

# Agenda

Wednesday 27 November 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
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## 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 September 2019 For approval
  8. Review of minutes: Audit Committee – 4 September 2019 For information
  9. Review of action tracker For information
- 

## Business management

10. 2019/20 Q2 Financial performance report For information
  11. 2019/20 Q2 Corporate performance report For information
  12. 2019/20 Q2 Strategic improvement programme update For information
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## Strategy and planning

13. EU withdrawal – verbal update For information
- 

## Governance

14. Review of standing orders 2019 For information
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## Conclusion

15. Any other business
  16. Review of meeting
  17. Date of next meeting: 29 January 2020
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## Items to be taken in private

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| <b>18.</b> 2020/21 SCPA Budget proposal   | For approval   |
| [Item to be taken in private to support the effective conduct of business, intended for future publication] |                |
| <b>19.</b> Audit quality framework review   | For approval   |
| [Item to be taken in private to support effective conduct of business, intended for publication]            |                |
| <b>20.</b> New audit appointments update  | For discussion |
| [Item to be taken in private to support effective conduct of business]                                      |                |
| <b>21.</b> Board development update   | For discussion |
| [Item to be taken in private to support effective conduct of business]                                      |                |

Wednesday 18 September 2019, 10.15am

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  
Stuart Dennis, Corporate Finance Manager  
Gayle Fitzpatrick, Corporate Governance Manager  
Rebecca Seidel, Audit Manager, Performance Audit and Best Value  
Mark Roberts, Audit Director, Performance Audit and Best Value  
Graeme Greenhill, Senior Audit Manager, Performance Audit and Best Value  
Ian Metcalfe, Corporate Governance Officer  
Robert Leask, Project Manager  
Simon Ebbett, Communications Manager

### 1. Welcome and apologies

The Chair welcomed members and attendees to the meeting in public of the Audit Scotland Board, the agenda and papers for which had been published on Audit Scotland's website on Monday 16 September 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 – verbal update

The Chair provided a verbal update on meetings with Caroline Gardner and Diane McGiffen on general business matters and a meeting with the Scottish Commission for Public Audit in relation to the recruitment of members to the Board in 2020.

The Board welcomed the update.

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

Caroline Gardner advised members of work related to the start of the Parliamentary session including meetings of the Public Audit and Post Legislative Scrutiny (PAPLS) committee which had considered briefings on the Colleges Overview (13 June 2019), Enabling Digital (27 June 2019), SPPA (5 September 2019), NHS Workforce (12 September 2019) and evidence sessions on Social Security (5 September 2019), Colleges Overview (12 September 2019).

Caroline invited members to note the number of Section 22 reports arising from this year's audits requiring additional work from audit teams. The Board noted that PAPLS had published its own report on key audit themes and Caroline advised she was meeting with the Convenor of PAPLS on 19 September 2019.

Caroline invited the Board to note her contribution to the Scottish Parliament's book to celebrate its 20<sup>th</sup> anniversary and highlighted key engagements including the meeting of the Chief Operating Officers of the UK Audit Agencies hosted by Diane McGiffen on 21 June 2019, the Performance Audit Forum meeting hosted by the Office of the Comptroller and Auditor General in Dublin and chaired by Fraser McKinlay on 21 June 2019 and of a meeting with Adrian Crompton, the new Auditor General for the Welsh Audit office hosted on 11 September 2019.

Caroline invited the Board to note that audit teams are currently involved in delivering Central Government audits by the end of September 2019, following the conclusion of Health audits in June 2019. Caroline advised the Board that Angela Cullen, Audit Director, Performance Audit and Best Value had left the organisation in the Summer and following a competitive recruitment process Mark Roberts and Gemma Diamond had been appointed on a job share basis to the role of Audit Director.

The Board welcomed the update, noted the continuing engagement with UK audit agencies and welcomed the appointment of Mark Roberts and Gemma Diamond to the Leadership Team.

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

Graham Sharp invited the Board to note that the Accounts Commission had considered Best Value reports on Clackmannanshire and Midlothian Councils (13 June 2019) and Perth and Kinross Council (August 2019) and advised of subsequent follow up visits to each of the Councils. The Commission also considered the joint Auditor General for Scotland and Accounts Commission report on Scotland's City Region and Growth Deals and advised of the session held with the Youth Scotland panel at which a number of Commission members had volunteered to be mentors for young people.

Graham advised the Board that the Accounts Commission had held their mid-year Strategy session on 11 September 2019 which had focused on audit risk and resource.

Graham invited the Board to note the Accounts Commission will be considering a report on Scottish Borders Council at its meeting on 9 October 2019 and highlighted the publication of the Strategic Scrutiny Group's principles for community empowerment briefing which had been well received across the public sector in advance of the publication of the National Scrutiny Plan.

Graham advised of a number of recent engagements including a meeting with COSLA, attendance at the SOLACE conference and forthcoming attendance at the Local Government Committee on 25 September 2019 and a meeting with the Chair of Local Government Benchmarking Framework.

Heather Logan asked if additional resources were required to support the National Scrutiny Plan. Graham advised there was commitment from partners and resource requirements would be reviewed twice a year.

Following discussion, the Board welcomed the update.

## **7. Review of minutes: Board meeting 5 June 2019**

The Board considered the minutes of the meeting of 5 June 2019, which had been previously circulated and agreed that these were an accurate record of the meeting.

## **8. Review of action tracker**

The Board noted the updates provided by the action tracker and Graham Sharp confirmed he was content with the additional fee breakdown information provided under action ASB93.

## **9. 2019/20 Q1 Financial performance report**

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

Stuart Dennis introduced the 2019/20 Q1 Financial performance report, a copy of which had been previously circulated.

Stuart Dennis invited the Board to note the financial results for the 3 months to 30 June 2019.

The Board noted the financial performance reported and Heather Logan sought assurance around the level of temporary staff pay and skills. Stuart Dennis advised that pay rates for temporary staff were similar to that of permanent staff. Diane advised that the business model in place received additional resources for peak times, rather than resourcing for these peaks all year round.

Alan Alexander noted that the level of fee income reported for Audit Services and the firms was behind that predicted. Stuart provided assurance that there is regular monitoring of fee income and there are no concerns at this time.

Alan noted the agency cost overspend and part contribution from the Management Contingency to support. Stuart advised this related to digital resource to support Audit Scotland's migration to SharePoint.

The Board noted the report.

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

## **10. 2019/20 Q1 Corporate performance report**

Gayle Fitzpatrick introduced the 2019/20 Q1 Corporate performance report, a copy of which had been previously circulated.

Gayle invited the Board to review the quarter one performance report and to consider areas where additional management attention is required.

Graham Sharp sought clarification on the cost per audit day and Diane McGiffen advised this is the real cost of audit based on allocation of costs and work delivered.

Heather Logan advised she would welcome the inclusion of a trend indicator included in future quarterly reporting.

Following discussion, the Board welcomed the report.

## **11. 2019/20 Q1 Strategic improvement programme update report**

Gayle Fitzpatrick introduced the 2019/20 Q1 Strategic improvement programme update report, copies of which had been previously circulated.

The members of the Board were invited to note the Q1 update, next steps and milestones.

Graham Sharp advised that the Principles of community empowerment reported was a Strategic Scrutiny Group report and Gayle advised the reference to this would be amended in the report.

Graham Sharp had a general question on audit approach and best practice benchmarking to inform future efficiencies. Diane McGiffen highlighted efficiency targets were reported annually to the Board and Audit Committee and agreed to arrange a presentation by Management Team on how efficiencies are managed in audits. Diane advised that Audit Scotland would require a full understanding of the Accounts Commission's requirement from audit as part of the work preparing for the new audit appointments.

Heather Logan welcomed the update in relation to Being a world class organisation with a number of actions already underway and asked about planning assumptions for the Career development gateways. Diane McGiffen highlighted how the CDGs have helped us respond to the external operating environment, recognising the increasing volume of work. Diane advised of a number of areas being considered as part of the approach to improving resourcing, through the vacancy factor

and recognising the lag in onboarding colleagues, whether through internal promotions as part of the CDG process or a recruitment campaign, and the timing of graduate recruitment.

Caroline Gardner highlighted the pace and scale around the devolved financial powers and increased challenges of additional statutory reporting with more issues arising from the audit work. Gayle Fitzpatrick advised the Board that the Performance Risk Management Group continue to review performance on costs and delivery.

Following discussion, the Board noted the performance reported.

**Action ASB96: Diane McGiffen to schedule a presentation by Management Team on efficiencies which are managed through audit. (January 2020)**

## 12. Financial devolution and constitutional change update

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

The Chair welcomed Mark Roberts to the meeting and the Board recorded their congratulations on his recent appointment as Audit Director.

Rebecca Seidel introduced the Financial devolution and constitutional change update report, which had been previously circulated.

Rebecca Seidel invited the Board to note the update on the significant developments surrounding financial devolution and constitutional change, including Audit Scotland's response and organisational arrangements.

During detailed discussion, the Board considered the politically charged environment and sought assurance around Audit Scotland's responsibility and independence.

Caroline Gardner advised that Audit Scotland has two roles, one is the audit of the financial statements as well as an engagement role in developing the financial reporting process as part of the fiscal framework. Rebecca advised the Board of the need to ensure sufficient capacity to be able to respond to the increased work as more financial powers are devolved.

The Board discussed the assignment of Value Added Tax and the need to assess the impact any assignment methodology for Scotland. Caroline Gardner advised that the National Audit Office would provide an opinion on the transfer value and the audit methodology will provide assurance that the assessment had been applied.

Heather Logan asked how the National Fraud Initiative impacts and Diane McGiffen advised that the initiative continues to develop and audit work on fraud will be reflected in the annual audit planning guidance.

The Board acknowledged the level of public interest in devolved powers and recognised the continued engagement with the Scottish Government and the UK audit agencies on reporting on the fiscal framework and budget setting. The Board recognised the importance of Audit Scotland's continued engagement while maintaining its independence.

## 13. Business continuity planning – EU withdrawal

Mark Roberts introduced the Business continuity planning – EU withdrawal report, copies of which had been previously circulated.

Mark Roberts invited the Board to consider and discuss the implications of the EU withdrawal and the business continuity arrangements in place.

Mark Roberts provided a verbal update on developments since the issue of the report and advised of how Audit Scotland keeps colleagues updated on developments, has offered support to colleagues seeking settled status, engaging with stakeholders regarding preparations for a no deal and sharing intelligence from audit reports on levels of preparedness across the public sector. Mark advised that

EU withdrawal will form part of audit work for some time to come and a further report will come to the Board.

The Board noted Audit Scotland had undertaken a Business Continuity test exercise on 17 September 2019. Caroline Gardner advised that this had been useful and provided a real sense of the potential impact for public bodies delivering critical services. Caroline provided assurance about the testing and readiness of Audit Scotland to respond to various scenarios.

Following discussion, the Board welcomed the report.

**Action ASB97: A further report to be scheduled on preparedness for EU withdrawal as required. (November 2019)**

*Rebecca Seidel and Mark Roberts left the meeting.*

#### **14. Annual policy review: Corporate governance policies**

Gayle Fitzpatrick introduced the Annual policy review: Corporate governance policies, copies of which had been previously circulated.

Gayle Fitzpatrick invited the Board to note the recommendation from the Audit Committee to approve the updates to the Financial Regulations, Scheme of Delegation and Codes of Conducts for members and staff for a further year.

##### **a) Scheme of Delegation**

Following consideration, the Board approved the Scheme of Delegation for a further year.

##### **b) Financial regulations**

Following consideration, the Board approved the Financial regulations for a further year.

##### **c) Members code of conduct**

Following consideration, the Board approved the Members Code of Conduct for a further year.

##### **d) Staff code of conduct**

Following consideration, the Board approved the Staff Code of Conduct for a further year.

#### **15. Policy review: Freedom or information and environmental information**

Gayle Fitzpatrick introduced the Annual policy review: Freedom of information and environmental information report, a copy of which had been previously circulated.

Gayle Fitzpatrick invited the Board to consider and approve Audit Scotland's Freedom of information and Environmental Information Policy for a further year.

Following consideration, the Board approved the policy for a further year.

#### **16. Policy review: Records management**

Gayle Fitzpatrick introduced the Policy review: Records management, which had been previously circulated.

The Board were invited to consider and approve the Records Management policy for a further year.

Following consideration, the Board approved the Records Management policy for a further year.

## 17. Proposed schedule of meeting dates 2020

Diane McGiffen introduced the Proposed schedule of meeting dates 2020, copies of which had been previously circulated.

The Board was invited to consider and approve the proposed meeting dates for 2020.

Alan Alexander asked whether there would be consideration of Audit Committee meetings being held in public and the Chair advised that should be discussed with the new Chairs of Audit Scotland's Board and Audit Committee when they are appointed in 2020.

Following discussion, the Board approved the schedule of Board and Committee meetings for 2020.

**Action ASB98: A further discussion on public meetings of the Audit Committee to be scheduled. (May 2020)**

## 18. Any other business

There was no further business.

## 19. Review of meeting

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

## 20. Date of next meeting: 27 November 2019

The members noted the draft agenda for the next meeting of the Audit Scotland Board scheduled for 27 November 2019 in the offices of Audit Scotland, 102 West Port, Edinburgh.

## Items taken in private – Private minute

### 21. 2019/20 Spring budget revision

*Stuart Dennis Corporate Finance Manager and Rebecca Seidel, Audit Manager, Performance Audit and Best Value re-joined the meeting.*

Stuart Dennis introduced the 2019/20 Spring budget revision, copies of which had been previously circulated.

Stuart Dennis invited the Board to consider and approve the submission of a request to the Scottish Commission for Public Audit for an amendment to Audit Scotland's 2019/20 budget.

The Board considered the proposed increase in resources required to meet non cash pension charges of £10m in order to meet potential significant additional IAS 19 pension charges though the Annually Managed Expenditure (AME) as part of the Spring Budget Revision submission.

The Board noted that the non cash accounting charge accounted for £4.1m of the proposal and the remainder was to provide for the effect of the McCloud case and possible movement in discount rates. The submission was based on guidance received from the Scottish Government Finance Team and took into account that Audit Scotland is unable to carry reserves to meet any additional pension liabilities.

Following discussion, the Board approved Audit Scotland's 2019/20 Spring Budget Revision.

### 22. 2020/21 Draft Budget proposal

Stuart Dennis introduced the 2020/21 Draft budget proposal report, copies of which had been previously circulated.

Stuart Dennis invited the Board to consider the draft expenditure budget proposal for 2020/21 and cost projections for the following four financial years, and to comment in particular on the budget assumptions in the report.

The Board considered the assumptions set out in the draft budget proposal and the potential requirement to submit an amended budget proposal depending on the outcome of the EAFA situation.

The Board noted the potential risks highlighted in relation to pension costs, pay award, the outcome of EAFA audit work impact and EU withdrawal which will lead to increased scrutiny and demand, resulting in a proposed increase of fees across all sectors.

Alan Alexander sought assurance that the Digital Services budget was sufficient to meet demands in light of increased workload. Diane McGiffen provided assurance that the team are content they can deliver within budget as they continue to transfer systems to cloud based products.

Heather Logan asked whether the property assumptions accommodated future increased headcount and Diane advised that the Edinburgh office had been designed to accommodate up to 300 colleagues on an exceptional basis although workspace in Glasgow was under pressure at peak audit times. Diane advised that the Business Support Services team monitor occupancy and colleagues are supported to work remotely too. Diane advised of the forthcoming rent review for Edinburgh in April 2020.

Following discussion, the Board approved the preparation of an expenditure budget for consideration at its meeting on 27 November 2019 and noted the potential requirement to submit an amended budget proposal following clarification of the EAFA audit work programme.

*Stuart Dennis left the meeting.*

## **23. Scottish Commission for Public Audit: Review of Audit Scotland Board and SCPA**

Gayle Fitzpatrick introduced Scottish Commission for Public Audit: Review of Audit Scotland Board and SCPA, copies of which had been previously circulated.

Gayle Fitzpatrick invited the Board to consider the outcome from the Scottish Commission for Public Audit's review, agree actions in response to the recommendations and agree any comments it wishes to share with the Commission in response to the recommendations.

The Chair noted the assurance received around good governance and invited comments from members taking the recommendations in turn.

Members highlighted a misunderstanding in the report in relation to the quorum and independent appointments and agreed the response would clarify that although the Auditor General for Scotland the Chair of the Accounts Commission are Crown and ministerial appointments respectively, all members have the same role and responsibilities in their appointment to the Board and members agreed to include an explanation on the time limit of appointments.

Turning to the Chair's attendance at Audit Committee meetings, the Board noted the good practice that the Chair and Accountable Officer are not members of the Audit Committee but typically attend these. The members also noted that Audit Committee Chair and members hold a private session with auditors immediately before Committee meetings ensuring clear accountability for Committee members and as such agreed no change was regarded as necessary to the standing orders.

The Board agreed with the co-option recommendation as well as the recommendation that the Audit Committee's Annual Report would be provided to the SCPA alongside Audit Scotland's Annual report and accounts each year.

The Board agreed they would ask the Audit Committee to consider and approve the proposed changes to the Standing Orders.

**Action ASB98: A report will be scheduled to the Audit Committee to approve the proposed changes to Audit Scotland's Standing Orders. (November 2019)**

## **24. New audit appointments update**

*Robert Leask, Project Manager, Audit Quality and Appointments, joined the meeting.*

Alan Alexander, Chair of the Steering Group, introduced the New audit appointments update report, copies of which had been previously circulated.

Alan Alexander invited the Board to note the progress outlined in the report and in particular, to note the urgency of mitigating the risk to the project's critical path as set out in paragraphs 9 and 10 of the report.

The Board noted the appointment of Robert Leask as project manager to ensure good governance and delivery of the project on time.

Alan Alexander advised members that the Steering Group will be considering the project initiation document at its meeting on 3 October 2019 which will then be circulated to the Board for consideration at its meeting on 27 November 2019. Alan advised Board members to note the risk identified at the Code of Audit Practice Project meeting on 16 September 2019 relating to the finalisation of the Code. Robert Leask advised that the Code consultation is scheduled to commence in January 2020 and conclude in March 2020. The timetable allows for the Auditor General for Scotland to reflect on the Code before it is finalised prior to issuing the ITT. The risk to achieving this timeline is the proposed Accounts Commission timing for the Best Value consultation which feeds into the Code and which is currently scheduled to commence after the Audit Scotland consultation on the draft Code.

The Chair sought clarification from Graham Sharp on how improvements for Best Value audit will input to the Code in order to meet the timeline agreed by the Board in March.

Caroline Gardner advised of the common interest in the development of a single Code of Audit Practice and acknowledged the Accounts Commission's work considering its duty of best value in new bodies. She noted that the current code had not fully met the Commission's expectations on best value as their approach had not been agreed in time. Caroline noted the need to align the two projects.

Graham Sharp advised members that the Best Value working group in considering how the mechanism will work over the next two months and considering cost implications. The Board noted that the consultation was due to be completed by end June 2020.

Heather Logan asked about the nature and context of the consultation and Graham Sharp explained that the consultation will explain to Councils and IJBs what is changing and seek their comments.

The Chair suggested that the Best Value consultation should form part of the draft Code consultation on the Board's agreed timeline. Robert Leask advised that from a procurement perspective the ITT could be structured to allow for options on Best Value to be supported by annualised guidance.

The Chair asked for assurance that clarity on the Accounts Commission's best value requirements would be achieved by the end of 2019 in order that consultation on the draft Code could proceed on the agreed timeline.

Graham Sharp agreed the suggestion to incorporate best value options into the draft Code consultation provided a possible mitigation of the risk identified but advised that he could not provide assurance yet as the work had not been completed but that he would advise the Best Value working group of the importance of the Code deadlines.

Alan Alexander restated his concern of this risk and Heather Logan concurred in light of the Code consultation concluding at the end of March 2020.

Caroline Gardner agreed the report highlighted the risks and the need for work to bring these projects into alignment given the Board's commitment to the programme for the new audit appointments.

The Chair reiterated the need to deliver to the timetable approved by the Board on 18 March 2019.

Heather Logan noted that with the proposed Best Value consultation concluding at the end of June 2020 there would be no time to rectify any discrepancies arising. Alan Alexander agreed advising that all substantive work on the Code required to be completed by 11 June 2010 to allow technical work on the tender documents and failing to meet that deadline would be an additional risk to the overall project.

The Chair invited members to confirm their agreement with the essential nature of the project timeline previously agreed on 18 March 2019. Each member confirmed their agreement.

The Chair sought assurance from Graham Sharp that the draft Code consultation would contain the Accounts Commission's options for Best Value audit.

Graham Sharp advised he has confidence in the Best Value working group to deliver what is required and agreed to reiterate the timeline.

The Chair welcomed the support from members.

*Robert Leask, Project Manager, Audit Quality and Appointments, left the meeting.*

## **25. Environment, sustainability and biodiversity annual report 2018/19**

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

Graeme Greenhill introduced the Environment, sustainability and biodiversity annual report for 2018/19, copies of which had been previously circulated.

Graeme Greenhill invited the Board to consider the update on progress against carbon emissions and approve the annual report for publication.

The Board welcomed the achievement that Audit Scotland is on track to achieve better than target results and noted the future challenges ahead as part of the Scottish Government's Climate consultation with public bodies to set a target year where we achieve zero emissions.

Heather Logan asked who scrutinises reporting and Ian Metcalfe advised the report is submitted to the Sustainable Scotland Network portal who have previously commended Audit Scotland.

Following discussion, the Board welcomed the report and approved its publication.

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

## **26. Communication and engagement strategy**

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

Simon Ebbett introduced the Communication and engagement strategy report, a copy of which had been previously circulated.

Simon Ebbett invited the Board to consider progress with the project to review and update Audit Scotland's communication and engagement strategy and welcomed discussion on its findings and recommendations.

The Board considered the findings and agreed it would be worthwhile to set out Audit Scotland's authoritative and independent position more clearly, reflected on how we reach the right audiences whether they are service users or stakeholders and the method by which we engage and any associated costs.

Heather Logan highlighted the need to clearly state that this is Audit Scotland's strategy in supporting the Auditor General for Scotland and the Accounts Commission.

Following discussion, the Board welcomed the progress made in developing the future communication strategy for Audit Scotland.

*Simon Ebbett left the meeting.*

## Audit Committee Meeting

Wednesday 4 September 2019, 10.00

Audit Scotland offices, Nelson Mandela Place, Glasgow

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### **Present:**

H Logan (Chair)  
A Alexander  
G Sharp

### **In attendance:**

I Leitch, Chair of the Audit Scotland Board  
C Gardner, Auditor General for Scotland  
D McGiffen, Chief Operating Officer  
G Fitzpatrick, Corporate Governance Manager  
M Walker, Associate Director, Corporate Performance and Risk  
C Robertson, BDO  
J So, Alexander Sloan  
S Ebbett, Communications Manager  
D McGurk, Service Delivery Manager  
S Dennis, Corporate Finance Manager

### **1. Private meeting**

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

There were no issues or questions arising from the private meeting.

### **2. Welcome and apologies**

The Chair opened the meeting, welcomed everyone and stated that there were no concerns arising from the private meeting.

There were no apologies.

### **3. Declarations of interest**

There were no declarations of interest.

### **4. Minutes of meeting 5 June 2019**

The Audit Committee members reviewed the minutes of the meeting of 5 June 2019, which had previously been circulated.

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

## 5. Review of actions tracker

The Audit Committee members reviewed the actions tracker and noted progress.

The Chair asked Claire Robertson, BDO if they are challenging Audit Scotland on planned implementation dates. Claire stated this formed part of the process for all audits.

Martin Walker confirmed that the Cost of Audit internal audit report was now closed following the final report being issued to the Audit Committee in July following consideration and amendment at the June meeting.

Alan Alexander requested that the revised Audit Committee self-assessment questionnaire be circulated prior to the November meeting to allow members the opportunity for consideration in advance of the next meeting. Gayle Fitzpatrick confirmed this would be done.

Diane McGiffen spoke about the origin of the current questionnaire and the importance of its wider read across and comparability with other audit committees. Diane recognised that the current questionnaire is not fit for purpose in its current form and requires to be more specific to the needs of the organisation.

Claire Robertson advised that she would share a 'checklist style questionnaire' that BDO clients were using successfully.

Stuart Dennis advised that he had met with Alan to discuss the finance report and that this action was now closed.

The Chair invited any further questions or comments on the report, to which members indicated that they are happy with the report.

**Action 89AC: Gayle Fitzpatrick to circulate revised draft of Audit Committee Self Evaluation Checklist to Audit Committee members (November 2019)**

## 6. Audit Committee terms of reference

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

The members noted the report and approved current the terms of reference.

## 7. Internal audit report: Corporate Governance

BDO submitted the internal audit report: Corporate Governance, a copy of which had been previously circulated.

Claire Robertson, BDO summarised the findings of the report and indicated there was substantial assurance over design and effectiveness within Corporate Governance.

The Chair invited any questions or comments on the report. Graham Sharp indicated that the report should state more explicitly that the Chair of the Accounts Commission is serving as a non-executive on the Board.

The members noted the internal audit report.

## 8. Internal audit report: IT Assurance

BDO submitted the internal audit report: IT Assurance, a copy of which had been previously circulated.

Claire Robertson summarised the findings of the report and highlighted one good practice recommendation on the mapping of key IT areas to external assurance/ best practice frameworks which would further improve other lines of defence. The Chair asked whether this course of action would lead to duplication of effort. Martin Walker indicated this would not be the case if the right framework was selected.

The Chair asked whether it would be useful to share this information with our colleagues in connection with the organisations they audit. Diane McGiffen explained that organisations should already receive intelligence via their own internal IT auditors who will provide a greater level of detail than we would assess as part of the audit process. Diane indicated that within Audit Scotland colleagues are kept up to date with IT governance arrangements through the Yammer channel and via updates from our Digital Audit programme led by Gemma Diamond.

The members noted the internal audit report.

## **9. Internal audit progress report: September 2019**

BDO submitted the internal audit progress report: September 2019, a copy of which had been previously circulated.

Claire Robertson indicated that there had been some delays in the issuing of the IT Assurance report due to internal staffing issues at BDO. The Audit Quality Framework review will be submitted to the next Committee in November. Planning for the HR and OD audits on Staff Recruitment and Learning and Development is underway.

The members noted the internal audit progress report: September 2019.

## **10. Internal audit recommendations progress report**

Gayle Fitzpatrick, Corporate Governance Manager, introduced the internal audit recommendations progress report, a copy of which had been previously circulated.

Gayle summarised the report, highlighting the changes to the reports format following the request to do so at the previous Audit Committee.

Graham Sharp queried whether the Time Recording System (TRS) should be designated of 'low' importance. Diane McGiffen clarified that while embedding a new TRS is important, there is currently a functioning system in place. The Chair asked whether the TRS project is being delivered on time, and Martin Walker confirmed it is.

The Chair asked about progress on the planning of staff resourcing in the event of a 'no deal' EU withdrawal. Diane McGiffen advised that scenario planning is well developed, specifically in relation to the European Agricultural Fund Account (EAFA) programme. The current messages around EAFA indicate that there will be continuity until March 2020. She advised that the pressing issue is managing delivery of the current audit. At the same time the organisation is planning and ensuring the current EAFA team have skills and experience in other areas should redeployment be required. Given the live nature of EU withdrawal arrangements, the organisation continues to actively monitor developments and their implications for Audit Scotland. Martin Walker advised that the Workforce Planning document was published earlier this week and addressed some of the key concerns.

The Chair asked whether the Performance and Risk Management Group (PRMG) are making progress with reviewing the costs of individual audits. Martin Walker advised that this is being implemented and the PRMG will be considering this information at its next meeting in October.

The members noted the report.

## 11. Q1 Financial performance report

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

Stuart Dennis introduced the Q1 Financial performance report, a copy of which had been previously circulated.

Stuart reported that the budget had increased by £28k as a consequence of additional contributions to the civil service pension scheme. Overall the position at the end of quarter one is healthy, however, looking ahead it is expected that there will be increased agency costs due to resourcing issues.

Stuart indicated that he is arranging a meeting with the external auditors, Alexander Sloan, to discuss pension and lease issues. The outcome of those discussions will determine if anything needs to go back to Audit Committee. The impact of an increase in costs and reduced discount rates is considerable and will have a significant impact on our financial position.

The Chair invited any questions or comment on the report. Alan Alexander enquired why there are increases in fees applied in three of four councils. Stuart advised that fees are negotiated locally with the auditor and reflect instances where more work is required to complete the audit.

The Chair asked how the variance in analysis for audits filtered through to the planning and performance process. Diane McGiffen highlighted that while reports are brought quarterly to Audit Committee, this process takes place at audit team and superteam level on a monthly basis and is managed in real time. Substantial issues are flagged to the Management Team for action. A live example of this is the EAFA audit, where decision checkpoints will be reached in December 2019 and February 2020 when the nature and impact of EU withdrawal will be more widely known.

The Chair asked whether the pool of external agency resource is sufficient. Diane advised that it is projected to be sufficient until end of December 2019, but these people may soon be looking to secure new employment. Diane explained that the organisation is looking at options to address resourcing issues including bringing in seasonal auditors (as used by the WAO) and that we have begun to bring in graduate trainees earlier.

Diane advised that the recruitment of financial auditors might become more challenging. Alan Alexander asked Claire Robertson, BDO if this characterisation of the market was a familiar experience for BDO. Claire responded that this was the case across whole of the financial audit sector.

The members noted the Q1 Financial performance report.

Stuart Dennis left the meeting.

## 12. Review of risk register

A report was submitted by Martin Walker, Associate Director, Corporate Performance and Risk, on the review of Audit Scotland's risk register, which had been previously circulated.

Martin advised that there are a few changes to the report this quarter. The formatting has been adjusted to increase focus on those risks that require most attention and those that require to be monitored. He advised that the risk profile content has also been amended to reflect higher level risks. In addition, certain risks such as EU withdrawal have been broken down into internal and external risks. He also drew attention to two new risks relating to important strategic projects, the Code of Audit Practice and Procurement project and the Electronic Working Papers project.

The Chair advised that she was happy with the changes and asked whether further thought would be given to the risk scoring matrix. Martin advised that this will be considered as part of the scheduled review of the risk management framework.

Alan Alexander asked how the organisation ensures linkage between the various risk registers. Martin explained the processes in place from top down and bottom up within the organisation to make sure interlinkages are established and monitored. The Performance and Risk Management Group and Strategic Improvement Programme bring together leads of various business and projects which are then linked into sub-registers and the corporate risk register.

The members noted the report.

### 13. Risk interrogation: Reputation

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

A report was submitted by Martin Walker, Associate Director, Corporate Performance and Risk and Simon Ebbett, which had been previously circulated.

Martin summarised the findings of the risk interrogation of reputation and outlined the controls and actions in place.

The Chair invited comments and questions from members.

Graham Sharp suggested that objectivity should be included within paragraph 17 to accompany quality, independence and relevance.

Alan Alexander indicated that the amount and level of benchmarking we undertake should be referenced more explicitly to evidence that we are not complacent.

Ian Leitch noted the quality of the report and asked for further information on the risks associated with advertising relative to the potential benefits. Simon Ebbett advised that media spend is an area that is regularly questioned and that being seen to spend money in this area may not be viewed as a good use of public money. He noted that increasing use of digital in marketing and communications is being considered and how it should adapt future decision making. Graham Sharp highlighted that the Accounts Commission use various ways to promote its reports including posters in local areas, GP surgeries and community centres. The importance of reaching all groups, not just those digitally able, is important in raising the profile of reports that allow the public to hold the public services to account.

Ian noted the care required around publication dates. Simon advised that we observe the well-established election moratorium arrangements. Diane McGiffen advised that there is a communications and engagement strategy which covers the objectives of the Auditor General for Scotland (AGS), the Accounts Commission and Audit Scotland, and that a revised strategy has been developed and this would be coming to the Board soon.

Graham Sharp noted that there is room for further innovation, and referred to the recent work with the youth panel who shared to their preference for accessing information via short video communications.

The Chair asked if there were any actions arising from the exercise of interrogating this particular risk. Martin advised that the projects included within the Strategic Improvement Programme and Engagement strategy covered the majority of the actions required.

The members noted the report.

*Simon Ebbett left the meeting.*

### 14. Digital security update

*David McGurk, Service Delivery Manager, joined the meeting.*

A report was submitted by the Digital security management team, a copy of which had been previously circulated.

David provided an overview of current digital risks, and reported on progress being made to mitigate these issues including; systems patching, Citrix upgrade, ISO re-accreditation and penetration testing. In addition, he advised that the capacity of the Digital Team was recently expanded to welcome a specialist with a particular focus on network security.

Alan Alexander noted that the report was very detailed and queried whether the report could be presented at a more strategic level next time.

The Chair asked David how we compared to other bodies in terms of IT resilience. David advised that we performed well in this area having just been re-certified with ISO 27001 accreditation, which provides us with a higher level assurance than the Scottish Government backed Cyber Essential Plus.

Caroline Gardner advised that the Digital Team provided a valuable service in ensuring that the business could run smoothly given the number and level of digital threats currently. The team provide a quarterly update to MT to assist managing the threats effectively.

The members noted the contents of the report.

**Action 90AC      Digital Services Management to refine the next digital security update report (March 2020)**

*David McGurk left the meeting.*

## 15. Data incidents/loss report

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

Gayle provided an overview of data incidents and loss across quarter one and advised that these were all assessed as low risk, and therefore did not have to be reported to the ICO.

The members noted the data incidents/loss report.

## 16. Annual review of corporate governance policies

Gayle Fitzpatrick, Corporate Governance Manager, introduced the Annual review of corporate governance policies, a copy of which had been previously circulated.

The Chair invited any questions or comments on the report.

The members noted the report, stated that they were satisfied with the proposed amendments and confirmed they should be recommended to the Board for approval at its meeting on 18 September 2019.

## 17. Proposed Board and Audit Committee meeting schedule 2020

Diane McGiffen, Chief Operating Officer, introduced the Proposed Board and Audit Committee meeting schedule 2020 and requested that members contact Joy Webber with any conflicts with the dates proposed.

The members noted the proposed dates for the Board and Audit Committee meeting schedule for 2020.

**Action 91AC:      Audit Committee members to advise of any dates which would not be suitable (September 2019)**

**18. Any other business**

There was no other business.

**19. Review of meeting**

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

The Audit Committee were satisfied with the papers, focus and pace of the meeting.

**20. Date of next meeting: 13 November 2019**

The next meeting will be held at 10.00am on 13 November 2019, Nelson Mandela Place, Glasgow.

REF	FORUM	Agenda Item No	Item Title	Action Description	Meeting Date	Due Date	Responsible	Assigned to	Complete/Ongoing	Reported Yes/No	Progress Notes
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		This action falls within the procurement strategy for the new audit appointments exercise. Once strategy has been agreed by the project Steering Group, the fees and funding model will be updated. This is likely to be March 2020.
ASB90	Board	15	Strategic Improvement programme	Martin Walker to circulate additional information on the projects.	01/05/2019	05/06/2019	Martin Walker	Martin Walker	Complete	Yes	The additional information was emailed to members on 11 July 2019.
ASB91	Board	16	Review of audit market update	Fiona Kordiak to circulate a copy of the proposed response to the Brydon Review	01/05/2019	05/06/2019	Fiona Kordiak	Fiona Kordiak	Complete	Yes	A copy of Audit Scotland's response to the Brydon Review was circulated to members on 5 June 2019 prior to submission on 7 June 2019.
ASB92	Board	7	Review of minutes: Board meeting 22 May 2019	Joy Webber to revise the minute.	05/06/2019	Jun-19	Joy Webber	Joy Webber	Complete	Yes	The minute of the meeting was revised and published on Audit Scotland's website.
ASB93	Board	9	Q4 Financial performance report	Stuart Dennis to provide additional fee breakdown to Graham Sharp.	05/06/2019	Jun-19	Stuart Dennis	Stuart Dennis	Complete	Yes	The additional information was emailed to Graham Sharp on 6 June 2019.
ASB94	Board	10	Q4 Corporate performance report	Martin Walker to bring a further report on proposals on the format of future corporate performance reporting.	05/06/2019	Sep-19	Martin Walker	Martin Walker	Complete	Yes	The Q1 performance report in revised format will be considered at today's meeting at agenda item 10.
ASB95	Board	12	2018/19 Annual report on International work	Anthony Clark to make minor revisions to the annual report on international work prior to publication.	05/06/2019	Jun-19	Antony Clark	Antony Clark	Complete	Yes	The annual report on international work was updated and published on 14 June 2019.
ASB96	Board	11	2019/20 Q1 Strategic improvement programme update report	Gayle Fitzpatrick to update the reference to the Principles of community empowerment as a Strategic Scrutiny Group report	18/09/2019	Sep-19	Gayle Fitzpatrick	Gayle Fitzpatrick	Complete	No	The reference has been amended in the report.
ASB97	Board	11	2019/20 Q1 Strategic improvement programme update report	Diane McGiffen to schedule a presentation by Management Team on efficiencies which are managed through audit.	18/09/2019	Jan-20	Diane McGiffen	Diane McGiffen	Ongoing		A presentation by Management Team will be scheduled on 29/01/2020.
ASB98	Board	13	Business continuity planning – EU withdrawal	A further report to be scheduled on preparedness for EU withdrawal as required.	18/09/2019	Nov-19	Diane McGiffen	Mark Roberts	Ongoing		A verbal update on developments will be provided at the meeting on 27/11/2019 with a report scheduled to come to the Board on 29/01/2020.
ASB99	Board	17	Proposed schedule of meeting dates 2020	A further discussion on public meetings of the Audit Committee to be scheduled.	18/09/2019	May-20	Martin Walker	Martin Walker	Ongoing		A further discussion will be scheduled for the meeting of the Board on 13/05/2020.
ASB100	Board	23	Scottish Commission for Public Audit: Review of Audit Scotland Board and SCPA	A report will be scheduled to the Audit Committee to approve the proposed changes to Audit Scotland's Standing Orders.	18/09/2019	Nov-19	Gayle Fitzpatrick	Gayle Fitzpatrick	Complete	No	The Audit Committee considered the amended Standing Orders at its meeting on 13/11/2019 and these will be considered at item 14 of today's agenda.

## Purpose

1. This report presents the financial results for the six months to 30 September 2019.

## Background

2. The detailed finance performance report for the six months to 30 September 2019 is provided in Appendix 1 to this paper.
3. The report was discussed by Management Team on 22 October 2019.

## Discussion

4. In the six months to 30 September 2019, Audit Scotland's Net Operating Expenditure was £2,760k which was £13k more than budget.
5. In-house income for 2018-19 audits was in total £141k more than budget with a positive volume variance of £45k and a positive price variance of £96k.
6. Fee income earned for 2018-19 audits carried out by external firms net of fees and expenses paid to the firms was £1k better than budget. Income recognition was £103k better than budget with fees and expenses payable to the external firms being £102k more than budget.
7. Staff costs including agency expenditure and net of other income were £98k more than budget. As previously reported to the Committee the second quarter has seen a significant increase in agency expenditure. This increase was required to meet resourcing pressures due to higher than planned leaver numbers and other long-term absences. The additional cost is being funded by staff cost savings and increased fee income.
8. Other expenditure £57k worse than budget. The main adverse variances occur in information technology (£29k) and printing/office costs (£24k).
9. More detailed variance analysis and explanation is provided in Appendix 1 attached to this report.

## Virement

10. There were no instances of budget virement in excess of £20k in the six months to 30 September 2019.

## Recommendation

11. The Board is invited to note the financial results for the 6 months to 30 September 2019.

## Headline Results

## Appendix 1

The summary financial position to 30 September 2019:

£000	Annual Budget	Actual	Budget	Var.	% Var.	Prior Year	Note
Fee Income - In House	7,777	4,497	4,356	141	3.2%	4,384	1
Fee Income - Audit Firms	4,673	3,111	3,008	103	3.4%	3,225	2
Central Charges	5,530	2,765	2,765	0	0.0%	2,727	
Rebate	0	0	0	0	-	0	
Interest	0	2	0	2	-	1	
Other Income	0	20	0	20	-	6	3
IAS 19 Income	0	0	0	0	-	0	
<b>TOTAL INCOME</b>	<b>17,980</b>	<b>10,395</b>	<b>10,129</b>	<b>266</b>	<b>2.6%</b>	<b>10,343</b>	
Approved auditors	4,189	2,738	2,636	(102)	-3.9%	2,815	2
Staff salaries and oncosts	16,651	8,230	8,323	93	1.1%	7,764	4
Payroll provisions incl. severance	0	0	0	0	-	0	
Agency and secondment costs	75	282	69	(213)	-308.7%	111	4
IAS 19 Pension costs	100	0	0	0	-	0	
Property costs	904	403	413	10	2.4%	392	
Travel and subsistence	867	433	433	0	0.0%	455	
Legal, professional and consultancy	577	221	230	9	3.9%	150	
Training	481	188	173	(15)	-8.7%	156	
Recruitment	130	48	47	(1)	-2.1%	70	
Printing and office costs	249	146	122	(24)	-19.7%	130	5
Information technology	444	232	203	(29)	-14.3%	230	6
Audit	60	32	30	(2)	-6.7%	30	
Depreciation	323	186	175	(11)	-6.3%	186	
Other costs	372	16	22	6	27.3%	19	7
<b>EXPENDITURE</b>	<b>25,422</b>	<b>13,155</b>	<b>12,876</b>	<b>(279)</b>	<b>-2.2%</b>	<b>12,508</b>	
<b>NET OPERATING (EXPENDITURE)</b>	<b>(7,442)</b>	<b>(2,760)</b>	<b>(2,747)</b>	<b>(13)</b>	<b>-0.5%</b>	<b>(2,165)</b>	

## Income and Expenditure Summary

### 1. Fee Income – In House

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

The table below shows the performance by sector at 30 September 2019 for the in-house audits:

	2018/19 Audit Year		Prior Years	Total	
	Volume	Price			
	WIP %	£	£	£	
Local Government	+0.11	+5	+33	-	+38
Health	0.00	-	+18	-	+18
FE	+1.25	+1	+2	-	+3
Central Government	+1.38	+14	+7	-	+21
Non-statutory	+3.12	+25	+36	-	+61
<b>Total – September 19</b>	<b>+0.19</b>	<b>+45</b>	<b>+96</b>	<b>-</b>	<b>+141</b>

#### Local Government

Local Government audits are 0.11% ahead of plan leading to a minor positive volume variance of £5k. The positive price variance of £33k is due to increased fees being applied to local government bodies with the most significant increases being applied to Aberdeenshire Council, Angus Council, Fife Council and Scottish Borders Council.

#### Health

Overall 2018/19 health audits are complete with a positive price variance of £18k due to the increase in the fee for NHS Tayside.

#### Further Education (FE)

ASG undertake 2 FE audits, Dundee & Angus College and Edinburgh College. Progress on 18/19 audits is currently 1.25% ahead of schedule and the favourable price variance is due to an increase in the fee for Edinburgh college.

#### Central Government

Central Government chargeable audits are 1.38% ahead of schedule leading to a positive volume variance of £14k. The positive price variance of £7k is attributable to increased fees being applied to audited bodies with the most significant increase being applied to the Scottish Police Authority.

#### Non-statutory

The European Agricultural Fund Account (EAFA) audits are ahead of schedule by 3.12%. We expect that audit work we have delivered will be fully recovered even if the UK leaves the European Union on 31<sup>st</sup> October 2019 with no deal. In the event of a no deal there remains some uncertainty on the level of audit work that will be required for the new audit year and what the funding arrangements will be, however, there are indications that this work will be required. The 2019/20 budget has assumed that new audit year work will be required and fully reimbursed. The expected income budget for the new audit year work is £131k.

## 2. Fee income and expenditure – Audit Firms

The positive income variance of £103k is offset with the negative expenditure variance of £102k for approved auditors. Effectively this approach highlights a net favourable variance of £1k on chargeable audits.

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

The table, below, shows the performance for approved auditors by sector to 30 September 2019:

	2018/19 Audit Year		Prior Year	Total	
	Volume	Price	Price		
	WIP %	£	£	£	
Local Government	+0.40	+11	+89	-	+100
Health	0.00	-	+8	-	+8
Water	0.00	-	-	-	-
FE	-6.41	-27	+9	-	-18
Central Government	-0.58	-2	+15	-	+13
<b>Total – September 19</b>	<b>-0.59</b>	<b>-18</b>	<b>+121</b>	<b>-</b>	<b>+103</b>

### Local Government

Audits on the local government sector are 0.40% ahead of plan leading to a positive volume variance of £11k. Audit firms have agreed fees above expected fees leading to a price variance of £89k. The most significant increases to fees within the sector have been agreed by City of Edinburgh Council, Aberdeen City Council and Shetland Islands Council.

### Health

Health audits are complete generating a positive price variance of £8k. The price variance is due to agreed fees being higher than expected for 2 health boards (Highland and NHS 24).

### Water

The Scottish Water audit for 2018/19 is complete and within the expected fee.

### Further Education (FE)

Progress on 2018/19 audits is 6.41% behind schedule leading to an adverse volume variance of £27k. Increase in fees have been agreed with a number of colleges with the most significant at City of Glasgow, Lanarkshire and Lews Castle.

### Central Government

Central government audits are slightly behind schedule leading to a minor negative volume variance of £2k. The £15k price variance is mainly due to the recognition of agreed fee increases for Crown Estate Scotland and Bord na Gaidhlig.

## 3. Other Income

Other income is mainly due to the recovery of costs for the secondment of a member of staff to Deloitte. The secondment is planned to end on 31<sup>st</sup> October 2019.

#### 4. Staff & Agency Costs

Business Group	Annual Budget £000	Actual £000	Budget £000	Variance £000	Actual Average w.t.e.	Budget w.t.e.	Note
ASG staff costs (incl NFP)	8,860	4,283	4,430	147	152.5	155.4	a)
ASG agency & secondments	75	255	69	(186)			
PABV (incl Professional Support) staff costs	3,887	2,001	1,943	(58)	66.9	65.1	b)
PABV agency & secondments	0	23	0	(23)			
CSG (incl Audit Quality & Appointments) staff costs	2,165	1,093	1,085	(8)	38.8	36.9	c)
CSG agency & secondments	0	2	0	(2)			
Business Support staff costs	684	336	342	6	18.4	18.7	d)
Business Support agency & secondments	0	2	0	(2)			
Governance & Other staff costs	1,155	517	523	6	19.8	20.0	e)
Governance & Other agency & secondments	0	0	0	0			
<b>Total staff costs</b>	<b>16,751</b>	<b>8,230</b>	<b>8,323</b>	<b>93</b>	<b>296.4</b>	<b>296.1</b>	
<b>Total agency &amp; secondments</b>	<b>75</b>	<b>282</b>	<b>69</b>	<b>(213)</b>			

- a) In the first 6 months of the year the average number of staff employed in ASG has been 2.9 w.t.e. less than the funded budget. The establishment is based on 158.0 w.t.e. with the application of a 2% vacancy/turnover factor reducing the funded w.t.e. to 155.4. Overall the saving to budget is due to lower than planned staffing levels (£73k) and reduced average actual salary costs per employee (£74k). There will be an intake of professional trainees and modern apprentices in October.

As previously reported the second quarter has seen a significant increase in agency expenditure. Audit completion requirements in quarter 2 lead to significant resource demand in this period and due to higher than planned leaver numbers and other long-term absences there has been a requirement to bring in temporary resource to enable us to meet deadlines. The additional costs will be met through staff cost savings due to lower than planned w.t.e., reduced average salary costs and increased fee income.

- b) PABV is on average 1.8 w.t.e. above budget for the first six months (£54k) and this is due to the provision of cover for essential posts (e.g. maternity leave) and the 2% vacancy factor. There is also a minor price variance to budget of £4k. It is projected that this overspend will decrease as the year progresses with the final position being within the overall PABV expenditure budget.

Secondment costs of £23k relate to a Scottish Parliament member of staff seconded to assist with housing benefit audit work. This will be funded by underspend on the consultancy budget.

- c) The average staff resource requirement in CSG has been higher than the funded w.t.e. (£25k) due to the 2% vacancy factor. This overspend is currently funded by the favourable variance on average actual salary costs (£17k) and savings within other expenditure budget headings.
- d) Business support w.t.e. below funded figure (£6k) due to phased start dates of the modern apprenticeships. The actual average salary costs are in line with the budget. Agency expenditure provided cover for the vacant modern apprenticeship posts.
- e) The budget in Governance & Other includes a pay award from the 1<sup>st</sup> April 2019. We await the required confirmation from external sources to implement any increase.

#### 5. Printing and Office costs

Printing and office cost overspend is mainly due to mobile telephone expenditure. A new contract commenced in August with O2 following the expiry of the old contract with ee. The new contract will see expenditure reduce to levels in line with the monthly budget allocation, however, due to the timing of the contract migration there will be higher than planned expenditure for the first five months of the year which will lead to a full year adverse variance.

#### 6. Information Technology

The main reason for the overspend is due to the timing of software development costs being ahead of the budget phasing. This will even out as the year progresses and the overall expenditure projection on information technology will be within the annual budget allocation.

## **7. Other costs**

The year to date underspend is attributable to reduced miscellaneous expenditure and budget allocated for freedom of information and correspondence queries with no expenditure incurred.

### **Management Contingency**

The 2019/20 budget includes a contingency allocation of £300k which is controlled by the Management Team. The budget is included within the legal, professional and consultancy subjective heading.

Additional funding of £28k received in year to cover the increase in employer pension contributions for Principal Civil Service Scheme members has been allocated to the management contingency. There has been an allocation from the contingency of £22k for essential Digital Services work, leaving an unallocated balance of £306k.

### **Capital Expenditure and Funding**

Capital investment for the six months to September 2019 was £35k, with the total available budget for 2019/20 being £150k.

The breakdown of expenditure year to date is detailed below:

- £26k on Cascade HR system software
- £7k on firewall software
- £2k on furniture.

**Stuart Dennis**

Corporate Finance Manager

13 November 2019

## Purpose

1. To provide the Board with a review of organisational performance in quarter two (Q2) 2019/20.

## Background

2. The Q1 2019/2020 report was considered at meetings of the Management Team and the Board on 27 August and 18 September 2019 respectively.
3. The performance information is reported under the two strategic objectives of 'delivering world class audit' and 'being a world class organisation' in line with the Corporate plan.
  - Appendix 1 provides a summary of performance for each strategic objective.
  - Appendix 2 provides the detailed performance information.
4. There have been changes to the format and content of this report to reflect the ongoing development of the performance management framework, this includes the addition of comparative and trend information in the performance summary in appendix 1.

## Key performance messages

5. **Delivering world class audit:** We are delivering audits to time, in budget and to the required quality standards. In Q2 significant numbers of annual audit reports were delivered ahead of schedule.
6. **Being a world class organisation:** We are operating within budget tolerance and our staffing KPIs remain good. As in Q1, there are some areas of the organisation which have been experiencing resourcing pressures and Q2 has been a particularly busy period. A broad range of actions to address these pressures are under way. These are summarised in Appendix 1.

## Development of the performance management framework

7. Early in 2019 we rescheduled development work on the performance management framework (PMF) in order to prioritise other digitally enabled projects. These projects included systems upgrades and new IT systems which provide key data sources for the PMF project.
  - Navision finance system upgrade - completed July 2019.
  - New HR system – the Cascade system went live 28/10/19.
  - New Time Recording System – the system went live in November (for central time users) and will go live for MKI TR users in December 2019.
8. With required data sources now in place and in use, PMF reporting and dashboards can progress. This includes:
  - Detailed requirements and scoping meetings across all Business Groups to capture dashboard needs.
  - Designing and developing colleague, team and Business Group level dashboards, ready for testing in January 2020.

- Deployment of phase 1 dashboards to Organisation in March 2020.
- Commence phase 2 (specific/focused dashboards e.g. Audit, Green Futures, Management Team) in April 2020 onwards.

## **Recommendations**

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

- review the Q2 performance report
- consider whether any additional management action is required.

## 2019/20: Q2 performance summary

 Delivering world-class audit	Measure in Q2	Previous quarter	Same quarter last year
We conduct relevant and timely audits and report in public.			
Reports 2019/20 (YTD)	399 (55%)	100	217 
On time (YTD)	95%	91%	97% 
Audit Budget (YTD)	-4%	-5.95%	-3.47% 
We get our messages out effectively			
Media mentions (Q2)	340	304	268 
Downloads (Q2)	232,975	123,448	191,886 
Social media engagements (Q2)	7,991	5,881	6,420 

## Key performance messages

- We have delivered 399 audits/reports by the end of Q2. This is 90 more than planned, largely due to many Central government accounts/annual audit reports being completed earlier than scheduled. Q4 will see a significant further increase with the publication of the annual audit plans.
- 95 per cent of reports have been delivered on schedule and audit expenditure is four per cent below budget.
- Communications statistics on media mentions, downloads and social media engagements show we are getting our messages out effectively.
- In Q2 the focus of our quality work was on developing the Audit Management Framework, supporting ongoing audits, drafting the revised Audit Guide and responding to previous internal and external quality reviews.

## Key actions

The key actions for this strategic objective are covered by the projects and workstreams in the Strategic Improvement Programme. They include:

- A refresh of ASG financial audit approach based on audit quality findings and developments in the auditing profession generally, including; risk assessments and audit assertions, audit sampling, the application of substantive analytical procedures and the criteria for applying digital audit approach.
- Refinement of the Audit Quality Framework.
- Developing the approach to Best Value Audit in councils and IJBs.
- The Code of Audit Practice and Audit Procurement project.

## Key:

Red = Not progressing/significant additional management action required.

Amber = Progressing and management action planned.

Green = On target/no need for additional management action

 <b>Being a world-class organisation</b>	Measure in Q2	Previous quarter	Same quarter last year	
<b>We manage our resources effectively</b>				
Budget Variance (YTD)	+0.5%	-13.3%	+4.6%	↓
WTE establishment (YTD)	96.7%	97.8%	98.9%	↓
<b>We maximise our efficiency</b>				
Staff costs (YTD)	8,230k	4,124k	7,764k	↑
Agency/secondment costs (YTD)	282k	20k	111k	↑
Average cost per audit day (Q2)	432	441	439	↓
Proportion of audit time (Q2)	72.5%	64.5%	71.5%	↑
<b>We empower and support our people to be engaged, highly skilled and perform well</b>				
Absence (YTD)	2.06 days	1.6 days	2.04 days	↑
Staff turnover (YTD)	3.01%	1.7%	3.9%	↓
Exams pass rate (YTD)	75%	75%	82.6%	↓
Training events (YTD)	39	26	33	↑
Training attendees (YTD)	374	263	413	↓
IT uptime	99.43%	99.36	99.38%	↑

### Key performance messages:

- Our net operating cost was 13k (0.5%) per cent above budget. This is largely due to the timing of other administrative expenditure compared to the budget phasing. Current projections indicate that the position at the end of Q3 will be on budget.
- Staff levels were 96.7 per cent of establishment and turnover and absence rates remain low.
- Q2 is a particularly busy period for the financial audit work. Agency/secondment costs were significantly above budget due to the number of agency staff used to support the delivery of the audits.

### Key actions

- Despite being near establishment, sustaining low absence and turnover rates there have been continued pressures in some areas. There is also limited 'spare capacity' to respond to unexpected demands, the increasingly complex and rapidly changing operating environment and an ambitious improvement agenda.
- We have taken a number of actions in the short term to address this, including the increased use of agency staff and the flexible deployment of auditors across the audits and business groups.

- We have also been undertaking an Audit Director led review of resourcing. This has included an assessment of, and responses to, demand and supply side pressures. The review has been informed by engagement with staff groups and a review of the root-causes of the resourcing challenges experienced across the business during 2019.
- Management Team considered a review report at its meeting on 19 November 2019 and agreed that a communication be issued in November to all colleagues on the work already under way and further planned actions. Management Team also agreed that a detailed action plan be finalised by December 2019. The actions include:
  - Planned changes to the professional trainee scheme (including earlier recruitment and the timing of exams) and engagement with universities re full year placements.
  - Increased flexibility of colleagues being deployed between business groups and the development of a pool of 'seasonal staff'.
  - Recruitment for specific improvement projects including development of (and resources to support) digitally enabled audit.
  - Refinements to the focus of the development work in support of the Accounts Commission on auditing Best Value in councils and IJBs and the new Code of Audit Practice.
  - Refinements to audit guidance and templates to ensure scoping is risk based and focussed.
  - Ongoing refinements to the audit methodology (including sampling, substantive analytical procedures and digital audit).
  - Ongoing engagement with business groups as the actions are implemented.
- Further information is available in the Strategic Improvement Programme Update report which is item 12 on today's agenda.

## 2019/20: Quarter 2



We conduct relevant and timely audits and report in public.

Key Performance Questions	2018-19				2019- 20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Are relevant audits being delivered?	G	G	G	G	G	G		
Are audits delivered on time?	G	G	G	G	G	G		
Are audits delivered on budget?	G	G	G	G	G	G		

### Key messages

We have delivered:

- 55% of audit/reports scheduled for 2019/20
- 95% of audit/reports (YTD) delivered on time (target 95%)
- audit expenditure is four per cent below budget.

We have benchmarked the annual audit opinion performance (97%) with the completion of English local authority audits. where 40% of audit opinions on 2018/19 statements of accounts were not available by the target date.

There are a currently 12 statutory reports planned, most of which are in Central Government and Health sectors and therefore due to report in Q2 and Q3.

In Q2 we published 299 audit/reports against a schedule of 226 (compared to 279 published in Q2 18/19). This is largely due to Central Government reports being delivered earlier than the due date.

### Actions

To monitor and manage the impact on resources of the high number of statutory reports.

### Issues/ risks

We expect to deliver all products listed in the schedule and are aiming for 95 per cent to be on time. We are continuing to perform well but recognise that the factors below point to potential issues for the organisation going forward. These include:

- Increasing number of Statutory reports may impact on the ability to deliver/ publish to schedule.
- Disruption due to EU withdrawal/ general election.
- Capacity challenges in some areas.

**Audit/report schedule 2019/20.**

	Q1	Q2	Q3	Q4
Annual Audit Plans Audit Scotland (123)	FE 2✓			LG 66, NHS 10, CG 45
Annual Audit Plans Firms (99)	FE 18✓	FE 1✓		G 39, NHS 13, CG 28
Accounts certified Audit Scotland (123)	NHS 10✓ CG 6✓	CG 35✓ LG 62✓	CG 4 LG 4	FE 2
Accounts certified Firms (99)	NHS 13✓ CG 3✓ LG 1✓	CG 13✓ LG 37✓	CG 12 LG 1	FE 19
Annual Audit Reports Audit Scotland (123)	NHS 10✓ CG 6✓	CG 30✓ LG 58✓	CG 9 LG 8	FE2
Annual Audit Reports Firms (99)	NHS 13✓ CG 1✓ LG1✓	CG 14✓ LG 37✓	CG 13 LG 1	FE 19
Performance Audit (7)	<ul style="list-style-type: none"> <li>• Social security✓</li> <li>• Enabling digital government✓</li> </ul>	<ul style="list-style-type: none"> <li>• Revenue financing of assets: The Non-profit distributing (NPD) and Hub models X</li> <li>• NHS workforce planning 2: primary care clinical workforce✓</li> <li>• Finances of Scottish universities✓</li> </ul>	<ul style="list-style-type: none"> <li>• Scotland's City Region and Growth Deals</li> </ul>	<ul style="list-style-type: none"> <li>• Early learning and childcare: follow up</li> </ul>
Best Value Assurance Report (7)	<ul style="list-style-type: none"> <li>• Stirling Council✓</li> <li>• North Lanarkshire ✓</li> <li>• Clackmannanshire Council: follow-up✓</li> </ul>	<ul style="list-style-type: none"> <li>• Midlothian Council✓</li> <li>• Perth and Kinross Council✓</li> </ul>	<ul style="list-style-type: none"> <li>• Scottish Borders Council</li> <li>• Highland Council</li> </ul>	
Overview Report (3)	<ul style="list-style-type: none"> <li>• Scotland's colleges 2019 ✓</li> </ul>		<ul style="list-style-type: none"> <li>• NHS in Scotland 2019</li> <li>• Local government in Scotland: Financial overview</li> </ul>	
Statutory (12)	<ul style="list-style-type: none"> <li>• Scottish Public Pensions Agency✓</li> </ul>	<ul style="list-style-type: none"> <li>• Highlands and Islands Enterprise ✓</li> <li>• Scottish Prison Service✓</li> <li>• Scottish Government consolidated accounts✓</li> <li>• Social Security Scotland ✓</li> </ul>	<ul style="list-style-type: none"> <li>• Health 3</li> <li>• Central government 3</li> </ul>	S23: Highland and Islands Enterprise
Other (24)	<ul style="list-style-type: none"> <li>• HCW- Safeguarding public money: are you getting it right✓</li> <li>• West Dunbartonshire Council Tendering And contracting practices✓</li> <li>• Drugs and alcohol services: an update ✓</li> <li>• Briefing - Enterprise and skills review✓</li> </ul>	<ul style="list-style-type: none"> <li>• Impact - NHS workforce planning X</li> <li>• Impact - Transport Scotland's ferry services✓</li> <li>• Impact - Self-directed support: 2017 progress report X</li> <li>• Impact - Equal pay in Scottish councils X</li> <li>• Briefing - Student Loans briefing X</li> </ul>	<ul style="list-style-type: none"> <li>• Briefing - Operation of the fiscal framework</li> <li>• Equal Pay Impact Report (Q2)</li> <li>• Briefing - Cyber Security</li> <li>• Impact - Self-directed support: 2017 progress report (Q2)</li> </ul>	<ul style="list-style-type: none"> <li>• EAFA</li> <li>• FC NAO</li> <li>• FC WAO</li> <li>• Refreshed rolling 5-year work programme</li> <li>• EU withdrawal: briefing</li> </ul>

	<ul style="list-style-type: none"> <li>• Briefing - Public health reform✓</li> <li>• Guide to the General Medical Services contract✓</li> <li>• Briefing - Planning for outcomes✓</li> <li>• HB Annual report✓</li> <li>• Transparency Report 2018✓</li> </ul>	<ul style="list-style-type: none"> <li>• Principles for community empowerment✓</li> <li>• National Scrutiny plan for local government✓</li> <li>• Fraud and irregularity update 2018/19✓</li> </ul>	<ul style="list-style-type: none"> <li>• Briefing - Student Loans briefing (Q2)</li> <li>•</li> </ul>	
Planned (719)	83	226	160	250
Published	100	299		

**On time**  
In the year to date 95 per cent of reports scheduled have been delivered on time.

In Q2 the audits of Dundee IJB and Western Isles IJB were completed on time but the auditor did not receive the final accounts in sufficient time to sign them within the deadline. The audits of Renfrewshire Council and Glasgow and Clyde Valley SDPA could not be completed on time because of difficulties with the preparation of the accounts that the bodies were unable to resolve in time.

The Renfrewshire Council audit opinion was modified due the adequacy of accounting records due to difficulties experienced by the council in implementing a new ledger system. The Annual Audit Reports for Renfrewshire Council and Glasgow and Clyde Valley SDPA were subsequently affected by the delay in the completion of the accounts.

The draft Revenue financing of assets: the non-profit distributing (NPD) and Hub models performance audit report was considered by the Commission at its meeting on 8 August. At the meeting the Commission identified a number of points to be considered by the team in consultation with the AGS and audit sponsors. These are being actioned and a new publication date is being scheduled.

On time in Q2 (YTD)	No. delivered	% of planned delivered to date	On time	Late	% on time	Comment
Annual Audit Plans – AS (123)	2	2%	2	0	100%	Both Annual Audit plans were published on time. All other Annual audit plans are due to be published in Q4.
Annual Audit Plans – Firms (99)	19	19%	18	1	95%	One annual audit plan delivered late due to waiting for Audit Committee taking place after the due date. All other Annual audit plans are due to be published in Q4.
Accounts certified – Audit Scotland (123)	113	92%	113	4	96%	100% NHS certified 91% CG Accounts certified 100% LG Accounts certified
Accounts certified – Firms (99)	67	68%	67	1	99%	100% NHS certified 57% CG Accounts certified 100% LG Accounts certified

Annual Audit Reports – Audit Scotland (123)	104	85%	104	8	92%	100% NHS annual reports 80%CG annual reports 100% LG annual reports
Annual Audit Reports – Firms (99)	66	67%	66	1	98%	100% NHS annual reports 54% CG annual reports 100% LG annual reports
Performance Audit (7)	4	57%	4	1	80%	One report has been rescheduled to Q3
Best Value Assurance Report (7)	5	71%	5	0	100%	
Overview Report (3)	1	33%	1	0	100%	
Statutory (12)	5	42%	5	0	100%	
Other (25)	13	54%	13	4	69%	
<b>Total</b>	<b>399</b>	<b>55%</b>	<b>398</b>	<b>20</b>	<b>95%</b>	

**On budget:** In Q2 the expenditure on audit is four per cent under budget and within our 5 percent budget tolerance.

	Budget	Actual	£ Variance	% Variance
ASG	10,119,327	9,656,260	463,067	-4.5%
PABV	985,586	1,004,393	18,807	1.91%
<b>Total</b>	<b>11,104,913</b>	<b>10,660,653</b>	<b>-444,260</b>	<b>-4.00</b>

**Forward look:**

- Statutory reports in Q3
- General election publication moratorium in Q3

	<b>Audit work is of high quality and we are systematically improving the quality of our work</b>
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Key Performance Questions	2018-19				2019-20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Are we assured about the quality of our work?	G	G	G	G	G	G		
Are we improving the quality of our work?	G	G	G	G	G	G		

<p><b>Key messages</b></p> <ul style="list-style-type: none"> <li>The Internal Audit report on the audit quality framework, gave substantial assurance on both design and operational effectiveness and made no recommendations for improvement.</li> <li>We have developed an improvement plan informed by internal and external quality reviews. This was presented to Audit Scotland's quality committee in June and October 2019 and includes plans to revise our approach to audit sampling. We are also updating the Audit guide to include early adoption of ISA540.</li> <li>During Q2 work on quality concentrated on developing the Audit Management Framework, supporting ongoing audits, drafting the revised Audit Guide and responding to previous internal and external quality reviews.</li> <li>The National Audit Office is proposing using Audit dimensions which are similar to those in use by Audit Scotland as part of its new code of audit practice.</li> </ul> <p><b>Actions</b></p> <ul style="list-style-type: none"> <li>Implementation of the quality review actions, the revised AMF and development of the new Code of Audit Practice.</li> </ul>
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<p><b>Quality assurance and improvement during Q2 included:</b></p> <ul style="list-style-type: none"> <li>The project to review and refresh the Audit Management Framework (AMF) for performance audits and overview reports is progressing well. This is to ensure the audit work complies with the International Organisation of Supreme Audit Institutions (INTOSAI) standards for performance auditing. The planning and evidence stages of the AMF have been revised and approved. In Q2 the Project Board approved the revised Reporting Stage of the AMF. Guidance for auditors has been produced covering the revised stages.</li> <li>We have introduced a new process for approving 'other products/outputs' to ensure quality and consistency.</li> </ul> <p><b>Technical guidance/ notes</b> published in Q2 included:</p> <ul style="list-style-type: none"> <li>audit of 2018/19 annual accounts (colleges)</li> <li>independent auditor's reports (colleges)</li> <li>whole of government accounts returns</li> <li>the process for seeking approval for briefing papers to ensure consistency and improve quality</li> <li>a bulletin on technical developments and emerging risks in the quarter and support for auditors in respect of statutory objections to the accounts</li> <li>6 Frequently Asked Questions outputs, 16 briefing notes to provide auditors with a synopsis of new technical documents and replies to 306 technical enquiries all of which were within target response times.</li> </ul>
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<p><b>Forward look:</b></p> <ul style="list-style-type: none"> <li>2019/20 Interim Audit Quality report - October 2019.</li> <li>Percentage of fit and proper forms completed will be published annually in Q4 report.</li> <li>Percentage of staff subject to Disclosure Scotland will be published annually in Q4 report.</li> </ul>
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## We get our messages out effectively

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

### Key messages

- Regular ongoing engagement with Parliament and the Accounts Commission in Q2.
- Media, Social media and Web downloads are all up on the previous quarter and same quarter last year.
- The top 3 published reports by media coverage were the [NHS Workforce: Part 2](#); [Finances of Scottish universities](#); [Scottish Government Consolidated Accounts](#).
- Communication figures across all three categories are up on same quarter last year (Q2 18/19 -Media 268, Downloads 191,886 and engagements 6,420).
- We issued the first report on the [Finances of Scottish universities](#). We added new GIFs (Graphics Interchange Format) to social media content. This format acts like a 'digital flip book', allowing us to convey a range of information succinctly within the one file.
- We have responded to six consultations, received 44 new correspondence concerns and responded to eight Freedom of Information requests.

### Engagement

In Q2 we attended:

- Three Parliamentary engagements (one health and Sport committee, one Local government and communities committee and one meeting with Health and Sport Committee clerks).
- Five external working group meetings, to ensure Audit Scotland is engaging with relevant standard setters as they prepare and review relevant codes, manuals, standards and guidance.

We responded to six consultations:

- Revisions to Ethical and Auditing Standards 2019.
- Budget/financial scrutiny on roads maintenance .
- Housing benefit subsidy claim form 2020/21.
- LGCC pre-budget scrutiny into the long-term financial sustainability of local government.
- National Islands Plan as set out in Part 2 of the Islands (Scotland) Act 2018.
- Proposals for a new national public health body in Scotland, to be known as 'Public Health Scotland'.

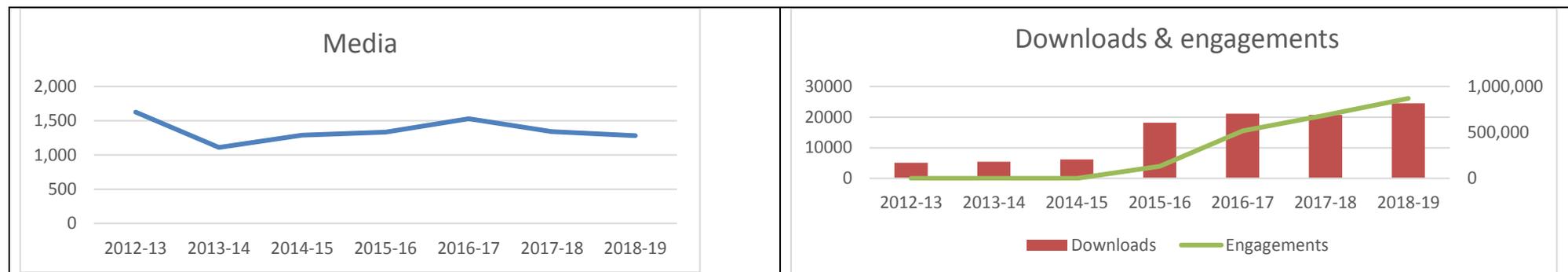
We also responded to three technical consultations (2020/21 local authority accounting code, revisions to auditing standards and the CIPFA/LASAAC stakeholder survey on financial reporting).

**Communications**

Communication figures across all three categories are up on same quarter last year (Q2 18/19 -Media 268, Downloads 191,886 and engagements 6,420). The media download and engagement trend data shows the fluctuation over time but remains consistent over all. Downloads and engagements continue to rise.

	Q1	Q2	Q3	Q4	YTD	18/19
Media	304	340			644	1,283
Downloads	123,448	232,975			356,423	817,436
Engagements*	5,881	7,991			13,872	26,118

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



**Media**

The three reports with the most media coverage were the NHS Workforce: Part 2; Finances of Scottish universities; Scottish Government Consolidated Accounts.

- The issues with the new Royal Hospital for Sick Children saw calls in the media for an Audit Scotland investigation and there was further coverage when we released the Annual Audit Report on NHS Lothian.
- The Midlothian BVAR received more coverage than most other best value reports in 2019/20 with strong local media interest (Midlothian Advertiser, Edinburgh Evening News).
- The NHS Workforce report received a lot of interest despite the media focus on EU withdrawal in Q2.

**Downloads**

- The publication of the privacy notice on the National Fraud Initiative accounted for around 8,000 downloads across each month of the quarter.
- A number of older reports (including the 2016 Social Work report and a number of health-related reports spanning 2012-2018) continued to receive between 1 and 2,000 downloads in each month of the quarter. This reflects the wide audience for these reports compared to, for example, the narrower audiences for some reports.
- Of the more recent reports, the Fraud and Irregularity update had over 1,000 downloads in July.

**Social media activity**

- There was wide interest in the Strategic Scrutiny Group’s report Principles for Community Empowerment paper social media posts. The audit lead encouraged bodies represented on Group to share our Twitter posts and this boosted the engagement rates. There was also high levels of interest in this paper across our audience on twitter, with the #communityempowerment hashtag bringing lots of people to the content.
- Media content (video and audio) continues to form the backbone of our content on twitter.

**Correspondence**

Audit Scotland handles a wide range of correspondence from members of the public, elected representatives and organisations.

<b>New correspondence cases</b>	Q1	Q2	Q3	Q4	YTD	18/19
Number of cases	36	44			80	99
Acknowledgement within five working days	100%	95%			98%	99
Final response within 30 working days	94%	100%			97%	98

Figures above are for new and reopened cases.

- Two acknowledgements were missed (however the final responses were within the 30 days target).
- We also had 23 audit enquiries (e.g. figures within reports, guidance and access to materials/reports) (34 in Q2 18/19).

**FOI/EIR/Complaints**

There were Eight FOI requests, no EIRs and no complaints in Q2 and all FOIs were answered with the 20 Day deadline.

**Trend data:** [link](#)

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

**Key messages / Things to note:**

There are many examples of impact at the local level from audit work in Q2 (examples below).

**Actions:**

We are developing a more systematic impact and recommendation monitoring process for performance audits which will be in place by the end of Q3.

**Examples of where work has made a positive impact include:**

*Central Government: Transport Scotland* has made initial progress on the recommendations in the 2017 performance audit Transport Scotland's ferry services and is committed to developing a Scotland-wide, long-term strategy for its network of subsidised ferries by 2022. Development of the strategy has been influenced by the need to take forward several inter-connected issues and projects. In other areas relating to ferries improvements have been made to the procurement and management of ferry contracts.

*Central Government:* The Performance report in the first draft of the unaudited accounts was of poor quality and required improvement to ensure it complied with the minimum Financial Reporting Manual (FRoM) requirements. The Performance Report changed significantly following meetings with the Director of Finance and further refinement is planned during 2019/20 when the Executive Board meet to discuss presentation, layout and content for the 2019/20 accounts.

*Central Government body:* The audited body was unable to demonstrate how best value was being achieved. We provided examples of best value framework documents, from other organisations and the body are using these to help develop their own best value framework document.

*Central Government body:* The body does not have a formal SLA with the Scottish Government for the provision of key financial services such as payroll. Our report identified that they are receiving a poor level of service and that should review their arrangements with the Scottish Government to ensure that they are obtaining value for money. The body has decided to review its arrangements including whether a formal SLA should be put in place specifying service standards.

*Central Government body:* Audit work identified that there is no automatic control which requires journals to be authorised before they are posted and that there is no management oversight of journals posted. The client has agreed to work with Accountancy Services (SG) and Internal Audit to improve management of transaction in the ledger and for a prompter resolution of any mis-posting. We also identified that no checks were undertaken of staff leavers' final salary payments. The body has agreed to compare payroll information each month with starters and leavers and the ledger with any discrepancies followed up with Pay Administration Team at SG. Audit work also identified that two members of staff who had left the body did not have their access rights to the purchasing system revoked and the body is now addressing this.

**Insight and foresight**

In Q2 we published the *Principles for community empowerment* report-This report aims to raise awareness of community empowerment and promote shared understanding across scrutiny bodies to support high-quality scrutiny.

*EU withdrawal* - We have hosted round-table meetings for organisations to discuss how the public sector and its partners are being affected by and preparing for EU withdrawal. The bodies attending included representatives from; Universities Scotland, British Medical Association Scotland, and the Society of Chief Officers of Environmental Health in Scotland.

Colleagues attended [the Parliament's Equalities & Human Rights Committee](#) to support members' scrutiny of the Scottish Governments' draft budget 2020-21. The inquiry intends to explore public sector funding to third sector organisations that deliver national equalities and human rights priorities, and to assess the accountability of public bodies partnering with the third sector.

We welcomed a delegation of five senior representatives from the Shanghai Municipal Audit Bureau. This body audits public bodies and state-owned companies in what is the commercial powerhouse region of China. We discussed our audit approach and opportunities for ongoing collaboration and good practice sharing. We also had two further delegations from China in September. The delegations, from China's Ministry of Finance and the equivalent of the National Audit Office were keen to learn more about our work and these events focussed on more technical aspects as China moves towards accruals accounting.

**Feedback received:**

*Central Government body:* The 2018/19 Annual Audit report was well received by the Audit and Risk Committee and the Chair complimented the audit team on the quality of their audit work and the clarity of the report.

*Central Government body:* Previously the Accountable Officer written to us on behalf of all four collection bodies expressing concerns about an Audit Scotland team being appointed as external auditors. He no longer expresses those concerns and is satisfied with our performance. The quality of our audit work has turned around the perception in this body and the Chair of the Audit Committee complimented the team.



## We develop new and improved processes, products and services

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

### Key messages:

- We continue to develop processes, products and services to ensure we are delivering the appropriate work at the right time.
- This quarter the Communications team added GIFs (Graphics Interchange Format) to the content on social media. The first example of this was a GIF showing the best, likely and worst-case scenarios for the number of GPs in Scotland in the coming years. This format helps to get key messages out quickly and effectively.

### Actions:

- We are refining the guidance on the principles for community engagement guidance for auditors.

### Examples of new improved processes, products and services include

We have developed a process for developing and approving briefing and other papers prepared on behalf of the AGS and Accounts Commission, or as standalone Audit Scotland outputs. There is an emphasis on early and continued engagement with the AGS/Commission as briefing papers are developed and approved and an expectation that colleagues working on briefing papers will develop a clear scope document which is to be agreed with the AGS and/or Commission through either the cluster briefing process or via the quarterly meetings with the AGS and/or the Commission's Performance audit committee.

**Principles for community empowerment** - we issued [guidance](#) to auditors on community empowerment. We will be expanding the guidance later this year and provide more specific guidance about different elements of community empowerment.

In Q2 we have been updating the Audit Guide to include the early adoption of ISA 540 along with more information on digital auditing. The guide will be published in Q3.

A revised audit approach project is to commence shortly to revise ASG's current approach in a number of areas including audit sampling. The revised approach is to be developed between now and summer 2020 with training due to commence autumn 2020 for roll out to the 2020/21 audits.



## We manage our resources effectively and maximise efficiency

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

### Key messages

The financial position as at the end of Q2 is a minor overspend to budget of £13k (0.5%). This is primarily due to the timing of other administrative expenditure compared to the budget phasing. Current projections indicate that the position at the end of Q3 will be on budget.

In the six months to September 2019 we were operating at 96.7 per cent of establishment and are currently under budget and across a range of budget headings.

The legal, professional and consultancy (LPC) spend is 9k lower than budget but higher than last year's expenditure. This is largely due to the planned increase in consultancy support on the next round of audit procurements.

There is some anecdotal evidence that some of the Audit firms are experiencing some resourcing challenges.

### Action

The resourcing pressures were considered at the ASG planning away day on the 9 October and the Audit Directors meetings on 12 November with a range of actions identified and fed into the current review of audit resourcing arrangements.

We are upgrading some of the internet connections, where fibre is available, to minimise the number or remote connection losses.

### Resource management

In the six months to 30 September 2019, Audit Scotland's Net Operating Expenditure was £2,760k which was £13k more than budget

	Q1	Q2	Q3	Q4	18/19
Actual	(1,233)	(2,760)			(9,827)
Budget	(1,422)	(2,747)			(9,891)
Variance K	(13.3%)	(0.5%)			0.6%

**Staff** - The average number of staff in the quarter was 96.7% of the establishment.

	Q1	Q2	Q3	Q4	18/19
2019/20 establishment w.t.e	286.4	286.4			279.5
Average number of staff employed in 2018/19 w.t.e:	280.2	281.6			278.6
No. of staff at end of quarter w.t.e:	284.7	276.9			283.6

**Staff and Agency costs** – The total staff costs in the three months to June 2019 were 30k below budget.

	Annual Budget £000	Actual YTD	Budget YTD	Variance	Actual Average WTE	Budget WTE
Total Staff costs 2019-20	16,751	8,230	8,323	93	296.4	296.1
Total agency & secondments 2019-20	75	282	69	(213)		
Q2 Staff costs 2018-19	15837	7,764	7,797	33	288.0	285.5
Q2 agency & secondments 2018-19	70	111	59	-52		

**Legal, professional and consultancy** spend is higher than Q2 last year but below budget for 2019/20. The increase in budget was due to the planned increase in consultancy for the next round of audit procurement.

	Q1	Q2	Q3	Q4
Actual	87	221		
Budget	83	230		
Prior year spend	54	150		

**Estate** - Estate costs in the three months to June 2019 are 10k below budget but above last year's expenditure.

	Q1	Q2	Q3	Q4
Actual	202	403		
Budget	206	413		
Prior year spend	209	392		

**Costs of travel** - Travel costs in the three months to June 2019 are on budget and lower than last year's spend in the same quarter.

	Q1	Q2	Q3	Q4
Actual	207	433		
Budget	217	433		
Prior year spend	227	455		

**Capital Expenditure and Funding** – Capital investment in the six months to September 2019 is £35k and includes HR software, Firewall software and furniture

**IT network up time**

IT Network	Q1	Q2	Q3	Q4	18/19
IT uptime (%)	99.36	99.43			99.6
Working hours lost	1517	1439			3758
Average time lost per person	5.2hrs	4.55hrs			660

Two significant outages during the quarter affected IT network uptime:

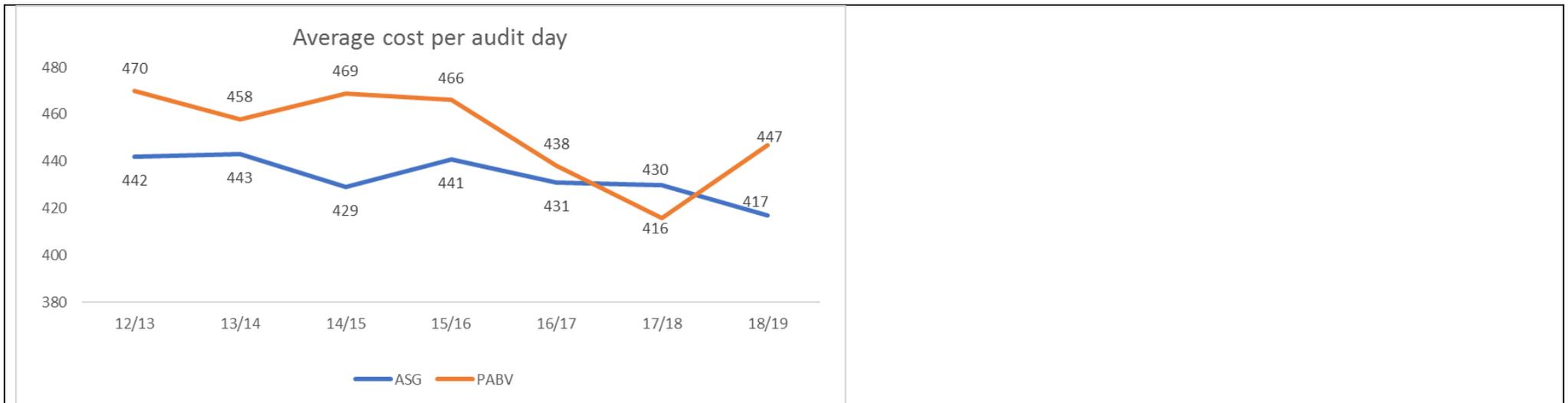
- network misconfiguration affected staff connecting remotely from other offices and a firewall configuration had to be restored. A change control process has been strengthened to mitigate the risk of this happening again.
- we saw an increased number of drops in remote connections first thing in the morning. We are looking at upgrading some of these connections where fibre connections are now available.

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

- 99.5% (802/806) of incidents were accepted within the response time SLA.
- 91.84% (704/806) of requests were closed within the fix time SLA.
- An average of 2.6 incidents were logged per user.

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

	19/20%				18/19%			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
ASG	57	71			60	73	60	64
PABV	72	74			70	70	65	69



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

#### Forward look

- ADs meet on November 12<sup>th</sup> to take forward discussions on how cross organisational resourcing and deployment.
- The Environmental, sustainability and biodiversity report will be published in November 2019.

**Trend data:** [link](#)


**We manage information and intelligence effectively (internal)**

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

**Key messages:**

- we achieved ISO 27001 recertification in Q2
- The migration from iShare to SharePoint on-line is progressing well
- There were no data incidents in Q2

**Key projects update:**

There are several digitally enabled improvement projects under -way. These are detailed in the quarterly Strategic Improvement Programme update report:

- Navision finance upgrade and migration - Mar – July 19 – complete.
- HR system upgrade and migration – completed October 2019.
- Time Recording and expenses - Mar – Nov 19 – Go live November (CentralTime users) and December (MKITR users).
- Office 365 (SharePoint Online) - Progressing - 70 % complete to date. Data migration to be complete by December 2019.
- Performance Management Framework – work progressing - go live April 2020.

**Issues/ risks/ actions:**

- Projects do not run to schedule and delays in one project may impact on the others.

**Forward look:**

- New HR system went live on 28 October 2019.
- New time recording system to be rolled out November/December.


**We empower and support our people to be engaged, highly skilled and perform well**

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

**Key messages**

We published the workforce plan and the learning and development strategy in Q2 and welcomed 16 new trainees.

Absence and turnover rates remain low.

The work force plan reflects the impact of Audit Scotland assuming additional audit responsibilities within an increasingly complex public audit environment. Along with the Learning and development strategy the plan sets out how to grow and strengthen our workforce to ensure we have the capacity and resilience to deliver our business priorities, and to ensure colleagues have the skills to deliver high-quality audit work.

The cross-organisational joint resourcing project is ongoing. This includes reviewing the demand and supply side pressures on capacity and developing a number of actions to address them. The work to date includes:

- Short term actions including the use of agency staff and deployment of colleagues across business groups.
- Intake of 14 new professional trainees and 2 school leavers.
- Meetings with colleagues in both audit business groups alongside consideration of Best Companies data.
- Analysis of ASG and PABV audit costs, capacity and resource planning data.
- Consideration of the resourcing approaches adopted by other UK audit agencies and audit firms.

The work undertaken is helping us to assess the effectiveness of our current arrangements and to inform proposals for improvements across the organisation and within business groups. The AD led project team will report back to Audit Scotland Management Team by the end of 2019 with an update and recommendations.

Exam performance to date is lower than last year.

**Action**

We will benchmark exam performance to see how performance compares with others.

**Empowered and engaged –**

The Learning and development report and plan was shared with colleagues at the end of July 2019 and events for 2019/20 continue to be scheduled. Additional mentoring information sessions took place in August & September across Edinburgh and Glasgow.

Delegation coaching clinics took place in August and September

**Career Paths - Trainees:** On 30 Sept we welcomed in 14 new professional trainees and 2 school leavers. As part of their onboarding they attended a variety of training sessions including the corporate induction, Essential Series, Client Relationship Management, Essential Auditing, MKI and participated in an interactive session on resilience for work & study with the Keil Centre.

**Absence levels** -Absence levels remain low. The Q2 figure may be lower than the actual as we transition data to the new Cascade HR system as some staff may be holding off recording information in the temporary system. Data will be checked and updated in the Q3 report.

	Q1 days	Q2 days	Q3 days	Q4 days	ytd days
<b>Audit Scotland – 19/20</b>	1.6	0.46			2.06
Audit Scotland - 18/19	1.28	0.76	1.41	1.4	4.85
Audit Scotland - 17/18	0.69	1.16	1.07	1.12	4.40
Audit Scotland - 16/17	1.03	1.37	1.27	1.28	5.32

**Staff turnover** - All leavers (1.33%) is lower than the last quarter (1.68%) and lower than 2.82 in Q2 last year. The whole year turnover is currently projected to be similar to last year and is expected to be below the CIPD benchmark.

	Q1	Q2	Q3	Q4	YTD	18/19	CIPD benchmark
Resignations %	1.34	1.0			2.34	6.72	
All Leavers %	1.68	1.33			3.01	11.26	

**Career paths** In Q2 we promoted three colleagues and welcomed 18 new colleagues including the graduate/school leaver trainees.

Vacancies filled	19/20 YTD	18/19
Internal	4	15
External	24	15
<b>Total</b>	<b>28</b>	<b>30</b>

**Exam results:** There were 27 exams taken and 20 passes. The percentage pass rate 74 per cent is below last years but the small numbers involved means the percentage rate can vary sharply. The year to date pass rate is below last years q2 year to date rate of 82.6 per cent.

	Q1	Q2	Q3	Q4	YTD	18/19
Exams taken	8	27			35	112
Exams passed	6	20			26	96
% pass rate	75	74			74	86

**Highly skilled** - The number of events run year to date are slightly higher than last year's 33 and attendance is slightly lower than 413 last year.

Over the last three year we have run 80-100 events a year with 1300-1400 attendances. Q3 is historically sees the largest number of events and we are expecting this year to be similar to previous years.

	Q1		Q2		Q3		Q4		YTD		18/19	
	Events	Attendees	Events	Attendees	Events	Attendees	Events	Attendees	Events	Attendees	Events	Attendees
Health & Safety	2	28	0	0					2	28	1	25
Knowledge Cafes	2	10	0	0					2	10	12	266
Learning & Development	2	17	3	35					5	52	8	64
Management Development	5	19	3	7					8	26	8	54
Organisational Development	8	38	4	30					12	68	26	496
Technical Training	7	151	3	39					10	190	31	469
Total	<b>26</b>	<b>263</b>	<b>13</b>	<b>111</b>					<b>39</b>	<b>374</b>	<b>86</b>	<b>1,374</b>

**Forward look:**

- Cascade HR system launch on 28 October 2019
- PABV full-team development day – December 2019
- The Best Companies survey will run from 18 October until 8 November. The results will be available for sharing with colleagues by the end of 2019

**Trend data:** [link](#)

## Purpose

1. This report invites the Board to consider an update on the strategic improvement programme.

## Background

2. The strategic improvement programme is a key enabler for achieving our vision of being a world class audit organisation. The programme includes a broad range of improvement work which supports the delivery of the two main organisational objectives set out in [the 2019/20 Corporate Plan update](#):
  - Delivering world class audit.
  - Being a world class organisation.
3. The improvement work is delivered through a combination of improvement projects and development work led by working groups, standing forums and professional leads.
4. The quarterly update reports provide updates on recent activity and the future plans and milestones in the key areas of work.

## Strategic improvement programme – Q2 headlines

5. We continue to make good progress on the programme over all. Headlines since the last report include:

 <b>Delivering world-class audit</b>	 <b>Being a world-class organisation</b>
<ul style="list-style-type: none"> <li>• Code of audit practice and appointments project progressing to schedule</li> <li>• Audit approach – progress on wide range of areas including; risk assessment, sampling and substantive analytical procedures</li> <li>• BV audit of local government and IJBs – ongoing engagement with Accounts Commission’s BV working group on development priorities</li> </ul>	<ul style="list-style-type: none"> <li>• Resourcing – several short and long term actions focussed on addressing capacity pressures (demand side and supply side) including</li> <li>• Digitally enabled projects; new Finance, HR and Time Recording Systems implemented, SharePoint on-line implementation progressing to schedule</li> <li>• Wellbeing – ongoing communications and initiatives</li> <li>• Learning &amp; development -L&amp;D plan published, programme of development opportunities ongoing</li> </ul>

6. The appendix provides more detailed information on key projects in the programme.

## Recommendations

7. The Board is invited to note the Q2 update, next steps and milestones.



## Delivering world-class audit



Audit quality



Code of audit practice



Digital audit



Communications and engagement



Diversity &amp; equality



Audit appointments

Project/ initiative/ workstream	Status update	Next steps
Audit Quality Framework	<p>The <a href="#">Quality of public audit in Scotland annual report 2018/19</a> and <a href="#">2018 Audit Scotland quality report</a> were published in June 2019.</p> <p>A revised draft Audit Quality Framework and the 2019/20 Interim Report have been presented to MT, AGS, Audit Quality Committee and Accounts Commission Committees – Sep/ Oct 2019.</p> <p>The main areas of ongoing development include:</p> <ul style="list-style-type: none"> <li>• Reporting</li> <li>• KPIs</li> <li>• Stakeholder surveys</li> <li>• Revised audit quality complaints procedure.</li> </ul>	<ul style="list-style-type: none"> <li>• Revised draft AQF and Interim Report in draft to Audit Committee and Board - Nov 2019.</li> </ul>
New Code of Audit Practice and procurement strategy for the next round of audit appointments	<p>Steering group in place, five meetings to date.</p> <p>Project teams operational and on track to deliver the three workstreams within the agreed timescales:</p> <ul style="list-style-type: none"> <li>• Code of Audit Practice</li> <li>• Procurement strategy</li> <li>• Tendering and appointments.</li> </ul> <p>Key progress to date includes:</p> <ul style="list-style-type: none"> <li>• Preparation of Draft Code pre formal consultation</li> <li>• Completion of market engagement exercise.</li> </ul>	<p>The key project workstreams are:</p> <ul style="list-style-type: none"> <li>• 2020 Code development and approval (Jul 2019 to June 2020).</li> <li>• Procurement strategy development and approval (Aug 2019 to Mar 2020).</li> <li>• Tender and appointments exercise (Mar 2020 to May 2021 tbc).</li> </ul>
ASG Audit approach	<p>Refresh of ASG financial audit approach based on audit quality findings and developments in the auditing profession generally, including:</p> <ul style="list-style-type: none"> <li>• Risk assessments and audit assertions</li> <li>• Audit sampling, approach and coverage</li> </ul>	<ul style="list-style-type: none"> <li>• Application of refreshed approach for 2020/21 audits i.e. from Oct 2020, supported by training around that time.</li> </ul>

Project/ initiative/ workstream	Status update	Next steps
	<ul style="list-style-type: none"> <li>• Application of substantive analytical procedures</li> <li>• Criteria for applying digital audit approach.</li> </ul> <p>The Audit Quality Committee considered the improvement plan update report on 16 Oct 2019.</p>	
Auditing Best Value	<p>In August the Accounts Commission's BV Working Group considered <a href="#">proposals</a> for taking forward priorities agreed at the Commission's Strategy Seminar, for auditing Best Value in councils and Best Value in IJBs.</p>	<ul style="list-style-type: none"> <li>• BV in councils - BVAR five-year programme to be completed as planned. New CoAP to reflect BV audit work being fully integrated with the annual audit for new appointments. An update paper is being discussed by the Commission in November.</li> <li>• BV in IJBs - An update paper is being discussed by the Commission in November.</li> <li>• Community empowerment - Accounts Commission Chair and Deputy Chair discussing how to develop the approach to CE. Work continuing as part of programme development to support local audit teams and consider future audit work in this area.</li> </ul>
Digital auditing	<ul style="list-style-type: none"> <li>• GovTech – assessment of shortlisted bids by Government Digital Services - Sept 2019. Proposals presented to assessment group 14/08/19 and are under review.</li> <li>• Management Team agreed proposal for expanding digital capacity - 3 Sep 2019. Role profiles agreed.</li> <li>• Hosting Digital Public Audit Forum w/c 12/11/19.</li> </ul>	<ul style="list-style-type: none"> <li>• Recruitment process for additional digital capacity – complete by Dec 2019.</li> </ul>
Electronic working papers (EWP)	<ul style="list-style-type: none"> <li>• Management Team approved project objectives and scope at its meeting on 16/07/19.</li> <li>• Project team and project management resources being identified.</li> <li>• Meeting with Supreme Audit Agencies 21/10/19 re their plans around EWP.</li> </ul>	<ul style="list-style-type: none"> <li>• Detailed project implementation plan –Dec 2019.</li> <li>• Project phases include: Specification, Market and product analysis, Procurement strategy, Procurement, Implementation, Testing and training.</li> </ul>

Project/ initiative/ workstream	Status update	Next steps
Communications and engagement	<ul style="list-style-type: none"> <li>Engagement with business groups to inform the new Communications and Engagement Strategy.</li> </ul>	<ul style="list-style-type: none"> <li>Update on New Communications and Engagement Strategy to Board 29/01/20.</li> </ul>
Diversity and equality	<ul style="list-style-type: none"> <li><a href="#">Mainstreaming equality and equality outcomes progress report</a> published May 2019.</li> <li><a href="#">Annual diversity report</a> published June 2019.</li> </ul>	<ul style="list-style-type: none"> <li>Implementation of actions in report including developments to audit approach, organisational arrangements and approach to human rights and socio-economic equality.</li> </ul>



**Being a world-class organisation**



Wellbeing



Resourcing



Learning and development



Harnessing digital technology



Leadership and managerial development



Sustainability

Project/ initiative/ workstream	Status update	Next steps
Resourcing	<p>Management Team considered a review report on resourcing at its meeting on 19 November 2019. The Audit Director led review and development work has been informed by:</p> <ul style="list-style-type: none"> <li>Engagement with staff groups to discuss the improvement areas identified in the MT report.</li> <li>Review of the root-causes of the resourcing challenges experienced across the business during 2019.</li> <li>Prioritisation of short, medium and longer-term improvement actions around: <ul style="list-style-type: none"> <li>Prioritisation and demand-management.</li> <li>Strategic workforce planning.</li> <li>Streamlining audit activity and approaches.</li> <li>Improving resourcing systems and processes.</li> <li>Staff communication and engagement.</li> </ul> </li> </ul>	<p>Key actions/ milestones are:</p> <ul style="list-style-type: none"> <li>Communication to all colleagues on the work already under way and further actions – November 2019.</li> <li>Development of a detailed action plan– December 2019.</li> </ul>

Project/ initiative/ workstream	Status update	Next steps
	<p><i>'Supply side' actions include:</i></p> <ul style="list-style-type: none"> <li>• Agency staff and backfilling following promotions.</li> <li>• Planned changes to professional trainee scheme (including earlier recruitment and timing of exams).</li> <li>• Engagement with universities re full year placements.</li> <li>• Increased flexibility of colleagues being deployed between business groups.</li> <li>• Planned integration of ASG/PABV resources planning process and options appraisal of resource planning software.</li> <li>• Development of (and resources to support) digitally enabled audit</li> <li>• Recruitment for specific improvement projects.</li> <li>• 2020/21 budget proposal to SCPA (Dec 19).</li> <li>• Fees and funding strategy.</li> </ul> <p><i>'Demand side' actions include:</i></p> <ul style="list-style-type: none"> <li>• Earlier risk assessments, focus on key risks and associated deployment of resources.</li> <li>• Refinements to audit guidance and templates.</li> <li>• Ongoing refinements to ASG audit methodology (inc. sampling and substantive analytical procedures).</li> </ul>	
Wellbeing	<ul style="list-style-type: none"> <li>• HWL Silver award progressing.</li> <li>• Carer Positive award progressing.</li> <li>• Invisible Conditions Policy (inc. focus on Menopause) produced and communicated.</li> <li>• Managers' Guide to Wellbeing produced.</li> <li>• Wellbeing workshops with Keil Centre taken place for BSS and ASG trainees with work underway with PABV and ASG Super-teams.</li> </ul>	<ul style="list-style-type: none"> <li>• Further communications and events on wellbeing scheduled and continuing partnership with the Keil Centre (more workshops tbc).</li> <li>• Managers Guide to Wellbeing, Carer Positive awareness sessions and SAMH Mental Health awareness session – Q3.</li> <li>• Mindful Enterprise engaging with LG as part of Leaderships Development and HR &amp; OD</li> </ul>

Project/ initiative/ workstream	Status update	Next steps
		exploring ways to bring this into management development.
Learning and development	<ul style="list-style-type: none"> <li>• <a href="#">Learning and development annual report 2018/19 and 2019/20 strategy</a> published July 2019.</li> <li>• Promotion of the <a href="#">L&amp;D learning hub portal</a> and on-line booking process.</li> </ul>	<ul style="list-style-type: none"> <li>• Implementation of the rolling strategy and plan including focus on digital skills.</li> </ul>
Leadership and management development	<ul style="list-style-type: none"> <li>• Themed Leadership Group meetings continue to take place.</li> <li>• 360 feedback exercise for members of the Leadership Group now concluded.</li> <li>• Update report to Management Team 29 October 2019.</li> </ul>	<ul style="list-style-type: none"> <li>• Leadership Group session November 2019 drawing from MBTI, 360 feedback as Best Companies data.</li> <li>• Ongoing programme of themed Leadership Group development sessions 2020.</li> </ul>
Harnessing digital technology - Digitally enabled projects	<ul style="list-style-type: none"> <li>• SharePoint on-line – sites build and data transfer progressing.</li> <li>• Navision finance system upgrade - completed July 2019.</li> <li>• New HR system – system went live 28/10/19.</li> <li>• New Time Recording System – system went live w/c 04 November.</li> <li>• PMF project – database build under-way.</li> </ul>	<ul style="list-style-type: none"> <li>• New TR system - MKI users go live December 2019.</li> <li>• SharePoint On-Line - completion by December 2019.</li> <li>• PMF - new PMF in place April 2020.</li> </ul>
Sustainability	<ul style="list-style-type: none"> <li>• Green Future Team (GFT) monitoring ongoing projects and the 2018/19 annual report approved by the Board on 18 September. The GFT is developing a 5 year climate change plan in the context of recent FM emergency climate declaration in May 2019.</li> </ul>	<ul style="list-style-type: none"> <li>• Environmental, Sustainability and Biodiversity annual report publication November 2019.</li> <li>• 5-year climate change plan to be published April 2020.</li> </ul>

## Review of standing orders 2019

Associate Director, Corporate Performance and Risk and  
Corporate Governance Manager

Item 14  
13 November 2019

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### **Purpose**

1. This report invites the Board to approve the updated Standing Orders as recommended by the Audit Committee.

### **Background**

2. Audit Scotland's Standing Orders, Scheme of Delegation and Financial Regulations are reviewed on an annual basis.
3. The Scheme of Delegation and the Financial Regulations were considered by the Management Team and Audit Committee on 13 August and 4 September 2019 respectively and agreed by the Board at its meeting on 18 September 2019.
4. The review of the Standing Orders was rescheduled to provide for the consideration of any amendments which might be required arising from the review of the Audit Scotland Board arrangements carried out for the Scottish Commission for Public Audit (SCPA).
5. The Board discussed the SCPA review and recommendations at its meeting on 18 September 2019 and the Chair of the Board wrote to the Chair of the SCPA on 15 October 2019.
6. A revised draft of the Standing Orders was considered by the Audit Committee at its meeting on 13 November 2019.
7. The Audit Committee agreed the revisions and recommends the Board approves the attached Standing Orders.

### **Recommendations**

8. The Board is invited to approve the updated Standing Orders as recommended by the Audit Committee.

# Standing Orders

DRAFT

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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# Standing orders

## Introduction

1. The Constitution and membership of Audit Scotland is unusual in having both members appointed by the Scottish Parliament and members with or having access to Direction giving powers. The Board will seek to operate on a consensus basis recognising that on occasion a majority decision may be reached and that the Auditor General and the Accounts Commission may issue Directions for the purpose of or in connection with the exercise of Audit Scotland's functions in relation to either or both of them.

## Constitution

2. Audit Scotland is a body corporate established under section 10 of the Public Finance and Accountability (Scotland) Act 2000 ("the Act").
3. The function of Audit Scotland is to provide such assistance and support as the Auditor General and the Accounts Commission require in the exercise of their respective functions and, in particular, to provide them, or ensure that they are provided, with the property, staff and services which they require for the exercise of those functions. The Auditor General and the Accounts Commission may give directions to Audit Scotland in connection with the exercise of their functions. Detailed provisions about the operation of Audit Scotland are contained in Schedule 2 to the Act as amended by the Public Services Reform (Scotland) Act 2010.
4. The Board remains responsible for the exercise of all functions of Audit Scotland. It exercises its powers and authorities through the Scheme of Delegation, which it determines and approves.
5. The members of Audit Scotland are the Auditor General, the Chair of the Accounts Commission and three other members appointed by the Scottish Commission for Public Audit.
6. The three other members will be appointed under terms and conditions, including remuneration, as determined by the Scottish Commission for Public Audit. The Auditor General and the Chair of the Accounts Commission may not receive any remuneration as members of Audit Scotland.
7. Members of Audit Scotland may terminate their appointments at any time by notifying, in writing, the appropriate appointing body, and following the prescribed period in the letter of engagement.
8. In these Standing Orders the members of Audit Scotland meeting together to discharge their functions are referred to as the Board.

## Chair

9. The Scottish Commission for Public Audit will appoint one of the members of Audit Scotland which it has appointed to preside at the meetings of the Board ("the Chair").

## Meetings

10. Meetings will be held in public at times, dates and places agreed by the members. In addition, a meeting may be called at any time by the Chair or by not less than three members giving the Chief Operating Officer a written request for such a meeting stating the business to be transacted. The use of video or telephone conferencing by members will be deemed as attendance at the meeting.

## Agenda and Papers

11. The Chair will approve the Board agenda, including the consideration of items to be taken in private, 10 working days prior to the scheduled meeting, following discussion with the Chief Operating Officer.
12. At least five clear working days before a meeting of the Board the Chief Operating Officer will send written notice of the approved time and place of the meeting and of the business to be transacted to each member. So far as possible, reports and other papers relating to agenda items will be circulated with the agenda.
13. At least two clear working days before a meeting of the Board the Chief Operating Officer will publish the meeting agenda and reports and papers to be taken in public on the Audit Scotland website.

## Conduct of Business

14. The Chair, if present, will preside. If the Chair cannot be present the Board must appoint one of the other members appointed by the Scottish Commission for Public Audit to preside at the meeting.
15. No business other than that stated in the notice of the meeting will be transacted at that meeting other than with the consent of the Chair and a minuted explanation of why the matter had to be conducted without the standard notice.
16. The Chair of the meeting will decide all questions of order, relevancy and conduct of business during the meeting.
17. A quorum for a meeting of the Board is three members including those present by telephone or video conference call. The Auditor General and the Chair of the Accounts Commission must be present for a quorum to be constituted, save that in the event that the Auditor General and/or the Chair of the Accounts Commission are unable to attend a meeting of the Board, either may confirm, by giving notice in writing, by email or where circumstances require verbally by telephone prior to the commencement of the meeting, that (i) they consent to the meeting proceeding in their absence; (ii) that the meeting may be deemed to be quorate

notwithstanding their absence provided the other requirements for a quorum to be constituted as set out in paragraphs 17, 18 and 19 are met; and (iii) that any business detailed on the agenda circulated pursuant to paragraph 12 and transacted at the meeting shall be deemed to be transacted validly provided that all other requirements of these Standing Orders are complied with.

18. Where the Auditor General and/or the Chair of the Accounts Commission consents to a meeting proceeding in their absence, they shall, within five working days of the date of the meeting, be provided with a copy of the draft minutes of the meeting produced pursuant to paragraph 21.
19. No business which is not detailed on the agenda circulated pursuant to paragraph 12, and which the Board deems to be material to the operation of Audit Scotland, shall be transacted at a meeting at which either the Auditor General and/or the Chair of the Accounts Commission is not present.
20. At any meeting the Board may suspend Standing Orders for the duration of the meeting or of any item of business provided a majority of the members present so agree.

## Minutes

21. Minutes of every meeting of the Board will be drawn up and will be approved at the following meeting.

## Directions

22. Section 10(4) of The Public Finance and Accountability (Scotland) Act 2000 (“the Act”) provides that:

'Directions may be given to Audit Scotland—

(a) by the Auditor General, for the purpose of or in connection with the exercise of Audit Scotland’s functions in relation to the Auditor General,

(b) by the Accounts Commission, for the purpose of or in connection with the exercise of Audit Scotland’s functions in relation to the Commission.'

23. Section 27(4) of the Act provides that:

'Directions under sections 10(4) and 19(4) and paragraph 6 of schedule 3 are to be given in writing and may be varied or revoked by subsequent directions under the same provision.'

24. In accordance with the provisions of sections 10(4) and 27(4) of the Act any directions given by the Auditor General or the Accounts Commission to Audit Scotland must be given in writing.
25. Following receipt of any direction given by the Auditor General or the Accounts Commission, Audit Scotland will hold a board meeting to consider the direction with regard to its own

statutory functions and implications for resources, staffing and other matters that are its responsibility.

26. The board meeting to be held in terms of paragraph (25) above will take place within 14 calendar days of the date of receipt by Audit Scotland of the direction.

## Vacancy

27. The proceedings of the Board will not be invalidated by any vacancy in membership or by any defect in the appointment of any person.

## Code of Conduct

28. Each member will abide by the Code of Conduct for Members of the Audit Scotland Board current at any time.

## Committees

29. The Board may appoint standing or ad hoc committees consisting of such numbers as the Board may determine. Committees may consist of members and other suitable persons chosen by the Board.
30. The Board will establish an Audit Committee with the terms of reference contained in Appendix 1.
31. The Board will establish a Remuneration & Human Resources Committee with the terms of reference contained in Appendix 2.
32. The Board will establish an Appeals Committee with the terms of reference contained in Appendix 3.
33. Any committee will operate within the terms of remit and any delegation made to it by the Board.

## Deeds and Documents

34. Any deed or document requiring formal execution by Audit Scotland will be signed for and on behalf of Audit Scotland by the Chair of the Accounts Commission or the Auditor General for Scotland and the Chief Operating Officer.

## Advisers and Committee Co-optees

35. The Board may appoint advisers and/or co-optees to Committees and pay them such remuneration and expenses as the Board decide. The co-option appointment procedure is contained in Appendix 4.
36. Employees of Audit Scotland, advisers and others may be present at items taken in private at meetings of the Board at the invitation of the members.

## Openness and Transparency

37. The Board will meet in public and will publish agendas, minutes and papers to be taken in public on the Audit Scotland website.

## Board Effectiveness

38. The Board will conduct a self-evaluation of its effectiveness on an annual basis.

## Application of Standing Orders

39. These Standing Orders will apply to meetings of committees of the Board subject to any due modification of details.

## Alteration

40. These Standing Orders may be altered by the Board provided that the alteration is approved by a majority of the members of the Board.

# Appendix 1: Audit Committee remit

41. The Audit Committee will consist of members of the Board. The Board may appoint persons who are not members of the Board to be members of or advisers to the Audit Committee and may pay them such remuneration and expenses as the Board decides. The Chair of the Board and the Accountable Officer may not be members of the Audit Committee but may attend meetings.
42. The purposes of the Audit Committee are detailed in the Audit Committee terms of reference. The key points are:

## Internal Control and Corporate Governance

43. To evaluate the framework of internal control, strategic processes for risk and corporate governance comprising the following components:
  - Control Environment.
  - Risk Management.
  - Information and Communication.
  - Control Procedures.
  - Monitoring and Corrective Action.
  - Audit quality monitoring and arrangements.
44. To review the system of internal financial control, which includes:
  - The safeguarding of assets against unauthorised use and disposal.
  - The maintenance of proper accounting policies and records and the reliability of financial information used within the organisation or for publication.
  - To ensure that Audit Scotland's activities are within the law and regulations governing them.
  - To monitor performance and best value by reviewing the economy, efficiency and effectiveness of operations.
  - To present an annual statement of assurance to the Board to support the Accountable Officer's governance statement.

## Internal Audit

- To review the Terms of Reference and appointment of the internal auditors.
- To review and approve the internal audit strategic and annual plans.
- To monitor audit progress and review audit reports.

- To monitor the management action taken in response to the audit recommendations through an appropriate follow up mechanism.
- To consider internal audit's annual report and assurance statement.
- To review the operational effectiveness of internal audit by considering the audit standards, resources, staffing, technical competency and performance measures.
- To ensure that there is direct contact between the Audit Committee and internal audit and that the opportunity is given for discussions with internal audit who should attend every meeting of the Committee.

## External Audit

45. To consider all audit material, in particular:
  - Audit Reports.
  - Annual Reports.
  - Management Letters.
  - Management Reports.
46. To monitor management action taken in response to all external audit recommendations.
47. To hold meetings with the external auditors at least once per year and, as required, without the presence of senior management.
48. To review the extent of co-operation between external and internal audit.
49. The external auditor will be appointed by the Scottish Commission for Public Audit under Section 25 of the 2000 Act. The external auditor will examine and certify the account and report on the account to the Commission. The Commission must lay before the Parliament a copy of the account and the auditor's report and publish the account and that report.

## Annual Accounts

50. To review and recommend approval of the Annual Accounts.

## Standing Orders, Financial Regulations and Scheme of Delegation

51. To keep under review the Standing Orders, Financial Regulations and Scheme of Delegation and recommend to the Board any amendments.

## Other duties

52. The Audit Committee may take on other duties as determined by the Audit Scotland Board.

# Appendix 2: Remuneration & Human Resources Committee remit

53. The Remuneration & Human Resources Committee will consist of members of the Board. The Board may appoint persons who are not members of the Board to be members of or advisers to the Remuneration & Human Resources Committee and may pay them such remuneration and expenses as the Board decided.
54. The purposes are detailed in the Remuneration & Human Resources Committee terms of reference.

## Remuneration & Human Resources Committee responsibilities

55. In relation to members of Audit Scotland's Management Team, are to:
  - Review and approve all terms & conditions of employment, including job descriptions, all pay and benefit reward elements associated with each post.
  - Ensure remuneration policy and strategy is aligned to the relevant public sector policies being implemented by the UK and Scottish Governments.
  - Set and review the overall reward structure, including the value of pay ranges and general annual pay award strategy.
  - Assure itself that effective arrangements are followed for performance assessments in respect of Audit Scotland's Management Team, including any changes to pay and benefits arising from the assessment of performance during the review period.
  - Review talent management and succession planning arrangements.
  - Approve remuneration packages for newly appointed members of the Management Team.
  - Recommend appointments and changes affecting Management Team to the Board.
  - Decide on applications for early retirement.
  - Determine compensation payments for loss of office.
  - Agree, oversee and review the operation of expenses policy.
  - Review the expense claims of the Accountable Officer on an annual basis.
56. In relation to other staff employed by Audit Scotland, are to:
  - Determine the remuneration policy governing all terms and conditions of employment, including pay, benefits, retirement policy and other policies relating to compensation for loss of office.

- Ensure remuneration policy and strategy is aligned to the relevant public sector policies being implemented by the UK and Scottish Governments.
- Approve the parameters for the annual pay award cycle.
- Review, not less than annually, the application of remuneration policy.
- Assure itself about any issues relating to the overall performance of employees.

## Other duties

57. The Remuneration & Human Resources Committee may take on other duties as determined by the Audit Scotland Board.

# Appendix 3: Appeals Committee remit

58. The Appeals Committee will consist of at least two members of the Board.
59. The purpose of the Appeals Committee is:
- To consider and dispose of any matters requiring independent deliberation which may be referred to it by the Board.
  - To hear and dispose of appeals by members of the Management Team under the Audit Scotland disciplinary and grievance procedures.

# Appendix 4: Co-option procedure

## Introduction

60. Audit Scotland's standing orders state that:

- The Board may appoint standing or ad hoc committees consisting of such numbers as the Board may determine. Committees may consist of members and other suitable persons chosen by the Board.
- The Board may appoint advisers and/or co-optees to Committees and pay them such remuneration and expenses as the Board decide. Employees of Audit Scotland, advisers and others may be present at items taken in private at meetings of the Board at the invitation of the members.

## Reasons for co-option

61. There may be times when specialist expertise is required which the Board may be unable to fulfil, or when the current or future balance of skills available to the Board's committees may need strengthened.
62. The Board should discuss and agree the specification of skills and experience being sought through co-option.

## Nominations process

63. If the Board agrees to co-opt to its committees to fulfil requirements identified under 60 above, an advertisement seeking expressions of interest will be placed on Audit Scotland's website.

## Application process

64. Applicants for co-option should provide a written statement of their relevant skills and a CV.
65. Following a shortlisting process, applicants will be interviewed by the Chair of the Board and the Chair of the relevant committee, plus one other member of the Board.
66. Candidates and interviewers must declare any relationships or potential conflicts of interest to the Chair.
67. The Board should approve the final recommendation from the Chair.

## Term of Office

68. Co-option is intended to provide specific skills for a fixed term as determined by the Board.
69. There is potential for renewal, subject to the approval of the Board.

## Remuneration

70. Remuneration, where applicable, will be determined by the Board and will be no greater than the rate set by the SCPA for Board members.

## Conduct of co-opted members

71. Co-opted members will be required to follow the Audit Scotland Code of Conduct for Board members, and the associated disclosure requirements, and their appointment may be terminated by the Chair, subject to the approval of the Board.

## Engagement with Scottish Commission for Public Audit

72. The Board will write to the Scottish Commission for Public Audit in advance of the co-option of members to a Committee, setting out:
- the reason for co-opting
  - the process by which any appointments will be made.