

Agenda

Wednesday 29 January 2020 at 10.15am

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

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

Standing items

4. Chair's report – verbal update For information
 5. Accountable Officer's report – verbal update For information
 6. Accounts Commission Chair's report – verbal update For information
 7. Review of draft minutes: Board meeting 27 November 2019 For approval
 8. Review of action tracker For information
 - Closing action ASB97
-

Business management

9. EU withdrawal update For information
 10. Best Companies survey results 2019 For information
-

Governance

11. ONS reclassification of Audit Scotland For information
 12. Audit Committee Terms of reference For approval
 13. Transition planning for Auditor General and Board appointments For information
-

Conclusion

14. Any other business
15. Review of meeting
16. Date of next meeting: 25 March 2020

Items to be taken in private

- | | |
|--|-----------------|
| 17. Communications and engagement strategy 2020-23
[Item to be taken in private to support effective conduct of business, intended for future publication] | For approval |
| 18. Stakeholder engagement and feedback
[Item to be taken in private to support effective conduct of business] | For information |
| 19. New audit appointments update
[Item to be taken in private to support effective conduct of business] | For discussion |

Wednesday 27 November 2019, 10.15am

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

Present:

Ian Leitch (Chair)
Caroline Gardner
Heather Logan
Alan Alexander

Apologies:

Graham Sharp

In attendance:

Diane McGiffen, Chief Operating Officer
Martin Walker, Associate Director, Corporate Performance and Risk
Stuart Dennis, Corporate Finance Manager
Gayle Fitzpatrick, Corporate Governance Manager
Owen Smith, Senior Manager, Audit Quality and Appointments
John Gilchrist, Manager, Audit Quality and Appointments

1. Welcome and apologies

The Chair welcomed members to the public meeting of the Audit Scotland Board, the agenda and papers for which had been published on Audit Scotland's website on Monday 25 November 2019.

The Chair noted Graham Sharp, Chair of the Accounts Commission, had shared his apologies and given notice that he was content the meeting proceed in his absence, in accordance with the Standing Orders.

The Chair welcomed Accounts Commission members Andrew Burns, Elma Murray and Tim McKay as observers as part of the Board's commitment to developing effective engagement with Accounts Commission members.

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 as set out on the agenda.

4. Chair's report – verbal update

The Chair provided a verbal update of meetings with Diane McGiffen, Chief Operating Officer, engagement with Parliamentary officials on succession planning and Board recruitment.

The Chair congratulated Alan Alexander on his appointment as Chair of the Board effective from 1 April 2020.

The Board welcomed the update.

5. Accountable Officer's report – verbal update

Caroline Gardner advised that, since the previous meeting of the Board, three NHS reports had been published including the NHS Overview, NHS Tayside and NHS Highland, all of which had received extensive interest and media coverage.

Caroline advised that the UK general election on 12 December 2019 had led to a publications embargo until the week commencing 16 December 2019 in line with usual practice and that several reports would now be published between 16 and 20 December 2019. Caroline invited the Board to note that the general election also delayed the Scottish budget and discussions were underway with the Scottish Commission for Public Audit in relation to Audit Scotland's budget submission.

Caroline invited members to note her engagement with the UK and Ireland Auditors General in London on 8 November 2019 and her attendance, together with Fraser McKinlay, Director and Controller of Audit, and Antony Clark, Audit Director, Performance Audit and Best Value, at a meeting of the UK Public Accounts Commission Network with the Isle of Man, Guernsey and Jersey hosted by the Scottish Parliament on 22 November 2019. Caroline also advised she has been asked to join the recruitment panel for the new Chair of the National Audit Office.

Caroline advised of an external speaking engagement at the Fraser of Allander event on 12 November 2019 and her appointment to the International Federation of Accountants effective from January 2020.

Caroline invited the Board to note that Audit Scotland's high-level results from the year's Best Companies survey had increased, despite a difficult audit year, and that a briefing would come to the Board in due course.

Heather Logan noted the reference to the new body Public Health Scotland and Caroline confirmed this would be an Auditor General for Scotland audit and that the fee for the audit had been included in Audit Scotland's budget proposal.

Heather Logan reflected on the various meetings with other audit agencies and asked whether there were any gaps when comparing quality framework arrangements. Caroline advised that Audit Scotland's quality framework is generally considered to be the most comprehensive and that the other UK audit agencies continue to develop their quality arrangements with reference to the framework.

The members welcomed the update.

6. Accounts Commission Chair's report – verbal update

In the absence of Graham Sharp, Chair of the Accounts Commission there was no update.

7. Review of minutes: Board meeting 18 September 2019

The Board considered the minutes of the meeting of 18 September 2019, which had been previously circulated and agreed that these were an accurate record of the meeting.

Alan Alexander recommended that the action under item 17, a further discussion on public meetings of the Audit Committee should be scheduled at the end of 2020, after the appointment of a new Chair of the Audit Committee. The Board agreed that Action ASB98 on the action tracker would be updated accordingly.

8. Review of minutes: Audit Committee 4 September 2019

The Board considered the minutes of the meeting of the Audit Committee on 4 September 2019, which had been previously considered and approved by the Audit Committee on 13 November 2019. The Board confirmed these were an accurate record of the meeting.

9. Review of action tracker

The Board noted the updates provided on the action tracker and agreed that Action ASB98 would be amended as agreed to be considered after September 2020.

10. 2019/20 Q2 Financial performance report

Stuart Dennis, Corporate Finance Manager, joined the meeting.

Stuart Dennis introduced the 2019/20 Q2 Financial performance report, a copy of which had been previously circulated.

Stuart invited the Board to note the financial results for the six months to 30 September 2019.

Heather Logan asked if the increases of agency staff throughout the year impacted on IT hardware, software and licence requirements. Stuart advised that short term licences were available if required and Martin Walker, Associate Director, Corporate Performance and Risk advised that there is sufficient hardware in place.

Following discussion, the Board noted the report.

Stuart Dennis left the meeting.

11. 2019/20 Q2 Corporate performance report

Martin Walker, Associate Director, Corporate Performance and Risk, joined the meeting.

Martin Walker introduced the 2019/20 Q2 Corporate performance report, a copy of which had been previously circulated.

Martin invited the Board to note performance in the quarter remained strong in terms of delivery and budget, with many audit reports delivered ahead of schedule and the continued development of the performance management framework. Martin also highlighted the inclusion of data and trend information in the report.

Heather Logan sought clarification on data sources for respective business groups and Martin advised that consultation with each group had ensured these are captured.

Heather noted the delivery of 90 additional audit reports in the quarter and in light of staffing pressures asked whether the audit teams should adhere to the planned outputs. Martin clarified that the annual workforce planning supports the annual work programme and the figures reported quarterly are a subset of that. He advised that the timing of individual audits would not impact materially on staffing pressures.

Caroline Gardner advised that delivery of audit reports are planned by the Audit Directors liaising with their teams and where work has been concluded earlier than scheduled, the teams use the time to undertake planning for the next audit year.

Alan Alexander noted the statistics for downloads on social media and asked how impact is measured in this area. Martin advised that the statistics provide quantitative information about getting audit messages out and that qualitative measures on impact feature elsewhere in the performance reports. Diane McGiffen advised that the Communications and Engagement Strategy is scheduled to come to the Board at its meeting on 29 January 2020 and will include information on measuring media reporting.

Heather Logan asked if the overall quality of training should be reported as amber given the staff quality survey results on the time available for training. Diane McGiffen highlighted the range of data available to assess the quality of training, of which the quality survey is one important part. Alan Alexander noted the drop-in exam performance and Diane confirmed that Audit Scotland have a detailed training plan for each trainee and that support is in place to help where any additional help is required. Diane also advised that results had been benchmarked against other users of the ICAS training and that Audit Scotland results compared favourably. She invited members to note the recent graduate training evening which attracted more than 50 people and provided them with the opportunity to learn more about the scheme from current trainees and ICAS.

Heather Logan asked about the variance in staff and agency costs and the likely outcome on the year end expenditure. Diane advised that the overall budget for the current financial year is tight as previously reported and advised that forecasting indicates there are no current concerns of an overspend for 2019/20.

12. 2019/20 Q2 Strategic improvement programme update

Martin Walker introduced the 2019/20 Q2 strategic improvement programme update, a copy of which had been previously circulated.

Martin Walker invited the Board to note the good overall progress made on the new code of audit practice and audit appointments project, refinement to the audit approach, ongoing work on Best Value methodology for councils and Integrated Joint Boards and the wide range of IT development projects implemented in the quarter.

Heather Logan asked how the principles of Community empowerment would impact Audit Scotland. The Chair invited Elma Murray, member of the Accounts Commission leading on work in this area and observing the meeting to provide an update.

Elma Murray advised that the Strategic Scrutiny Group had published a report in the summer which had been well received across local government. Elma advised that she and two other members of the Accounts Commission were in early stage discussions to explore how community engagement can be supported and reflected in the audit with an appropriate timeline for implementation.

Following discussion, the Board welcomed the progress reported.

EU withdrawal – verbal update

Diane McGiffen advised the Board of the publication of a further briefing note to be published on 16 December 2019 which summarised information on public organisations' preparedness for EU withdrawal.

Diane also invited the Board to note that a series of information drop in sessions for colleagues had been scheduled in Edinburgh and Glasgow during October and November, ongoing engagement across sectors and with the audit firms and that Audit Scotland's business continuity group continue to review and update arrangements as appropriate.

The Board welcomed the update.

13. Review of standing orders 2019

Gayle Fitzpatrick, Corporate Governance Manager, joined the meeting.

Gayle Fitzpatrick introduced the Review of standing orders 2019, a copy of which had been previously circulated.

Gayle Fitzpatrick invited the Board to consider and approve the updated Standing Orders as recommended by the Audit Committee.

The Board approved the Standing Orders as recommended by the Audit Committee.

Gayle Fitzpatrick left the meeting.

14. Any other business

There was no further business.

15. Review of meeting

The members welcomed the reports which had had prompted good discussion and the Chair thanked everyone for their contributions.

16. Date of next meeting: 29 January 2019

The members noted the date of the next meeting of the Audit Scotland Board scheduled for 29 January 2019 in the offices of Audit Scotland, 102 West Port, Edinburgh.

Items taken in private

17. 2020/21 SCPA Budget proposal

Stuart Dennis joined the meeting.

Stuart Dennis introduced the draft 2020/21 SCPA Budget proposal report, a copy of which had been previously circulated.

Stuart Dennis invited the Board to review and comment on the draft 2020/21 Budget Proposal and approve the Scottish Commission for Public Audit (SCPA) budget submission.

Stuart advised that the delay of the publication of the UK and Scottish budgets until after Christmas 2019 would impact on the timing of the submission and its consideration by the SCPA. Following discussion, the Board agreed Diane McGiffen would liaise with the SCPA to confirm the timing of the submission of Audit Scotland's budget proposal.

Turning to the budget, the Board considered the detailed submission which built on previous years' investment in staff to deliver the expanded audit work covering the devolved financial powers.

The Board discussed and agreed some detailed amendments to the presentation of information contained within the budget submission, before approving its submission to the SCPA.

Diane McGiffen advised that next steps included a report to the Accounts Commission on the billing of audited bodies to commence the collection of audit fees.

The Board welcomed the report.

Stuart Dennis left the meeting.

Action ASB100: Diane McGiffen to liaise with the SCPA on the timing of Audit Scotland's budget submission. (December 2019)

18. Audit quality framework review

Owen Smith, Senior Manager, and John Gilchrist, Manager, Audit Quality and Appointments, joined the meeting.

Owen Smith introduced the Audit quality framework review, a copy of which had been previously circulated.

Owen Smith invited the Board to note the revised Audit Quality Framework had been considered by the Audit Committee at its meeting on 13 November 2019 and sought the Board's approval.

The Board considered and approved the revised Audit Quality Framework.

19. New audit appointments update

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

The Board noted that the Chair of the Accounts Commission was not in attendance at the meeting and therefore was unable to participate in the discussion.

Alan invited the Board to consider the good progress overall and the work of the project team. In particular he highlighted that:

- a draft version of the code has been produced and has already completed a revision cycle based on comments from a range of interested parties
- project governance arrangements have been clarified and these have been detailed in a Project Initiation Document which was approved by the Steering Group on the 3 October 2019
- the market Engagement Exercise has been completed and follow up discussions with market participants are in progress for clarification purposes.

The Board welcomed the progress reported.

Turning to the development of the Code of Audit Practice, Alan advised of his concerns relating to papers considered by the Accounts Commission on 14 November 2019. He advised that these contained a version of the draft Code which differed from that circulated to the Steering Group. Alan invited members to note his request for an explanation as to the breach of good governance and due process and advised of his disappointment at not having received a satisfactory response from the Chair of the Accounts Commission to date. The Chair expressed his concerns on this matter and requested an explanation in early course.

The Board noted the issues set out in the report and welcomed the extension of the forthcoming Steering Group meeting on 4 December 2019 to discuss and resolve the questions raised, recognising the risk that delay to progress may compromise meeting the timeline for finalising the Code of Audit Practice for formal consultation.

The Board and the members expressed their confidence in the work of the Steering Group and agreed the need to maintain good governance. The Chair advised that if no satisfactory resolution is reached to the issues raised this should be brought back to the Board as a matter of urgency.

Owen Smith and John Gilchirst left the meeting.

20. Board development update

Diane McGiffen introduced the Board development update report, a copy of which had been previously circulated.

Diane McGiffen invited the Board to consider the progress made on actions arising from the Board development event on 24 October 2019 which included members of the Accounts Commission observing meetings of the Audit Committee and the Board and identify any further actions they wish to take forward.

The Board welcomed the progress reported and confirmed its commitment to implementing the actions identified.

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	No	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.
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	Complete	No	A report will be considered at item 8 of today's agenda.
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	Complete	No	A report will be considered at item 9 of today's agenda.
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	Oct-20	Martin Walker	Martin Walker	Ongoing	No	A further discussion will be scheduled post the appointment of a new Chair of the Audit Committee.
ASB100	Board	18	2020/21 SCPA budget proposal	Diane McGiffen to liaise with the SCPA on the timing of Audit Scotland's budget submission	27/11/2019	Dec-19	Diane McGiffen	Diane McGiffen	Complete	No	The meeting with the SCPA took place on 18 Decemeber 2019.

Purpose

1. This report provides an update on Action ASB100 and the commitment to schedule a presentation by Management Team on efficiencies which are managed through audit at the January 2020 meeting which was made before other work on efficiencies was undertaken.

Background

2. In November 2019, the Audit Committee received a comprehensive risk interrogation on Value for Money.
3. In discussion with the Chair of the Audit Committee and the Chair of the Accounts Commission it has been agreed that any further information on efficiencies and value for money at Audit Scotland will be considered by the New Audit Appointments (NAA) Steering group as part of its work in preparing for the next procurement round, with any subsequent information requested being discussed there first.
4. This has also discussed with the NAA steering group at its meeting on 20 January 2020 and an initial short update to the risk interrogation will be provided at the next meeting of that group.

Recommendations

5. The Board is invited to note the update and it is recommended that, subject to Board approval, this action be closed on the Board action tracker.

Purpose

1. To provide the Board with an update on the latest position on the UK withdrawal from the EU.

Background

2. Given the outcome of the UK general election on 12 December 2019, it is virtually certain that the UK will leave the European Union on 31 January 2020. It will then enter an eleven-month transition period before completing its exit on 31 December 2020.
3. During the transition period, the UK will begin negotiations about the future relationship with the European Union. It is unclear what involvement the Scottish Government and the other devolved administrations will have in these negotiations.
4. This paper sets out some of the implications for Audit Scotland in terms of the audit work and organisational arrangements.

Audit work

5. Over the last 18 months, we have provided regular updates to Management Team, the Board and the Accounts Commission, regular updates to staff via Yammer and published two briefings: "[Withdrawal from the European Union](#)" in October 2018 and "[Preparing for withdrawal from the European Union](#)" in December 2019. The latter briefing:
 - summarised the results of the 2018/19 audits where auditors commented on audited bodies' preparations for withdrawal from the European Union
 - commented on some of the potential wider issues posed by withdrawal from the European Union
 - suggested a series of questions that audited bodies should be continuing to ask themselves about their preparedness for the withdrawal from the European Union. We are using this to test our own preparations and this is attached as an appendix.
6. In addition to publications, we have been in regular contact with the Scottish Government, COSLA and the Wales Audit Office and have hosted four round table events involving a broad range of public sector bodies and other representative groups to discuss the implications of withdrawal from the European Union.
7. To date, Audit Scotland's response to withdrawal from the European Union has been led from within the New Financial Powers and Constitutional Change programme. As withdrawal from the European Union becomes part of the wider operating environment for the public sector and individual public bodies, we propose that monitoring the implications of EU withdrawal becomes part of the work of clusters and individual audit teams. The existing professional lead will maintain engagement with contacts in the Scottish Government and COSLA.
8. The performance audit work programme is currently being reviewed. The current programme contains proposals for performance audit work on funding for agricultural support and the replacement for structural funds. It remains unclear how the UK Government will approach these areas once withdrawal from the European Union has been completed and we are considering whether the existing timing of this proposed work remains appropriate.

Organisational considerations

9. Over the course of 2019 we developed and refined our arrangements for dealing with the implications of EU withdrawal. This has included scenario planning, 'walk through' testing, communications and engagement with colleagues and refinements to our business continuity plans.
10. In anticipation of a possible 'no deal' exit from the European Union, Management Team has reviewed the situation at either a weekly or a monthly basis at various points during 2019. Given that there is now more certainty about the timing of withdrawal from the EU relative to 2019, we propose that Management Team reviews EU withdrawal on a quarterly basis after February 2020 (the month after withdrawal takes place). Updates would therefore be provided in May, August and November 2020 with the caveat that specific issues could be considered at any time and the frequency of the updates on EU withdrawal could be changed at any time.
11. Throughout the last two years, we have sought to provide as much clarity and support to Audit Scotland staff and families from other European Union members states. We will continue to do this as the detailed implications of withdrawal for individuals become clearer.
12. The most significant organisational risk to Audit Scotland from EU withdrawal in terms of both people and finance relates to the audit of the European Agricultural Funds. It remains very unclear as to what the UK Government proposes to do in terms of agricultural support in the longer term and what requirement for audit there will be. We will continue to monitor developments closely at the UK and Scottish Government level.
13. It will be some time until the full impact of EU withdrawal becomes clear. One area that could be significant is how devolved powers that currently reside at an EU-wide level are reconciled within UK common frameworks. At this stage, it is unclear the extent to which any of further powers may devolve from the UK to the devolved administrations

Recommendations

14. The Board is invited to note this update report.

Checklist of key questions in the 'Preparing for withdrawal from the European Union' briefing

Question	Response
What have we learned from our preparations to date for the UK's withdrawal from the EU?	<ul style="list-style-type: none"> • Our audit work on this issue informs our own organisational preparations. • Looking at severe disruption scenarios has helped us refine our broader business continuity plans, for example the potential disruption to audit work as a consequence of any disruption in audited bodies).
Has the extended timescale for EU withdrawal generated any new risks for our organisation?	<ul style="list-style-type: none"> • This has extended the period of uncertainty, but not materially affected the risk. The withdrawal agreement and transition period provide more time to refine contingency plans. The potential for a 'cliff edge' exit on 31 December 2020 remains.
How are we ensuring our planning for EU withdrawal is proportionate to the level of risk to our organisation and relative to other business risks?	<ul style="list-style-type: none"> • We recognise audit is not a 'front line service' and this is reflected in our scenario planning. The work of the EU withdrawal working group and update reporting to Management Team and the Board has been proportionate to the nature and level of risk. • EU withdrawal features as two risks on the risk register (1.) impact on audit and (2.) impact on us as an organisation. Both are 'amber risks'. All strategic risks are reviewed regularly by the Performance and Risk Management Group, Management Team and the Audit Committee.
Does our medium and long-term financial planning consider the potential impact of EU withdrawal?	<ul style="list-style-type: none"> • The uncertainty factor features in our monitoring of the operating environment and more specific EU withdrawal related risks (e.g. EAFA audit) have been addressed directly in the planning and budget proposal to the Scottish Parliament's Scottish Commission for Public Audit.
Are we continuing to provide effective support for colleagues from elsewhere in the EU?	<ul style="list-style-type: none"> • Yes – we have encouraged those (or those whose family members) affected to contact us, held specific workshops, reviewed residency status (as far as possible) and encouraged line managers to pick this up with colleagues on a one to one basis. We will continue to monitor the situation closely and engage with/ support affected colleagues.
Are our workforce planning arrangements reflecting any changes in workforce pressures in our organisation, or that of the organisations and sectors we work with?	<ul style="list-style-type: none"> • No immediate additional pressures in terms of our own workforce. • The December 2019 briefing clearly highlights increasing pressures in the broader public sector.
Are we assured that we have appropriate contingency arrangements in place to protect our supply chains and manage the cost and availability of products and services?	<ul style="list-style-type: none"> • We have carried out a supply chain analysis. The nature of audit means that we are not overly dependent on supplies in the same way that other services are. We have reviewed/ sought assurances on key areas including data (storage and flows) and the office buildings.

Question	Response
<p>How might we need to adapt our work once the UK has left the EU?</p>	<ul style="list-style-type: none"> • We continue to monitor this closely, key areas include: <ul style="list-style-type: none"> – The EAFA audit and any successor audit arrangements – Changing audit requirements arising from the further devolution of powers to Scotland following transfer from EU to UK, or the retention of powers at UK level. – The impact of EU withdrawal on Scotland's public services arising from; disruption, diversion/ opportunity cost, relative economic performance and workforce pressures.

Purpose

1. This report updates the Board on the latest results of the Best Companies Survey and highlights next steps. The report invites the Board to consider and comment on the results.

Background

2. We first took part in the Best Companies survey in 2009, reporting the results in early 2010. This is our eleventh consecutive year of taking part in Best Companies. The survey is one way in which we assess levels of engagement and listen to feedback from colleagues. The results help to support dialogue, exploration and discussion about how to make Audit Scotland a better place to work and deliver world-class public audit in a sustainable manner.
3. The survey enables colleagues to participate in a way that ensures anonymity and this latest survey was completed by colleagues in November 2019 with results available from late-December.

Context

4. Last year we continued to develop and implement our approach to becoming a world-class audit organisation. To support effective and efficient delivery of audit work, during 2019 we focused on capacity, resource planning and the development of our workforce. Internal organisational highlights included:
 - early conclusion of our April 2019 pay award negotiations in partnership with the PCS union
 - a new online learning and development portal through which colleagues can review the upcoming programme and make bookings
 - the continuation of Career Development Gateways (CDG) through which colleagues can increase the contribution they can make to Audit Scotland, grow their skills and develop their careers
 - within the individual and collective development of our leadership group, completing the 360 feedback for every member of the group and supporting each colleague with their professional and personal development
 - achieving good results in recruitment across all our business groups and developing how we resource our work to ensure it is undertaken in an efficient and sustainable way, helping to secure a high quality audit.

Best Companies Results summary

5. Our overall best company index (BCI) score is 647.3, our highest BCI score to date. This represents an increase of 7 points from October 2018. Audit Scotland has also retained its 'One to Watch' status for the eleventh year and sits just 12 points away from the one-star accreditation threshold. Appendix 1 provides more detail.
6. Our Best Company results will be used to aid our recruitment during the year ahead.
7. Participation in the survey remains very high with 83% of colleagues taking part (235/284) compared to a Best Company average of below 70 per cent.
8. A special edition of abacus sharing this year's Best Companies results was shared with colleagues in December with Best Companies presenting further insights to Leadership Group on 28 January 2020.

9. The data has been shared and discussed with the PCS union. The local PCS Branch is supportive of our work in this area and collaborate with us throughout the project.
10. This year we have seen increases in all but two factors, with My Team seeing the largest positive increase of 3%. There have also been increases of 2% in My Company, My Manager, and Giving Something Back. My Company remains the highest scoring factor for the 11th year running.
11. Wellbeing has dropped 3%, which although not statistically significant in itself, represents a 6% decrease over the last three years and links to the ongoing work on resource planning and deployment. We therefore recognise the need to continue to monitor work levels and support colleagues so that everyone working at Audit Scotland has a consistently good experience.

Next steps

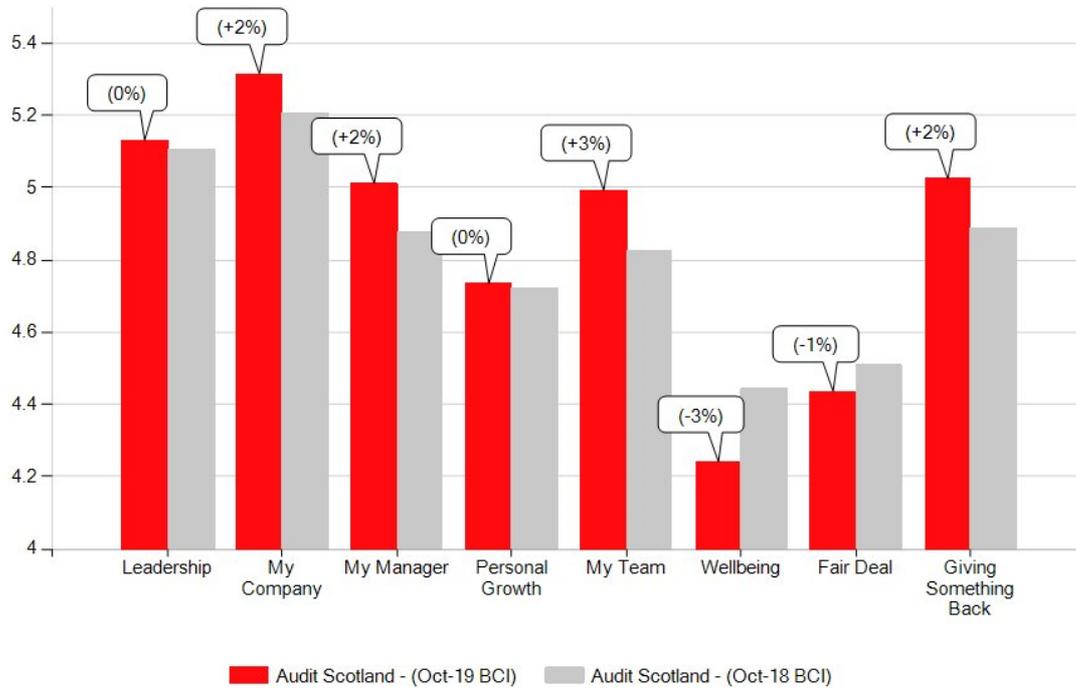
12. Leadership Group members are considering the data alongside other intelligence we already have about our people and the running of our business.
13. This year will see a deeper exploration of the data within individual teams. Team engagement is strongly linked to high performance and organisational resilience. We anticipate that the team-based discussions will enable teams to gain a greater insight into what more they can do to make their experience of work easier, more rewarding and have greater impact. This will be mentioned as part of our Audit Scotland conference in April and revisited later in 2020 during a series of follow-up seminars with colleagues.
14. The HR & OD Manager is working with Management Team, the wider Leadership Group and the PCS union on the themes of wellbeing, leadership and management as part of an integrated approach to our people strategy for 2020.
15. Audit Directors will continue their work with colleagues to adjust the way we resource our work to ensure it is undertaken in an efficient and sustainable way, helping to secure a high-quality audit.

Recommendations

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

Appendix 1

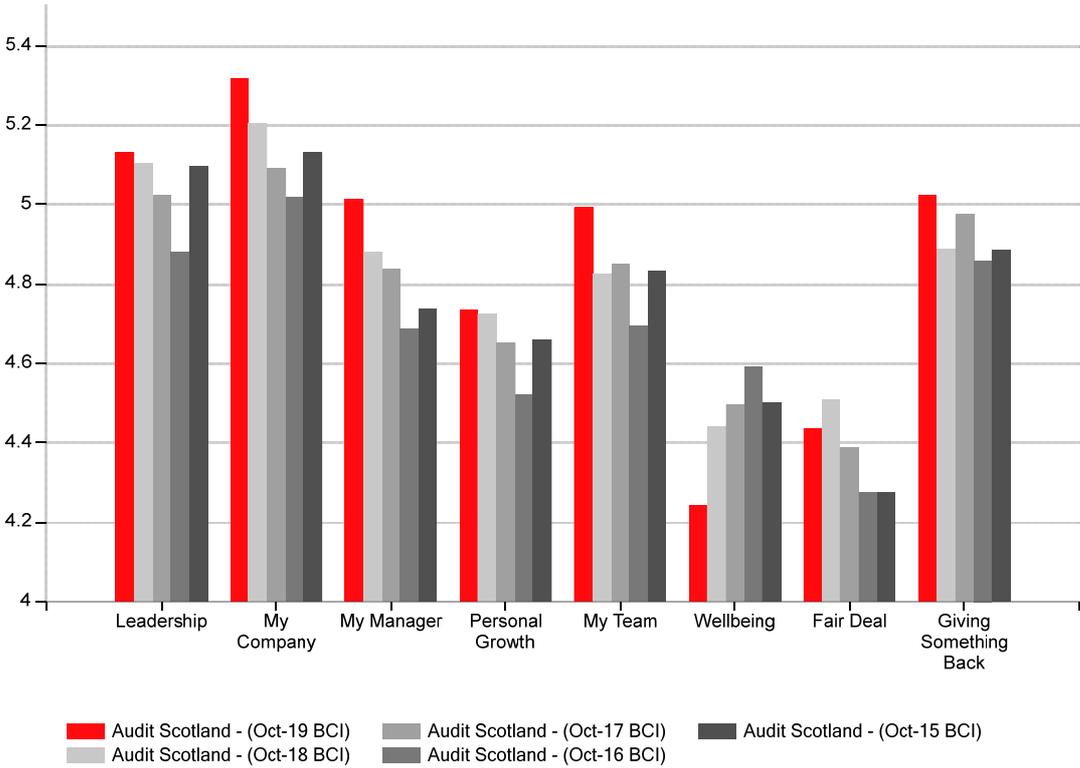
October 2019 and 2018 - Comparison by factor



Overall score 2009 – 2019



Five year trend – by factor



Purpose

1. This report advises the Board of a reclassification of Audit Scotland by the Office of National Statistics (ONS).

Background

2. The Economic Statistics Classifications branch of the ONS is responsible for maintaining [the Public Sector Classifications Guide](#) (PSCG). The ONS uses the PSCG to ensure that bodies and transactions are correctly classified in the National Accounts, Public Sector Finances and related official statistics.
3. The key criteria in determining classifications are set out in the classification guidance, which states.

'Institutional units are defined (in ESA 2010 Section 2.12) by being entities with the economic competence to own goods and assets, incur liabilities and enter into contracts in their own right. They also have the ability to produce a complete set of accounts (including balance sheets). When classifying institutional units, their characteristics are assessed against the international guidance to establish which ESA 2010 institutional sector they belong to. Classification involves establishing:

- *whether the unit is a non-profit institution (NPI), or not*
- *whether the unit is subject to public sector control, or not*
- *whether the unit produces financial services, or not*
- *whether the unit is a "market" or "non-market" producer.'*

4. The ONS originally contacted us in June 2018 advising that they would be reviewing Audit Scotland's classification. ONS advised that the review was initiated to ensure that all UK audit bodies were classified correctly, following Eurostat's request to assess the classification status of Wales Audit Office. Other priorities meant that the ONS put the process on hold and they re-established contact in September 2019.
5. ONS last reviewed the classification of Audit Scotland under the European System of Accounts (ESA) 1995 framework and we were classified as 'Public Financial Corporation'. This category includes a diverse range of organisations including; the BBC, British Nuclear Fuels, CalMac Ferries Ltd, East Midlands Airport, Ordnance Survey and the Royal Mint.
6. ONS has now reviewed the classification in the context of the internationally-agreed rules laid out in ESA 2010 and the accompanying Manual on Government Deficit and Debt 2019. This has resulted in Audit Scotland being classified as 'Central Government'. The National Audit Office, the Wales Audit Office and the Northern Ireland Audit Office all fall into this classification.
7. The ONS has written to the Scottish Government to advise of the new classification, the letter is attached as an appendix.

Implications of the classification

8. The reclassification is principally a technical issue and should have no material impact.
9. During the course of the review I have been in contact with the ONS, the Scottish Government, HM Treasury and the WAO to explore any unseen/ unintended consequences of the reclassification. I am continuing to liaise with the Scottish Government to confirm this.
10. I have been advised that there should be no implications beyond potentially including some additional information in the regular data returns to the Scottish Government.

Recommendations

11. The Board is invited to note the reclassification of Audit Scotland in the ONS public sector classification guide.



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Our Ref: Case 2017-93

Date: 31 October 2019

Mr Scott Mackay
Deputy Director, Financial Management
Scottish Government
Victoria Quay
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EH6 6QQ

Dear Mr Mackay,

Notification of classification of Audit Scotland

ONS has undertaken a classification assessment of Audit Scotland (AS), the body established to audit the financial accounts of public bodies in Scotland.

ONS last reviewed the classification of AS under the European System of Accounts (ESA) 1995 framework and has now reviewed the classification in the context of the internationally-agreed rules laid out in ESA 2010 and the accompanying Manual on Government Deficit and Debt 2019. The review was initiated to ensure that all UK audit bodies were classified correctly, following Eurostat's request to assess the classification status of Wales Audit Office.

The Economic Statistics Classifications Committee (ESCC) concluded that AS is an institutional unit that is subject to public sector control for reasons including that all AS board members are public sector appointees.

ESCC noted that AS receives the majority of its income from audit fees. ESCC concluded that charges from this service can be considered to be compulsory as all public sector bodies are required by law to have their financial accounts audited, and the only organisation that can provide this service is AS.

ESCC also noted that the auditing service is regulatory in nature as it is an assessment of the quality or standard of services provided by public bodies in Scotland. As AS is undertaking significant work to deliver a direct benefit to the payer, and as the charges are proportionate with the service being provided and set at a level to cover the global costs of providing the service, ESCC determined that they are required.

ESCC further determined that the charge did not have a substantial influence on demand, as Scottish public sector bodies are required to submit to and pay for the audits. Therefore, they are not economically significant.

Based on the above judgments, ESCC determined that the audit income received by AS should be considered for statistical purposes as a non-market fee (P.131). As the majority of AS's income is received from non-market fees, and public sector control of AS exists, ESCC further determined that AS should be reclassified to the central government subsector (S.1311) with effect from 1 April 2000, the date AS was established.

The above conclusions have been approved by the Director of Macroeconomic Statistics and Analysis (Grant Fitzner) to whom the National Statistician has delegated decision-making on classifications.

Finally, it is important to note that, as the statistical office of the European Union, Eurostat has the right to review any ONS classification decision. As such Eurostat may decide to perform its own assessment and could reach a different conclusion.

I trust this provides sufficient explanation of the assessment. Please do get in touch if you have any questions or comments.

Yours sincerely,

David Beckett
Head of Economic Statistics Classifications

Purpose

1. The Audit Committee's Terms of Reference (TOR) is a standing Audit Committee agenda item. The TOR is included in line with good practice and to provide an opportunity for the Audit Committee to consider or suggest any changes to the TOR at each meeting.

Terms of Reference

2. The TOR were considered at the last Audit Committee on 13 November 2019 where Pauline Weetman, member of the Accounts Commission attended as an observer. While it was noted that while the TOR did not prevent observers from attending Audit Committee meetings, it was agreed that this might be made more explicit. It was anticipated that this would be considered by the Board at its meeting on 27 November as part of the discussion on Standings Orders. In the event, this matter was not referenced.
3. To reflect the original discussion on the attendance of observers at Audit Committee, a proposed amendment to the TOR (page seven) was tracked and circulated to Audit Committee members in January 2020 via email for consideration. The amendment has been approved by all members of the Audit Committee.

Recommendations

4. The Board is invited to approve the amendments to the TOR agreed by Audit Committee in January 2020.

Audit Committee

Terms of Reference



Prepared for Audit Scotland's Audit Committee

December 2019

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

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Terms of reference

Introduction

1. The Board of Audit Scotland has established, in its Standing Orders, an Audit Committee as a committee of the Board to support it in the responsibilities for issues of risk, control and governance in connection with the matters referred to in this document.

Membership

2. The Audit Committee will consist of (i) members of the Board, other than the Chair and Accountable Officer, and (ii) if considered appropriate other suitable persons co-opted by the Board.
3. The Audit Committee will be chaired by one of the non-executive members, appointed by the Audit Scotland Board.
4. The Audit Committee will be provided with a secretariat function by the Chief Operating Officer of Audit Scotland.
5. The Chair of the Board cannot also be the Chair of the Audit Committee.

Reporting

6. The Audit Committee will formally report minutes of each meeting in writing to the Board and Accountable Officer and approved minutes will be published on the Audit Scotland website.
7. The Audit Committee will provide the Board and Accountable Officer with an Annual Report, timed to support finalisation of the Accountable Officer's governance statement, summarising its conclusions from the work it has done during the year.

Responsibilities - General

8. The Audit Committee will advise the Board and Accountable Officer on:
 - The strategic processes for risk, control and governance supporting the Accountable Officer's governance statement.
 - The accounting policies, the Accounts and the Annual Report of the organisation, including the process for review of the Accounts prior to submission for audit, levels of error identified, and management's letter of representation to the external auditors.
 - The appointment of the internal auditors.
 - The planned activity and results of both internal and external audit, ensuring there is effective co-ordination between internal and external audit.
 - The adequacy of management response to issues identified by audit activity, including external audit's management letter/report.

- The effectiveness of the internal control environment (including references to internal and external audit reports and the 'three lines of defence' model).
 - Corporate governance requirements.
 - The budget needed to resource effective external and internal audit and other responsibilities of the Audit Committee.
 - The selection and terms of appointment of advisers and consultants as appropriate to the operation.
 - Disaster recovery and contingency plans which are in place and are tested regularly.
 - Anti-fraud policies, whistle-blowing processes and arrangements for special investigations.
 - The risk policy and strategy, including the organisation's risk appetite.
 - The arrangements for audit quality monitoring and arrangements.
9. The Audit Committee will periodically review its own effectiveness and report the results of that review to the Board and Accountable Officer. In addition, it will review, and where appropriate make recommendations to the Board on these terms of reference.

Responsibilities – External Audit

10. Further to its general responsibilities in relation to external audit, the Audit Committee will:
- Obtain assurance that external audit recommendations, which have been endorsed by the Board or Audit Committee, are implemented by management of Audit Scotland as timetabled and presented at each meeting where still outstanding.
 - Discuss with the external auditor any problems, reservations or issues arising from the interim or final audit or other investigations.
 - Review and monitor the external auditor's independence and objectivity and annually appraise the effectiveness and value for money of the external audit service.
 - Develop, implement and monitor a policy on the engagement of the external auditor to supply non-audit services, taking into account relevant guidance regarding the provision of non-audit services by the external audit firm.

Responsibilities – Internal Audit

11. Further to its general responsibilities in relation to internal audit, the Audit Committee will:
- Consider and make recommendations to the Board on the internal audit arrangements, including the appointment, reappointment or otherwise, fees, methods and terms of engagement, of the internal auditor, whether on the organisation's payroll or outsourced.
 - Review and approve the internal audit needs assessment and strategy and the annual plan and monitor delivery of the plan, approving any changes during the year.
 - Review and approve the internal audit charter.

- Receive and consider reports by the internal auditor on significant audit findings together with the response from managers to these reports.
- Obtain assurance that internal audit recommendations, which have been endorsed by the Audit Committee, are implemented by management of Audit Scotland as timetabled.
- Review and annually appraise the effectiveness of the approach, nature and scope of internal audit activities and compliance with professional standards, good practice guidance and performance indicators.
- Monitor performance and best value by reviewing the economy, efficiency and effectiveness of operations.
- Receive and review the annual report from the internal auditor.

Rights

12. The Audit Committee may:
- Co-opt additional members, with the permission of the Board, for a period not exceeding a year to provide specialist skills, knowledge and experience.
 - Invite executive management and/or staff from Audit Scotland to attend Audit Committee meetings to observe and/or provide additional information to the Committee.
 - Procure specialist ad hoc advice at the expense of Audit Scotland, subject to budgets agreed by the Board or Accountable Officer.

Access

13. Appointed representatives of internal audit and external audit will have free and confidential access to the Chair of the Audit Committee.

Meetings

14. The procedures for meetings are:
- The Audit Committee will meet at least 5 times a year. The core work programme is attached to these terms of reference. The Chair of the Audit Committee may convene additional meetings as he/she deems necessary.
 - A minimum of 2 members of the Audit Committee will be present for the meeting to be deemed quorate. The use of video or telephone conferencing by members will be deemed as attendance at the meeting.
 - The Chair, if present, will preside. If the Chair cannot be present the members must appoint one of the other members to preside at the meeting.
 - Audit Committee meetings will normally be attended by the Accountable Officer, the Chief Operating Officer, a representative of internal audit and, where appropriate, a representative of external audit.
 - The Audit Committee may ask any other officials of Audit Scotland to attend to assist it with its discussions on any particular matter.

- The Audit Committee may invite other interested parties to observe its meetings.
- The Audit Committee may ask any or all of those who ~~normally~~ attend, but who are not members, to withdraw to facilitate open and frank discussion of particular matters.
- The Board or Accountable Officer may ask the Audit Committee to convene further meetings to discuss particular issues on which they want the Committee's advice.
- At least annually the Audit Committee shall meet in closed session with the external and internal auditors.

Information requirements

15. For each* meeting the Audit Committee will be provided by management of Audit Scotland with:
- the Corporate Risk Register
 - a report summarising any significant changes to the organisation's risk register
 - a risk interrogation report
 - a progress report from internal audit summarising:
 - work performed (and a comparison with work planned)
 - key issues emerging from internal audit work
 - management response to audit recommendations
 - any significant changes to the audit plan
 - any resourcing issues affecting the delivery of internal audit objectives.
16. As and when appropriate the Audit Committee will also be provided with:
- the internal audit strategy
 - internal audit's annual opinion and report
 - quality assurance reports on the internal audit function
 - progress reports from external audit summarising work done and emerging findings
 - the draft Accounts of the organisation
 - the Accountable Officer's draft governance statement
 - a report on any changes to accounting policies
 - external audit's management letter/report
 - a report on any proposals to tender for audit functions
 - a report on co-operation between internal and external audit
 - proposals for the terms of reference of internal audit
 - a report on policy documentation reviews
 - a report declaring any incidents of whistleblowing or data loss/DPA breach.

* Note: The risk register, risk report and risk interrogation will not be submitted to the June Audit Committee meeting due to the short period of time between the May and June meeting. However, a

report will be presented indicating if any changes have arisen since the last report. The internal audit progress report will not be submitted to the May meeting due to the Audit Committee receiving the annual internal audit report.

Indicative checklist for Audit Committee meetings

February Meeting

- The Corporate Risk Register and a report summarising any significant changes to the register.
- Risk interrogation report.
- Review the internal audit strategy and the periodic work plan for the coming financial year.
- Consider external audit plans for the coming financial year.
- Consider any reports from internal audit and management responses.
- Consider progress on implementation of internal audit recommendations.
- Consider Q3 financial report, including relevant information about financial performance and achievement of financial targets.
- Review co-operation between internal and external audit.

May Meeting

- The Corporate Risk Register and a report summarising any significant changes to the register.
- Risk interrogation report.
- Consider any reports from internal audit and management responses.
- Consider internal audit opinion for the financial year just finished.
- Review the performance management arrangements adopted by the body including, where appropriate, the timetable for reviewing such arrangements.
- Consider assurances provided by senior staff.
- Consider a report on audit quality arrangements.
- Consider the Audit Committee's own effectiveness in its work, including feedback from the Audit Scotland Board and the Accountable Officer.

June Meeting

- The Corporate Risk Register and a report summarising any significant changes to the register.
- Review and consider the accounts for the financial year just finished.
- Consider progress on implementation of internal audit recommendations.

- Consider the external audit opinion and management letter for the financial year just finished and the response to/implementation of any recommendations.
- Consider assurances provided by senior staff.
- Consider annual reports by senior staff.
- Advise the Accountable Officer on signing the accounts and Statement on Internal Control.
- Consider any reports from internal audit and management response.
- Consider Q4 financial report, including relevant information about financial performance and achievement of financial targets.
- Consider an annual report from the Audit Committee to the Board and Accountable Officer.

September Meeting

- The Corporate Risk Register and a report summarising any significant changes to the register.
- Risk interrogation report.
- Consider any reports from internal audit and management response.
- Consider progress on implementation of internal audit recommendations.
- Consider Q1 financial report, including relevant information about financial performance and achievement of financial targets.
- Annual review of governance policies and Code of Conduct.

November Meeting

- The Corporate Risk Register and a report summarising any significant changes to the register.
- Risk interrogation report.
- Consider any reports from internal audit and management responses.
- Consider progress on implementation of internal audit recommendations.
- Consider Q2 financial report, including relevant information about financial performance and achievement of financial targets.
- Consider Business Continuity report.
- Consider interim report on audit quality arrangements.
- Review and monitor the external auditor's independence and objectivity and appraise the effectiveness and value for money of the external audit service.
- Review the Audit Committee's Terms of Reference.

17. In addition the Chair of the Audit Committee will have a private meeting with the external auditors after completion of the audit to discuss any issues arising from the audit and seek feedback on the quality of co-operation and working papers received from Audit Scotland.

Purpose

1. This report advises the Board on the timetable for the recruitment and appointment of the next Auditor General for Scotland (AGS) and the transition planning for this role. It also sets out a number of recent and future changes in membership to the Audit Scotland Board.

Timetable

2. The Board will know that Audit Scotland is preparing for a series of senior transitions this year:
 - The Chair's appointment ends on 31 March 2020.
 - The Auditor General's 8-year term of appointment ends on 30 June 2020.
 - The Chair of the Audit Committee's appointment ends on 30 September 2020.
3. The timetable and progress on the appointments - the responsibility of the Scottish Parliament and the Scottish Commission for Public Audit – is detailed below:
 - The Auditor General role has been advertised with a closing date of 28 January and interviews scheduled for 24 February 2020.
 - Alan Alexander has been appointed as Chair effective from 1 April 2020.
 - Recruitment for two board members is underway with a closing date of 3 February and an interview date scheduled for 23 March 2020.

Progress

4. During 2019 and early 2020, the following activity was undertaken to inform preparations:
 - Discussions between the Chief Operating Officer and senior members of the National Audit Office and Wales Audit Office about their preparations and learning from recent planning for auditor general appointments and inductions.
 - Initial discussions with the Audit Scotland leadership group about planning for transition.
 - Establishing a small working group to plan for the transition process.
 - Initial discussions with the incoming Chair about induction plans.

Objectives

5. The objectives for the transition phase are to
 - Ensure Audit Scotland operates efficiently and effectively during a period of significant change.
 - Protect the singularity of the AGS role. As there can only be one AGS at any time, with no confusion during the transition period, internally or externally. The identity of the AGS and all decision-making powers of the Office are invested in the current AGS until such time as the next AGS has received his/her letters patent from Her Majesty the Queen and takes up appointment on 1 July 2020.

- Ensure the incoming AGS can fulfil their statutory functions successfully from the first day in post, with minimal or no disruption to the flow and delivery of financial and performance audits.
- Control and manage business risks while on-boarding the new AGS.
- Establish effective arrangements for the incoming AGS to develop strong relationships with stakeholders to ensure that these can build on the very effective and wide-ranging relationships the current AGS and Audit Scotland have with the Scottish Parliament, the Scottish Government and others.
- Ensure support for the AGS role as accountable officer for Audit Scotland.
- Reflect on the achievements of Audit Scotland over the past eight years and reinforce the Audit Scotland impact and brand and with the departing AGS leaving a significant legacy from which to build.
- Ensure the effective and efficient induction and support for new Board members.

Principles for managing the transition process

6. The transition planning is being led by the Chief Operating Officer in conjunction with Management Team and the Board. A transition working group has been established to co-ordinate planning, monitor progress and provide the Management Team and the Board with regular updates.
7. The transition working group comprises:
 - Diane McGiffen - Chief Operating Officer
 - Nicola Constable - Executive Assistant to AGS
 - Stephen Boyle - Audit Director, Audit Services Group
 - Antony Clark – Audit Director, Performance Audit & Best Value
 - Martin Walker – Associate Director, Corporate Performance and Risk.
8. The group is developing detailed plans for:
 - Transition arrangements.
 - Induction.
 - Completion of financial and performance audits in the AGS remit.
 - Internal and external communication.
 - The AGS's statutory responsibilities.
 - The Accountable Officer's responsibilities.
 - The programme of parliamentary engagements including the Public Audit and Post Legislative Scrutiny Committee.
 - The Comptroller function.

Board transition

9. The Chief Operating Officer met with the incoming Chair to discuss induction arrangements for the new role and these will be put in place.

10. We already have detailed induction plans for Board members in place. Arrangements for new board members will be finalised once appointments are made and will also reflect the recent discussions at the Board development event about partnering arrangements with Accounts Commission members.

Recommendations

11. The Board is invited to:

- note the progress to date
- discuss any issues on the objectives, principles and planned management of the transition phase
- approve a proposal to provide an update at the March Human Resources and Remuneration Committee to enable further discussion of internal matters.