

Wednesday 1 May 2019 at 10.15am

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

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1. Welcome and apologies
  2. Declarations of interests
  3. Decision on items to be taken in private For approval
- 

## Standing items

4. Chair's report – verbal update For information
  5. Accountable Officer's report – verbal update For information
  6. Accounts Commission Chair's report – verbal update For information
  7. Review of minutes: Board meeting 18 March 2019 For approval
  8. Review of action tracker For information
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## Strategy and planning

9. Audit and Accountability framework update For information
  10. EU Withdrawal – verbal update For information
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## Business management

11. Information security management policy review For approval
  12. Data protection policy For approval
  13. 2018/19 Accounting policies, key accounting estimates and judgements For approval
  14. Equality outcomes and mainstreaming progress report For approval
  15. Strategic improvement programme 2019-2021 and the Performance management framework project For information
  16. Review of audit market - update For information
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## Conclusion

17. Any other business

18. Review of meeting

19. Date of next meeting: 5 June 2019

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### Items to be taken in private

20. Draft Corporate plan update 2019/20

For approval

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

21. Communication and engagement strategy review

For discussion

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

22. Preparations for audit procurement: project update

For discussion

[Item to be taken in private to support the effective conduct of business and due to commercial sensitivity]

Monday 18 March 2019, 10.45am

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

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## Present:

Ian Leitch (Chair)  
Caroline Gardner  
Graham Sharp  
Heather Logan  
Alan Alexander

## Apologies:

None

## In attendance:

Diane McGiffen, Chief Operating Officer  
Martin Walker, Assistant Director, Corporate Performance and Risk  
Joy Webber, Senior Executive Assistant  
Stuart Dennis, Corporate Finance Manager  
Simon Ebbett, Communications Manager  
Anthony Clark, Audit Director, Performance Audit and Best Value  
Elaine Boyd, Associate Director, Audit Quality and Appointments  
Owen Smith, Senior Manager, Audit Quality and Appointments

### 1. Welcome and apologies

The Chair welcomed members and attendees to the meeting of the Audit Scotland Board, the agenda and papers for which had been published on Audit Scotland's website on Wednesday 13 March 2019.

### 2. Declarations of interest

There were no declarations of interest.

### 3. Decision on items to be taken in private

The Board agreed the items to be taken in private.

### 4. Chair's report

Ian Leitch provided a verbal update of meetings with Diane McGiffen on general business matters and of meetings with the Scottish Commission for Public Audit on succession planning for Audit Scotland's Board in 2020 including the potential to co-opt new members.

The Board welcomed the potential for the co-option of new members to enable a smooth transition in advance of their formal appointment.

### 5. Accountable Officer's report

Caroline Gardner invited the Board to note recent Public Audit and Post Legislative Scrutiny committee (PAPLS) sessions including the joint evidence session with the National Audit Office (NAO) on Scottish income tax and the session on the Scottish Social Services Council. She also updated the Board on PAPLS post legislative scrutiny work on The Control of Dogs (Scotland) Act 2010 and its consideration of the coverage of Freedom of Information legislation.

Caroline advised that the Audit and Accountability framework was issued on 27 February 2019 and a report to the Board is scheduled for 1 May 2019.

Caroline invited the Board to note that the UK Government has opened a consultation following the recommendations within the recent Kingman report around the process of establishing a new regulatory body. Caroline also invited the Board to note the NAO have issued an updated Code of Audit Practice for consultation.

The Chair and Alan Alexander noted Audit Scotland's contribution to the Audit and Accountability Framework and asked whether Audit Scotland will be responding to the forthcoming consultation. Caroline advised that submissions were made to both the CMA and Kingman reviews and confirmed that Fiona Kordiak will consider the consultation on regulation and make a decision on whether to respond in early course.

Caroline advised of her appointment as professional assessor for the State of Jersey in its recruitment of an Auditor General.

Caroline advised members of the positive feedback following the Audit Scotland conference on 30 January 2019 and thanked the Chair and Graham Sharp for their participation.

Caroline invited members to note that since the report advising of the results from the Best Companies survey in January 2019, Audit Scotland had received the award for being a Top 100 Best 'Not for profit' organisation to work for.

The Board welcomed the update.

## 6. Accounts Commission Chair's report

Graham Sharp invited the Board to note that at its last meeting on 7 March 2019 the Accounts Commission had considered the Best Value assurance report for South Lanarkshire Council and received a briefing on drugs and alcohol services.

Graham advised that the Accounts Commission Strategy seminar had taken place on 12 and 13 March 2019 where it had considered challenges facing local government and had welcomed the value of meeting in a less formal setting. Graham advised there were a number of outputs from the strategy session which would be considered at the meeting of the Accounts Commission on 11 April 2019 and that these would be shared with the Board in due course. In addition, the Board noted the Accounts Commission will consider the Best Value Assurance report for Stirling Council at its meeting in April.

Graham invited members to note the forthcoming publication of the local government overview report together with the guidance note on how Councils work to safeguard public money following on from previous guidance issued for ALEOs.

The Board welcomed the update.

## 7. Review of minutes: Board meeting 29 January 2019

The Board considered the minutes of the meeting of 29 January 2019, which had been previously circulated, and agreed that these were an accurate record.

## 8. Review of actions tracker

The Board noted the updates provided by the action tracker.

Diane McGiffen invited members to consider the outcome from the Board development session on 8 February 2019. The members agreed they would welcome a further discussion once the outputs arising had been circulated.

**Action ASB87: Diane McGiffen to circulate the output from the Board development session on 8 February 2019. (April 2019)**

## 9. Q3 Financial performance report

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

Stuart Dennis, Corporate Finance Manager, introduced the Q3 Finance performance report, which had been previously circulated.

Stuart invited members to note the financial performance report for the period to 31 December 2018 and welcomed any questions.

Graham Sharp sought assurance around how management accounting monitors the cost and efficiency of audit work. Stuart advised this is based around the number of audit days planned and where there is an increase in the number of days worked which might impact on the audit fee, this is reviewed by Audit Quality and Appointments. In terms of setting an audit fee, Stuart advised that this is done by estimating the number of days required to do the audit work taking account of the previous year's audit as well as opportunities to bring efficiencies into play. Graham asked if it was possible to compare the number of days for audit work undertaken in-house to the Firms. Diane McGiffen advised that the Audit Services management team review resourcing and planned work in progress on a monthly basis and confirmed that the Firms operate on an output-based contract. Diane informed the Board that Audit Scotland undertakes a reconciliation exercise at the end of each audit year. The members agreed it would be helpful to gain a sound understanding of the fee setting as part of the procurement strategy in advance of the next appointment round together with benchmarking undertaken with other agencies and audit providers.

Alan Alexander asked whether the Management Contingency budget was sufficient and Stuart confirmed it was.

The Board welcomed the report.

**Action ASB88: Stuart Dennis to liaise with Audit Quality and Appointments to provide a briefing on fee setting as part of the forthcoming procurement strategy. (May 2019)**

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

## 10. Q3 Corporate performance report

*Martin Walker, Assistant Director joined the meeting.*

Martin Walker introduced the Q3 Corporate performance report, which had been previously circulated.

Martin invited the Board to note the good performance reported overall and highlighted the increase in statutory reporting, the level of social media coverage, the new products provided by way of briefings on New financial powers and Audit Scotland's best ever Best companies survey results. In addition, Martin advised that Audit Scotland was currently operating below its carbon emission target.

Graham Sharp asked how Audit Scotland can deliver continued improvement. Martin advised corporate performance is considered at the Performance Risk Management Group before reporting to Management Team each quarter with a review annually to change targets where required.

Heather Logan noted the references to the Performance Management Framework and asked whether it was acceptable to have this captured as an action given its current status. She also noted that Audit Scotland were operating over establishment and performance status was green overall but queried where the pressure to meet demand was being felt. Martin advised that while the metrics are all green there are hotspots in some areas of the organisation to deliver outputs. Diane McGiffen advised that the increased number of statutory reporting was a factor together with the impact of recruitment and onboarding and the time lag for new colleagues to reach full capacity.

Heather queried the value of investment in social media for audit reporting. Martin advised that this had provided an additional communication channel for the Accounts Commission to extend visibility and engagement in local communities and that continued investment will be considered as part of the refresh of the Communications and Engagement Strategy.

Heather asked about our investment in the Youth Panel and Diane McGiffen advised that the meetings had been organised by Youth Scotland which typically take place on a Saturday. Audit Scotland support these meetings as part of our commitment to the International Year of Young People with panel members attending from around Scotland.

Following discussion, the Board welcomed the report.

## 11. Q3 Becoming world class improvement programme report

Martin Walker introduced the Q3 Becoming world class improvement programme report, which had been previously circulated.

Martin invited the Board to note the good progress reported overall and highlighted that some of the digitally enabled projects were being re-prioritised and rescheduled. He advised that Management Team had considered a report on 12 March 2019 which considered the projects underway together with the key risks to deliver which included three upgrades to existing systems.

The Board noted that the objectives of the Performance Management Framework (PMF) project remain the same but that the timeline has moved to reflect the availability of the new time recording and HR systems with the PMF coming later in 2019.

Heather Logan asked about Key Performance Indicators and Martin advised of a wide range of measures in place. The PMF would replicate those measures and allow for more timely and efficient reporting. Martin advised a further report was due to be considered by Management Team in April 2019 and agreed to share with members the report considered by Management Team on 12 February 2019 which reported on the PMF and the report discussed with Management Team on 12 March 2019 on the projects overall.

Diane McGiffen provided assurance to the Board of the robustness of performance reporting currently with the objective for the PMF built around a shared vision of the business groups to deliver more real time data reporting. She invited the Board to note that Audit Scotland haven't committed any expenditure beyond the consultancy work as there are several interdependencies, including suppliers issuing upgrades to current systems and changes to licences which had driven the need to rephrase the project.

The Board welcomed the update.

**Action ASB89: Martin Walker to circulate the reports considered by Management Team on 12 February 2019 and 12 March 2019 to members for their information. (March 2019)**

## 12. 2018/19 Audit Scotland Annual report

*Simon Ebbett, Communications Manager joined the meeting.*

Simon Ebbett, Communications Manager, introduced the 2018/2019 Audit Scotland annual report, which had been previously circulated.

Simon Ebbett invited the Board to consider, comment and approve the proposed structure of the 2018/19 Audit Scotland annual report.

The Board considered the refinement of the proposed structure for Audit Scotland's annual report and approved the format for this year.

*Simon Ebbett, Communications Manager, left the meeting.*

### **13. 2018/19 Operational budget**

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

Stuart Dennis, Corporate Finance Manager, introduced the 2018/2019 Operational budget report, which had been circulated previously.

Stuart Dennis invited the Board to approve the 2019/20 operational budget.

The Board welcomed the report and approved Audit Scotland 2019/20 Operational budget.

### **14. Business continuity planning: EU withdrawal**

*Simon Ebbett, Communications Manager, re-joined the meeting.*

Martin Walker and Simon Ebbett introduced the Business continuity planning: EU withdrawal report, which had been previously circulated.

Martin Walker provided an overview of preparedness planning and communications and invited the Board to consider and discuss the business continuity arrangements in place and those under development.

The Board welcomed the assurance around Audit Scotland's preparedness to respond to issues arising from the EU withdrawal, given the scenario planning undertaken to consider the impact of major disruption to public bodies and the requirement for the audit function to continue.

*Simon Ebbett, Communications Manager, left the meeting.*

### **15. Work programme and publication schedule**

*Antony Clark, Audit Director, Performance Audit and Best Value, joined the meeting.*

Antony Clark, Audit Director, Performance Audit and Best Value, introduced the Work programme and publication schedule, which had been previously circulated.

Antony invited the Board to note the approved five year work programme and indicative publication schedule for the next two years.

Heather Logan asked if there were increased outputs compared with the previous two years. Antony advised they were broadly similar with 60 outputs.

The Board welcomed the report.

*Antony Clark left the meeting.*

### **16. Any other business**

There was no further business.

### **17. Review of meeting**

The members agreed that items of business had been carefully considered and the Chair thanked everyone for their contributions.

### **18. Date of next meeting**

It was noted that the next Audit Scotland Board meeting was scheduled for 1 May 2019 in the offices of Audit Scotland, 102 West Port, Edinburgh.

## Items taken in private

### 19. Medium term financial plan 2019-20 to 2023-24

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

Stuart Dennis introduced the Medium term financial plan 2019-20 to 2023-24 report, which had been previously circulated. Stuart invited the Board to note this report is a tool to provide a view of the potential risks and challenges to the medium term financial plan.

Alan Alexander had a number of comments and acknowledged that the amount of detailed monitoring required will be quite challenging. Alan asked whether pension costs could be quantified. Stuart advised that there is an annual valuation and forecast for the following year used to inform Audit Scotland's funding request to the Scottish Commission for Public Audit. The Board noted the potential impact of a changeable discount factor can have a significant impact on any funding required and the potential effect of the EU withdrawal on markets may also have an impact. The Board also noted that the biggest variance to financial planning is the pay bill.

The Board discussed whether it would be prudent for Audit Scotland to make a case for holding reserves or requesting additional funding given the level of uncertainty and recognising the potential loss of EAFA audit work. Caroline Gardner advised that the UK government had indicated that it would still require audit work, but it is unlikely to be at the same level as is currently the case. The Board noted that previous budget submissions have highlighted these risks with the SCPA.

Alan Alexander queried whether the report would go into the public domain and Stuart advised that the purpose of this report is to provide assurance to the Board of the planning underway and that it informs the budget submission process each year, which is in the public domain.

Alan Alexander also asked if Audit Scotland had compared the professional qualification of ICAS with other providers to see if this represents good value for money. Diane McGiffen confirmed Audit Scotland had previously used CIPFA and feedback on the quality of delivery from trainees had informed the options appraisal. She advised that the ICAS qualification is more transferable and this is attractive to candidates and noted that the Human Resources and Remuneration is currently reviewing the ICAS scheme to gather evidence of performance and we will include a comparison with CIPFA when reporting.

The Board welcomed the report and the proposal to review the medium term financial plan each year with any urgent business scheduled as required.

*Stuart Dennis left the meeting.*

### 20. Preparations for audit procurement: Key milestones and context

*Elaine Boyd, Associate Director and Owen Smith, Senior Manager, Audit Quality and Appointments, joined the meeting.*

Diane McGiffen introduced the Preparations for audit procurement: key milestones and context report, a copy of which had been previously circulated.

Diane invited the Board to note the briefing on the previous procurement exercise, consider the options set out at Appendix 3 and approve the outlines scope and proposed timetables for the three inter-linked projects:

- 2020 Code of Audit Practice
- Procurement strategy
- Audit tender and appointments.

Diane drew the Board's attention in particular to the options set out in paragraph 24 of Appendix 3 on the options for developing a steering group for the projects or allocating time at existing Board and Accounts Commission meetings.

The Board discussed the timetable for the projects and whether the timescales could be shortened. Diane advised that the lessons learned report from the previous procurement exercise had highlighted the need to provide early and ongoing engagement with key stakeholders over a longer period and that the proposed timeline reflected that lesson.

Graham Sharp asked how the timetable reflected the appointment of a new Auditor General. Caroline Gardner advised that the Scottish Parliament is planning for the appointment process and that Audit Scotland is developing a transition plan. She advised that the new Auditor General may be designated at least three months before taking up post, and so could be involved in discussions at that stage, and that her term of office runs until 30 June 2020. Diane also advised that, as set out in paragraph 4 of the report, there is other turnover at Board level in 2020, so the timetable for the projects has been developed to capitalise on current knowledge and experience.

Graham Sharp asked about involvement in the drafting of the Code of Audit Practice and Elaine confirmed that once the timetable and governance arrangements were in place, there would be ongoing involvement for Graham and the Commission in the development of the Code, as set out in the report.

The Chair invited the Board to approve the project timetables and creation of a project steering group as set out in the report. The Board approved both recommendations, with Graham Sharp reserving his position pending further consultation with members of the Accounts Commission.

*Elaine Boyd, Associate Director and Owen Smith, Senior Manager, Audit Quality and Appointments, left the meeting.*

## **21. Corporate plan update 2019/20**

Martin Walker introduced the Corporate plan update 2019/20, which had been previously circulated.

Martin Walker invited the Board to consider and approve the proposed refresh of the Corporate Plan for 2019/20.

The Board welcomed the report and approved the proposed refresh of the Corporate Plan for 2019/20.

Ref	FORUM	Agenda Item No	Item Title	Action Description	Meeting Date	Due Date	Responsible	Assigned to	Complete/Ongoing	Reported Yes/No	Progress Notes
ASB87	Board	8	Review of action tracker	Diane McGiffen to circulate the output from the Board development session on 8 February 2019.	18/03/2019	01/05/2019	Diane McGiffen	Diane McGiffen	Complete	No	The outputs from the Board Development session on 8 February were circulated with the Board papers for the meeting on 1 May 2019.
ASB88	Board	9	Q3 Financial performance report	Stuart Dennis to liaise with Audit Quality and Appointments to provide a briefing on fee setting as part of the forthcoming procurement strategy. (May 2019)	18/03/2019	31/05/2019	Stuart Dennis	Stuart Dennis	Ongoing	No	A verbal update will be provided at Item 8 of today's meeting.
ASB89	Board	11	Q3 Becoming world class improvement programme report	Martin Walker to circulate the reports considered by Management Team on 12 February 2019 and 12 March 2019 to members for their information.	18/03/2019	01/05/2019	Martin Walker	Martin Walker	Complete	No	The report which appears at Item 15 of today's agenda provides an update and summarises the reports to Management Team.

## Purpose

1. This report highlights the implications of the framework for audit and accountability for devolved matters agreed by the UK and Scottish Governments.

## Background

2. For the last two years, HM Treasury and the Scottish Government have been working to agree a framework setting out arrangements for the audit and accountability of devolved matters. The framework was agreed at the end of February 2019.<sup>1</sup> It is an annex to the wider Fiscal Framework agreement.
3. The Scottish Government formally consulted with Audit Scotland on a draft framework and engaged with us throughout its development. The Auditor General for Scotland (AGS) gave evidence to the Public Audit and Post-Legislative Scrutiny Committee (PAPLSC) on the draft framework in February 2018, and suggested areas where the framework could be strengthened to better support the interests and responsibilities of the Scottish Parliament. After inviting views from other committees on the proposed arrangements, PAPLSC wrote to the Cabinet Secretary for Finance and the Constitution and the Chief Secretary to the Treasury in April 2018 to highlight concerns that the draft framework did not fully satisfy the Parliament in its scrutiny of devolved matters.<sup>2</sup>
4. The Scottish Government shared a copy of the final agreed framework with the AGS and PAPLSC on 27 February 2019. The Cabinet Secretary highlighted that he believes the framework will be effective in facilitating auditors' work in helping the UK and Scottish Parliaments hold public bodies to account. He also outlined his concerns that the framework does not fully address some points raised by PAPLSC and Audit Scotland, particularly arrangements for Audit Scotland's access to UK public bodies.<sup>3</sup>
5. The AGS also wrote to PAPLSC to set out her views on the final framework. The AGS noted that most of the concerns she had previously identified have been addressed or partly addressed in the final framework. She highlighted that she will "continue to work constructively with the National Audit Office to implement the framework in a way that will meet the needs of the Scottish Parliament as far as possible, but it is possible that this could lead to a situation where I am unable to secure the audit activity that I, or the Scottish Parliament, think necessary to support the Parliament's responsibilities."<sup>4</sup>

## The framework

6. The final framework sets out the nature and extent of accountability the Scottish Parliament can expect in relation to services provided by UK public bodies in devolved areas. This includes the collection of Scottish Income Tax by HMRC, VAT assignment by HM Treasury, and aspects of social security administration undertaken by the Department for Work and Pensions (DWP).
7. The framework notes that national auditors (AGS and the Comptroller and Auditor General) have complete discretion in how they carry out their functions and are free to determine their work programme independently. It states that national auditors can make arrangements between themselves to undertake

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<sup>1</sup> <https://www.gov.scot/binaries/content/documents/govscot/publications/publication/2019/03/scottish-devolution-framework-audit-accountability/documents/scottish-devolution-framework-audit-accountability/scottish-devolution-framework-audit-accountability/govscot%3Adocument>

<sup>2</sup> [https://www.parliament.scot/S5\\_Public\\_Audit/Inquiries/20180405\\_Letter\\_to\\_Cab\\_Sec-Chief\\_Secretary\\_to\\_the\\_Treasury.pdf](https://www.parliament.scot/S5_Public_Audit/Inquiries/20180405_Letter_to_Cab_Sec-Chief_Secretary_to_the_Treasury.pdf)

<sup>3</sup> [https://www.parliament.scot/S5\\_Public\\_Audit/General%20Documents/Letter\\_to\\_PAPLS\\_-\\_27\\_Feb.pdf](https://www.parliament.scot/S5_Public_Audit/General%20Documents/Letter_to_PAPLS_-_27_Feb.pdf)

<sup>4</sup> [https://www.parliament.scot/S5\\_Public\\_Audit/General%20Documents/Audit\\_accountability\\_AGS\\_to\\_PAPLSC.pdf](https://www.parliament.scot/S5_Public_Audit/General%20Documents/Audit_accountability_AGS_to_PAPLSC.pdf)

work to ensure they can support their respective Parliament's needs and responsibilities. The framework notes that, in the unlikely event of disagreement, national auditors should discuss this with the relevant Parliament that requires the audit assurance.

8. The principles-based approach adopted in the framework expands the opportunities for cross-border auditing in devolved areas that involve UK bodies. The AGS's access to UK bodies in relation to devolved matters remains subject to agreement with the Comptroller and Auditor General (C&AG). The approach set out in the framework relies on the C&AG and the AGS agreeing effective audit arrangements where these are not already set out in statute or a pre-existing Memorandum of Understanding.
9. The framework includes a commitment to review its effectiveness alongside the wider review of the fiscal framework in 2021.

## Implications

10. The framework confirms that, 'where functions are devolved to the Scottish Parliament and a new public body is established to deliver these, that body will be brought within the existing accountability and audit framework, within the scope of the Auditor General for Scotland'. This recognises the arrangements applied to bodies such as Revenue Scotland, Crown Estate Scotland and Social Security Scotland.
11. Where UK public bodies provide devolved functions as part of their overall responsibilities, the AGS and the C&AG will need to agree the audit work to be undertaken in relation to devolved functions, and who should do this. Such an arrangement already operates in relation to the administration of Scottish Income Tax by HMRC. This is set out in a Memorandum of Understanding, which is due to be reviewed in advance of starting this year's work in late summer 2019. We have held initial discussions with the National Audit Office (NAO) on this.
12. We are currently undertaking the first financial audit of Social Security Scotland. We have been working closely with the NAO to agree and formalise audit arrangements for aspects of this work, to obtain assurance over areas administered by DWP, in line with the principles in the audit and accountability framework. This work is well advanced, with an exchange of letters expected in the weeks ahead.
13. Our initial focus has been to seek agreement with the NAO in areas required to support existing work programmes and commitments. In time, we anticipate we will initiate discussions about further auditing in cross-border areas. This is likely to be necessary in support of future work programmes that reflect the interests of the Scottish Parliament in areas such as the continued administration of aspects of devolved social security by DWP and VAT assignment. Auditing VAT is likely to pose particular challenges because of the methodology used to assign a share of VAT to the Scottish budget, which is based on estimates.
14. We are building the skills and capacity necessary to undertake this audit work, in line with our budget proposals to the Scottish Commission for Public Audit. This includes drawing on the skills and experience of the NAO in auditing these areas. Our engagement on the financial audit of social security provides an opportunity for our audit team to learn from NAO colleagues and widen and refine their skills base.
15. The framework is permissive, insofar as it enables Audit Scotland and the NAO to agree audit arrangements that support accountability for devolved matters to the Scottish Parliament. This might involve the NAO undertaking audit work at a UK body, joint work or potentially direct work by Audit Scotland. There remains a risk that, if such agreement could not be reached in specific areas, it would not be possible to secure the audit activity that the AGS, or the Scottish Parliament, think necessary. In such cases the framework anticipates that the C&AG would discuss his views with the Scottish Parliament.
16. We will provide further updates on our engagement with the NAO in relation to the application of the audit and accountability framework as part of our regular New Financial Powers and Constitutional Change progress reports.

## Conclusion

17. The Board is invited to note the contents of this report.

## Purpose

1. This report invites the Board to review and approve the updated Information Security Management policy.

## Background

2. This policy is the overarching policy for the Information Security Management System (ISMS) and highlights the commitments and responsibilities of Audit Scotland colleagues, contractors and consultants employed by Audit Scotland on how information security must be managed.
3. This policy is the subject an effectiveness review as part of our annual policy review process. Policy updates have been made and were approved by the Knowledge, Information & Technology, Governance, Group (KITGG) on 18 March 2019 and the Management Team on 2 April 2019.
4. In addition to KITGG approval, it is important that this policy is approved by both Management Team and the Audit Scotland Board as this reflects leadership and commitment, as specified in the ISO 27001:2013 standard.
5. The review and approval process of the policy demonstrates our continued commitment and compliance with the standard.

## Policy changes

6. The following changes have been applied to the policy, they are highlighted as tracked changes and include:
  - references to the General Data Protection Regulation have been changed to cover all relevant data protection regulations
  - references added for processes where information security risks are escalated to KITGG, Management Team and the Board and
  - minor wording changes.
7. In addition, some changes have been made to the diagram in appendix 1, the diagram, these include:
  - references to the Data Protection Policy
  - inclusion of additional procedures and logs maintained as part of the ISMS
  - references to Corporate Governance, where procedures are the responsibility of the Corporate Governance team and
  - references to the selection of user guides which are available to colleagues through the new Digital Services SharePoint site.

## Recommendations

8. The Board is invited to consider the updates made to the policy and approve policy as part of the annual policy review process.

## Information Security Management Policy

Version:	1.54	Status:	<u>For review</u>
Author/Owner:	Digital Services Manager	Approval/Review:	<u>Board</u>
Approval Date:		Review Date:	<u>1 May 2019</u>

### Introduction

1. This policy sets out that Audit Scotland will:
  - 1.1. ensure the confidentiality, integrity, quality and availability of all the information it holds and processes
  - 1.2. ensure all the information it holds and processes will meet its contractual, legal and regulatory obligations.
2. This policy is supported by ~~supporting~~ policies, standards, procedures and guidance and these are shown in the diagram at Appendix 1.

### Scope

3. 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

4. Audit Scotland will:
  - 4.1. produce, maintain and test business continuity plans to ensure the availability of its information and information systems
  - 4.2. treat information security as a business-critical issue
  - 4.3. ensure that its information is open and wherever possible not restricted by financial or legal agreements
  - 4.4. ensure legislative and regulatory requirements are met (including intellectual property rights)
  - 4.5. ensure compliance with all relevant data protection regulations ~~the General Data Protection Regulation~~ and implement privacy by design in all information systems

- 4.6. identify and implement appropriate controls for information assets proportionate to levels of risk
- 4.7. communicate all appropriate information security policies to all employees, contractors, consultants, clients and other stakeholders
- 4.8. allocate individual accountability for compliance with all appropriate information security policies, standards, guidance and procedures
- 4.9. continue to improve ~~its~~ information security management
- 4.10. 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

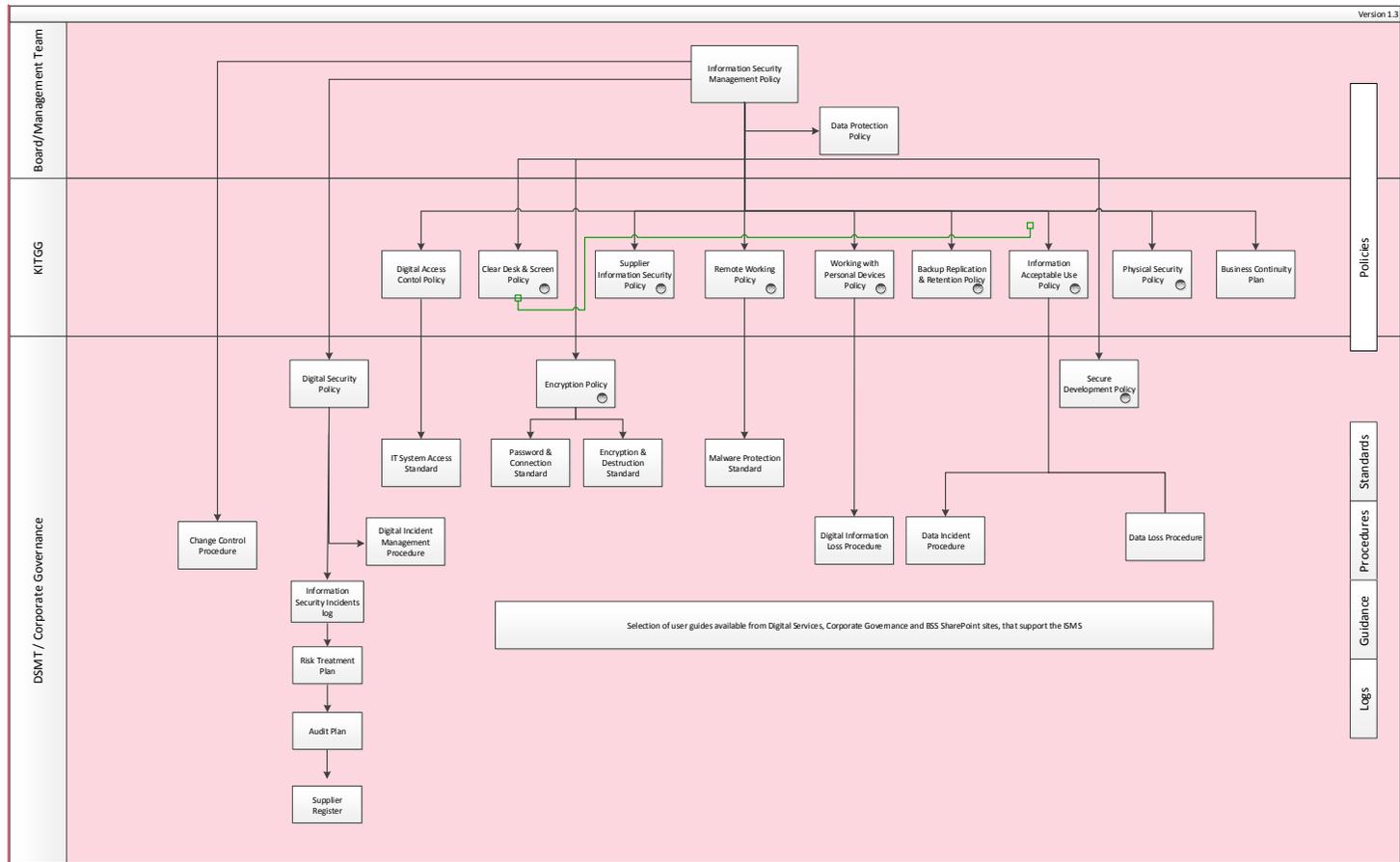
5. Audit Scotland's Board through its Audit Committee has oversight of risks, including information risks.
6. Audit Scotland's Accountable Officer, with support from the Management Team, has overall responsibility for ensuring this policy is effectively implemented and delivered.
7. Audit Scotland's Senior Information Risk Officer (SIRO) is the Chief Operating Officer, who is responsible for the overall management of the organisation's information risks.
7. A monthly Cyber security update is scheduled with the SIRO and a member of DSMT ensures the latest updates are provided to Senior Management demonstrating leadership and commitment to ISO 27001:2013 and the ongoing support for Audit Scotland to achieve Cyber Essentials Plus certification.
8. 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. In addition to the SIRO monthly update, a 6-monthly update on Digital Security is provided to Management Team.
9. 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 through standing agenda items Digital Security and Corporate Risk Register review, and both providing assurance.
10. 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.
11. The KITGG will ensure all information security policies and our performance in meeting their requirements is monitored and reviewed on an annual basis.

12. 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.
13. The Corporate Governance Manager is responsible for updating Audit Scotland's Data Protection Policy, managing data subject access requests and providing advice to staff.
14. Information Asset Owners must understand what information is held by their business area, and approve the permissions required to access it.
15. All Managers will be responsible for implementing and communicating appropriate information security policies, guidance and procedures.
16. 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.
1.3	05/05/17	Digital Services Manager	Approved by Management Team and Audit Scotland Board.
1.4	12/04/18	Digital Services Manager	Annual effectiveness review and updates made and approved by KITGG. Approved by Management Team on 17/04/18 and Approved by the Board 02/05/18.
<u>1.5</u>	<u>18/03/19</u>	<u>Digital Services Manager</u>	<u>Annual effectiveness review by KITGG 18/03/19 and Management Team on 02/04/19. Minor changes made to policy. Appendix 1 diagram updated to reflect policy name changes, additional procedures and reference to available user guides.</u>

**Appendix 1 - Information Security Management System Environment**



**Commented [NP1]:** Additional Procedures included in diagram

Guidance documents box added to highlight that a range of guides are available to staff

Changed DSMT to DSMT & Corporate Governance to reflect owners

Data Protection Policy added

## Purpose

1. This report updates the Board on the annual review of our Data Protection Policy and proposes amendments to the policy for approval.

## Background

2. During April 2018, the Data Protection Policy was updated to reflect the introduction of the EU General Data Protection Regulations (GDPR). The Board agreed that this would be reviewed on an annual basis.
3. Since the approval of the policy the Information Commissioner's Office (ICO) has issued seventeen guidance updates in respect of the legislation.
4. In line with review timescales, the Data Protection Policy was reviewed during April 2019 and updated to reflect new ICO guidance. The refreshed draft policy is appended to this report. The Knowledge, Information and Technology Governance Group (KITGG) and Management Team considered the revised Data Protection Policy and approved the proposed amendments.
5. The review and approval process of the policy demonstrates our continued commitment to ensure our policies comply with standards. The policy will next be subject to review in April 2020 to ensure it remains fit for purpose.

## Policy changes

6. The following changes have been applied to the policy:
  - minor wording changes to reflect new terminology utilised by the ICO
  - an additional principle for the processing of personal data and
  - more detailed guidance on the particular rights of the individual.

## Recommendations

7. The Board is invited to note the amendments and approve the updated Data Protection Policy.

# Data Protection Policy

<b>Owned and maintained by:</b>	Corporate Governance Manager				
<b>Approved from:</b>	May 2019	<b>Next review:</b>	April 2020	<b>Version:</b>	14

## Introduction

1. The Data Protection Act (DPA) 2018 sets out the framework for data protection law in the UK. It updates and replaces the Data Protection Act 1998, and came into effect on 25 May 2018.
2. It sits alongside the GDPR, and tailors how the GDPR applies in the UK - for example by providing exemptions. It also sets out separate data protection rules for law enforcement authorities, extends data protection to some other areas such as national security and defence, and sets out the Information Commissioner's functions and powers.
3. The frameworks are comprehensive and apply tough punishments for non-compliance with rules around the storage and handling of personal data.
4. This Data Protection Policy applies to the Auditor General, the Accounts Commission and Audit Scotland. Throughout this policy the terms 'we' and 'us' are used to refer to the Auditor General, the Accounts Commission and Audit Scotland collectively.
5. As Data Controllers, we are committed to processing personal data (information) lawfully, fairly and in a transparent manner.
6. To discharge our statutory functions we collect, process, store and delete personal information covered by data protection legislation. Examples include information on current, past and prospective employees, Accounts Commission members' and previous Auditor Generals, clients, suppliers, correspondents, complainants, people covered by the audit process and others with whom we communicate.
7. We recognise the benefits of protecting an individual's fundamental rights and freedoms and in particular their right to the protection of their personal information. We also recognise the seriousness of failing to comply with data protection legislation and the resulting risk to our reputation. Therefore, we are committed to:
  - 7.1. ensuring that all personal information is processed lawfully and in compliance with current data protection legislation;
  - 7.2. ensuring that our digital systems are secure, and that personal information will be stored securely;
  - 7.3. implementing effective systems for ensuring the rights of individuals, such as systems for handling and responding to data subject access requests within one month or receipt (requests from individuals to access their personal information);

- 7.4. designing systems, processes and methods of working that protect personal information entrusted to us (privacy by design and default);
  - 7.5. undertaking data protection impact assessments as necessary for major new projects or when considering new software;
  - 7.6. full awareness of and on-going training in data protection legislation, its implications for our work, our data protection arrangements and our data loss/incident process;
  - 7.7. implementing effective systems for handling security breaches and data losses;
  - 7.8. ensuring that when we use a data processor that a written contract is in place so that both parties understand their responsibilities and liabilities;
  - 7.9. ensuring that any data processor we use also implements appropriate technical and organisational measures;
  - 7.10. conducting regular testing and reviews of our measures to ensure they remain effective, and act on the results of those tests where they highlight areas for improvement;
  - 7.11. understanding that encryption can be an appropriate technical measure to ensure that we process personal data securely;
  - 7.12. ensuring that we keep our encryption solution(s) under review in the light of technological developments.
8. Data-matching exercises as part of the National Fraud Initiative are subject to a detailed Code of Data-Matching Practice which complies with this policy.

## Definition

9. Personal data is defined as *'any information relating to an identified or identifiable natural person (data subject); an identifiable natural person is one who can be identified, directly or indirectly, in particular by reference to an identifier such as a name, an identification number, location data, an online identifier or to one or more factors specific to the physical, physiological, genetic, mental, economic, cultural or social identity of that natural person'*.
10. It applies only to living individuals and covers their personal information held on physical or digital medium.

## Data protection principles

11. The EU 2016/679 General Data Protection Regulation (GDPR) contains seven principles for processing personal information. They specify the standards that must be met when obtaining, handling, processing, transporting and storing personal information. The seven data protection principles are listed below:
  - 11.1. Lawfulness, fairness and transparency;
  - 11.2. Purpose limitation;

- 11.3. Data minimisation;
  - 11.4. Accuracy;
  - 11.5. Storage limitation;
  - 11.6. Integrity and confidentiality (security); and
  - 11.7. Accountability
12. In line with these principles, we will only process personal information where we have a lawful purpose for doing so, and be cognisant of rules relating to exemptions that apply.
13. To comply with the seven data protection principles, we will:
- 13.1. process personal information lawfully, fairly and in a transparent manner in relation to the data subject;
  - 13.2. only collect personal information for specified, explicit and legitimate purposes and not further process it in a manner that is incompatible with those purposes;
  - 13.3. ensure that the personal information we collect is adequate, relevant and limited to what is necessary in relation to the purposes for which they are processed;
  - 13.4. ensure the accuracy of personal information and, where necessary, keep the information up to date; personal information that is inaccurate will be erased or rectified without delay;
  - 13.5. only keep personal information in a form which permits identification of data subjects for no longer than is necessary for the purposes for which the personal data are processed; personal data may be stored for longer periods insofar as the personal data will be processed solely for archiving purposes in the public interest, scientific or historical research purposes;
  - 13.6. ensure personal information is only processed in a manner that ensures appropriate security of the personal information, including protection against unauthorised or unlawful processing and against accidental loss, destruction or damage, using appropriate technical or organisational measures ('integrity and confidentiality'); and
  - 13.7. ensure that we can demonstrate compliance with GDPR regulations by being able to evidence the steps we have taken to secure personal data including removal / redaction. We require to have a process in place to manage any requests, but also need to have a full audit trail to prove that we undertook the proper actions.

## Disclosure of personal information

14. We will only disclose personal information to:
- 14.1. those who are entitled to the information;
  - 14.2. any authority we are required to do so by law e.g. HMRC; and

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

## Rights of the individual

15. The GDPR provides the following rights for individuals which we as an organisation must be cognisant of:
  - 15.1. The right to be informed - this covers some of the key transparency requirements of the GDPR. It is about providing individuals with clear and concise information about what you do with their personal data. Articles 13 and 14 of the GDPR specify what individuals have the right to be informed about.
  - 15.2. The right of access - this is commonly referred to as subject access and gives individuals the right to obtain a copy of their personal data as well as other supplementary information. It helps individuals to understand how and why you are using their data, and check you are doing it lawfully.
  - 15.3. The right to rectification - Under Article 16 of the GDPR individuals have the right to have inaccurate personal data rectified. An individual may also be able to have incomplete personal data completed – although this will depend on the purposes for the processing. This may involve providing a supplementary statement to the incomplete data.
  - 15.4. The right to erasure - Under Article 17 of the GDPR individuals have the right to have personal data erased. This is also known as the ‘right to be forgotten’. The right is not absolute and only applies in certain circumstances.
  - 15.5. The right to restrict processing - Article 18 of the GDPR gives individuals the right to restrict the processing of their personal data in certain circumstances. This means that an individual can limit the way that an organisation uses their data. This is an alternative to requesting the erasure of their data. Individuals have the right to restrict the processing of their personal data where they have a particular reason for wanting the restriction. This may be because they have issues with the content of the information you hold or how you have processed their data. In most cases you will not be required to restrict an individual’s personal data indefinitely but will need to have the restriction in place for a certain period of time.
  - 15.6. The right to data portability - The right to data portability gives individuals the right to receive personal data they have provided to a controller in a structured, commonly used and machine-readable format. It also gives them the right to request that a controller transmits this data directly to another controller.
  - 15.7. The right to object - Article 21 of the GDPR gives individuals the right to object to the processing of their personal data. This effectively allows individuals to ask you to stop processing their personal data. The right to object only applies in certain circumstances.

Whether it applies depends on your purposes for processing and your lawful basis for processing.

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

## Data protection officer

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

## Personal responsibility

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

## Training and awareness

18. We are committed to full staff awareness and training in Data Protection, Information Security, 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.
19. Guidance on the application of data protection is available on [ishare](#).

## Misuse of personal information

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

## Change log

Version	Date	Author	Description
13	12/04/2018	Corporate Governance Manager	Data protection policy changed to include GDPR requirements and the commencement of this change log.
14	26/03/2019	Corporate Governance Manager	Updated to reflect the further guidance updates on GDPR since April 2018

## Purpose

1. This report seeks Board approval for the Accounting policies, key accounting estimates and judgements to be included within the Notes to the 2018-19 accounts.

## Background

2. Audit Scotland financial regulations require accounting policies to 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 as detailed in the Scheme of delegation 3.4.
3. The content of this report was considered by Management Team on 2 April 2019.

## Changes from 2017-18

4. The Appendix details the proposed Statement of accounting policies to be included in the Notes to the accounts for 2018-19.
5. There are two main changes from 2017-18 and they relate to b) New accounting standards not yet effective and f) Operating income.
6. IFRS 16 – Leases is a new accounting standard not yet effective. It is expected that the FReM will adopt this standard from 1 April 2020 and initial assessment indicates that we hold significant leases in respect of property and cars. We would therefore expect to recognise in the Statement of Financial Position a right of use asset and a liability for future lease payment commitments.
7. Operating income relates directly to the audit activities of Audit Scotland and falls within the scope of IFRS 15 - Revenue from Contracts with Customers. IFRS 15 has been adopted by the FReM with effect from 1 April 2018 and the new standard is consistent with the basis we previously accounted for income.

## Recommendation

8. The Board is invited to approve the 2018-19 Accounting policies, key accounting estimates and judgements.

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# Notes to the accounts

## 1. Statement of accounting policies

The accounts have been prepared in accordance with the accounts direction issued by Scottish ministers under section 19(4) of the Public Finance and Accountability (Scotland) Act 2000 and also in accordance with the Financial Reporting Manual (FReM) applicable for the year. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of Audit Scotland for the purpose of giving a true and fair view has been selected. The accounting policies adopted by Audit Scotland are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

### a) Basis of accounting

The accounts have been prepared under the historical cost convention. In accordance with the principles of resource accounting, the gross funding received from the Scottish Consolidated Fund is recorded directly within the General Fund and is not included in the operating income received in the year in the Statement of Comprehensive Net Expenditure.

In common with similar public bodies, the future financing of Audit Scotland's liabilities will be met by future grants of Supply and the application of future income, both to be approved annually by the Scottish Parliament. The approval of amounts for 2019/20 has already been given and there is no reason to believe that future approvals will not be forthcoming. Accordingly, it is considered appropriate to adopt a going concern basis for the preparation of these financial accounts.

### b) New accounting standards not yet effective

Audit Scotland disclose accounting standards not yet applied and assesses the possible impact that initial application would have on the financial statements. There is one standard not yet effective that will have an impact on Audit Scotland's accounts which is IFRS 16 Leases. This standard requires all significant leases to be recognised in the Statement of Financial Position.

#### **IFRS 16 - Leases**

It is expected that this standard will be adopted by the FReM with effect from 1 April 2020. Initial assessment of the new standard on leases indicates that Audit Scotland significant leases relate to property and cars. We expect that there will be a requirement to recognise in the Statement of Financial Position a right of use asset and a liability for future lease payment commitments.

### c) Non-current assets

The minimum level of capitalisation for a non-current asset is £5,000 for individual or group purchases. Non-current assets are held at fair value. Depreciated historic cost has been used as a proxy for fair

value due to the low value and short life of the assets held. All property occupied by Audit Scotland is leasehold.

#### **d) Depreciation**

Depreciation has been provided at a rate calculated to write off cost in equal annual instalments over the estimated useful lives of assets. Asset cost is written off as follows:

Leasehold premises	remaining period of lease	(from 1 - 10 years)
Furniture and fittings	5 years	
Computer equipment	3 - 5 years	
Software	3 - 5 years	

#### **e) Amortisation of rent-free periods**

The benefit of rent-free periods on leases of premises is amortised over the period of the lease or over the period to a lease break point when this is the most probable end of lease, whichever is the shorter.

#### **f) Operating income**

IFRS 15 Revenue from Contracts with Customers has been adopted by the FReM with effect from 1 April 2018. Operating income relates directly to the audit activities of Audit Scotland and falls within the scope of IFRS 15. However, the income recognition criteria introduced by IFRS 15 is consistent with how Audit Scotland previously accounted for income and there is no impact of the new standard on opening balances.

Operating income comprises fees for financial audit that are recognised on the basis of work undertaken for the year and charges for other work which are recognised evenly throughout the year.

#### **g) Work in progress**

Work in progress is valued on the basis of a proportion of the agreed auditor remuneration earned by the balance sheet date less an allowance for any foreseen losses. This calculation is based on an assessment of the amount of audit work completed by the balance sheet date as a proportion of the total expected amount of audit work. Payments received on account of work in progress in excess of or below the value of carrying out the relevant work are included in creditors or debtors as appropriate.

#### **h) Operating leases**

The total cost of operating leases is charged to revenue in equal instalments over the life of the lease. Estimates of likely costs in respect of obligations under our property leases for dilapidations, reinstatement and property decorations are charged to revenue in equal instalments over the life of the lease, or the period to a planned early termination of the lease whichever is the shorter.

#### **i) Value Added Tax (VAT)**

Input tax in respect of external auditor fees and expenses incurred in the delivery of local authority audits is reclaimed from HMRC on behalf of the Accounts Commission and is used to offset audit fees payable by local authorities. All other input tax is charged to the Statement of Comprehensive Net Expenditure. Audit Scotland is registered for VAT in respect of business activities.

## **j) Pension arrangements**

Audit Scotland complies with the requirements of International Accounting Standard No 19 (IAS 19) for the year ended 31 March 2019. Audit Scotland makes pension provision for present and former employees through two pension schemes. Employees joining Audit Scotland after 1 April 2000, and those transferring to Audit Scotland from the Accounts Commission, have benefits provided through the Local Government Pension Scheme. Employees transferring to Audit Scotland at 1 April 2000 from the NAO are covered by the provisions of the Principal Civil Service Pension Scheme. The Auditor General for Scotland has benefits provided through the Principal Civil Service Pension Scheme.

## **k) Key sources of judgement and estimation uncertainty**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates, assumptions and judgements that have a risk of adjustment to the carrying amount of assets and liabilities within the financial statements within the next financial year are:

- Revenue recognition is based on time charged to audits adjusted where applicable to reflect the stage at which completion of work is done. At the year-end an assessment is undertaken to consider the reasonableness of income recognised in the Statement of Comprehensive Net Expenditure. Income recognised in advance of invoices being raised is treated as Work in Progress (see Note 9). Invoices raised in advance of work being done is treated as Deferred Income (see Note 12).
- Provisions have been made where in the opinion of management it is more likely than not that a financial liability exists which cannot be accurately quantified at present (see Notes 14 and 16).

## Purpose

1. This report seeks the approval of the Board for the 2019 Mainstreaming Equality and Equality Outcomes progress report (the Progress Report).

## Background

2. As described in the report, both the public sector equality duty, also known as the general equality duty, and the Scottish Specific Duties apply to Audit Scotland and the Accounts Commission; they are both listed authorities. In view of the overlap of the material which relates to both bodies we have, as in 2017, prepared one report.
3. In compiling this report, which is required every two years, we have consulted the following sources of guidance:
  - The Improvement Service elected member briefing Note 20: The public sector equality duty, May 2013.
  - EHRC Scotland: Assessing Equality Outcomes: a tool for Scottish Public authorities, January 2015.
  - EHRC Scotland: Essential guide to the Public Sector Equality Duty, July 2016.
  - EHRC Scotland: Mainstreaming the Public Sector Equality Duty, July 2016.
  - EHRC Scotland: Equality outcomes and the Public Sector Equality Duty, July 2016.
  - EHRC Scotland: Public authorities in Scotland: who is covered by the Specific Duties, July 2018.

## Progress on mainstreaming equality and equality outcomes

4. This report sets out how we are addressing our responsibilities under the Equality Act 2010. It summarises the progress we have made in mainstreaming equality in our work and achieving our existing equality outcomes. We refreshed our 2013 equality outcomes and published new ones in April 2017.
5. In the Executive Summary we emphasise the important work of the Equality and Human Rights Advisory Group (EHRAG), and that this is how we evidence that we are involving people who have the protected characteristics, or their representatives.
6. The Equality and Human Rights Steering Group (EHRSG), formerly known as the Diversity and Equality Steering Group, oversees implementation of Equality Outcome 1: audit work reflects how public services meet the diverse needs of all citizens and communities.
7. During 2018 responsibility for Equality Outcome 2: Audit Scotland promotes, understands and supports a diverse and inclusive workforce, transferred to the People Focus Group (PFG). The reporting of employee information within the mainstreaming report is only required 'if not published previously'. In the case of Audit Scotland, diversity information is now published annually, and we have cross-referred the reader of the Progress Report to the extant diversity report which is available through the normal public performance reporting system, i.e. on our external website.

## Looking ahead

8. Per the Act equality outcomes are intended to be in place for four years. Consequently, we propose rolling forward the extant two for a further two years.
9. In addition, and as a consequence of an internal 'Equality Summit' held in January 2018, we have considered the development of a further outcome, one which considers how our audit work reflects human rights and socio-economic disadvantage. To a degree much of our work already reflects inequality, beyond the protected characteristics, for example in the BVAR audits.

10. After an internal workshop on 'putting people at the heart of audit', two short-life working groups were set up to develop our thinking on this outcome cognisant of our new audit responsibilities with respect to the new financial powers, social security, the Fairer Scotland Duty and the new National Performance Framework. Team members from respective audit teams were involved and we have also welcomed new members, to EHRSG, who have academic qualifications in Human Rights law.
11. We have taken the opportunity of this Progress Report to publicise our adoption of a new outcome: In our audit work we will reflect, where appropriate, on how public bodies address human rights and socio-economic disadvantage. It is recognised that material will have to be developed to assist auditors in advancing this new outcome, to adopt a proportionate response, and to assist in managing expectations.

## Critical Path

12. This is a statutory report required to be published by end April for both the Accounts Commission and Audit Scotland. The Progress Report was submitted as draft to the private session of the Accounts Commission on 11 April, whereupon it was approved, subject to minor amendment. The papers for this Board meeting, of 1 May, will have come into the public domain prior to the end of April, and consequently the statutory reporting deadline has been met.

## Recommendations

13. The Board is invited to review the Progress Report, to consider the proposed new outcome and to approve the report for publication.

# Mainstreaming Equality and Equality Outcomes

Progress report 2017-19

ACCOUNTS COMMISSION 

 AUDIT SCOTLAND

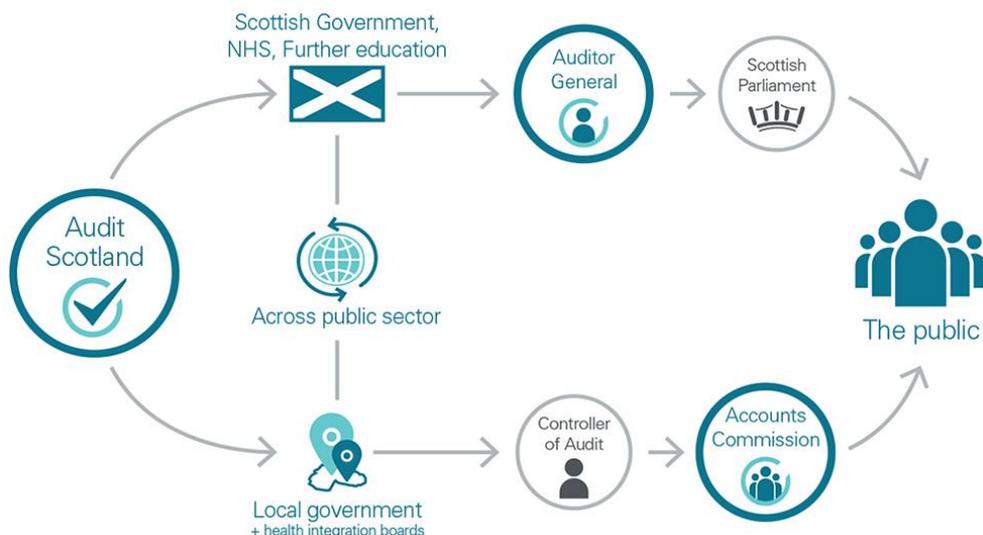
Prepared by Audit Scotland

April 2019

## 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 Audit Scotland

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

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

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

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# Executive summary

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- 1.** This report sets out how Audit Scotland and the Accounts Commission, working with the Auditor General for Scotland, are addressing their responsibilities under the Equality Act 2010. Equality outcomes were first set in 2013 and then revised in 2017. This report summarises the progress made in mainstreaming equality and achieving the two 2017 equality outcomes over the last two years.
- 2.** With respect to Outcome 1: Audit work reflects how public services meet the diverse needs of all citizens and communities, a stronger equality thread now runs through our performance audits. And that is down to the more established role played by our external advisors, the Equality and Human Rights Advisory Group. That has helped us adapt the scope of audits, how we engage with service users and report on findings. The report contains numerous examples of how equality has been advanced through our performance audits, including around access to children's mental health services and to broadband in rural areas.
- 3.** Equalities are also now part of our considerations for local government Best Value audit scopes and communications strategies. And this work will be further developed as part of the mandatory aspect of the five-year Best Value audit regime.
- 4.** Information on equalities now features in some annual audit reports, and the financial audit planning guidance for 2018/19 now explicitly includes equalities as an area to be considered over the course of an audit appointment.
- 5.** Good progress has been made on Audit Scotland's Outcome Two: Audit Scotland promotes, understands and supports a diverse and inclusive workforce. However, it is an area we continually revisit to ensure we are responsive to what we learn from both the gathering of employment data and our annual staff survey.
- 6.** We are also looking ahead: our future audit work will reflect, where appropriate, on how well public bodies are addressing human rights and socio-economic disadvantage. That will consider Scotland's changing landscape including its new financial powers, Social Security Scotland, the new Budget Review Process, the National Performance Framework and the Fairer Scotland Duty. This work will be approached in the same measured and consistent manner as our audit duties. And further materials will be developed to support auditors.

# Introduction

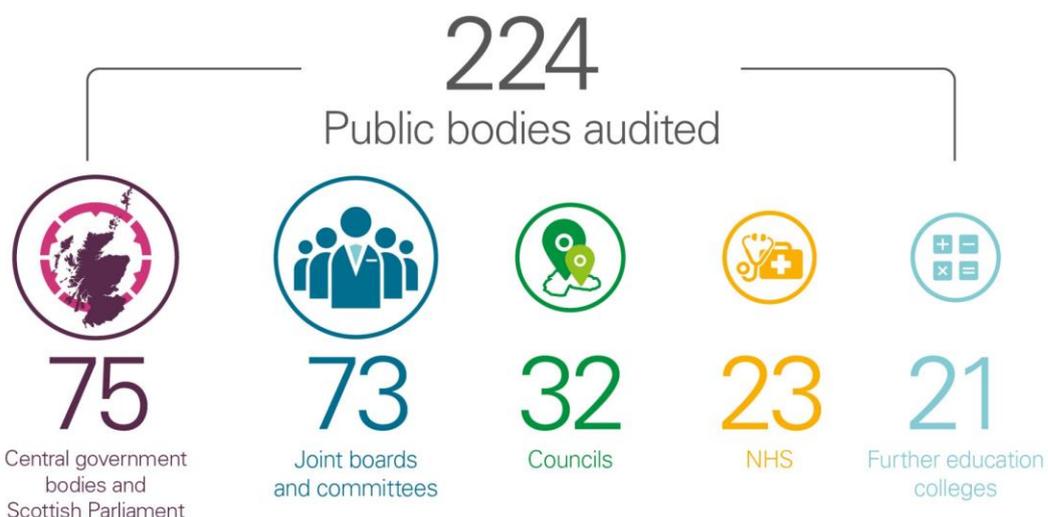
## Roles

**7.** This report is published jointly by the Accounts Commission and Audit Scotland.

**8.** The Accounts Commission is the public spending watchdog for local government. It holds councils in Scotland to account and helps them improve. It operates impartially and independently of councils, the Scottish Government and the Scottish Parliament, and it meets and reports in public.

**9.** Audit Scotland is a statutory body that carries out audits and investigations for the Accounts Commission and the Auditor General for Scotland. The Auditor General for Scotland secures the audit of the Scottish Government and other public bodies in Scotland, except local authorities. The Auditor General is independent of the Scottish Government and the Scottish Parliament.

**10.** Audit Scotland helps the Auditor General and the Accounts Commission to ensure public money in Scotland is used properly, efficiently and effectively. This is done by carrying out performance, best value and financial audits of various aspects of how public bodies work. Public audit in Scotland covers over 220 public organisations, including the Scottish Government, the NHS in Scotland and local councils. These organisations spend over £40 billion of public money annually.



The Auditor General and the Accounts Commission appoint the auditors. Approximately two thirds of the annual audit work (by value) is done by Audit Scotland and a third by private sector audit firms.

**11.** For more information about Audit Scotland and the Accounts Commission, including our vision, structure, aims and priorities, see Audit Scotland's Corporate Plan 2018-21 and the Accounts Commission's Strategy and annual action plan 2018-23, both published on our website.

## About this report

**12.** This report sets out how Audit Scotland and the Accounts Commission, working with the Auditor General, are addressing their responsibilities under the Equality Act 2010. Under the Act, public bodies must consider all individuals when carrying out their day-to-day work: in shaping policy, in delivering services and in relation to their own employees. The public sector equality duty, also known as the general equality duty, covers the protected characteristics of age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation. This duty requires public bodies to have due regard to the need to:

- eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by the Equality Act
- advance equality of opportunity among all people
- foster good relations between different people when carrying out their activities.

**13.** The Scottish Specific Duties require listed authorities to carry out the following activities:

- Report on mainstreaming the equality duty
- Publish equality outcomes and report progress
- Assess and review policies and practices
- Gather and use employee information
- Publish gender pay gap information
- Publish statements on equal pay
- Consider award criteria and conditions in relation to public procurement.

**14.** Audit Scotland and the Accounts Commission are listed authorities for both the Equality Act and the Specific Duties in Scotland. Consequently, they are required to report progress on mainstreaming the public sector equality duty and to report progress on their published equality outcomes. Revised [equality outcomes](#) were published in 2017:

- Outcome One: Audit work reflects how public services meet the diverse needs of all citizens and communities
- Outcome Two: Audit Scotland promotes, understands and supports a diverse and inclusive workforce.

**15.** Audit Scotland and the Accounts Commission, as separate organisations, have individual responsibility to publish this information every two years. As the work of these bodies is so closely linked, a joint report is considered preferable. It should be noted that the Accounts Commission is only directly concerned with Outcome One: Audit work reflects how public services meet the diverse needs of all citizens and communities, as the Commission gets its support from Audit Scotland. Both the steering group of internal members, and the advisory group of external members, address the audit work of both organisations.

**16.** The Equality and Human Rights Steering Group (EHRSG) oversees the mainstreaming of the public sector equality duty, and the implementation of Equality Outcome 1: Audit work reflects how public services meet the diverse needs of all citizens and communities. The steering group has representation from all our business groups and its work includes:

- raising awareness of equality issues among staff
- helping to ensure the requirements of the Equality Act 2010 are met
- working with business groups to help mainstream equality in our audit work.

**17.** We established an Equality and Human Rights Advisory Group (EHRAG) in 2016, involving people from a wide range of external stakeholder organisations (see [Appendix One](#) for membership), to help shape our approach to equality in the work we do.

**18.** The Audit Scotland People Focus Group (PFG) oversees implementation of Equality Outcome 2: Audit Scotland promotes, understands and supports a diverse and inclusive workforce. The PFG has been established to support the Management Team of Audit Scotland on key strategic employment matters, including review of diversity and equality reporting and outcomes, as they relate to the employees of Audit Scotland.

**19.** In relation to Outcome Two, a range of equality information, for example on how we gather and use employee information, is published on the Audit Scotland website, in line with the specific duties of the Equality Act. A summary of how compliance with these duties is ensured, is set out in [Appendix Two](#).

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# Mainstreaming equality

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## How have we mainstreamed the equality duty?

### Public performance reporting

**20.** The [equality outcomes](#) we refreshed in 2017 have made the equality duty integral to the work of Audit Scotland and the Accounts Commission. The 2018-21 Audit Scotland Corporate Plan ([link](#)) includes Diversity and Equality as one of three key organisational priorities. Meanwhile, the Accounts Commission's [Engagement Strategy and Plan for 2018/19](#) notes that Audit Scotland works, on its behalf, with the Equalities and Human Rights Commission and convenes an equality and human rights advisory group to ensure consideration of equalities is embedded in its work.

**21.** We use our existing public performance reporting systems to publish equality impact assessments and our reports associated with mainstreaming the equality duty. All of our final reports on annual audits, performance audits and best value audits can be found on our external website. We provide examples further of reports where equality has featured.

### Leadership

**22.** Management Team of Audit Scotland provide clear and consistent messages about the importance of the public sector equality duty, to ensure that it is given appropriate profile and emphasis. For example, Audit Scotland now publishes a diversity report and a separate gender pay gap report annually, whereas the duties only require publication every two years. Management Team initiated the debate about consideration of human rights and socio-economic in equality by holding an Equality Summit in 2018.

**23.** This has also influenced procurement decisions: for example with regard to our new archive storage provider, Redrock, it's aim is to 'provide sustainable employment for disabled people and a quality service to our customers'.

### Staff awareness and understanding

**24.** A range of activities have helped raise staff awareness of equality and diversity issues in our work:

- On arrival new staff undertake on-line training on diversity and equality as part of the overall induction. We are currently reviewing whether to update that training package.
- Members of the Accounts Commission have received diversity training.
- In November 2017, an equalities and human rights knowledge café was held. Several members of the EHRAG talked about the role of their organisation and why equality and diversity should matter to our audits, flagging up areas of persisting inequality for people with protected characteristics, for example those with a mental health disability.
- We published a blog on the role of EHRAG and publicised to colleagues the roll out of equality prompts in the refreshed Audit Management Framework (AMF).
- Members of the EHRSG have held sessions on equality and diversity at their business group team meetings. For example, in PABV a member of the Self-Directed Support audit team talked about the ways they had engaged with

service users and disability organisations. They also described how they reported this in the final report in an accessible way.

- In 2018/19, there has been a particular focus on mental health: the provision of training on Mental Health first-aid, a Mental Health Awareness Week, and the organisation adopted as the new corporate charity is the Scottish Association for Mental Health.
- Four Women in Leadership seminars were held in 2018.

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# Progress on equality outcomes

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## Outcome 1: Audit work reflects how public services meet the diverse needs of all citizens and communities

### We said we would:

- use feedback from stakeholders on how to reflect equality and diversity in audit work which is carried out by staff sensitive to the diverse needs of stakeholders
- use data analysis to inform audit work and help understand who uses public services
- publish all information and reports in formats that are accessible to all
- incorporate equality and diversity issues in audit work programmes in a way which is consistent with our audit duties
- report all audit findings in a style that reflects the audience
- report on diversity and equality issues where appropriate
- support other public bodies in their scrutiny of diversity and equality.

### Involving people who share a relevant protected characteristic and their representatives

**25.** The focus of stakeholder engagement work has been through Audit Scotland's Equality and Human Rights Advisory Group (EHRAG). It was established in 2016 and meets every six months. Membership is detailed in [Appendix One](#).

**26.** Audit Scotland consults with EHRAG on the proposed forward work programme of performance audits and seeks input from members on proposed future topics. This has helped us embed equality and human rights concerns in our audit work and to gather views on potential topics for our future work programme.

**27.** The feedback from EHRAG has helped us build equality and human rights considerations more effectively in to our audit work. For example:

- EHRAG recommended that the scope of the Children and young people's mental health (CYPMH) audit should look beyond statutory services to consider access to early intervention. The audit took this wider view of this service area and subsequently reported critically on several equality-related topics, including the current focus of CYPMH services, equity of access to services, and the range and level of performance and equality-related outcome data.
- EHRAG identified the need for the Broadband update audit to consider access from a rural perspective. The audit subsequently did this and reported critically on the Scottish Government's engagement and

communication with rural communities and the performance of Community Broadband Scotland.

- Our engagement with EHRAG has led to the Scottish Human Rights Commission working with the Social Security audit team to ensure that implications of the UN Right to Social Security are appropriately reflected in our audit work in this area.

**28.** EHRAG has also identified several broader equality and human rights-related issues. This includes: the role of the refreshed National Performance Framework and the community empowerment agenda in promoting human rights, equality and human rights-based budget scrutiny; the impact of national and local budget changes on different groups or communities of interest (potentially including protected characteristic groups). We will continue to engage with EHRAG on these issues during 2019.

**29.** Each year we undertake an [Equality Impact Assessment](#) on the refreshed work programme and publish it on the Audit Scotland website.

### Progress in Performance audit

**30.** Audit Scotland's Audit Management Framework (AMF) requires staff to identify relevant equality issues when scoping and carrying out national performance audits. For example:

- At the scoping stage: does the audit advisory group bring sufficiently diverse perspectives to this audit?
- At the evidence stage: are we speaking to local community groups or other organisations that might be able to help us understand who is and who isn't using the services, and what their experiences are; are we actively involving diverse groups in designing user surveys?
- At the reporting stage: have you, along with Communications colleagues, identified specialist media outlets that cater for specific groups and ensured they receive notice of the report and the publicity materials?

**31.** Audit teams include equality considerations in their methodology, fieldwork or reporting stages in performance audits. Examples of such audits, published since the last Mainstreaming report or audits that are currently in progress, include:



#### **Self-directed support: 2017 progress report, August 2017**

The audit sought the views of families and carers on how the self-directed support process is working. The audit team produced an online survey with paper copies available and translated into Braille. The team regularly sought the advice and assistance of expert equalities groups. For example, an organisation that supports minority ethnic carers assisted with holding focus groups in people's homes. An easy read version of the report for people with learning disabilities was published.



#### **Equal pay in Scottish councils, Sept 2017**

The report focused on eliminating gender discrimination in local government pay grades. Regular advice and support were provided throughout the audit from the Equality and Human Rights Commission (EHRC) and Close the Gap who were members of the audit advisory group. The report contained a section on the gender pay gap. It also provided a checklist for councils to ensure they are fulfilling the public sector equality duties regarding equal pay alongside scrutiny prompts for elected members.



### **Early learning and childcare, February 2018**

Scoping for the audit highlighted equality issues, such as uptake of funded Early Learning and Childcare services by eligible two-year olds (e.g. children who are looked after and children of families in receipt of certain benefits) and about support available for children with additional support needs. The team produced an online guide for service users, parents and a video for parents to direct them to the guide.



### **Managing the implementation of the Scotland Acts, March 2018**

The report provides findings on how the Scottish Government engages with clients and seldom heard groups. The audit team identified equalities as a relevant area to follow up in audits on social security.



### **Local government in Scotland: Challenges and performance, April 2018**

The audit team considered equality issues in the annual audit reports on councils and information from the Scottish Parliament Information Centre (SPICe) on equalities. The report considers the impact of budget cuts and community empowerment on more deprived communities. It comments on the gender balance of elected members. It also highlights that councils should ensure they meet the needs of more vulnerable groups with limited access to digital technology as they pursue their digital transformation programmes.



### **Scottish Fire and Rescue Service update, May 2018**

The audit team identified equality issues at the scoping stage as data showed gender imbalance amongst uniformed staff. The report recommends that the Scottish Fire and Rescue Service include equality impact assessments with papers to inform board decisions and set out in its workforce planning how it plans to eliminate the gender pay gap. The report highlights the gender imbalance of the workforce and the steps SFRS is taking to address this.



### **Scotland's colleges 2018, June 2018**

The audit team looked at college access and attainment for students with defined equality characteristics and at the gender balance among students and on college boards. The final report includes key messages, a number of exhibits and a case study relating to these equality issues.



### **Children and young people's mental health, September 2018**

The audit team considered equalities at the scoping stage of the audit and commissioned a literature review on equalities and mental health. During the audit, the team engaged with a group of young people, and with a range of stakeholder organisations about relevant equalities issues. The final report includes an exhibit showing the prevalence of mental health issues amongst different groups of young people.

## **Progress in Best Value audit**

**32.** We assess Best Value over a five-year audit appointment, through the ongoing annual audit work, our Best Value Assurance Reports on individual councils, and through discrete pieces of work looking at specific issues. This approach ensures Best Value audits include consideration of equal opportunities issues. Judgements are reached on:

- how committed the council is to equal opportunities

- to what extent equal opportunities is embedded in service delivery
- to what extent the council promotes equal opportunities in the community.

**33.** Guidance has been prepared to support all auditors and this was supplemented with a briefing paper in December 2018. The Best Value toolkit on [equality](#) helps auditors establish the extent to which public bodies' arrangements for equality are designed to achieve, and are delivering, Best Value. Organisations may download and use the toolkit for self-assessment. In the six months to February 2019, there were 337 downloads of the toolkit from the Audit Scotland website, an average of 56 downloads per month.

**34.** An Equality Impact Assessment of Audit Scotland's approach to auditing [Best Value in local government](#) was published in April 2017.

**35.** Each Best Value Assurance Report now has a communications promotions plan which focuses on specific messages and specific local audiences. For example, for the East Renfrewshire Council BVAR (published November 2017) we published an easy read A3 poster which was distributed to libraries, GP and dental surgeries. Also, an e-newsletter was sent to key groups, particularly in the voluntary sector and community groups, including parent councils and community councils, highlighting and summarising key findings from each report. In the first month following publication of these additional outputs, we saw a 53 per cent increase in report downloads, plus additional social media coverage.

**36.** The following audit included equality considerations in the methodology, fieldwork and reporting stages of the audit:



#### **BVAR Orkney Islands Council, November 2017**

The audit team identified equalities as an area of potential good practice at the scoping stage. The team interviewed relevant council and partner leads on equalities issues and reviewed relevant documents. The report includes a section on equalities. For example, it comments on how equalities are considered in decision making processes, how the council works with its community planning partners to take forward equality issues, how the council is performing against its equality outcomes including gender pay gap information, and representation of elected members.

### **Progress in financial audit**

**37.** Comhairle nan Eilean Siar's annual audit report (AAR), [Annual audit of Comhairle nan Eilean Siar](#), published in September 2018 concluded that equality arrangements are established and consider the needs of individuals. Equality and diversity training is included in the induction programmes for all employees. This is outlined in the Equal Opportunities Statement and Policy which is available on the Comhairle website. However, the gender pay gap is substantial. The vast majority of part time and lower paid grades are predominantly undertaken by female employees. The training strategy is currently being reviewed to incorporate improvement actions identified.

**38.** South Ayrshire Council's AAR highlighted that the council recognised its role as a large employer in ensuring that equality is built into everything it does. The council has developed an equality and diversity strategy and is committed to providing a positive, respectful and supportive working environment, and staff training is provided to support this.

**39.** The AAR for Glasgow City Council confirmed that the council has established a new Empowerment Unit and appointed a Director of Community Empowerment and Equalities. In addition to this, following the recent equal pay ruling, the council has established an equal pay project comprising workstreams to take this matter forward. Councillors are updated through cross-party group meetings.

**40.** The Audit Planning Guidance for 2018/19 audits, published October 2018, states that in addition to the coverage of equalities through Best Value audits of councils, auditors should confirm, for the other sectors, that there are organisational arrangements in place to secure Best Value when planning and reporting on the audit dimensions; the Scottish Public Finance Manual (SPFM) explains that accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. The guidance states that the nature and extent of this work will be determined by the annual risk assessment but that the Best Value characteristic of equalities is to be covered at least once during the five-year appointment period.

### **Accessibility and reporting all audit findings in a style that reflects the audience**

**41.** We work hard to ensure that our work, our services and our workplaces are accessible:

- The websites for both Audit Scotland and the Accounts Commission meet Web Content Accessibility Guidelines 2.0 level AA and has been awarded ‘two ticks’ accreditation for web accessibility by the Digital Accessibility Centre (DAC). The DAC audits our site every year to ensure we maintain our standards and the website is accessible to people with a range of disabilities, including those with hearing difficulties.
- Audit Scotland provides information in a variety of formats for all audiences, helping ensure this information is accessible to stakeholders with hearing difficulties. This includes PDFs and RTF formats.
- All our podcasts are available as MP3s and have a transcript to ensure they are available and accessible.
- All our videos and animations on YouTube are captioned to ensure they are available and accessible.
- Contact details to enable members of the public to request alternative formats/languages, including BSL, are available on the back of all our published reports and stated on our website.
- We promote the use of the Contact Scotland BSL service, which gives access to an online interpreter who can communicate with us using sign language.
- When we are contacted to provide a BSL interpreter for a meeting, interview etc, we would arrange and pay for this service.
- Our main office, in Edinburgh, has hearing induction loops in meeting rooms and at reception.

### **Stakeholder engagement and supporting other public bodies in their scrutiny of diversity and equality**

#### **Youth Advisory Panel**

**42.** In 2018, working with Youth Scotland, Audit Scotland set up a Youth Advisory Panel. We are already delivering on our ambition that this panel will work with us to involve young people more in our work and use their voices and experiences as part of the audit process. It will also give those involved on our Youth Advisory Panel valuable experience and skills.

**43.** We’re keen to involve young people in how we communicate our audit work, in ways that have value and meaning. The panel is already helping us with this, as described above in relation to the Children and young people’s mental health report.

**44.** This builds on our work which has involved a range of service users in our audits on specific services, and now our youth panel is also getting involved in other aspects of our audit work. This includes helping to shape specific audits, looking at how we carry out the work and how we share the messages from our audits with young people. The youth advisory panel will meet regularly throughout the two years that it will be running.

**45.** As well as the panel, we're keen to engage with a wider range of young people, from across Scotland, that's why, together with Youth Scotland, we've set up a larger, online community. They will work with the Youth Advisory Panel to feed in a wider range of views and experiences.

### Scottish Parliament's Equalities and Human Rights Committee and the Scottish Human Rights Commission

**46.** Audit Scotland has been strengthening its links and engagement with the Parliament's Equalities and Human Rights Committee and the Scottish Human Rights Commission (SHRC). This is to ensure that we are considering equality-related budget and performance in our audit work. It also helps us to adopt a more human rights-based approach in developing our work programme and audits. We hold regular liaison meetings with the Equalities and Human Rights Committee clerking team, SPICe staff (Scottish Parliament Information Centre), and the SHRC. We have held early discussions on the equality and human rights implications of the increased alignment between the United Nations' Sustainable Development Goals and the Scottish Government's refreshed National Performance Framework.

**47.** We are a member of the non-departmental public body equality forum which meets approximately three times a year. The group has equality representatives from the different NDPBs and is a forum for discussion and the sharing of good practice in relation to meeting the public sector equality duties. Over the past year, the forum has focused on equality monitoring and implementing the public sector equality duty (PSED).

**48.** An Audit Scotland representative is an observing member of the Scottish Government's Equality Budget Advisory Group. This is a non-statutory advisory group, with a remit to shape the equality and human rights approach to the Scottish budget. While we do not participate in any decision-making, our observing role helps inform our audit understanding of how human rights and equalities are being considered within the new budget process.

## Outcome 2: Audit Scotland promotes, understands and supports a diverse and inclusive workforce

### We said we would:

- ensure staff feel valued and are treated with equity and fairness
- embed staff feedback on how to support diversity and equality in how we do things
- ensure staff feel that their wellbeing is a priority for Audit Scotland
- ensure staff recognise that policies are written in plain language, adhere to current legislation and are accessible to all
- ensure there is a rigorous process for conducting EIAs when new policies are introduced, or existing policies are updated
- operate a flexible approach to working practices
- ensure that the reward system is fair, and the gender pay gap and equal pay review results confirm this

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"The group were all really excited about what Inform100 could achieve and are already coming up with ideas on reaching out to hear the views of other young people to help Audit Scotland shape its work over the coming years."

**Julie, one of the Project Leads from Youth Scotland**

"I think it's a wonderful experience to get youth voices heard on topics that are important to us, also it helps us put qualifications on our CVs."

**Jacob, 14**

"Was really good to see it start to be youth-led and taking the lead in the process."

**Dylan, 23**

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- improve information on workforce by encouraging staff to disclose personal information
- increase the number of job applications from people in under-represented groups
- improve recruitment and selection processes in response to feedback.

## Our Progress

### Ensure staff feel valued and are treated with equity and fairness

**49.** Audit Scotland has several policies and plans in place to promote equity and fairness among staff, including:

- Diversity and Equality Policy
- Equal Pay Policy
- Gender Reassignment Policy
- Religious Belief Observance Policy
- British Sign Language Action Plan.

**50.** Audit Scotland was successfully accredited with being an ['Engaged' Carer Positive Employer in Scotland](#) (Level 1) in November 2017. Carers are encouraged to identify themselves as carers and can access support within the organisation, such as our flexible working policy, to help them manage their work and caring responsibilities.

**51.** Audit Scotland have Disability Confident Employer status (level 2) and we are working towards attaining Disability Confident Leader (level 3). Members of our workforce can access occupational health and we implement recommendations for reasonable adjustments to meet peoples' diverse needs such as work station and office lighting requirements. We have recently set up a group, including members of our staff with disabilities, to look at making further improvements in this area.

### Listen to staff feedback on how to support diversity and equality in how we do things

**52.** Every year we ask all staff to complete the Best Companies staff survey. Information from this staff survey is reviewed by an internal group where action for improvement is identified. For example, we have had a particular focus on well-being as a consequence of survey results. We also review information showing how we are performing on diversity and equality and we review our gender pay gap information. We will identify further actions to be taken and seek wider feedback from staff on relevant issues.

### Ensure staff feel that their wellbeing is a priority for Audit Scotland

**53.** All members of staff have discussions with their line manager every year about how their work is progressing and their development needs. The process is designed to encourage open, future focused conversations about development and ensure staff feel appropriately supported to carry out their work. Effective line management has been identified as a development need and we are currently working on our approach.

**54.** Audit Scotland has adopted the Healthy Working Lives framework and is using this to provide a series of activities and events focused on improving health and wellbeing at work. Our aim is to achieve the Silver Award by March 2020. Over the past two years, we have been raising awareness of our mental health and promoting activities to support this. This includes managing stress and mindfulness awareness sessions. Our Healthy Working Lives campaigns encourage staff to become more active through a step challenge, lunchtime walks, cycle to work

schemes and marathon relay teams. All staff have the opportunity to attend an annual wellness check with healthcare practitioners. These checks provide a review of physical and information on mental health. Over half of staff (58 per cent) attended wellness checks in 2017/18 and feedback to date has been largely positive. We will continue to focus on mental health over the next year. For example, we are looking at how we can better support colleagues with long-term medical concerns.

**55.** The Scottish Association for Mental Health (SAMH) is our charity partner and we will, where appropriate make use of any resources they can offer.

### Ensure there is a rigorous process for conducting EIAs when new policies are introduced, or existing policies are updated

**56.** Equality Impact Assessments (EIAs) are carried out to consider the impact that various policies, strategies, activities and approaches to audit work have on different groups, both within and outside the two organisations. EIAs are reviewed internally. All our EIAs are published on the Audit Scotland website. Examples include EIAs of:

- our new approach to Best Value auditing
- the refurbishment of our Glasgow office
- our pay policy
- our Career Development Gateway process.

### Ensure staff recognise that policies are written in plain language, adhere to current legislation and are accessible to all

**57.** As outlined above, all new or updated policies are subject to EIAs. We will continue to review policies and procedures, replacing or refreshing them as required. We train our staff to write in plain language and offer a bespoke training course. This helps ensure our reports are as clear and to the point as they can be.

### Operate a flexible approach to working practices

**58.** We introduced a more flexible approach to our working practices in 2017 with our Time Place Travel policy. This policy provides greater flexibility over place of work and individual working patterns. In July 2017, we asked staff for their views on how well this is working. The majority of staff feel that they have some degree of choice over where they work and their working pattern. The policy is seen as particularly supportive for those staff with caring responsibilities. Few staff reported a negative impact of the policy on themselves, their team or their client. The policy has now become standard working practice.

**59.** As part of our suite of family friendly policies we have a shared parental leave policy. We encourage all new parents to reflect on the policies we have in place to maximise their work life balance.

**60.** In addition to traditional office-based training, we are also offering more digital based learning and development opportunities, which staff can access in a way that suits their personal circumstances. For example, we are offering more 'how to' guides, recommending videos and online courses which can be accessed when and where is convenient for our staff.

### Ensure that the reward system is fair and the gender pay gap and equal pay review results confirm this

**61.** While equal pay for work of equal value is achieved through the use of our job evaluation system, our gender pay gap changes with the changing composition of our workforce from year to year. We published our gender pay gap information as at 31 March 2018 in March 2019. Our median gender pay gap is 7.96%. This is an increase from last year when it was 4.86% (the national median was 18.1% at that time). The movement is attributed to the fact that 12 of the 15 new trainees

recruited in 2017/18 were female. We are committed to further reducing the gender pay gap and a range of measures have been identified. Our Gender Pay Gap Report can be accessed [here](#).

**62.** We recruit new trainee auditors every year. After the 2017/18 intake, 57% of our professional trainees were female as at 31 March 2018. It is also noteworthy that 75% of Audit Scotland's current executive management team is female.

**63.** The most recent equal pay review was published in 2016 and can be found here ([weblink](#)). A refresh is currently underway with the findings scheduled to be finalised in April 2019 and published shortly after this date.

### Improve information on workforce by encouraging staff to disclose personal information

**64.** When recruiting new staff, all applicants are encouraged to fill out an equal opportunities monitoring questionnaire which includes age, gender, sexual orientation, disability, ethnic background, religion or belief, and marital or civil partnership status. The form is filled out voluntarily and is not part of the selection process. The information provided is confidential and only viewed by members of the Human Resources team. This information can help the organisation respond to the needs of minority groups. For example, all new staff are asked to state whether they consider themselves as having a disability or not, so that reasonable adjustments can be put in place if required. All employees are asked to update this information annually. This is voluntary and not all staff choose to disclose all this information. Employees can update information on their protected characteristics electronically at any time.

**65.** We have a statutory duty to publish a report on employee information every two years but we publish this information every year. Our last [Annual Diversity Report](#) was published in June 2018. It provides detailed commentary about the diverse characteristics of employees and information on the recruitment, development and retention of employees. The report highlights progress we have made and the impact new initiatives are having in supporting equality and diversity. The next report is scheduled for publication in June 2019.

### Improve recruitment and selection processes in response to feedback and increasing the number of job applications from people in under-represented groups

**66.** We advertise our vacancies using both mainstream and specialised job boards, along with advertising generally in disability and lifestyle publications.

**67.** We asked for feedback on our recruitment process at the end of 2018, following a number of recruitment campaigns. Most respondents said it was a positive experience and they generally formed a good impression of Audit Scotland from initial contact onwards. Feedback is routinely gathered every three months in relation to our recruitment and new start processes.

**68.** In 2018, we refreshed our recruitment and selection training. The training gives an overview of the full recruitment process including legislative and equality requirements across all stages of the process from the initial advert to appointment. To get the most from this training we also ask delegates to self-reflect on how confident they are in their ability to recruit the right people and how confident they are in challenging colleagues who hold views that differ from theirs. We also direct people carrying out recruitment to a range of videos, TED talks and on-line training covering topics such as unconscious bias prior to the training.

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# Looking forward

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## Equality outcomes 2017-19

69. The following [equality outcomes](#) were published in 2017. Outcomes tend to be set for a four-year period in recognition that it takes time for them to be fulfilled. These outcomes have been subject to review and are considered as appropriate to continue for the next two years:

### The vision for Audit Scotland

To be a world class audit organisation that improves the use of public money

#### This vision will be supported through equality outcomes:

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1. Audit work will reflect how public services meet the diverse needs of all citizens and communities.

This will be done by:

- consulting with stakeholders on how to reflect equality and diversity in audit work
- ensuring that staff are sensitive to the diverse needs of stakeholders when performing audit work
- analysing data to help understand who uses public services and use this to inform audit work
- reflecting equality and diversity issues in audit work programmes, in a way which is consistent with the audit duties
- publishing information and reports in formats that are accessible to all
- reporting audit findings in a style that reflects the audience
- reporting on diversity and equality issues where appropriate
- supporting other public bodies in their scrutiny of diversity and equality.

2. Audit Scotland will promote, understand and support a diverse and inclusive workforce.

This will be done by:

- having a culture where people feel valued and where they are treated with equity and fairness
  - seeking feedback from staff on how the organisation can support diversity and equality in how things are done
  - supporting the wellbeing of staff
  - ensuring policies are written in plain language, adhere to current legislation and are accessible to all
  - ensuring key policies are subject to a rigorous equality impact assessment
  - ensuring a flexible approach to working practices
  - continuing to monitor against the Audit Scotland equal pay statement and ensure reward strategies are fair
  - encouraging staff to disclose personal information to improve the extent of workforce information
  - looking at ways to attract those from under-represented groups
  - continuing to monitor recruitment and selection processes and implement improvements in response to feedback.
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## Our new outcome

### Background

**70.** The public sector landscape continues to change, with an increasing focus on how public services support improved outcomes for Scottish citizens. A new National Performance Framework has been in place since June 2018, which includes eleven high-level outcomes for Scotland. Two of these outcomes relate to human rights and inequalities:

- We respect, protect and fulfil human rights and live free from discrimination
- We tackle poverty by sharing opportunities, wealth and power more equally.

**71.** These outcomes will be affected by the way public services are funded and delivered. At a Scottish Government level, new financial powers are now operating, including increased tax raising powers, a new budget process and a new Social Security Agency. Locally, the integration of health and care services and citizen involvement in decision-making aims to deliver services differently in the context of increasing demand pressures.

**72.** Audit Scotland's Management Team hosted an internal 'Equalities Summit' in January 2018 and agreed to include consideration of both human rights and socio-economic inequality within the EHRSG remit. A workshop was held with representatives from throughout Audit Scotland, entitled "Putting people at the heart of audit". The result of those discussions was the establishment of two internal short life working parties to address the two areas.

**73.** The working parties have given due consideration to:

- the definition of both topics, as interpreted by the United Nations and the European Commission, respectively;
- the interaction of these topics by the Scottish Parliament;
- the introduction of the Fairer Scotland Duty, which came into force on April 2018;
- the National Performance Framework.

**74.** The principles of human rights, such as participation and accountability feature in the work of the Accounts Commission and Audit Scotland. Similarly, consideration of the presence and impact of socio-economic inequality has featured in several local government reports ([Case study](#)).

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## Case study

[Local government in Scotland – Challenges and performance 2019](#), March 2019

The overview set out two questions focused on inequality: what pressures councils face from demographic change, health and social inequalities; and how well are councils focusing on empowering communities to address inequality and improve inclusion. The report provides a high-level public commentary that states that:

- There needs to be a focus on how services are best delivered to communities and, in particular, how councils protect and empower the most vulnerable members of those communities.
- The number of people living in poverty has increased, putting additional pressure on council services.
- Most councils have a strategic focus on reducing inequality within their communities.

- In terms of Community Empowerment, councils are engaging with communities but there is less evidence of successful engagement with people from deprived areas.
- Councils need to be aware that in implementing digital transformation it is often the most vulnerable within society who have the greatest need for council services but who are least able to access them digitally.

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### Outcome to address human rights and socio-economic inequality through our audits

**75.** The purpose of a specific human rights and socio-economic inequality outcome is to focus and align the work of the EHRSG to ongoing audits, giving clearer consideration to how it is affecting people and services.

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#### 3. In our audit work we will reflect, where appropriate, on how public bodies address human rights and socio-economic disadvantage.

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This will be done by:

- reviewing information on the profile of the Scottish population and the people who make use of public services considering how this informs our understanding of human rights and socio-economic disadvantage issues and how this influences our audit work programme
  - reviewing evidence about how public bodies are delivering services and consider the needs of different user groups when budgeting, planning and organising services
  - taking an outcome focussed view as to what budgets aim to and have achieved over the long term
  - reviewing the appropriateness of a [human rights-based approach](#) and its applicability to audit work
  - encouraging staff to adopt the PANEL principles employed by the Scottish Human Rights Commission: Participation, Accountability, Non-discrimination and equality, Empowerment of rights holders, Legality of rights.
  - training and providing support to colleagues through the EHRSG and internal communications
  - consulting with stakeholders such as those on the EHRAG.
- 

**76.** We have begun engaging with staff on this topic by hosting a workshop, with the participation of the Scottish Human Rights Commissioner, on embedding human rights considerations in our audit work at the Annual Audit Conference that was held in January 2019. In advancing this outcome we will be cognisant of resources available and prioritise as appropriate. Our next progress report will be published in April 2021 and will include progress against these three outcomes.

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# Appendix 1.

## Equality and Human Rights Advisory Group members

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Age Scotland



Close the Gap

Close the Gap



Council of Ethnic Minority  
Voluntary Sector  
Organisations (CEMVO)  
Scotland



Enable Scotland



Interfaith Scotland and the  
Edinburgh Interfaith  
Association



Mental Welfare Commission  
for Scotland (MWC)



Minority Ethnic Carers of  
People Project (MECOPP)



Saheliya



Scottish Secular Society



Scottish Trades Union  
Congress (STUC)



Scottish Trans Alliance



**SEEME Scotland**

# Appendix 2.

## Meeting the specific duties of the Equality Act

Duty	Equality Act reference	Summary of requirements	Frequency	Last published
Mainstreaming progress	Section 3	Publish a report on the progress made to make the equality duty integral to the exercise of functions	At least every 2 years	This report April 2019
Equality outcomes	Section 4(1)&(2)	Publish a set of equality outcomes having involved protected characteristic groups/ individuals and used available evidence	At least every 4 years	April 2017
Progress against equality outcomes	Section 4 (1)&(2)	Publish a report on the progress made to achieve the equality outcomes	At least every 2 years	This report April 2019
Equality Impact Assessments	Section 5	Conduct EIAs for new/revised policies and publish these	Ongoing	Ongoing on our website
Gather and use employee information	Section 6 (1)&(2)	Gather information on staffing mix & recruitment, development & retention against protect characteristics	Annual	June 2018
Include employee information in mainstreaming report	Section 6 (3)	Include employee information and progress made in gathering & using this in mainstreaming report (if not published previously).	At least every 2 years	Diversity report June 2018
Gender pay gap information	Section 7	Publish percentage difference between hourly pay rates for men and women	At least every 2 years	Annually March 2019
Statement on equal pay policy and occupational segregation	Section 8	Publish equal pay policy and analysis of employment by grade/role for gender, disability & race	At least every 4 years	Equal Pay Review February 2017

# Mainstreaming Equality and Equality Outcomes

## Progress report 2017-19

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)

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## Purpose

1. This report provides the Board with an update on the strategic improvement programme 2018-21, the priority digitally enabled projects for 2019/20 and the performance management framework project.

## Background

2. The [Corporate Plan 2018-21](#) sets out our strategic priorities for the period 2018-21. The priorities are expressed in terms of:
  - audit priorities (financial management and governance, devolved financial powers, the fiscal framework and social security, support for parliamentary scrutiny, preparedness for EU withdrawal and service delivery and public sector reform)
  - organisational priorities (delivering world class audit, making a difference, being a better organisation).
3. The audit priorities are principally covered through the audit work. The organisational priorities are covered by the strategic improvement programme. Some audit priorities (most notably the audit work around devolved financial powers and social security) also feature in the strategic improvement programme, as they are developmental in nature.
4. The Management Team and the Board receive update reports each quarter on the key projects in the improvement programme.
5. In November 2018 the Audit Committee considered a [report](#) on the strategic improvement programme and a [programme summary](#). In addition to the audit work and improvement projects noted above, the report also highlighted where ongoing work by corporate working groups or professional leads from the Leadership Group supports the delivery of the strategic objectives.

## The strategic improvement programme

6. The majority of the improvement projects (summarised in appendix 1) are progressing to schedule.
7. The programme includes a number of digitally enabled projects. Though termed 'digitally enabled', it is important to note that the projects all seek to deliver organisational benefits through efficiencies, support for flexible working, ownership and culture change.
8. Some aspects of the programme, including some of digitally enabled projects, have proven more challenging on the basis of changing circumstances and interdependencies. These include:
  - the need to migrate the CentralTime Time Recording, e-HR systems and the Navision finance system to a new server to maintain security
  - changes to software licensing models and the consequential impact on costs
  - the interdependency of the Performance Management Framework (PMF) project on other systems to provide the data for the dashboards and performance reports

- the need to consider options for a new Electronic Working Papers (EWP) system to support the audit work
  - the resources available to progress these projects alongside the ongoing implementation of other digitally enabled projects and core work.
9. Management Team discussed these challenges and agreed the prioritisation and scheduling of a number of projects at its meeting on 12 March 2019.
10. The prioritisation criteria for the digitally enabled improvement projects are:
- ensuring business continuity and ‘business as usual’
  - system security and resilience
  - the scale of the project, including number of system users and the resources required (business group input, digital development and financial)
  - benefits and added value
  - risks (around implementation and non-implementation)
  - ‘hard deadlines’ (those which are external/ outwith our control) and ‘softer’ deadlines (those where we have some discretion).

## Priority projects

11. Using the criteria above Management Team agreed to prioritise the following digitally enabled projects. Appendix 2 provides more information on the main drivers, timescales, resources and next steps for these projects.
- upgrade of CipHR e-HR system
  - upgrade of Navision Finance System
  - time Recording (TR) System – migration to new server
  - TR system – new system and move to a single system for the whole organisation
  - Performance Management Framework (PMF)
  - Office 365 (SharePoint Online)
  - Electronic Working Papers (EWP) audit system.
12. The first three of the above have a hard deadline and are being prioritised in the period to July 2019.

## System upgrades and migration

13. Currently the e-HR, Navision and CentralTime TRS systems are hosted on a database server version which will no longer be supported by Microsoft beyond July 2019. This represents a digital security risk to business-critical systems. We are currently engaging with CipHR (e-HR) and Turnkey (Navision) to upgrade and migrate these systems onto a new server by July 2019.
14. The upgrades to e-HR and Navision are being done under existing contract arrangements and costs are covered within existing budgets.

15. The CentralTime TR system is a legacy system which does not have an ongoing maintenance contract. Migration to a new server costs will be limited to digital services developer time and from within existing budgets.

#### **Time recording – replacement system**

16. Alongside the system migration we are progressing two options for a replacement time recording system. Currently, ASG colleagues record time and expenses in a module of the MKI audit system and PABV colleagues use the CentralTime TR system. We are committed to moving to a single TR and expenses system. Our original plan was that all colleagues would move to the MKI system, however we subsequently identified that the licensing costs of this approach would be prohibitive.
17. We have therefore been carrying out a market analysis of 'off the shelf' solutions and at the same time we have developed a prototype TR and expenses system. Management Team will consider recommendations on the options in May 2019.
18. The new TR solution will be implemented for CentralTime TR users by October 2019 (following a period of parallel running). We will then consider rolling out the solution to MKI TR users over the remainder of 2019/20.

#### **Performance management framework**

19. The PMF system development (performance reports and dashboards) will take place following the migration and upgrades outlined above. This ensures that the development work to extract data would be done on the upgraded systems and minimises the need for re-working.
20. We will continue using existing systems and performance reporting arrangements in the meantime. These exist at business group level as well as the corporate reporting to Management Team and the Board. The Audit Committee will consider an annual report on the performance management arrangements at its meeting on 22 May 2019.
21. Further detailed information on the PMF project is in paragraphs 29 to 37 below.

#### **Office 365 (SharePoint Online)**

22. The Office 365 project has been running since April 2018. To date it has delivered cloud-based versions of Outlook, Office 2016 suite, OneDrive and new Microsoft applications such as Yammer, Forms and Flow.
23. One major workstream of the project is the migration of the main file storage system to SharePoint online. This cloud-based solution offers significantly enhanced security, flexibility and functionality.
24. We are also well under-way in designing and implementing this workstream. Some team sites have already been migrated to the cloud and further migration will take place on a phased basis during the remainder of 2019.

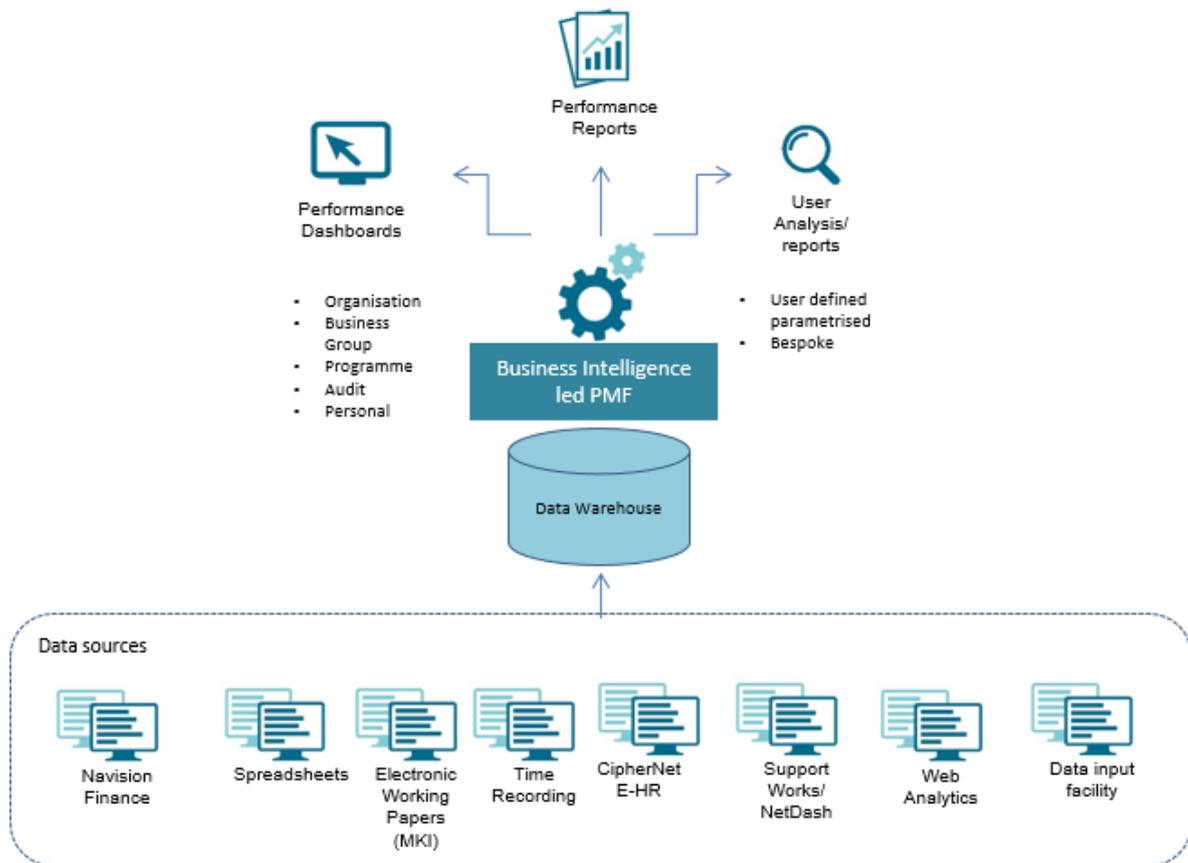
#### **Electronic Working Papers (EWP)**

25. The core system for the financial audit work is an electronic working papers system called Morgan Kai Insight (MKI). This has been the primary audit tool used by ASG since 2010. In September 2018 the Morgan Kai Group Ltd was acquired by Ideagen, the supplier of 'Pentana Audit' software. Ideagen has advised it that it plans to converge the two software solutions and issue a new product Pentana v7.0 in 2020.
26. Colleagues from ASG and Digital Services attended a webinar hosted by Ideagen in February 2019. It was clear from the webinar that the key audit functionality in Pentana V7.0 will look significantly different to what ASG MKI users are familiar with. This would, to all intents and purposes, be a new product rather than an upgrade.

27. We are therefore in the process of initiating a project to procure a new EWP system. The project offers the opportunity to consider a single EWP audit tool for all of the audit work (financial, best value and performance audit) and be used by all auditors.
28. This will be a major project and a project planning workshop is scheduled for 8 May. This will form part of the project initiation process and consider a broad range of issues including; the user and technical requirements, market and financial analysis, the procurement process, timescales and project governance and resourcing.

### **The performance management framework project**

29. In February 2018 Management Team considered reports on the reviews of our performance management arrangements (including external consultancy work carried out by Rocket Science/StormID), how we use our time and proposals for the development of a new business intelligence led model for the PMF.
30. Taking the conclusions and recommendations from the reviews together, Management Team agreed the recommendations to:
  - implement a new single integrated TR system for the whole of the organisation
  - develop the PMF using a Business Intelligence (BI) led approach.
31. The key benefits of this integrated solution are:
  - a new, easier to use TR system which reinforces the one organisation ethos and provides more accurate TR and cost data
  - more transparent, timely and accurate performance data which better supports analysis and actions and forecasting
  - a suite of performance dashboards, including a personal dashboard which makes performance management everyone's business, supports a performance management culture and offers a valuable tool for all colleagues
  - flexibility around the data we collect, how we analyse and report it and how we develop it over time
  - a more efficient and streamlined performance management process which is less labour intensive
  - increasing colleagues' familiarity with, and use of, an analytics product which, while initially focussing on PMF, can also be used for audit and data analytics.
32. The BI led approach to performance management is based on extracting data from a number of systems, structuring the data in the data warehouse and making it available to support performance dashboards, performance reports and performance data analysis. This is shown diagrammatically below.



33. The project has encountered some challenges and Management Team considered update reports on these at its meetings on 20 December 2018 and 19 February 2019. The main challenges have been:

- the dependence of open access to the data from other systems
- licensing costs (the MKI TR module referenced above and changes to Microsoft licensing models)
- the need to prioritise other digitally enabled projects (outlined above)
- pressures on the time of the project team members.

34. We carried out a project review in January 2019, this considered the lessons learned from the project to date and the options for implementation. The review was reported to Management Team in February and found:

- the design of the BI solution contains interdependencies, but the original design concept remains the best solution
- issues around the MKI TR and expenses functionality and licensing costs could have been identified and escalated earlier in the process
- changes to the Microsoft licensing model could not have been accurately predicted earlier in the process

- the project team exhibited some optimism bias, drawn from a desire to deliver a good solution
- project team members have struggled to devote sufficient time to the project due to competing priorities
- the project team could have engaged with Management Team in a more timely way when the challenges arose.
- the project experienced multiple challenges simultaneously.

**35.** The project review also found:

- beyond the expenditure on Rocket Science/Storm ID and the time input by members of the project team there has been limited expenditure
- there are no 'sunk costs' as the work carried out to date (reviewing TR codes and KPIs, mapping data sources and developing outline designs for dashboards) remains valuable to the next stages of the project
- the decision to stage communications based around the achievement of milestones has meant that expectations in the wider organisation have been managed
- the current performance management and reporting arrangements are fit for purpose (if not optimal)
- the cost of the proposed solution(s) remains lower than the enterprise and off the shelf PM software solutions.

**36.** These lessons will inform the design and delivery of the implementation phase of the project in the period July 2019 to March 2020.

**37.** Further updates will be provided through the quarterly strategic improvement programme updates to the Management Team and Board.

## **Recommendations**

**38.** The Board is invited to note:

- progress on the strategic improvement programme overall
- the priority digitally enabled projects for 2019
- the rescheduling of the next phase of the performance management framework project.

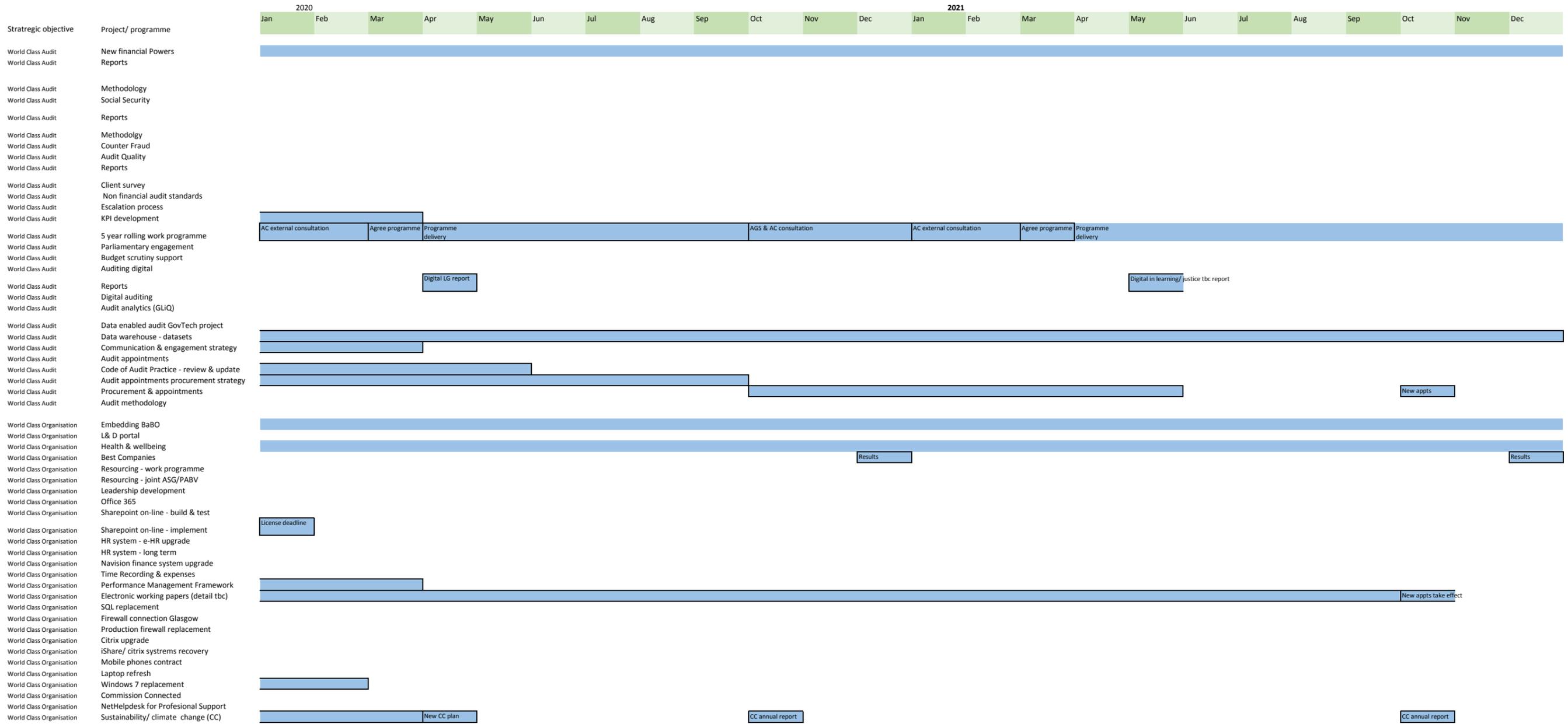
Appendix 1 – Strategic Improvement Programme - [link](#)

Appendix 2 - Priority digitally enabled projects 2019

Project	Objectives	Timescales	Scale (impacts on)	Risks	Resourcing	Comments
e-HR system upgrade & migration	Resilience & security Improved functionality Data feed to PMF	Mar – July 19	HR team core users All colleagues	System security/ resilience if not actioned Hard deadline	HR team (system testing) Dev team (upgrade and support) Financial: £9500 (budget covered)	Current supplier contract expires 03/20 Plans for 2019/20 include: - assess additional e-HR modules re training & recruitment - market analysis of alternative products (some work done on this already)
Navision finance upgrade & migration	Resilience & security Improved functionality Data feed to PMF	Mar – July 19	Finance team	System security/ resilience if not actioned Hard deadline	Dev team (upgrade) Finance team (testing) Financial: £21000 (budgeted covered)	
Time Recording & expenses	Resilience & security Improved functionality inc. mobile Data feed to PMF	Mar – Oct 19	CentralTime users in phase 1. MKI TR users – phase 2	System security/ resilience of not actioned Hard deadline	Dev team (app build) PMF team & finance (test) Financial: solution dependant - CTTR £0 - In house TR £10,000 approx. - Off the shelf TR in the range £9,000-32,000	Options are: - CentralTime migration (contingency) - In-house tool using MS PowerApps - 'Off the shelf' product Phase 1 = existing CentralTime TR, phase 2 = MKI users (timing tbc with ref to audit year)
Performance Management Framework	Performance culture through accessible timely performance data Greater analysis of data Streamlined performance reporting	July 19 – Mar 20	PMF team (spec and test) All colleagues benefit from dashboards and reports	Existing arrangements are contingency Reputational (delayed delivery)	PMF project team (spec, comms, testing) Dev team (database, interfaces, dashboard n& report build) Financial: £34500 (Power BI licensing):	Dependency on above projects (data and development resources) Discretion re deadline Phased roll out of dashboards, reports and user analytics tool Power BI for other analytics activity
Office 365 (SharePoint Online)	Secure, resilient and flexible access to files/ information (inc. mobile)	Ongoing – Dec 19	All colleagues	MS licensing costs if deadline missed	O365 project board/team in place Business group resources to inform design of sites File transfer process resources being assessed	Project well under way, some team and audit sites already on SP on-line platform Additional resources requested (MT report 12/03/19)
Electronic Working Papers	Review required as MKI changing under new ownership	tbc	All existing MKI users Potential re other audits	Core audit system	Significant resource requirement – principally from business groups (user spec, market analysis, options appraisal, procurement, testing, training, implementation)	UK audit agencies & Ideagen meetings 04/19 Current (new) product timelines Audit appointments rotation and procurement timetable



Strategic Improvement Programme



## Strategic Improvement Programme

Strategic objective	Project/ programme
World Class Audit	New financial Powers
World Class Audit	Reports
World Class Audit	Methodology
World Class Audit	Social Security
World Class Audit	Reports
World Class Audit	Methodolgy
World Class Audit	Counter Fraud
World Class Audit	Audit Quality
World Class Audit	Reports
World Class Audit	Client survey
World Class Audit	Non financial audit standards
World Class Audit	Escalation process
World Class Audit	KPI development
World Class Audit	5 year rolling work programme
World Class Audit	Parliamentary engagement
World Class Audit	Budget scrutiny support
World Class Audit	Auditing digital
World Class Audit	Reports
World Class Audit	Digital auditing
World Class Audit	Audit analytics (GLIQ)
World Class Audit	Data enabled audit GovTech project
World Class Audit	Data warehouse - datasets
World Class Audit	Communication & engagement strategy
World Class Audit	Audit appointments
World Class Audit	Code of Audit Practice - review & update
World Class Audit	Audit appointments procurement strategy
World Class Audit	Procurement & appointments
World Class Audit	Audit methodology
World Class Organisation	Embedding BaBO
World Class Organisation	L& D portal
World Class Organisation	Health & wellbeing
World Class Organisation	Best Companies
World Class Organisation	Resourcing - work programme
World Class Organisation	Resourcing - joint ASG/PABV
World Class Organisation	Leadership development
World Class Organisation	Office 365
World Class Organisation	Sharepoint on-line - build & test
World Class Organisation	Sharepoint on-line - implement
World Class Organisation	HR system - e-HR upgrade
World Class Organisation	HR system - long term
World Class Organisation	Navision finance system upgrade
World Class Organisation	Time Recording & expenses
World Class Organisation	Performance Management Framework
World Class Organisation	Electronic working papers (detail tbc)
World Class Organisation	SQL replacement
World Class Organisation	Firewall connection Glasgow
World Class Organisation	Production firewall replacement
World Class Organisation	Citrix upgrade
World Class Organisation	iShare/ citrix systems recovery
World Class Organisation	Mobile phones contract
World Class Organisation	Laptop refresh
World Class Organisation	Windows 7 replacement
World Class Organisation	Commission Connected
World Class Organisation	NetHelpdesk for Profesional Support
World Class Organisation	Sustainability/ climate change (CC)

## Purpose

1. This report provides an update to the Board on recent activity and developments concerning the audit market and audit regulation. It follows previous papers to the Board on 28 September 2018 on [Audit quality and reputational risk](#) and on 29 January 2019 on [Review of regulator/Audit market study](#).

## Background

2. A range of activity and reviews have been undertaken in the past year in response to corporate failures and audit quality issues in the wider audit market. The activity has focused on:
  - the effectiveness of regulation: the Kingman Review of the Financial Reporting Council (FRC). The [report](#) from this review was published in December 2018 and in March 2019 the UK Government's Department for Business, Energy and Industrial Strategy (BEIS) issued a [consultation paper](#) to take forward the recommendations from the Review
  - market concentration and lack of competition in the corporate audit market: Competition and Markets Authority (CMA). The CMA published an initial [report](#) in December 2018 outlining preliminary views and, following a period of consultation, published its [final summary](#) report and recommendations on 18 April 2019
  - the purpose and scope of audit: the Brydon Review. In December 2018 the Secretary of State for BEIS invited Sir Donald Brydon to conduct a review into the quality and effectiveness of audit. A final report is expected by the end of 2019 and the Government plans to consult on its response to the review's recommendations.
3. The House of Commons Business, Energy and Industrial Strategy Committee has also conducted a wide-ranging inquiry on the future of audit. The aim of the inquiry was to examine how the Kingman, CMA and Brydon reviews would complement each other, given the obvious links between the quality of audit product, audit regulation and the health of competition. The Committee published its [report](#) on 2 April 2019.
4. All of these reviews and inquiries largely concern audit in the corporate sector, particularly public interest entities (companies listed on the stock exchange). However, some of the considerations and recommendations have possible read-across to our Scottish public sector audit model. These are considered towards the end of this paper.

## Government Response to Kingman Review of FRC

5. The Kingman Review recommends that the FRC be replaced with an independent statutory regulator, accountable to Parliament, with a new mandate, clarity of mission, leadership and powers. The new regulator would be called the Audit, Reporting and Governance Authority. The report sets out 83 recommendations, many of which are concerned with how the new regulator should operate in practice. Although predominantly focused on the commercial sector, some of the recommendations relate to local audit in England and these were summarised in my report to the Board in January 2019.
6. The BEIS consultation paper welcomes the vision for a new regulator and states that many of the Review's recommendations will be adopted by the FRC without delay. Some recommendations, however, require primary legislation and others involve significant policy choices in deciding how to implement them. The consultation, which closes on 11 June 2019, focuses on these areas.
7. The response to the recommendations with most relevance to our arrangements are summarised in the following table:

Kingman Review recommendation	BEIS response
<p>The FRC should be replaced with a new independent regulator named the Audit, Reporting and Governance Authority (the ARGA).</p>	<p>The Government welcomes all the Review's recommendations to establish a new, enhanced regulator. Taking these forward will require primary legislation, which the Government will introduce as soon as Parliamentary time allows.</p>
<p>The ARGA should work towards a position where individual audit quality inspection reports, including gradings, are published in full. As an interim step, the reports should be published on an anonymised basis.</p>	<p>The FRC will immediately take forward the recommendation to publish anonymised reports. The Government will work with the FRC/ARGA to develop an appropriate way forward for publishing the full reports.</p>
<p>Key audit matters should be reported by auditors as 'graduated' audit findings (eg. describing an estimate as being cautious, balanced or optimistic).</p>	<p>Careful consideration will be needed to ensure that graduated audit findings promote positive actions from audit firms and improve the quality of audits. The Government will consult on proposals in due course.</p>
<p>The arrangements for local audit in England need to be fundamentally rethought to ensure they:</p> <ul style="list-style-type: none"> <li>• Deliver robust scrutiny of audit quality, with individual reports shared with audit committees and published.</li> <li>• Bring together in one place all the relevant responsibilities, so a single regulatory body can take an overview.</li> </ul> <p>Such a role should be undertaken by a separate body with deep expertise in local audit. It should have a clear objective to secure quality and take on responsibility for appointing auditors for local bodies, agreeing fees and preparation of the Code of Audit Practice.</p> <p>The Government should review whether the arrangements now in place for other public sector audits, such as Foundation Trusts, are genuinely robust and effective.</p>	<p>The recent changes to oversight and procurement of local audit are still bedding in, and the Government will review their effectiveness once evidence is available.</p>
<p>The ARGA's individual audit quality reviews in relation to the NAO should be shared with the relevant audit committee and Parliament and should be published.</p> <p>All financial audits in scope of the NAO should be brought within ARGAs audit quality monitoring scope, and not only at the discretion of the C&amp;AG.</p>	<p>These are matters for Parliament to consider given the NAO's independence from Government.</p>

## Competition & Markets Authority Final Report

8. The CMA's final report on their study of the statutory audit services market concentrates on the following key issues:

- shortcomings in audit quality
- audit committees are only a partial solution to the problem of companies playing the primary role in selecting their own auditors

- a fragile audit market with high barriers to entry, which lacks resilience and choice
- firms are less and less focused on audits.

9. To address these concerns, the CMA makes four main recommendations to the Government:

- Robust regulatory oversight of the (audit) committees that run the selection process for audited companies, and oversee the audit, to make them more accountable and ensure that they prioritise quality. The ARGA should mandate minimum standards for both the appointment and oversight of auditors, monitor compliance with these standards and take remedial action where necessary. The CMA also states that selection of auditors by an independent body is worth keeping under consideration in the long term.
- Mandatory joint audit for FTSE350 companies, to increase the capacity of challenger firms, to increase choice in the market and thereby drive up audit quality. There should be initial limited exceptions to the requirement, based on criteria set by the ARGA - mainly the largest and most complex companies. Any company choosing a sole challenger auditor should also be exempt. Audits of exempt companies may be subject to rigorous, real-time peer reviews commissioned by and reporting to the ARGA.
- An operational split between the Big Four's audit and non-audit businesses, to ensure maximum focus on audit quality. This should initially apply to the Big Four and involve a separate Chief Executive and board, separate financial statements, no profit sharing between the audit practice and non-audit practice and remuneration and career progression strongly linked to audit quality. The CMA also support a 'cooling off' period at the end of an audit, during which the firm would not be allowed to carry out any non-audit work.
- A five-year review of progress by the ARGA to examine the effectiveness of changes. This review should re-consider the merits of moving to independent appointment of auditors, the possible need for a full structural split between audit and non-audit services and how to fine-tune joint audit to adapt to market developments.

## Brydon Review

10. The Brydon Review has been commissioned in response to a perceived widening of the 'audit expectations gap' between what users expect of an audit and the reality of what an audit is and what auditors' responsibilities entail. Its objectives include consideration of:

- the needs and expectations of users of financial and non-financial corporate reporting
- how far the audit process and product may need to improve and evolve to meet the needs of users and to serve the wider public interest
- what specific changes to the statutory audit model and wider regulatory framework for audit may be needed to deliver this, including any changes to company law
- whether other forms of business assurance should be developed or enhanced to enable shareholders and other stakeholders to assess better the future financial prospects and sustainability of companies.

11. Sir Donald Brydon has also signalled that he will consider the analysis and recommendations made in the BEIS Parliamentary Select Committee Report of 2 April 2019.

12. The Review launched an initial [call for views](#) on 10 April 2019, with a closure date of 7 June. Further calls for views are expected as the Review progresses. The scope of this initial consultation is summarised below:

<b>Definitions of audit and its users</b>	Considers for whose benefit audit should be conducted, its value to users and whether an audit should enhance confidence in the entity or just in the financial statements.
<b>The expectation gap</b>	Considers if there is an expectation gap and what it is. It also covers whether there is a significant 'delivery' or 'quality' gap between existing responsibilities and how they are currently met.
<b>Audit and wider assurance</b>	Looks at the role of audit within wider assurance that companies are expected to provide on management of the business and key risks. Views are sought on whether external auditors should make greater use of the work of internal auditors and whether there should be a role for external audit in assessing directors' disclosures in areas beyond the financial statements. It also highlights how the use of experts from other professions might lead to more effective assurance.
<b>Scope and purpose of audit</b>	Seeks views on various changes to the scope and purpose of audit that have been suggested as a means of helping to address the expectation gap. Areas covered include an expanded role in assessing internal controls, whether the regulatory framework relating to going concern is fit for purpose and the case for a more forward-looking audit.
<b>Audit product and quality</b>	Questions the binary nature of audit opinions and looks at the possibility of graduated findings. It also asks if the current regulatory assessment of quality drives particular and possibly sub-optimal behaviours by auditors (a focus on 'completing the file').
<b>Legal responsibilities</b>	Seeks views on the interplay between audit and the legal responsibilities of directors particularly related to distributable reserves, but also considering the duty to maintain adequate accounting records.
<b>Communication of audit findings</b>	Looks at how the auditor's report is communicated and how this might be improved. It asks how greater transparency can be provided about the audit process and the auditor's judgements.
<b>Fraud</b>	Asks whether it is reasonable and feasible to expect auditors to play a greater role in detecting material fraud. This includes whether auditors should be required to evaluate an audited body's systems to prevent and detect fraud.
<b>Auditor liability</b>	Looks at the auditor's liability for costs or damages and how this might limit the scope of audit.
<b>Other issues</b>	Considers the role of technology in audit, proportionality of audit, shareholder engagement with audit, reporting on culture, the cost of audit.

13. We propose to respond to this consultation and take the opportunity to demonstrate that the wider scope of Scottish public sector audit already meets many of the issues being considered by Brydon. For example, the current Code of Audit Practice already requires auditors to offer foresight on financial sustainability, risk and performance and requires auditors to make judgements on financial sustainability that extend far beyond the going concern concept. Auditors are already required to evaluate an audited body's systems to prevent and detect fraud and arrangements for governance and transparency, which includes leadership, scrutiny and internal controls.
14. There are other areas flagged by Brydon we will want to give further consideration, particularly as we begin to develop a new Code of Audit Practice. These are highlighted later in this paper.

## BEIS Report on the Future of Audit

15. The BEIS Parliamentary Select Committee report is wide-ranging and covers many of the issues also considered/being considered by Kingman, the CMA and Brydon such as the effectiveness of audit, conflicts of interest and auditor independence, competition and market resilience and regulation.
16. On regulation, the Select Committee's recommendations go further than the Kingman Review and the BEIS consultation paper. Their recommendations include that:
  - the FRC/ARGA should make reporting graduated findings mandatory. Graduated findings are where the auditor expresses an opinion on key management estimates and judgements in the accounts, describing them on a range from cautious to optimistic
  - audit quality reports should be published in full, but not anonymised even in the first instance
  - the Government and the ARGA should make further recommendations to tighten the UK dividend regime
  - the FRC/ARGA should require greater reporting on audit fees, potentially including the disclosure of audit hours, staff mix and rate per hour. Auditors should also report instances where they have performed additional procedures but have been unsuccessful in increasing their fee
  - the ARGA should inspect firms' audit software to ensure that it is sound and that the audit trail cannot be tampered with.
17. Similarly, the Select Committee's recommendations on auditor independence, competition and audit market resilience take a stronger line than some of those in the CMA's final report:
  - the CMA should aim for a full legal separation between the audit and non-audit arms of firms, but at the very least there should be an operational split
  - the ARGA and the CMA should consider the potential independent appointment of auditors with a view to developing it as a viable option if other remedies and reforms fail
  - joint audits should be piloted in the upper reaches of the FTSE100, in conjunction with a market cap (i.e. a limit for the Big Four firms) for the rest of the FTSE350
  - the CMA should revisit increasing the frequency of audit rotations, which should be reduced to seven-year non-renewable terms that can only be terminated in exceptional circumstances
  - the CMA should consider a cooling-off period of three years where non-audit services cannot be offered after an audit engagement has ended
  - the CMA should work with the ARGA to draw up proposals to mitigate the consequences of an audit market failure, especially if it involved one of the Big Four.
18. The Select Committee report also feeds into the Brydon Review by recommending that:
  - the detection of fraud should be a priority within an audit and auditors must demonstrate how potential fraud has been investigated
  - the Review considers how the scope of audit might be widened to give the auditor more opportunities to express forward-looking opinions
  - the Review considers extending the scope of audit to cover the entire annual report with different levels of assurance and reporting. Critical areas such as corporate governance and payment practices ought to be subject to a robust assurance process and meaningful reporting by the auditor.

## Issues for Audit Scotland to Consider

19. Many of the proposed changes to the regulation of, and market for, audit are already fundamental features of the Scottish public-sector audit model. There are, however, some areas to consider further as we plan for the next audit procurement round, the new Code of Audit Practice and update of the quality framework.

### Procurement

- joint audit for the largest bodies (although this is intended to solve a problem that we do not have of lack of competition in the market)
- a cooling off period at the end of an audit appointment during which the firm would not be allowed to carry out any non-audit work. This is not currently a feature of our contracts with the firms
- additional disclosures on audit fees, such as audit hours, staff mix and rate per hour. This runs counter to efforts we have made in previous years to shift the focus from audit inputs to outputs and impact.

### Code of audit practice

- monitoring the Brydon Review as it progresses
- use of graduated findings. The Code requires auditors to make clear conclusions and judgements, but does not mandate graduated findings in the manner anticipated by the reviews
- expectations on forward-looking opinions. This is already a clear requirement of the Code, but worthy of review as Brydon progresses
- reliance on the work of internal audit
- expectations in relation to the detection of fraud.

### Quality

- publishing individual quality reports
  - transparency of the audit process and the auditor's judgements
  - external quality review of audit software to ensure it is sound and that the audit trail cannot be tampered with. This is not a feature of the quality reviews undertaken by ICAS at the moment.
20. Subsequent reports to the Board will consider these issues in more detail as the Audit Quality and Appointments team advance with the next audit procurement exercise and drafting a new Code of Audit practice.

## Recommendation

21. The Board is invited to consider and comment on this update paper.