produced pursuant to paragraph 21.
19. No business which is not detailed on the agenda circulated pursuant to paragraph 12, and which the Board deems to be material to the operation of Audit Scotland, shall be transacted at a meeting at which either the Auditor General and/or the Chair of the Accounts Commission is not present.
20. At any meeting the Board may suspend Standing Orders for the duration of the meeting or of any item of business provided a majority of the members present so agree.

Minutes

21. Minutes of every meeting of the Board will be drawn up and will be approved at the following meeting.

Vacancy

22. The proceedings of the Board will not be invalidated by any vacancy in membership or by any defect in the appointment of any person.

Code of Conduct

23. Each member will abide by the Code of Conduct for Members of the Audit Scotland Board current at any time.

Committees

24. The Board may appoint standing or ad hoc committees consisting of such numbers as the Board may determine. Committees may consist of members and other suitable persons chosen by the Board.
25. The Board will establish an Audit Committee with the terms of reference contained in Appendix 1.
26. The Board will establish a Remuneration & Human Resources Committee with the terms of reference contained in Appendix 2.
27. The Board will establish an Appeals Committee with the terms of reference contained in Appendix 3.

28. Any committee will operate within the terms of remit and any delegation made to it by the Board.

Deeds and Documents

29. Any deed or document requiring formal execution by Audit Scotland will be signed for and on behalf of Audit Scotland by the Chair of the Accounts Commission or the Auditor General for Scotland and the Chief Operating Officer.

Advisers and Committee Co-optees

30. The Board may appoint advisers and/or co-optees to Committees and pay them such remuneration and expenses as the Board decide. The co-option appointment procedure is contained in Appendix 4.
31. Employees of Audit Scotland, advisers and others may attend meetings of the Board at the invitation of the members.

Openness and Transparency

32. The Board will meet in public and will publish agendas, minutes and papers to be taken in public on the Audit Scotland website.

Board Effectiveness

33. The Board will conduct a self-evaluation of its effectiveness on an annual basis.

Application of Standing Orders

34. These Standing Orders will apply to meetings of committees of the Board subject to any due modification of details.

Alteration

35. These Standing Orders may be altered by the Board provided that the alteration is approved by a majority of the members of the Board.

Appendix 1: Audit Committee remit

36. The Audit 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 Audit Committee, and may pay them such remuneration and expenses as the Board decides. The Chair of the Board and the Accountable Officer may not be members of the Audit Committee but may attend meetings.
37. The purposes of the Audit Committee are detailed in the Audit Committee terms of reference. The key points are:

Internal Control and Corporate Governance

38. To evaluate the framework of internal control, strategic processes for risk and corporate governance comprising the following components:
- Control Environment.
 - Risk Management.
 - Information and Communication.
 - Control Procedures.
 - Monitoring and Corrective Action
 - Audit quality monitoring and arrangements.
39. To review the system of internal financial control, which includes:
- The safeguarding of assets against unauthorised use and disposal.
 - The maintenance of proper accounting policies and records and the reliability of financial information used within the organisation or for publication.
 - To ensure that Audit Scotland's activities are within the law and regulations governing them.
 - To monitor performance and best value by reviewing the economy, efficiency and effectiveness of operations.
 - To present an annual statement of assurance to the Board to support the Accountable Officer's governance statement.

Internal Audit

- To review the Terms of Reference and appointment of the internal auditors.
- To review and approve the internal audit strategic and annual plans.
- To monitor audit progress and review audit reports.

- To monitor the management action taken in response to the audit recommendations through an appropriate follow up mechanism.
- To consider internal audit's annual report and assurance statement.
- To review the operational effectiveness of internal audit by considering the audit standards, resources, staffing, technical competency and performance measures.
- To ensure that there is direct contact between the Audit Committee and internal audit and that the opportunity is given for discussions with internal audit who should attend every meeting of the Committee.

External Audit

40. To consider all audit material, in particular:
 - Audit Reports.
 - Annual Reports.
 - Management Letters.
 - Management Reports.
41. To monitor management action taken in response to all external audit recommendations.
42. To hold meetings with the external auditors at least once per year and, as required, without the presence of senior management.
43. To review the extent of co-operation between external and internal audit.
44. The external auditor will be appointed by the Scottish Commission for Public Audit under Section 25 of the 2000 Act. The external auditor will examine and certify the account and report on the account to the Commission. The Commission must lay before the Parliament a copy of the account and the auditor's report and publish the account and that report.

Annual Accounts

45. To review and recommend approval of the Annual Accounts.

Standing Orders, Financial Regulations and Scheme of Delegation

46. To keep under review the Standing Orders, Financial Regulations and Scheme of Delegation and recommend to the Board any amendments.

Other duties

47. The Audit Committee may take on other duties as determined by the Audit Scotland Board.

Appendix 2: Remuneration & Human Resources Committee remit

48. 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.
49. The purposes are detailed in the Remuneration & Human Resources Committee terms of reference.

Remuneration & Human Resources Committee responsibilities

50. In relation to members of Audit Scotland's Management Team, are to:
- Review and approve all terms & conditions of employment, including job descriptions, all pay and benefit reward elements associated with each post.
 - Ensure remuneration policy and strategy is aligned to the relevant public sector policies being implemented by the UK and Scottish Governments.
 - Set and review the overall reward structure, including the value of pay ranges and general annual pay award strategy.
 - Assure itself that effective arrangements are followed for performance assessments in respect of Audit Scotland's Management Team, including any changes to pay and benefits arising from the assessment of performance during the review period.
 - Review talent management and succession planning arrangements.
 - Approve remuneration packages for newly appointed members of the Management Team.
 - Recommend appointments and changes affecting Management Team to the Board.
 - Decide on applications for early retirement.
 - Determine compensation payments for loss of office.
 - Agree, oversee and review the operation of expenses policy.
 - Review the expense claims of the Accountable Officer on an annual basis.
51. In relation to other staff employed by Audit Scotland, are to:
- Determine the remuneration policy governing all terms and conditions of employment, including pay, benefits, retirement policy and other policies relating to compensation for loss of office.

- Ensure remuneration policy and strategy is aligned to the relevant public sector policies being implemented by the UK and Scottish Governments.
- Approve the parameters for the annual pay award cycle.
- Review, not less than annually, the application of remuneration policy.
- Assure itself about any issues relating to the overall performance of employees.

Other duties

52. The Remuneration & Human Resources Committee may take on other duties as determined by the Audit Scotland Board.

Appendix 3: Appeals Committee remit

53. The Appeals Committee will consist of at least two members of the Board.
54. The purpose of the Appeals Committee is:
- To consider and dispose of any matters requiring independent deliberation which may be referred to it by the Board.
 - To hear and dispose of appeals by members of the Management Team under the Audit Scotland disciplinary and grievance procedures.

Appendix 4: Co-option procedure

Introduction

55. Audit Scotland's standing orders state that:

- The Board may appoint standing or ad hoc committees consisting of such numbers as the Board may determine. Committees may consist of members and other suitable persons chosen by the Board.
- The Board may appoint advisers and/or co-optees to Committees and pay them such remuneration and expenses as the Board decide. Employees of Audit Scotland, advisers and others may attend meetings of the Board at the invitation of the members.

Reasons for co-option

56. There may be times when specialist expertise is required which the Board may be unable to fulfil, or when the current or future balance of skills available to the Board's committees may need strengthened.
57. The Board should discuss and agree the specification of skills and experience being sought through co-option.

Nominations process

58. If the Board agrees to co-opt to its committees to fulfil requirements identified under 55 above, an advertisement seeking expressions of interest will be placed on Audit Scotland's website.

Application process

59. Applicants for co-option should provide a written statement of their relevant skills and a CV.
60. Following a shortlisting process, applicants will be interviewed by the Chair of the Board and the Chair of the relevant committee, plus one other member of the Board.
61. Candidates and interviewers must declare any relationships or potential conflicts of interest to the Chair.
62. The Board should approve the final recommendation from the Chair.

Term of Office

63. Co-option is intended to provide specific skills for a fixed term as determined by the Board.
64. There is potential for renewal, subject to the approval of the Board.

Remuneration

65. Remuneration, where applicable, will be determined by the Board and will be no greater than the rate set by the SCPA for Board members.

Conduct of co-opted members

66. Co-opted members will be required to follow the Audit Scotland Code of Conduct for Board members, and the associated disclosure requirements, and their appointment may be terminated by the Chair, subject to the approval of the Board.

Financial Regulations



Prepared for Audit Scotland
January 2018

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

Contents

Financial regulations	4
Introduction	4
Definitions and interpretation	4
Corporate Plan	5
Budget.....	5
Budgetary control and reporting	5
Accounting	6
Bank accounts.....	6
Credit Cards	7
Income	7
Investments and borrowings.....	7
Insurance	8
Tendering procedures	8
Payment of accounts.....	9
Audit.....	10
Security and Fraud Prevention	10
Salaries, wages and pensions.....	11
Travelling, subsistence, expenses and other allowances.....	12
Observance of Financial Regulations	12
Variation of Financial Regulations	12

Financial regulations

Introduction

1. Audit Scotland is a body corporate established under section 10 of the Public Finance and Accountability (Scotland) Act 2000. It came into existence on 1 April 2000 under the Public Finance and Accountability (Scotland) Act 2000 (Commencement) Order 2000 (SSI 2000 Number 10(c.1)).
2. The Board of Audit Scotland consists of the Auditor General, the Chair of the Accounts Commission and three other members appointed by the Scottish Commission for Public Audit, one of which will be appointed as Chair.
3. Audit Scotland's function is to provide such assistance and support as the Auditor General and the Accounts Commission require in the exercise of their respective functions and, in particular, is to provide them, or ensure that they are provided, with the property, staff and services which they require for the exercise of those functions.
4. Audit Scotland may impose reasonable charges in respect of the exercise of its functions. In determining the amounts of the charges Audit Scotland must seek to ensure that the total sum received in respect of the charges is, taking one year with another, broadly equivalent to its expenditure. Any expenditure not met out of sums received is payable out of the Consolidated Fund.
5. The Scottish Commission for Public Audit (SCPA), established under section 12 of the Public Finance and Accountability (Scotland) Act 2000, has the duty to designate an accountable officer for Audit Scotland. The SCPA has designated the Auditor General as the Accountable Officer. The responsibilities of the Accountable Officer are set out in section 18 of the 2000 Act. They are:
 - 5.1. signing the accounts of the expenditure and receipts of Audit Scotland;
 - 5.2. ensuring the propriety and regularity of the finances of Audit Scotland; and
 - 5.3. ensuring that the resources of Audit Scotland are used economically, efficiently and effectively.
6. All members of the Board and all employees, shall conduct their business with diligence and with a view to the security of the property of Audit Scotland, avoiding loss, exercising economy and efficiency in the use of resources and conforming with the requirements of Standing Orders, Financial Regulations and the Scheme of Delegation.
7. The Board has made Standing Orders, these Regulations and a Scheme of Delegation to govern the operation of Audit Scotland. They should be read together.

Definitions and interpretation

8. In these Regulations terms will have the following meanings:

- 8.1. “the 2000 Act” means the Public Finance and Accountability (Scotland) Act 2000
- 8.2. “the 1973 Act” means the Local Government (Scotland) Act 1973
- 8.3. “the Board” means the members of Audit Scotland acting together to discharge the functions of Audit Scotland
- 8.4. “the Management Team” consists of the Auditor General, the Chief Operating Officer and the Audit Scotland Directors, or such other combination of officers as may be determined from time to time by the Board.

Corporate Plan

- 9. A Corporate Plan will be prepared and will be reviewed annually by the Board. It will set out the strategic approach to be adopted by Audit Scotland in performing its functions. So far as possible, it will outline the financial consequences of proposals contained in it.
- 10. The Corporate Plan will be approved by the Board.

Budget

- 11. The financial year of Audit Scotland is 1 April to 31 March.
- 12. Proposals for the use of resources and expenditure for each financial year will be submitted to the SCPA at such times as the Commission requires to enable it to examine the proposals and report to the Parliament under section 11(9) of the 2000 Act.
- 13. Estimates of expenditure and income will be submitted as budget proposals to the Board for approval prior to the submission to the SCPA. Provided the SCPA report has been submitted to and approved by Parliament, a final version of the budget will be submitted to the Board not later than 31 March in the year preceding the financial year to which it relates.
- 14. In the event that Parliament has not approved the budget, a version of the budget that includes our best estimate of operational changes will be submitted to the Board by 31 March. A final version to be submitted when the Scottish Government budget is passed.
- 15. No expenditure will be incurred unless there is provision for the expenditure within the overall budget approved by the Board. Approval of expenditure where there is no provision within the overall budget will be made by the Board. (Scheme of delegation 3.1)
- 16. There may be virement within the budget, in accordance with the Scheme of Delegation. (Scheme of delegation 3.2 and 3.3)

Budgetary control and reporting

- 17. Financial performance will be monitored against budget and reported regularly to the Management Team and at least quarterly to the Board.
- 18. Systems of budgetary control will be devised and maintained to include:

- 18.1. Regular financial reports as prescribed above containing -
 - 18.1.1. income and expenditure to date and, when relevant, forecast year end position
 - 18.1.2. explanations of any material variations
 - 18.1.3. details of any corrective action necessary
 - 18.1.4. virement
 - 18.2. The issue of timely, accurate and comprehensible advice on financial reports to each budget holder covering the areas for which they are responsible
 - 18.3. Arrangements for the authorisation of virement.
19. Each budget holder will be responsible for the management of their budgets within the approved policies of the Board.

Accounting

- 20. An effective system of internal financial control will be maintained including detailed financial procedures and systems incorporating the principles of separation of duties and internal checks. These will be documented and maintained.
- 21. Proper records will be maintained to show and explain Audit Scotland's transactions in order to disclose, with reasonable accuracy, the financial position of Audit Scotland at any time.
- 22. Accounting policies will be set consistent with appropriate guidance and all accounting procedures and records will be consistent with any form of accounts prescribed. Accounting policies will be approved by the Board. (Scheme of delegation 3.4)
- 23. Annual Accounts will be prepared and submitted to the Board for approval no later than 31 August in respect of the financial year finishing on the 31 March.

Bank accounts

- 24. HM Treasury require public bodies to operate a bank account through the Government Banking Service (GBS), to allow the transfer of monies from central accounts to public bodies and vice-versa.
- 25. Apart from the requirement to use a bank specified by the GBS for the transfer of central funds, Audit Scotland will, for day to day banking and transactions, make arrangements for the appointment of bankers in accordance with the provisions for the letting of contracts set out in these Regulations.
- 26. No Audit Scotland monies will be held in any bank accounts outwith those approved by the Board.
- 27. Detailed arrangements and instructions on the operation of bank accounts will be prepared and maintained as Treasury Management Procedures by the finance department, and will include:

- 27.1. The conditions under which each bank account is to be operated.
- 27.2. The limit to be applied to any overdraft.
- 27.3. Those authorised to sign cheques or other orders drawn on Audit Scotland's bank accounts, and the limits of their authority in accordance with the Scheme of Delegation.
- 28. Banking arrangements will be reviewed at regular intervals to ensure that they reflect best practice and represent best value for money.
- 29. Controlled stationery (e.g. cheques) will be held securely at all times and proper records will be maintained in relation to such stationery.

Credit Cards

- 30. Credit cards will be offered to members of the Management Team automatically. Credit cards will also be offered to other members of staff, with the specific approval of the Accountable Officer and the Chief Operating Officer, where there is an on-going requirement for credit card use.
- 31. The default credit limit for all cards will be set in the Scheme of Delegation and variations for individual cards will be approved by the Management Team. (Scheme of delegation 3.5)

Income

- 32. Systems will be designed and maintained for the proper recording, invoicing, collection and coding of all monies due to Audit Scotland.
- 33. All monies received will be banked promptly.
- 34. Arrangements will be made for appropriate recovery action on all outstanding debts.
- 35. Fees and charges, including fees to audited bodies, will be determined in accordance with policies decided by the Board.

Investments and borrowings

- 36. No borrowing or investments will be made without the expressed agreement of the Board. In exceptional circumstances the Accountable Officer may consult with the Chair of the Board and agree a short term borrowing strategy, but this must be reported to, and ratified by the full Board at the earliest opportunity.
- 37. All short term borrowings will be kept to the minimum period of time possible, consistent with the overall cash flow position.
- 38. Any long term borrowing must be consistent with policies decided by the Board.
- 39. Detailed procedural instructions will be prepared on the operation of investment accounts and regular reports will be made to the Board on the performance of any investments held.

Insurance

- 40. Arrangements will be made to ensure that all insurance cover is effected, periodically reviewed and adjusted as necessary.
- 41. Insurance arrangements will be reviewed regularly and the market will be competitively tested and costs will be sought for insurance services in accordance with the provisions set out in these Regulations at least every three years.

Tendering procedures

- 42. Tendering procedures are contained in the Procurement Handbook, which is published on the intranet. This document provides information on the procedures to be adopted by Audit Scotland staff when purchasing any goods and services and the need to follow value for money principles when carrying out this activity.
- 43. No contract for the supply of goods and materials, the provision of services or for the execution of works will be made where the probable cost, over the contract period, exceeds £50,000 unless tenders have been invited by advertisement on Public Contracts Scotland, the Scottish Government procurement system.
- 44. In exceptional circumstances the Chair of the Board, on a report by the Accountable Officer, may except a contract from the above provisions and direct adoption of such other procedure for the letting of the contract as seems appropriate. The decision will be notified to the full Board at the earliest opportunity.
- 45. Standing contracts for the provision of goods, materials, services or works will be kept under review and competitive tenders for such standing contracts will be sought at least every three years, or later if the contract has been extended under the terms of the original contract. No extension will be greater than three additional years before retendering.
- 46. The overall value of the tender will determine who is required to approve the acceptance of the tender and place the order for the goods, materials or service. The Scheme of Delegation will list those authorised to accept and place orders. (Scheme of delegation 3.6)
- 47. All orders will be printed on Audit Scotland headed stationery unless generated through the electronic ordering system. Orders on headed stationery will be signed by the member of staff authorised under the Scheme of Delegation to do so. Where the order has been generated electronically it will be sent for authorisation in accordance with the procedure contained within the Scheme of Delegation (Scheme of Delegation 3.10). All orders must be made in accordance with the procedures and controls and within the terms of the Scheme of Delegation.
- 48. Official orders will be issued for all work, goods or services to be supplied to Audit Scotland except for supplies of public utility services or periodical payments such as rent or rates or such other exceptions as may be approved by the Management Team.

- 49. Directives by the Council of the European Union prescribing procedures for awarding forms of contracts shall have effect as if incorporated in these Regulations and Audit Scotland's Procurement Handbook should be followed as appropriate.
- 50. The appointment of auditors under section 97(6) of the 1973 Act and section 21(3) of the 2000 Act will be recommended to the Accounts Commission and the Auditor General respectively at such intervals as they require. With the exception of the interval between awards (see paras 42-44), the procedure relating to these contracts should follow the procedure set out in these Regulations.

Payment of accounts

- 51. Before an invoice is paid the certifying officers will satisfy themselves that the account has not been previously passed for payment and is a proper liability of Audit Scotland and that:
 - 51.1. The works, goods or services to which the account relates have been received or carried out satisfactorily.
 - 51.2. Prices, extensions, calculations, trade discounts, other allowances, credits and tax are correct.
 - 51.3. The expenditure has been authorised and is within the relevant estimate provisions.
- 52. All duly certified invoices shall be authorised for payment by the officer authorised under the Scheme of Delegation. (Scheme of delegation 3.8)
- 53. An officer shall not add any additional items to an invoice rendered to Audit Scotland by a supplier.
- 54. When an order has been placed using the electronic purchase ordering (EPO) system, this process incorporates authorisation of the payment prior to an order being placed. In these circumstances the authoriser will be advised of the cost of the goods or services, or an estimate if a firm cost is not available, at the time they receive the EPO. Authorisers are required to satisfy themselves that the cost displayed is reasonable and represents value for money, before they electronically sign the order. Once an EPO is signed the system will not allow any changes to the order by the authoriser or the originator.
- 55. The EPO system maintains a list of staff with delegated authority to authorise expenditure, as per para. 51 above.
- 56. When the goods or services have been received the originator records the receipt through the EPO system.
- 57. On receipt of the invoice, Finance will check whether the goods or services have been marked as received. The invoiced amount charged will be checked against the EPO submitted and, if the amount is within the parameters agreed by the Management Team, the invoice will be accepted and paid. (Scheme of delegation 3.10)

- 58. Management Team will set agreed parameters and if the value of the invoice is outwith the agreed parameters it will be sent back to the authoriser for an additional manual authorisation. The invoice will not be paid until the second authorisation has been received. (Scheme of delegation 3.11)
- 59. The receipt, certification and payment of accounts to approved auditors are subject to separate arrangements under the Scheme of Delegation. (Scheme of delegation 3.12)

Audit

- 60. The Board will establish an Audit Committee with clearly defined terms of reference under Standing Orders.
- 61. The external auditor is appointed by the SCPA to report on whether expenditure and income have been applied lawfully and the accounts comply with the accounts direction. The external auditor will report to the SCPA who must lay the report and accounts before Parliament and publish them.
- 62. The internal auditor is appointed by Audit Scotland and reports to the Management Team and the Audit Committee on systems of internal control.
- 63. The external and internal auditor are entitled to:
 - 63.1. enter any Audit Scotland establishment at all reasonable times with or without previous notice;
 - 63.2. have access to all records, documents and correspondence (including computer records) relating to financial and other transactions of Audit Scotland;
 - 63.3. require and receive explanations as are necessary concerning any matter under examination;
 - 63.4. require any employee of Audit Scotland to produce cash, equipment or any other property under his/her control; and
 - 63.5. direct access to the Chair of the Audit Committee.

Security and Fraud Prevention

- 64. Arrangements will be made to develop and document effective policies on:
 - 64.1. Prevention of fraud and irregularity.
 - 64.2. IT security.
 - 64.3. Security of assets.
- 65. Proper security must be maintained, at all times, for all buildings, stores, furniture, equipment, cash, information, etc.

66. A register of secure key containers will be maintained by Business Support and kept under review by the Chief Operating Officer. Keys removed from the secure key containers will be signed for and are to be kept safe at all times until returned. The loss of any such keys must be reported immediately to Business Support staff.
67. A register of staff ID (office access) badges and building access fobs will be maintained by Business Support. The loss of ID badges will be reported immediately to Business Support and the Corporate Governance Manager. The ID badges will be deactivated immediately.
68. The Chief Operating Officer is responsible for maintaining proper security and privacy relative to information held in the computer installations.
69. Under the terms of the Counter Fraud Policy, employees are required to notify their Director or Assistant Director of any financial irregularity or suspected irregularity. Such concerns may be raised under the terms of the Whistleblowing Policy if considered appropriate. The employee, or senior management to whom the concerns are reported, must also advise the Chief Operating Officer. Details of these policies are to be available to all staff through the staff handbook.

Salaries, wages and pensions

70. Arrangements will be made for the payment of all salaries, wages, pensions, compensation and other emoluments due to all employees or former employees of Audit Scotland or the Accounts Commission, the Auditor General for Scotland, appropriate members of the Board and to members of the Accounts Commission.
71. Salaries and other payments will normally be paid by direct transfer to a nominated bank account.
72. A record of all matters affecting the payment of such emoluments shall be kept and in particular the following information will be recorded:
 - 72.1. appointments, resignations, dismissals, suspensions, secondments and transfers;
 - 72.2. absences from duty for sickness or other reason, including approved leave;
 - 72.3. changes in remuneration, including those arising from normal increments and pay awards and agreements of special and general application;
 - 72.4. information necessary to maintain records of service for superannuation, income tax, national insurance and the like;
 - 72.5. particulars of any deduction from salary for loans, subscriptions and the like, and the authority for such deduction.
73. All deductions and changes in gross pay entitlement will be certified by Human Resources or other appropriate person and checked by a second officer prior to payment.
74. Pension payments are paid to former staff through the appropriate pension agency. Audit Scotland's role is to make the required deductions from salary and to provide the information

which is required from time to time by the pension supplier to allow them to maintain their records, provide information about pensions and make payments.

75. There are special arrangements in place relating to pensions for former Ombudsman staff and the former Auditor General for Scotland, which are separate from the arrangements for Audit Scotland.

Travelling, subsistence, expenses and other allowances

76. The Secretary to the Accounts Commission shall review, authorise and ensure all travelling or other allowances are paid to Commission Members and advisers who are entitled to claim them upon receipt of a fully completed expense claim form.
77. The Chief Operating Officer shall review, authorise and ensure all travelling or other allowances are paid to Board members and advisers who are entitled to claim them upon receipt of a fully completed expense claim form.
78. All claims by staff for payment of car mileage allowances, subsistence allowances, travelling and incidental expenses and any advances shall be submitted duly certified and made up to the end of each month and in accordance with the current travel and subsistence policy, published in the staff handbook, and the expenses procedures published on the intranet. The officers authorised to certify such records shall be determined by the Scheme of Delegation. Initial delegation is £2,000. (Scheme of delegation 3.13)

Observance of Financial Regulations

79. It shall be the duty of the Accountable Officer to ensure that these regulations are made known to the appropriate Audit Scotland staff and to ensure that they are adhered to.
80. Any breach or non-compliance with these Regulations must, on discovery, be reported immediately to the Chief Operating Officer who will discuss the matter with the Accountable Officer in order to determine the proper action to be taken. Such concerns may be raised under the terms of the Whistleblowing Policy if considered appropriate.

Variation of Financial Regulations

81. These Regulations may be varied from time to time by the Board on receipt of a report and recommendations from the Accountable Officer.
82. The Chair of the Board may authorise, on a report from the Accountable Officer, exceptional treatment of a matter covered by these Regulations. Any such exceptions will be reported in writing to the next available meeting of the Board.

Scheme of Delegation

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

Contents

SCHEME OF DELEGATION 4

 Introduction 4

 Conditions of delegation 4

 Reservations to the Board 4

 Quorum for Management Team 5

 Making, revocation and variation 5

 Schedule 6

Scheme of Delegation

Introduction

1. The Board remains responsible for the exercise of all the functions of Audit Scotland. Regardless of the provisions of this Scheme of Delegation the Board may at any time determine any matter within the competence of Audit Scotland either at the Board's initiative or on the recommendation of an officer to whom the matter is delegated.
2. This Scheme sets out the matters reserved for determination by the Board. All powers which have not been retained as reserved to the Board or specifically delegated in this Scheme will be exercised by the Management Team or their nominees.

Conditions of delegation

3. The delegations made in this Scheme are subject to the following conditions:
 - 3.1. All delegated powers will be exercised in accordance with the relevant policies decided by the Board.
 - 3.2. Before exercising any delegated function all appropriate consultations will be undertaken and, in particular, decisions with financial or personnel consequences will be the subject of consultation with the Chief Operating Officer.
 - 3.3. Delegated powers will not be exercised in a manner which is likely to be a cause for public concern.

Reservations to the Board

4. The following matters are reserved for determination by the Board:
 - 4.1. Approval of the Corporate Plan.
 - 4.2. Approval of annual estimates of expenditure and income.
 - 4.3. Approvals of strategic policies relating to the governance of Audit Scotland are a matter for the Board. (Approval of operational policies of Audit Scotland are a matter for the Accountable Officer and the Management Team).
 - 4.4. Approval of Standing Orders, Financial Regulations and Scheme of Delegation.
 - 4.5. Approval of Annual Accounts and Annual Reports.
 - 4.6. Approval of internal audit arrangements.
 - 4.7. Approval of conditions of service affecting all employees.
 - 4.8. Approval of specific matters referred to in the attached Schedule.

5. In exceptional circumstances where a decision of the Board is required and it is not possible to convene a meeting of the Board, a member of the Management Team in consultation with the Chair, or another Board member if the Chair is unavailable, may take the necessary decision and report the action taken to the next meeting of the Board.

Quorum for Management Team

6. The quorum for the Management Team is three, comprising of the Accountable Officer or the Chief Operating Officer plus two others.

Making, revocation and variation

7. The matters reserved to the Board and delegated to officers of Audit Scotland are as detailed above and as shown in the Schedule.
8. This Scheme of Delegation may be varied or revoked by the Board.

Schedule

	Matter	Reserved or delegated to	Comment
1	Appointment of employees		
1.1	Appointment of Management Team	Board	
1.2	Appointment of Assistant Directors	Management Team	
1.3	All other appointments	Management Team, Directors or their nominees	The Accounts Commission Chair/members will select for appointment the Secretary to the Accounts Commission
1.4	Appointment of Controller of Audit	Not applicable	The Board does not have a role here. The Controller of Audit is appointed by the Accounts Commission
2	Personnel matters		
2.1	Disciplinary action, including dismissal	Appeals Committee and as per approved disciplinary procedure	See Discipline Policy in staff handbook
2.2	Grading of Management Team posts	Board	See also Job Evaluation procedure in staff handbook
2.3	Grading of Assistant Director posts and all other posts	Management Team	See also Job Evaluation procedure in staff handbook
2.4	Changes to Management Team	Board	
2.5	Changes to approved establishment below Management Team	Management Team	
2.6	Variation of conditions of service for members of the Management Team	Board	

2.7	Variation of conditions of service for Assistant Directors and all other staff	Management Team	All staff have a right of appeal to the Remuneration & Human Resources Committee or the Board following discussion by the Remuneration & Human Resources Committee
2.8	Decisions on applications for early retirement: <ul style="list-style-type: none"> • Management Team • All other employees 	Board Management Team	
3	Financial matters		
3.1	Approval of expenditure for which there is no provision in the overall budget.	Board	Financial Regulations 15
3.2	Approval of virement within agreed budget: <ul style="list-style-type: none"> • Virement between budget groups • Virement between budget heads • Virement between budget lines 	Management Team Relevant Directors Budget Holders	Financial Regulations 16
3.3	Virement of salary budget over £250,000, cumulatively in one year	Board	Financial Regulations 16
3.4	Approval of Accounting Policies	Board	Financial Regulation 22
3.5	Approval for the issue of credit cards to members of staff and credit limit to be applied. (To be reported at next Management Team meeting) Credit Card default limits: <ul style="list-style-type: none"> • Management Team £1,500 • Other staff £1,000 	Accountable Officer and Chief Operating Officer	Financial Regulation 30 – 31 See also Credit Card Procedures. Default amounts may be varied by Management Team for individuals on either a permanent or temporary basis.

3.6	<p>Acceptance of tenders and placing of orders:</p> <ul style="list-style-type: none"> • Above £250,000 • Between £100,000 and £250,000 • Up to £100,000 • Below £50,000 	<p>Board</p> <p>Accountable Officer and Chief Operating Officer</p> <p>Management Team</p> <p>Budget Holders</p>	<p>Financial Regulations 46</p> <p>See also the Procurement Handbook</p>
3.7	<p>Acceptance of offers for disposal of assets</p>	<p>As for acceptance of tenders and placing of orders</p>	
3.8	<p>Approval of expenditure within agreed budget:</p> <ul style="list-style-type: none"> • Any budget group • Specific budget group • Specific cost centre budget 	<p>Management Team</p> <p>Relevant Director</p> <p>Budget Holder</p>	<p>Financial Regulations 52</p>
3.9	<p>Payment of accounts other than to approved auditors:</p> <ul style="list-style-type: none"> • Above £50,000 • Below £50,000 	<p>Management Team</p> <p>Member of Management Team or as delegated</p>	<p>Financial Regulations 51 – 58</p> <p>Delegated signatories are approved by Management Team and are responsible for the expenditure approved. As evidence a delegated purchasing authority letter will be issued. Those with delegated authority may request authority to be passed to members of their staff, but the limit of authority granted must be notified to Management Team and Finance who will maintain a list of those approved.</p>
3.10	<p>Payment of accounts for orders placed using electronic purchase orders.</p>	<p>Member of Management Team or as delegated</p>	<p>Electronic purchase orders are sent, via email, to be authorised. The process requires the authoriser to</p>

			be selected from a list, maintained within the finance system, of signatories delegated to sign for the cost centre and for the value of goods or services being ordered. The signatories are the same as those delegated in the previous section.
3.11	Parameters for automatic payment of electronic purchase orders.	Management Team	<p>Financial Regulations 58</p> <p>Where an invoice is received as the result of an order placed using the electronic purchase order system it can be processed by Finance for payment if:</p> <ul style="list-style-type: none"> • The order has been marked as received in the electronic purchase order system, • The value shown on the invoice is within the parameters of +5% or - 10% of the value authorised for that order. <p>Any invoice where the value is outwith these parameters must be sent for an additional, manual, authorisation before payment can be made.</p>
3.12	<p>Certification of accounts for payment to approved auditors:</p> <ul style="list-style-type: none"> • Interim invoices up to £50,000 and final invoices up to £10,000 • Interim invoices over £50,000 and final invoices over £10,000 	A member of the Appointments and Assurance team Assistant Director, Appointments and Assurance or member of Management Team	Financial Regulations 59

3.13	Miscellaneous expenditure (including travel & subsistence)	The Chief Operating Officer, Secretary to the Accounts Commission, senior managers & other line managers as appropriate. (Details available in Finance)	Financial Regulations 76 - 78 Delegation requires appropriate Director approval and notification to Finance. The initial delegation is £2,000. Variations from this amount may be agreed by the Budget Holder and notified to the Management Team and Finance who will maintain a list of those approved.
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Budget Holders comprise: Management Team members, and Corporate Services managers.

Note: Management Team is defined in section 8 of the Financial Regulations as follows “the Management Team consists of the Auditor General, the Chief Operating Officer and the Audit Scotland Directors, or such other combination of officers as may be determined from time to time by the Board”. Decisions can only be made by Management Team when they are quorate as defined in section 6 of this document as follows “The quorum for the Management Team is three, comprising of the Accountable Officer or the Chief Operating Officer plus two others”.