

Additional Board meeting

Wednesday 19 August 2020 at 10.00am

By Teams

1. Welcome and apologies
 2. Declarations of interests
-

Standing items

- | | |
|---|-----------------|
| 3. Chair's report – verbal update | For information |
| 4. Accountable Officer's report – verbal update | For information |
| 5. Accounts Commission Chair's report – verbal update | For information |
| 6. Review of minutes: Board meeting 1 June 2020 | For approval |
| 7. Governance arrangements: Review of Standing Orders | For information |
| 8. Review of action tracker | For information |
-

Business planning and performance

- | | |
|-------------------------------------|-----------------|
| 9. Covid-19 update | For information |
| 10. Q1 Financial performance report | For information |
-

Conclusion

11. Any other business
12. Publication of papers For approval
13. Review of meeting
14. Date of next meeting: 30 September 2019 (venue to be confirmed)

Wednesday 1 June 2020, 11.30am

TEAMS meeting

Present:

Alan Alexander (Chair)
Caroline Gardner
Graham Sharp
Heather Logan

Apologies:

None

In attendance:

Diane McGiffen, Chief Operating Officer
Stephen Boyle, AGS Designate
Martin Walker, Associate Director, Corporate Performance and Risk
Elma Murray, Deputy Chair, Accounts Commission
Antony Clark, Audit Director, Performance Audit and Best Value
Peter Worsdale, Audit Manager/International Liaison Office
Gayle Fitzpatrick, Corporate Governance Manager, Performance Audit and Best Value
Elaine Boyd, Associate Director, Audit Quality and Appointments
Owen Smith, Senior Manager, Audit Quality and Appointments
John Gilchrist, Manager, Audit Quality and Appointments
Simon Ebbett, Communications Manager
Stuart Dennis, Corporate Finance Manager
Gillian Woolman, Audit Director, Audit Services
Robert Leask, Project Manager, Audit Quality and Appointments
Mark Roberts, Audit Director, Performance Audit and Best Value

1. Welcome and apologies

Alan Alexander welcomed members and attendees to the meeting. The Chair highlighted that the reports appearing at 11, 12, 13, 14, 16, 18 and 20 of today's meeting had been previously considered at the Audit Committee meetings on 6 May and 1 June 2020.

The meeting was held by video conference due to the COVID-19 pandemic.

2. Declarations of interest

The Chair invited declarations of interest. Stephen Boyle advised that in relation to the annual report on Complaints which appears at Item 11 of today's agenda, some of the complaints related to audits he was directly involved in. The Chair sought members' views following which he confirmed Stephen would be present for that report.

There were no other declarations of interest.

3. Chair's report – verbal update

The Chair provided an update on engagement with the Scottish Commission for Public Audit (SCPA) on the progress of Board appointments, and advised of correspondence from Colin Beattie MSP, Chair of the Committee, who is seeking information on how Audit Scotland are responding to potential financial implications of Covid-19. The Chair advised members he proposed to share a response with Colin Beattie following today's consideration of the report appearing at Item 19 of today's agenda, Impact of Covid-19 on Audit Scotland's budget.

The Chair advised of meetings with Diane McGiffen and others in preparation for the Board meeting and a meeting with Gayle Fitzpatrick, Corporate Governance Manager in relation to the scope and timing of the governance review which the Board previously committed to undertake later in the year.

The Board welcomed the update.

4. Accountable Officer's report – verbal update

Caroline Gardner provided an update on the audit work which we continue to reprioritise adopting the principles of a flexible, pragmatic and consistent approach. In relation to the annual audits, we have received some unaudited accounts, the quality of these vary but the teams are working through them. In relation to the performance audit programme the policy cluster groups are working to reprioritise with some work likely to be dropped or postponed, while others remain relevant they may be reframed as a result of Covid-19 and highlighted the additional new work in tracking funding through the Scottish Government in response to Covid-19. Caroline advised that the work programme proposals will be taken to the Auditor General for Scotland and Accounts Commission for formal consultation in September 2020.

Caroline invited the Board to note that the UK and Ireland's Auditors' General met virtually on 22 May 2020 and had provided a helpful opportunity to share the experiences of the respective audit agencies and their responses to the Covid-19 pandemic and highlighted the possibility of joint work on a shared principles approach for the longer term.

Caroline advised of Parliamentary engagement with three sessions of the Public Audit and Post Legislation Scrutiny Committee (PAPLS) scheduled before the end of June including taking evidence from the Scottish Government on governance arrangements and how that is adapting in response to Covid-19 together with evidence on last years consolidated accounts and a briefing on the Affordable Housing report on 11 June 2020, a session on 18 June 2020 looking at the Early learning and childcare report together with a briefing on the Section 22 report on a fraud in City of Glasgow College and on 25 June 2020 a session looking at Audit Scotland's response to Covid-19 together with sharing Caroline's final thoughts as the outgoing Auditor General for Scotland.

Caroline highlighted Audit Scotland's submission to the Finance and Constitution enquiry last week and advised Mark Taylor will be attending the virtual roundtable meeting on 5 June 2020.

Turning to Audit Scotland, Incident Management Team have been supporting colleagues in adapting to working remotely for the longer term recognising the significant implications especially for those with caring and childcare responsibilities. Audit Scotland continue to work through how we balance the support for colleagues in delivering audit work and looking to support the Parliament in delivering what Scotland needs. Caroline expressed her thanks to colleagues across Audit Scotland, reflecting on how well everyone has adapted despite the circumstances and recognised the continued need to protect colleagues over the coming months as we move into what the new normal might mean.

The Chair invited any comments or questions. Heather Logan expressed her appreciation that so much work and so many meetings were being supported and Graham Sharp reflected on the ongoing excellent support provided to the Accounts Commission. The Chair commended the quality and tone of communication to colleagues from the Incident Management Team which he considered to be world class.

The Chair sought clarification of the consequences of some audit work being postponed or cancelled. Caroline advised that this related to the performance audit rolling work programme and that it was too early to say which audits may not be a priority in light of the current circumstances.

Stephen Boyle advised the refreshed forward work programme will be considered by the Auditor General for Scotland and the Accounts Commission in September 2020. He advised there is work currently scheduled in 2020/21 which may no longer go ahead in light of the additional funding for the NHS and local government and the team are considering this as they consider the work programme over the summer. In terms of financial audit, Stephen advised that there is a mixed picture coming from audited bodies and highlighted some of the challenges they are facing. Stephen advised that Audit Scotland's investment in technology was enabling the conclusion of its first virtual audit.

Following discussion, the Board welcomed the update.

5. Accounts Commission Chair's report – verbal update

Graham Sharp advised that the Accounts Commission met virtually on 21 May 2020 with positive feedback received from the Leader of Argyll and Bute Council on the meeting and invited members to note the recording of the meeting is available on the Commission website.

Graham invited members to note that the Accounts Commission approved the impact report on Equal Pay and was liaising with the Communication team regarding publication. He also advised of the change in focus for the Local Government Overview in light of the impact of Covid-19 which will be published on 18 June 2020.

Turning to the next meeting of the Accounts Commission on 11 June 2020, Graham advised the Commission will be considering the Best Value Assurance Report for North Ayrshire Council and the work programme which will include timing and scheduling of annual audits.

The Board welcomed the update.

6. Review of minutes: Board meeting 13 May 2020

The Board considered the minutes of the meeting of 13 May 2020, which had been previously circulated and approved by correspondence.

The Chair confirmed the Board's endorsement of the minutes.

7. Governance arrangements - review of Standing Orders

Martin Walker introduced the Governance arrangements - review of Standing Orders report, copies of which had been previously circulated.

Martin invited the Board to note there were no proposed changes to the governance arrangements for holding virtual Board meetings and the publication of meeting papers.

The Board noted the report and the Chair advised that the publication of papers would be discussed at item 26 of today's agenda.

8. Review of action tracker

The Board noted the updates provided on the action tracker

The Chair referred to the supplementary information previously circulated in support of action ASB106 Review of Governance arrangements and action ASB109 the average cost of Performance Audit and Best Value audit day.

The Chair provided an update on action ASB106 on the review of governance following a meeting with Gayle Fitzpatrick, Corporate Governance Manager to discuss the nature and proposed timing of the review to ensure new Board members have received the appropriate induction and attendance at meetings. He invited members to note the proposal to bring a formal scope to the meeting of the Board on 30 September 2020.

Heather Logan sought clarification around the timing of the drafting of the policy for review. The Chair advised that following consideration of the scope and timing in September 2020 the work will be undertaken in the first quarter of 2021 in order that the review benefits from the input

from existing members and from new members once they have had an opportunity to conclude their respective induction and attend a number of Board and Committee meetings.

Stephen Boyle agreed that as the incoming Auditor General for Scotland and Board member he welcomed the proposal. Graham Sharp would welcome early engagement with Elma Murray as interim Chair of the Accounts Commission.

Diane McGiffen also advised the Board of discussions with the Chair around the Board's development programme and of work underway in relation to the induction programme for new members joining which would take place during the current year.

The Chair invited Diane McGiffen to provide an update on ASB111. Diane advised she had received confirmation from the Scottish Commission for Public Audit on the recruitment of Audit Scotland Board members, with interviews taking place on 8 and 15 June 2020. Diane advised one appointment will come into effect from 10 July 2020 and the other in October 2020.

Following discussion, members welcomed the discussion and noted a report on the proposed review will come to the Board on 30 September 2020.

Action ASB114: A report on the scope of the governance review will be considered at the Board meeting on 30 September 2020.

9. 2019/20 Annual report on international work

Antony Clark, Audit Director, Performance Audit and Best Value and Peter Worsdale, Audit Manager/International Liaison Office joined the meeting.

Peter Worsdale introduced the 2019/20 Annual report on international work, copies of which had been previously circulated.

Peter invited the Board to note the activity reported and sought approval of the 2019/20 International Annual Report before its scheduled publication as part of a suite of corporate Audit Scotland reports on 12 June 2020.

The Board noted the change in approach to international engagements in response to the Covid-19 pandemic, using technology to support shared learning events and how this and the new Auditor General for Scotland's priorities feeds into the planned refresh of the International strategy which will follow later in the year.

Heather Logan highlighted the Case study 2 in the report and asked if Scottish Government pick up on the work we are doing. Antony Clark confirmed that while our audience is largely international audit agencies we do share our learning, one example being the Enabling digital audit report which the Scottish Government used as part of their engagement with public bodies.

Caroline Gardner noted that a refresh of the international strategy was timely and recorded her thanks to the team for the work and engagement they have carried out to this point.

The Chair referred to the learning opportunities, and asked how this feeds into development of staff and how we report this. Peter advised the learning opportunities are largely embedded in the strategy with teams gaining soft skills from meeting and presenting to international delegations and the production of briefings and would consider how to bring this out in future reporting. The Chair also highlighted he would like to see delegations named in the reports.

Stephen Boyle reflected on the wider contribution and benefits for Audit Scotland in the auditing profession and the learning this provides around approach to auditing digitally and how other agencies are dealing with the pandemic from around the world. He advised of the meeting of the Auditors General of the UK and Ireland which had reflected on the relationships with

INTOSAI and EUROSAI and the role of audited bodies and other agencies in response to Covid-19.

Following discussion, the Board welcomed the report and approved the publication of the 2019/20 Annual report on international work.

Antony Clark and Peter Worsdale left the meeting.

10. **2019/20 Annual report on freedom of information and environmental information**

Gayle Fitzpatrick, Corporate Governance Manager, Performance Audit and Best Value, joined the meeting.

Gayle Fitzpatrick introduced the 2019/20 Annual report on freedom of information and environmental information, copies of which had been previously circulated.

Gayle invited the Board to note that while the number of requests has reduced the level of work had increased due to complexity of requests received. Gayle advised that following the Coronavirus legislation which came into effect on 27 May 2020 an amendment was required to the report to reinstate the original timeline.

Heather Logan noted that the average cost per case was £934 and asked whether Audit Scotland have rejected any requests based on cost. Gayle Fitzpatrick advised that Audit Scotland's approach is one of openness and transparency and we have not refused any requests on this basis.

The Chair suggested a minor amendment to the report and Heather Logan requested further clarification on the independent membership of the FOI panel. Gayle Fitzpatrick advised the panel consists of internal colleagues who have received relevant training and who have not been directly involved in the matter being addressed.

Following discussion, the Board welcomed the report and Gayle Fitzpatrick agreed to liaise with the Chair to agree the revised wording prior to publication.

Action ASB115: The Corporate Governance Manager to agree revised wording with the Chair prior to publication. (June 2020)

11. **2019/20 Annual report on complaints**

Gayle Fitzpatrick introduced the 2019/20 Annual report on complaints information, copies of which were previously circulated.

Gayle Fitzpatrick invited the Board to note the reduction in the number of complaints received and highlighted that responding to complex and sensitive complaints received was quite challenging. Gayle invited the Board to note the introduction by the SPSO of a revised model complaint handling process which requires to be fully implemented in 2021 and confirmed that following a review there were no substantial changes required to Audit Scotland's process.

The Board noted the criteria for Audit Scotland had changed and was in the same category as the Scottish Government, Scottish Parliament and other Scottish public bodies and a further report would come to the Board in September 2020 with an update on any changes required.

Following discussion, the Board welcomed the report and approved it for publication.

12. **2019/20 Annual report from the Chair of the Audit Committee to the Board**

Heather Logan introduced the 2019/20 Annual report from the Chair of the Audit Committee to the Board, copies of which had been previously circulated and discussed at the meeting of the Audit Committee immediately before today's Board meeting.

The Chair invited the Board to consider and approve the 2019/20 Annual report from the Chair of the Audit Committee.

The Board approved the report from the Chair of the Audit Committee.

13. 2019/20 Governance statement on internal control and certificate of assurance

Gayle Fitzpatrick introduced the 2019/20 Governance statement on internal control and certificate of assurance, copies of which had been previously circulated.

Gayle invited members to note the Audit Committee's recommendation to the Board and confirmed there were no issues arising from the review process and sought approval from the Board to recommend the report to the Accountable Officer in support of the annual governance statement.

The Chair invited members to confirm their approval and following discussion recommended it to the Accountable Officer.

Gayle Fitzpatrick left the meeting.

14. 2019/20 Draft audit management letter

The Chair invited members to the Board to note consideration of the 2019/20 Draft audit management letter by the Audit Committee immediately prior to today's Board meeting and in the absence of any comments the Board confirmed they were content.

15. 2019/20 Annual report on quality of public audit in Scotland

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

Elaine Boyd introduced the 2019/20 Annual report on quality of public audit in Scotland, copies of which had been previously circulated.

Elaine invited the Board to note the amendments incorporated following consideration by the Audit Committee on 6 May 2020 and sought approval of the Quality of Public Audit in Scotland annual report 2019/20 for publication as part of the suite of annual reports on 12 June 2020.

Heather Logan sought clarification on Mazars number of training days reported which are greater than other audit firms and whether this was due to a higher number of trainees. Elaine advised that Mazars invest heavily in training and as part of her continued engagement with the audit firms will discuss this with them in order to understand if there is any learning for us and for sharing with the other audit firms and agencies.

Caroline Gardner reflected on the progress over the past three years in developing the Audit quality framework, the reporting and learning from the findings which stand Audit Scotland in good stead for the future. Caroline expressed her appreciation for the work and commitment of the Audit Quality and Appointment team and others in delivering audit quality.

Elma Murray confirmed the Accounts Commission had previously endorsed the report and acknowledged the breadth of the work reported. Elma requested that to ensure consistency across publications that the diagram used in the 'Who we are' section should be updated prior to publication.

Following discussion and subject to the updated diagram, the Board approved the publication of the report.

Elaine Boyd, Owen Smith and John Gilchrist left the meeting.

16. 2019/20 Audit Scotland annual report and accounts – Year end 30 March 2020

The Chair invited members to consider the 2019/20 Audit Scotland annual report and accounts – Year end 30 March 2020, copies of which had been previously circulated, and which had been recommended to the Board by the Audit Committee subject to the inclusion of outstanding pensions information.

Following discussion, the Board recommended the 2019/20 Annual report and accounts to the Auditor General for Scotland, being Accountable Officer of Audit Scotland, subject to the inclusion of the pensions information prior to signing the accounts on 9 June 2020.

17. Internal interim report on mainstreaming equality

Gillian Woolman, Audit Director, Audit Services, joined the meeting.

Gillian Woolman introduced the Internal interim report on mainstreaming equality, copies of which had been previously circulated.

Gillian invited the Board to note the good progress reported which will inform the work until next year's report. Gillian highlighted there was good consideration of equalities in national performance reports at the initial scoping stage and evidence in the final audits and in terms of Best Value and local audits advised there was still some work required in the latter stage of the audit appointments. Gillian invited members to note that while the Covid-19 pandemic may have an impact auditors were aware of requirements for reporting and work was already underway.

Heather Logan welcomed the report and suggested that the structure of next year's published report separates more clearly the performance of Audit Scotland's own equality results from the results of the scrutiny it applies to audited bodies. Gillian welcomed the comments and would consider these alongside feedback received from Management Team.

The Board welcomed the examples of impact reported and noted the report.

Gillian Woolman left the meeting.

18. Policy on the provision of non-audit services by Audit Scotland's external auditor

John Gilchrist, Manager, Audit Quality and Appointments re-joined the meeting.

John Gilchrist introduced the Policy on the provision of non-audit services by Audit Scotland's external auditor, copies of which had been previously circulated.

The Board was invited to approve the policy as recommended by the Audit Committee.

Following discussion, the Board approved the policy as recommended by the Audit Committee.

John Gilchrist left the meeting.

19. Impact of Covid-19 on Audit Scotland finances

The Chair invited members to note the supplementary information circulated for information which set out his questions on the report and Stuart Dennis' responses.

Stuart Dennis introduced the Impact of Covid-19 on Audit Scotland finances, copies of which had been previously circulated and invited the Board to consider three key areas for discussion which have also been discussed with Management Team and the Incident Management Team. The main areas for discussion are the cashflow position for the current financial year, this year's budget, and the impact on the medium and longer term financial planning.

Stuart advised that the cashflow position is not currently an issue with the second instalment of invoices having been issued and payments being received. In respect of this year's budget Stuart invited members to note the key areas to consider included work in progress, the extent of the EAFA audit work which is likely to continue but at a slightly lower level for the next 2 or 3 years together with potential savings identified and in the longer term taking account of the factors highlighted and impact following Covid-19.

Caroline Gardner advised the report was a good starting point for the areas highlighted, noting that while it was difficult to quantify what the impact will be for Audit Scotland and audited bodies, work will continue over the summer on modelling different scenarios with further engagement with the Board, new Auditor General for Scotland and the Accounts Commission on work priorities and to agree engagement with the SCPA around any challenges we might face.

The Board reflected on the level of uncertainty, the inability of Audit Scotland to be able to hold reserves and the focus of delivery of work for the Auditor General for Scotland and the Accounts Commission.

Stephen Boyle welcomed the report which set out the scale of the issues to be faced, including EAFA as a significant contributor of income for Audit Scotland, which will need to be considered further in the context of a no deal EU withdrawal as well as recognising what it takes to deliver audit in the current virtual environment now and longer term and the impact on our cost base. In terms of strategy further discussion will be required on the focus of scrutiny for the Auditor General for Scotland and Accounts Commission following the many additional billions of funding coming to Scotland which require scrutiny and assurance that public money has been spent wisely and effectively.

Elma Murray, Deputy Chair for the Accounts Commission, advised she is recommending the Accounts Commission strategy session goes ahead as scheduled in August 2020 and will share with Commission members the Board's consideration of the challenges for Audit Scotland, the partner firms and what will be possible in terms of resources and capacity to deliver audit alongside understanding the impact on audited bodies.

The Chair invited Diane McGiffen to provide an update on organisational developments in light of Covid-19. Diane McGiffen advised the report captures both the immediate and longer term financial issues for consideration. Organisationally the question for Audit Scotland is what do we want our contribution to Scotland to be this year on behalf of the Auditor General for Scotland and the Accounts Commission. Diane advised that Audit Scotland are supporting 300 colleagues during these difficult times so they can thrive, retain skills and knowledge so that when we have a stronger foothold in delivering audit we have the talent and teams to meet the demand while recognising some re-prioritisation of work will be required. Diane welcomed the Board's continued support for colleagues through the pandemic while we continue to deliver world class audit during a dynamic period.

Following discussion, the Board welcomed the report and discussion.

The Chair advised he had committed to responding to the Chair of the SCPA on Audit Scotland's approach to Covid-19 and welcomed the report and discussion which would inform his response. Stuart Dennis agreed to produce a draft response for the Chair and the Board discussed the context for the response.

In addition, Alan advised that in terms of good governance and the need for continued oversight of developments he would welcome an additional meeting of the Board to be scheduled in advance of the next meeting currently scheduled for 30 September 2020. Diane McGiffen agreed to liaise with the Chair to discuss possible dates.

Action ASB116: Stuart Dennis to prepare a draft response for the Chair on Audit Scotland's response to Covid-19. (June 2020)

Action ASB117: Diane McGiffen to liaise with the Chair on possible dates for an additional Board meeting. (June 2020)

20. 2019/20 Q4 Financial performance report

Stuart Dennis introduced the 2019/20 Q4 Financial performance report

Stuart Dennis invited the Board to note the un-audited financial results for the 12 months to 31 March 2020.

The Board noted the report.

21. 2019/20 Q4 Corporate performance report

Martin Walker introduced the 2019/20 Q4 Corporate performance report, copies of which had been previously circulated.

Martin Walker invited the Board to note the performance reported in quarter four and overall performance in 2019/20.

The Board reflected on the overall performance reported despite the disruption of the Covid-19 pandemic in March 2020.

Following discussion, the Board noted the report.

22. 2019/20 Q4 Strategic improvement programme update

Martin Walker introduced the 2019/20 Q4 Strategic improvement programme update report, copies of which had been previously circulated.

Martin Walker invited the Board to note the significant progress made on the strategic work programme to date, and the ongoing review of improvement work to support new ways of working in the short, medium and longer term in light of the pandemic.

The Board welcomed the report.

23. New audit appointments update

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

The Chair introduced the New audit appointment update report, copies of which had been previously circulated.

The Chair drew the Board's attention to the position with regard to auditor remuneration and the potential impact on audit fees arising from Covid-19 and advised of further engagement on the Code of Audit Practice and the updated timeline for the project.

Elma Murray reflected on the work of the team in delivering the draft Code of Audit Practice and recognised that managing the multiple interactions had been difficult and stated her commitment to working with all parties. Elma advised the team were preparing a report which she was taking to the Accounts Commission meeting on 11 June 2020. The Board welcomed the Deputy Chair's commitment.

Caroline Gardner commented on the risks associated with the potential of increased fees related to Covid-19, the requirement on auditors to deliver quality audit and increased regulatory requirements which will need to be managed over the next few months and in advance of the new appointment round.

Robert Leask advised of communication with audit firms to advise of the intention to extend the current audit appointments and the Chair requested that as soon as the decision has been taken to ask the Auditor General for Scotland and the Accounts Commission to extend the current appointments that this is made public.

Heather Logan sought clarification of the issue regarding the understanding of the procurement strategy as reported in paragraph 3 of the report. Elma Murray advised that the Accounts Commission had discussed the issue of endorsing or noting the strategy, with a further discussion to be scheduled on the principles of the strategy. The Board noted that the Commission members had mandated the Chair to attend the Board meeting due to consider and approve the strategy. In light of Covid-19 however Elma suggested that the Steering Group will wish to revisit the strategy to understand the impact this may have in terms of fees and split of audit work. The Chair welcomed the update.

Following discussion, the Board noted the report.

Robert Leask left the meeting.

24. European Union withdrawal update

Mark Roberts, Audit Director, Performance Audit and Best Value joined the meeting.

Mark Roberts introduced the European Union withdrawal update report, copies of which had been previously circulated.

Mark Roberts invited the Board to note the update on EU withdrawal in terms of monitoring and potential implications. Mark advised the Scottish Government are working on planning for no deal exit at the end of the year, with the UK Government requiring to submit a request to an extension by the end of the month. In terms of implications for Audit Scotland, we continue to monitor and provide updates to colleagues with the general principle that EU withdrawal is part of the normal operating environment for audited bodies and will be monitored at a local level. Mark invited the Board to note that the major financial implications for the medium and long term relate to EFAA audit work and the uncertainty around this.

The Board recognised the significance of the impact for audited bodies and how they respond. Diane McGiffen advised this is firmly back on the agenda in terms of Audit Scotland's future strategy and financial impact which will need to be factored into the audit response as we move into next year.

Following discussion, the Board noted the report.

Mark Roberts left the meeting.

25. Any other business

The Chair noted this is the last meeting for two of its members, Graham Sharp, Chair of the Accounts Commission and acknowledged his long service on the Commission and contribution to Audit Scotland's Board.

The Chair paid tribute to Caroline Gardner who demits office on 30 June 2020 recognising her enormous contribution to public audit and public life, first as Controller of Audit and then as Auditor General for Scotland, an inspiring, supportive and caring leader who will be missed.

Stephen Boyle, AGS designate, also paid tribute to Caroline reflecting on her ability to lift and bring people with her, a true leader who is known for her composure, is well respected and visionary with the ability to transcend the political spectrum and who has transformed the views of public audit, steering the organisation through an independence referendum, devolved powers for Scotland, EU withdrawal and now all the challenges of Covid-19. Stephen acknowledged Caroline's leadership is one of the most successful aspects of the organisation, truly aspirational and a privilege to work with. Stephen invited members to note Caroline's contribution to the wider Scottish public life and expressed his personal thanks and assurance to take forward her legacy.

Caroline Gardner said it had been a tremendous honour to lead the organisation over the past eight years, successfully working through the independence referendum and Scotland's new financial powers, and emphasised the importance of making a contribution back to Scotland. Caroline acknowledge that Covid-19 and Brexit will pose a new set of challenges in the future.

Caroline expressed her thanks and appreciation to all her colleagues at Audit Scotland for their professionalism, hard work and friendship and relayed her thanks to fellow Board members for their role of challenge and support to deliver Public Audit in Scotland. Caroline extended her best wishes to Stephen Boyle as the new Auditor General for Scotland and Elma Murray as the interim Chair of the Accounts Commission.

The Board expressed their appreciation and best wishes to Caroline Gardner.

26. Publications of papers

The Chair invited members to agree the publication of today's reports with the exception of items 9, 15 and 16 as these are due for publication on 12 June 2020 and item 23, New audit appointments update (to support the effective conduct of business and in particular due to the commercial sensitivity of the report).

27. Review of meeting

The Board welcomed the quality of reporting and agreed it had been a productive meeting.

28. Date of next meeting: 30 September 2020

The members noted the next meeting of the Audit Scotland Board is currently scheduled for 30 September 2020 with a view to convene a meeting in August

Purpose

1. This report provides the Board with an opportunity to review its governance arrangements and the Standing Orders in the context of the current Covid-19 pandemic.

Background

2. On 16 March 2020 Audit Scotland's Incident Management Team initiated the Business Continuity Plan in light of the Covid-19 situation. Colleagues were advised to work from home with immediate effect and the offices were closed. On 23 March 2020 the formal 'lockdown' measures introduced by the UK and Scottish Governments took effect.
3. The Board met the following day, the first meeting of the Board to take place via teleconference. At that meeting the Board agreed to temporarily suspend some of the standing orders. These were in relation to; meeting in public, the requirement for papers to be issued to members five days before the meeting and the publication of papers on the website in advance of meetings.
4. The Board also agreed to keep the [Standing Orders](#) under review at each meeting and they are attached as Appendix 2 for ease of access.
5. At its meeting on 13 May 2020 the Board that the temporary suspension of the standing orders in relation to the issue and publication of board papers were no longer required.

Considerations

Public meetings

6. The Board remains committed to openness and transparency and meeting in public forms part of delivering on this commitment. Public interest in attending Board meetings to date, however, has been limited.
7. Holding a virtual public meeting, which is accessible, while having appropriate digital security arrangements in place remains challenging. While practical options are being explored it is recommended that meetings continue to take place via videoconference and that attendance is limited to Board members and those presenting papers.

Future reviews of governance arrangements

8. The Board will carry out its annual review of key corporate government documents at its meeting on 30 September 2020. These will have been reviewed by the Audit Committee at its meeting on 2 September and this includes the annual review of:
 - Standing Orders
 - Scheme of Delegation
 - Financial Regulations
 - Members Code of Conduct
 - Staff Code of Conduct.
9. The Board has also agreed to carry out a broader review of its governance arrangements. The Chair and the Corporate Governance Manager have had preliminary discussions on the scope of this review. The scope is likely to include consideration of how we define and minute public and private items. A scope of this review will be considered by the Board at its meeting on 25 November 2020.

10. The review is provisionally scheduled to take place between January and February 2021 to provide new board members with the opportunity of experiencing board business and to have completed the induction programme.

11. The review report will be considered by the Board at its March 2021 meeting.

Recommendations

12. The Board is invited to:

- agree that its meetings continue to take place via videoconference and that attendance is limited to members and those presenting reports
- agree that the variations to the Standing Orders are kept under review and considered at each Board meeting until further notice
- note the forthcoming reviews of governance documents in September 2020 and the broader review of governance in January 2021.

| 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. |
| 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 | Outline scope discussed with Chair 26/05/20. Review to be scheduled following the appointment of new Board members (inc Chairs of committees) |
| ASB114 | Board | 8 | Review of action tracker | A report on the scope of the governance review will be considered at the Board meeting on 30 September 2020. | 01/06/2020 | 30-Sep-20 | Diane McGiffen | Diane McGiffen | Ongoing | | A report is scheduled for the Board meeting on 30/09/2020. |
| ASB115 | Board | 10 | 2019/20 Annual report on freedom of information and environmental information | The Corporate Governance Manager to agree revised wording with the Chair prior to publication. | 01/06/2020 | Jun-20 | Gayle Fitzpatrick | Gayle Fitzpatrick | Complete | No | The amended wording was agreed with the Chair prior to publication. |
| ASB116 | Board | 19 | Impact of Covid-19 on Audit Scotland finances | Stuart Dennis to prepare a draft response for the Chair on Audit Scotland's response to Covid-19. | 01/06/2020 | Jun-20 | Stuart Dennis | Stuart Dennis | Complete | No | Letter sent to the Chair of the SCPA on 17/06/20. |
| ASB117 | Board | 19 | Impact of Covid-19 on Audit Scotland finances | Diane McGiffen to liaise with the Chair on possible dates for an additional Board meeting. | 01/06/2020 | Jun-20 | Diane McGiffen | Diane McGiffen | Complete | No | An additional Board meeting was convened 19/08/2020 to consider this together with Audit Scotland's response to the Covid-19 pandemic. Reports at items 9 and 10 of today's agenda. |

Covid-19 update

Audit Directors and Associate Director, Corporate Performance and Risk

Item 9

19 August 2020

Purpose

1. This report provides an update on Audit Scotland's response to the Covid-19 pandemic. It summarises the current position on the implications for Audit Scotland as an organisation and the implications for the audit work.

Background

2. On 16 March 2020 Audit Scotland's Incident Management Team (IMT) activated the Business Continuity plan and decided to close the Audit Scotland Offices in response to the Covid-19 global pandemic. This was one week ahead of the formal national 'lockdown'.
3. All Audit Scotland office locations have been closed since then, in line with Scottish Government guidance. As at 19 August 2020 we will have been operating as a virtual organisation for a period of 23 weeks.
4. The IMT has been meeting on a daily and then twice weekly basis over that period and regular updates have been issued to all colleagues and Board members.
5. On 21 May 2020 the Scottish Government announced its four phase [route map](#) out of lockdown.
6. On 9 July 2020 the First Minister (FM) announced Scotland would be moving into phase 3 of the route map, described as the 'most significant milestone yet'. The current situation is that advice and guidance on the re-opening of non-essential offices will be reviewed towards the end of phase 3, however working from home and working flexibly will remain the default. Currently it is expected that phase 3 will continue for some time.
7. The infection trends in other countries and recent localised outbreaks across the UK provide a strong reminder as to the nature of the virus and that extreme caution continues to be required.

Our response to Covid-19

8. These are unprecedented times and the disruption caused by the Covid-19 global pandemic, on both Audit Scotland and the organisations we audit has been significant.
9. From the start we have adopted a safety-first approach, prioritising the health, safety and wellbeing of our colleagues and this continues to be a key priority. We have worked hard to support colleagues who are now all dispersed, working from home and juggling sometimes quite difficult home and work responsibilities. This support has taken a variety of forms, including regular communications and engagement, advice and guidance, access to systems and the provision of digital and office equipment.
10. On 19 March 2020, at the last public meeting of the Public Audit and Post Legislative Scrutiny Committee (PAPLS) before lockdown, the Auditor General for Scotland noted that Scotland's public services are under exceptional pressure due to Covid-19 and advised that our approach to audit during these circumstances would be pragmatic, flexible and consistent. Our approach was further detailed in [Covid-19: impact on public audit in Scotland](#) in May and [Covid-19: how public audit in Scotland is responding](#) in June 2020.
11. To date we have prioritised our statutory audit obligations and paused/re-scheduled areas of audit work where we have more discretion in consultation with the Auditor General for Scotland and the Accounts Commission. We have also been clear that we will do what is achievable, but cannot guarantee all deadlines can be met. This is due to the disruption in audited bodies as well as to ourselves. We have also been clear that while timescales may change audit quality remains an absolute priority and indeed that is even more important at times of significant disruption.

12. Overall, the organisation has responded well to the challenge and we have been operating as a virtual organisation. Colleagues have shown a huge amount of commitment, flexibility and resilience. It is also the case that the disruption has been challenging, in particular for those colleagues whose caring responsibilities and domestic situation have been difficult.
13. The disruption has had an impact on productivity and this and other cost pressures mean that the financial situation is also challenging, and it is likely that this will likely be reflected in the Spring Budget revision to the SCPA. We are also reviewing the medium terms financial plan and the fees and funding strategy.
14. At this stage it is difficult to assess the long-term impact on productivity. Since March everyone has been having to adjust to what has been referred to as a 'new normal'. This is, in many respects, a misnomer as people have been experiencing a period of significant change and disruption. As such it should not be used as a long-term predictor of future productivity. The reopening of schools is likely to relieve the pressure on many colleagues and help re-balance their work/life responsibilities.

Organisational implications

15. This section of the report sets out the organisational implications of and responses to the pandemic in terms of our people, communications and engagement, digital and office services support, office accommodation and other implications.

Our people

16. Colleagues across the organisation have responded incredibly well to the situation. They have displayed a huge amount of flexibility and professionalism throughout.
17. Their experience has varied depending on a range of factors including their personal circumstances, domestic situation and their caring responsibilities etc. For some, this time may have had a positive impact (such as less travelling and a better work/life balance) however for others it has been a really difficult time (e.g. unable to focus, juggling caring responsibilities, deterioration of relationships, loneliness).
18. Right from the start of the pandemic we have prioritised colleague's health safety and wellbeing. This has been reinforced in all communications and a broad range of guidance and support has been put in place.
19. To date fewer than five colleagues have reported having Covid-19 symptoms. This was in the early stages of the pandemic and they followed the appropriate medical guidance. None of these have been confirmed cases and these colleagues have returned to full health. Fewer than five colleagues are currently shielding.
20. An analysis of the sickness absence statistics tells us that the rates for quarter 1 of 2019/20 and 2020/21 are almost identical at 1.60 days and 1.63 days per employee respectively.
21. An analysis of the time logged by colleagues to the C19 business continuity description codes tells us that 1,567.4 days have been logged by 244 colleagues to date. This equates to an average of 6.4 days per colleague who has used the code.

Engaging and communicating with colleagues

22. We have invested in communicating and engaging with colleagues across the organisation using a broad range of channels. This includes more formal business messaging, through the regular IMT updates, the Covid-19 yammer channel, the weekly Staying Connected communications and video posts and blogs from members of Management Team.
23. We have also introduced more informal channels including the '[How we doing](#)' yammer channel, on-line quiz events and virtual tea breaks and check-ins via video conferencing.
24. We have developed and promoted links to broad range of support services including access to the [Scottish Government guidance](#), a quick guide on the [lockdown measures](#) and a [support and guidance hub on SharePoint](#) which provides links to guidance and services on health and wellbeing.
25. Since June 2020 we have been running regular 'pulse surveys'. These are designed to help check in with colleagues and provide them with an opportunity to share how they are and their experience of

working in the current environment. The response rate has been between 34% and 40% and colleagues score responses between 0 (negative) and 10 (positive). The feedback has been consistent and positive overall over the course of the surveys to date. The average scores have been; well informed (9), supported (8), experience of working at home (7), whether they have the equipment they need (8) and how they are feeling overall (6).

26. The most recent survey invited feedback on 'I trust Audit Scotland to make decisions that protect me and my colleagues' (8), I understand the steps Audit Scotland is taking to ensure my safety and wellbeing' (8) and 'Audit Scotland supports me to balance my work and caring responsibilities effectively' (8).
27. The surveys also provide an opportunity to provide other feedback or raise issues and these issues are considered by the Management Team/Incident Management Team and inform communications and planning. The feedback tells us that some colleagues are finding the situation difficult, that some feel guilty about their relative lack of productivity and that some have concerns about coming work pressures as deadlines get closer.

Supporting our colleagues – digital and office services

28. We have had flexible working arrangements in place for many years. These arrangements are supported by our policies and procedures and meant that, compared to many organisations, we had a strong base on which to build when implementing the business continuity plan.
29. Since the office closure we have been keen to ensure our colleagues have access to the equipment they need to work safely and productively. Initially we invited colleagues to get in touch to make requests and seek advice. We have followed this up with a more formal requirement for all colleagues to carry out an on-line workstation assessment to help us support longer-term needs.
30. We undertook an equalities impact assessment on the implication of all colleagues working from home and this has informed our planning and actions.
31. Colleagues have been accessing systems either using Audit Scotland devices (laptops/Chromebooks etc) or their own devices through secure gateways.
32. To date we have issued 231 items of digital equipment to 116 colleagues. These items have mainly been screens, keyboards and mice. The total cost to date has been £11,359.85 (an average of £97.93 per colleague who has needed equipment).
33. We have provided a broad range of guidance using a combination of blogs, yammer posts and written and video guidance to support colleagues in making the best use of the technology. It has also focussed on working safely in a digitally secure environment and we successfully achieved ISO27001 recertification in April 2020 during lockdown.
34. We have also issued 178 items of office equipment to 124 colleagues. These items have included desks, chairs, footrests. Some items have been issued from existing stock in the offices. The total cost to date has been £8691.28 (an average of £70.09 per person who has needed equipment).

Office accommodation and on-site work

35. In keeping with government guidance and our safety-first principle, the Audit Scotland offices have been closed with effect from 17 March 2020. We expect this to be the default position for some time to come.
36. As the Scottish Government guidance states "Homeworking as a public health measure in response to the pandemic has been a crucial factor in mitigating the transmission of the virus amongst the general population. Those who are working from home are contributing to the public health effort, just as those returning to the workplace are. People working from home are making it safer for those workers who cannot work from home – it is an effort we must continue'.
37. A working group has been established to carry out detailed planning work on delivering Covid-19 secure workplaces. This may result in providing limited access to the office for a very small number of colleagues for whom this would be conducive to their health, safety and wellbeing or for colleagues who are unable to perform specific tasks which require access to the office. All access requests will be the subject of a risk assessment.

- 38.** As regards site visits and on-site working, our default position is that work at audit sites is not permitted. We have however allowed for exceptional circumstances where a site visit may be allowed for a specific business critical reason, for example to review highly sensitive material which cannot be shared electronically. This will not be routine and not necessary for most audit work.

Managing the business

- 39.** We have maintained and supported good business management practices over the period, including virtual meetings of the Board, its Committees, the Accounts Commission and its Committees, the Management Team and other standing forums. We also successfully completed all of the year-end and annual assurance processes to schedule, published the annual report and accounts and gave evidence to the SCPA as normal in June 2020.

Other implications

- 40.** There have been a number of positive aspects of working during the course of the pandemic. These include:
- the rapid development and implementation of new ways of working
 - colleagues reporting the benefits of flexible working and reduced time spent traveling to the offices of other audit locations
 - greater inclusiveness arising from meetings via videoconferencing – where attendance is not dependant on travel/presence in the offices or at a particular location
 - the rapid roll out of some technology originally scheduled for later in 2020, and in particular MS Teams and
 - the development of new ways to deliver training – which provide for greater take-up and colleagues to access training resources at a time that suits them.
- 41.** There have also been areas which have been negatively impacted by the pandemic. Home schooling and the closure of nurseries and restrictions on care facilities have impacted significantly on those affected. Issues include:
- some colleagues reporting challenges in terms of managing work and personal commitments, connectedness and isolation
 - a reduction in productivity
 - 'digital inequality' for some colleagues where broadband capacity has impacted on system speed and responsiveness
 - the impact of frequent/extended online meetings and the ability of 'switch off'
 - the pause/rescheduling of some projects, including; the audit procurement and appointments process, the procurement of a new Electronic Working Papers system and some audit quality improvement actions and
 - the cancellation of the 2020 conference (though this was replaced by a series of virtual events).

Audit implications

- 42.** This section of the report summarises the position in terms of the audit work on; Covid-19 financial audit, the rolling work programme and performance audits and engagement with the Scottish Parliament, the Accounts Commission and other stakeholders.
- 43.** We have worked closely with the Auditor General for Scotland and the Accounts Commission as the commissioners of the audit work to ensure that the audit work reflects their priorities and needs.

Audit priorities and resourcing

44. We have issued two public statements on our approach to audit in the context of Covid-19.
- [Covid-19: impact on public audit in Scotland](#) in May 2020
 - [Covid-19: how public audit in Scotland is responding](#) in June 2020.
45. These documents were used to brief the Scottish Parliament's Public Audit and Post Legislative Scrutiny Committee (PAPLS) on how Covid-19 was impacting on audited bodies and our ability to undertake audit work and how we anticipated Covid-19 being reflected in our future work programme.
46. The June briefing set out a series of principles which would guide our response to strategically deploying resources both during and as we move through the coronavirus pandemic:
- staff safety and wellbeing
 - pragmatic, flexible, consistent
 - one organisation approach, with agile and dynamic resourcing
 - completing 2019/20 financial audits
 - identifying Covid-19 audit priorities and start to deliver
 - work programme refresh proposals for the Auditor General for Scotland and the Accounts Commission
 - maintain flow of performance and BV audits for PAPLS and the Accounts Commission
 - medium term recovery, recognising and keeping positive changes experienced to date.
47. These principles have guided our approach to joint resourcing, work scheduling and programme development activity over recent months.

Covid-19 audit work

48. The June update set out our planned programme of Covid-19 related audit work. This includes:
- An early overview of the Scottish Government's financial response to the pandemic, to be published in August 2020 which will set out anticipated implications for public spending and funding of the Covid-19 response, and give our initial assessment of the Covid-19 related risks to Scottish public finances and the performance of public services.
 - A paper on Fraud risks associated with Covid-19 that public bodies should be alert to. This was published in July 2020 as a complement to our report on the National Fraud Initiative published that month.
 - The NHS overview report, which we intend to publish early in 2021, will consider the NHS' response to Covid-19.
 - The local government overview report in spring 2021 will report on how Scotland's 32 councils responded to Covid-19 and how services are changing and adapting.
 - The digital progress in local government performance audit, due in late 2020, which will consider how digital technology has enabled councils to respond to Covid-19; emerging good practices and potential longer-term implications for councils and how they operate.
 - The education outcomes audit, which is currently paused, will be refocused during 2021 to look at the impact on Scotland's education system.
49. We are currently developing our longer-term programme of Covid-19 related audit work in line with the three-phase strategy we set out in May in [Covid-19: impact on public audit in Scotland](#).

Financial audit

50. Extended audit timetables have been implemented for NHS and local government bodies. A three-month extension applies for NHS audited accounts, which are to be published by 30 September 2020. A two-month extension applies to local government, with accounts expected to be published by 30 November 2020.
51. The deadline for the laying of central government bodies' accounts in the Scottish Parliament is unchanged, at the end of December 2020. College accounts must be signed by 31 December 2020 and laid by 30 April 2021. The Scottish Government Consolidated Accounts and any Section 22 reporting are likely to be concluded and reported later than in previous years.
52. Early issues reported by auditors when conducting audits in this Covid-19 context are largely as anticipated at this stage, though the situation in terms of timescales remains very fluid. The audit issues include:
 - uncertainties expressed by valuers on non-current asset valuations. Where significant and material, these uncertainties are likely to result in 'emphasis of matter' references in audit reports. An emphasis of matter is not a qualification or modification to the audit report. It is used where the auditor wants to draw attention to a significant matter reported in the accounts that is important to a user or reader's understanding
 - uncertainties over the valuation of 'level 3' assets in pension funds. Level 3 assets include hedge funds and property assets where valuation techniques and significant judgement are involved
 - going concern issues and parent guarantees for some entities included in group accounts (for example, leisure trusts)
 - the impact of lost income and Covid-19 related expenditure on the medium-term financial sustainability of councils and other public bodies.
53. Sign-off has already been achieved in a small number of Central Government and NHS bodies including Skills Development Scotland, Scottish Enterprise, Quality Meat Scotland, Education Scotland, Scottish Criminal Cases Review Commission, NHS Western Isles and NHS Orkney.
54. The programme for sign-off of council's accounts has been extended, with two expected to sign by the end of September, four in October, 12 in November and one in December/January.
55. There are a number of unaudited accounts overdue and we mostly expect these to be provided in August. This includes three councils, two health boards, three IJBs and a pension fund.
56. The Audit Services Group estimates a reduction of over 10% in productive time compared to the same time last year due. This is being managed by pushing-out the duration of audits with local government certification moving to October/November from end of September. In addition, resources from PABV, Professional Support, agency staff and previous year retirees are being deployed to help manage the resourcing position.
57. The push out of audits this year will delay the start of planning for 2020/21 audits. Over the next few months, we will start to identify options to mitigate impacts of this on the medium term. The flow of BVAR audits has been considered and will be staggered over 2021 into the additional year of the audit appointments in 2022.
58. The resource group continues to monitor and manage this position across teams and audits and the position remains manageable.
59. One hundred audits are carried out by the firms appointed by the Auditor General for Scotland and the Accounts Commission. To date the firms are reporting that eight of the audits are completed and that three audits are unlikely to be delivered to schedule. As with the audits carried out by Audit Scotland, the situation remains very fluid and is likely to change.

Audit appointments

60. The Auditor General for Scotland and the Accounts Commission have agreed that the current appointment period be extended by one year. This provides continuity at a time of significant disruption

and recognises the challenges in running a significant procurement exercise in the current circumstances.

Best Value audits

61. A revised schedule for Best Value Assurance Reporting (BVAR) to the Commission in 2020 has now been prepared which reflects the impact of Covid-19 on both auditors and councils. Four BVARs will be considered by the Commission over the period August to November 2020.
62. The extension to the audit appointments to September 2022 provides additional time and flexibility to complete the current Best Value assurance programme. We are currently discussing options with appointed auditors for audit timescales including reporting to the Commission. We are planning to stagger the remaining reports across the two remaining years of the audit appointment cycle. This means three or four BVARs in 2021 with the remainder following in 2022 prior to the end of the audit appointments in September 2022. It's also possible that we may need to accommodate follow-up BVAR reporting (Moray). Recent BVARs are including comment on the impact of Covid-19.

The rolling work programme and performance audits

63. The pandemic continues to have a significant impact on the performance audit programme. In some instances, this has meant pausing audits or delaying their start, and for others it has meant changes to the audit scope, timing or reporting arrangements.
64. Over recent weeks we have been considering what approach should be taken to the 2020/2021 audits and briefings which were either paused or had not started at the time of lockdown. The considerations were informed by factors such as:
 - whether the audits or briefings still remain relevant in a Covid-19 context, and
 - the need to maintain a steady programme of performance audit work for the Auditor General for Scotland and the Accounts Commission whilst at the same time making space to respond to new Covid-19 risks and issues.
65. We agreed our proposed way forward for the paused or non-started audits and briefing papers with the Auditor General for Scotland and Chair/Deputy Chair of the Accounts Commission on 11 August 2020. This will involve:
 - proceeding with or restarting several audits which were already in the performance audit programme but were impacted by lockdown (e.g. digital in local government, improving education outcomes, social care sustainability)
 - rescheduling and/or rescoping other audits in response to Covid-19 (e.g. improving outcomes for children with additional support needs, skills planning and investment, social security: implementing the devolved benefits)
 - removing some planned work from the programme because it is now considered to be a lesser priority in the context of Covid-19 (e.g. teacher workforce briefing, waste management performance audit) and
 - the development of a suite of new Covid-19 related audit outputs (e.g. blogs, briefings and roundtable sessions with key stakeholders) during 2020.

Future audit work and the work programme

66. We have prioritised audit quality and the delivery of the financial audits, in the context of the revised reporting deadlines while recognising it may not be possible to deliver all of the audits to schedule.
67. We are currently reviewing our work programme to reflect the changing context of unprecedented change and uncertainty created by Covid-19 and its implications for public finances, public services and outcomes for citizens.
68. We made clear in the May 2020 position statement on [the impact of Covid-19 on public audit in Scotland](#) that this uncertainty and the fast-paced nature of the changes created by Covid-19 (including new funding streams, moving to digital delivery, sudden economic and social impacts) mean that our

work programme will need to be more dynamic than in the past. It is likely to involve a wider range of different audit outputs such as blogs, roundtables and briefing papers on key audit themes and issues.

69. The June 2020 update [Covid-19: how public audit in Scotland is responding](#) set out our current Covid-19 related audit work and potential themes and areas of focus for future work at that point. It is clear however that the dynamic nature of Covid-19 and the significant uncertainties about its long-term impact, means we will keep our work under review and adapt our programme to reflect changing circumstances.
70. In addition, the work programme refresh is being done at a period of transition with both a new Auditor General for Scotland and an interim Chair of the Accounts Commission. The new Auditor General for Scotland and interim Chair of the Accounts Commission will both want to set their own direction and priorities for their work, all of which will need to be reflected in any refreshed work programme.
71. We are also undertaking the work programme refresh activity at a time of significant disruption to our staff and staff in audited bodies as a consequence of lockdown. This is impacting on our capacity to undertake detailed programme development work and in some cases engagement with relevant stakeholders. This issue is diminishing over time as public bodies have begun to normalise working in a Covid-19 context and Scotland has started in a limited way to ease some lockdown restrictions.
72. All of these factors mean that this year's work programme refresh will need to be more iterative and fluid than in the past and we need to make difficult prioritisation choices if we are to free up capacity to allow us to respond flexibly to changing circumstances and deliver timely audit outputs on emerging risks and issues.

Financial implications, risks and contingency

73. The current financial position is set out in detail in the quarter one financial performance report, which is on the agenda for today's meeting.
74. The 2020/21 budget includes a contingency allocation of £300k which is controlled by Management Team. To date there have been no allocations from the contingency.
75. In May budget holders were requested to review their operational budgets with a view to identifying budget savings. This exercise identified savings of £312k and business group operational budgets have been adjusted. The management contingency and savings will enable us to meet some of the financial pressures we are likely to experience as a result of Covid-19
76. The key financial risks we will need to manage in 2020/21 include:
 - a shortfall in closing work in progress at 31 March 2021
 - additional costs to deliver audit
 - resource availability
 - the impact on firms' costs and
 - the completion of the EFAA audit.
77. Taking into account the audit sign off extensions in each sector the completion percentage rates for the start of the 2020/21 audit cycle will be below the planned levels as at 31 March 2021. The 2020/21 chargeable audit fees will be determined as part of the 2021/22 budget exercise, however an indication is that a 1% movement in completion is approximately £80k based on current budget figures. A 15% reduction would therefore lead to a total shortfall in income recognition of £1.2 million.
78. In the budget proposal to the SCPA we indicated that we aim to manage within our overall budget, however it may be necessary to seek in-year adjustments if significant challenges arise. It is unlikely that the management contingency and savings identified will be sufficient to meet all the financial pressures and an additional in-year adjustment will be required. To comply with the governance process for budget approval the Audit Scotland Board will be requested to approve the proposal of an in-year budget adjustment to the SCPA.

79. In the longer term there are financial issues that will be considered as part of the 2021/22 budget submission to the SCPA, and which it may be prudent to raise with the SCPA at the Business Planning session in the autumn. These include:

- the future of the current fees and funding model
- resourcing pressures and additional cost of audit post Covid-19
- pension fund pressures
- auditing post Covid-19
- firms procurement exercise
- EAFA and
- pay award uncertainty.

Next steps

80. The experience to date has demonstrated how flexible and resilient Audit Scotland is as an organisation. As we move beyond the 'response phase' we are keen to learn from what this phase has told us and harness and build on the innovation, creativity and flexibility to develop new ways of working.

81. We are currently developing our thinking on, and response to, the longer-term implications of the Covid-19 pandemic to develop a new longer-term operating model. This includes a number of key areas including:

- Our people and organisational culture: including supporting the health, safety, development and wellbeing of our people, how we work (working style, patterns, locations and virtual teamworking), how we have effective team/business group/whole organisational working and communication, the development of a new working culture and the preservation/recovery of the benefits of the pre-Covid working culture.
- The audit work: including refining the audit prioritisation framework, a continued focus on audit quality, 'virtual auditing', digital auditing, developing new ways to deliver key audit messages effectively including a broader range of audit outputs, professional leadership and external communications and engagement.
- Capacity, resourcing, deployment and finances: where the dynamic situation needs an ever more agile and flexible approach to prioritising particular audit work and deploying our people, budget pressures and savings and the longer-term fees and funding model.
- Our workspaces: reassessing and redefining the need and purpose of our workspaces, workplaces and office estate in the context of how, when and where our people work (at home, in the office, elsewhere).
- Digital: prioritising secure systems and equipment which support even more flexible working practices and a dispersed workforce.
- Our systems and processes: which will need to be re-thought and refined to support the new ways of working including our policies, procedures and our support services.

Recommendations

82. The Board is invited to:

- note the actions taken to date in respond to the Covid-19 pandemic
- note the next steps and
- discuss the implications of the pandemic and note the next steps.

Purpose

1. This report presents the financial results for the three months to 30 June 2020.

Background

2. The detailed finance performance report for the three months to 30 June 2020 is provided in Appendix 1 to this paper.
3. The report was discussed by Management Team on 11 August 2020.

Discussion

4. In the first quarter of the 2020/21 financial year Audit Scotland's Net Operating Expenditure was £2,049k which was £202k more than budget.
5. In-house income for 2019-20 audits was in total £160k less than budget with a negative volume variance of £191k and a positive price variance of £31k.
6. Fee income earned for 2019-20 audits carried out by external firms net of fees and expenses paid to the firms was £4k better than budget. Income recognition was £134k worse than budget with fees and expenses payable to the external firms being £138k less than budget.
7. Staff costs including agency expenditure was £90k more than budget.
8. Other expenditure £43k better than budget. The main positive variances were recorded in travel and subsistence (£23k), legal, professional and consultancy (£20k) and printing/office costs (£25k). The main adverse variance was in information technology (£16k).
9. The detailed variance analysis and explanation is provided in Appendix 1 attached to this report. Appendix 1 also includes a section with the key financial risks that need to be managed in 2020/21 and future budget proposals. There will be a requirement for an in-year budget adjustment to meet the potential funding shortfall.

Virement

10. There were no instances of budget virement in excess of £20k in the three months to 30 June 2020.

Recommendation

11. The Board is invited to note the financial results for the three months to 30 June 2020.

Appendix 1

Headline Results

The summary financial position to 30 June 2020:

| £000 | Annual Budget | Actual | Budget | Var. | % Var. | Prior Year | Note |
|-------------------------------------|----------------|----------------|----------------|--------------|---------------|----------------|------|
| Fee Income - In House | 8,099 | 1,663 | 1,823 | (160) | -8.8% | 2,291 | 1 |
| Fee Income - Audit Firms | 4,947 | 1,270 | 1,404 | (134) | -9.5% | 1,419 | 2 |
| Central Charges | 5,646 | 1,412 | 1,412 | 0 | 0.0% | 1,383 | |
| Rebate | 0 | 0 | 0 | 0 | - | 0 | |
| Interest | 0 | 1 | 0 | 1 | - | 1 | |
| Other Income | 0 | 0 | 0 | 0 | - | 4 | |
| IAS 19 Income | 0 | 0 | 0 | 0 | - | 0 | |
| TOTAL INCOME | 18,692 | 4,346 | 4,639 | (293) | -6.3% | 5,098 | |
| Approved auditors | 4,435 | 1,168 | 1,306 | 138 | 10.6% | 1,288 | 2 |
| Staff salaries and oncosts | 17,916 | 4,400 | 4,369 | (31) | -0.7% | 4,124 | 3 |
| Payroll provisions incl. severance | 0 | 0 | 0 | 0 | - | 0 | |
| Agency and secondment costs | 75 | 78 | 19 | (59) | -310.5% | 20 | 3 |
| IAS 19 Pension costs | 100 | 0 | 0 | 0 | - | 0 | |
| Property costs | 944 | 215 | 205 | (10) | -4.9% | 203 | |
| Travel and subsistence | 886 | 87 | 110 | 23 | 20.9% | 207 | 4 |
| Legal, professional and consultancy | 861 | 81 | 101 | 20 | 19.8% | 87 | 5 |
| Training | 490 | 52 | 57 | 5 | 8.8% | 80 | |
| Recruitment | 145 | 43 | 40 | (3) | -7.5% | 30 | |
| Printing and office costs | 284 | 28 | 53 | 25 | 47.2% | 70 | 6 |
| Information technology | 486 | 133 | 117 | (16) | -13.7% | 107 | 7 |
| Audit | 60 | 15 | 15 | 0 | 0.0% | 14 | |
| Depreciation | 342 | 87 | 85 | (2) | -2.4% | 95 | |
| Other costs | 383 | 8 | 9 | 1 | 11.1% | 7 | |
| EXPENDITURE | 27,407 | 6,395 | 6,486 | 91 | 1.4% | 6,332 | |
| NET OPERATING (EXPENDITURE) | (8,715) | (2,049) | (1,847) | (202) | -10.9% | (1,234) | |

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 June 2020 for the in-house audits:

| | 2019/20 Audit Year | | Prior Years | Total | |
|------------------------|--------------------|-------------|-------------|----------|-------------|
| | Volume | Price | | | |
| | WIP % | £ | £ | £ | |
| Local Government | -6.23 | -279 | +19 | - | -260 |
| Health | +8.22 | +121 | +11 | - | +132 |
| FE | +6.38 | +3 | - | - | +3 |
| Central Government | -4.10 | -45 | - | - | -45 |
| Non-statutory | +1.14 | +9 | +1 | - | +10 |
| Total – June 20 | -2.40 | -191 | +31 | - | -160 |

Local Government

Local Government audits are 6.23% behind budget leading to an adverse volume variance of £279k. The positive price variance of £19k 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. The year to date fee income budget for the local government sector is based on prior year performance and the current adverse position is expected due to numerous factors linked to the coronavirus pandemic. Audit sign off for the local government sector has been extended from September to November and there is a possibility that a small number of the larger bodies could be delayed past this revised date. The situation is being closely monitored.

Health

Overall health audits are 8.22% ahead of the re-profiled budget leading to a positive volume variance of £121k. The positive price variance is due to an increase in the fee for NHS Tayside. The completion percentage for the whole sector at this stage last year was 97.34%, a negative variance to the current position of -28.34%. This is due to the impact of the coronavirus pandemic with some health boards not in a position to submit annual accounts within the normal deadlines. The deadline for audit sign off of the health sector has been extended and based on current information it is projected that the majority of health audits will complete by the new deadline, at the end of September.

Further Education (FE)

ASG undertake 2 FE audits, Dundee & Angus College and Edinburgh College. Progress on 19/20 audits is currently 6.38% ahead of schedule. The year-end for colleges is different to the rest of the public sector and the sign off of these audits takes place by the end of December each year. At this stage of the year expectations are that this will be on track to deliver to the usual deadline.

Central Government

Central Government chargeable audits are 4.10% behind plan leading to a negative volume variance of £45k. Within this sector it is a mixed picture with some audits complete and others further behind compared to previous years. Current planning assumptions are based on an expected audit sign off of the audited bodies in this sector by November.

Non-statutory

The European Agricultural Fund Account (EAFA) audit is ahead of schedule by 1.14%. The audit of the European Agricultural Guarantee Fund is expected to conclude and from 16 October 2020 it is anticipated that this will be funded through the national framework. The United Kingdom Co-ordinating Body (UKCB) has advised that the balance of Rural Development Programme funding can continue to be spent under EU regulations from 16 October 2020 to 15 October 2023. The projected impact is that overall audit requirements will reduce by around 25~30%.

2. Fee income and expenditure – Audit Firms

The adverse income variance of £134k is offset with the positive expenditure variance of £138k for approved auditors. Effectively this approach highlights a net favourable variance of £4k 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 June 2020:

| | 2019/20 Audit Year | | Prior Year | Total | |
|------------------------|--------------------|-------------|------------|----------|-------------|
| | Volume | Price | Price | | |
| | WIP % | £ | £ | £ | |
| Local Government | -1.14 | -32 | +5 | - | -27 |
| Health | -11.12 | -114 | +2 | - | -112 |
| Water | -5.00 | -7 | - | - | -7 |
| FE | +0.40 | +2 | +1 | - | +3 |
| Central Government | -0.23 | -1 | +10 | - | +9 |
| Total – June 20 | -3.22 | -152 | +18 | - | -134 |

Local Government

Audits on the local government sector are 1.14% behind plan leading to an adverse volume variance of £32k. Audit firms have agreed fees above expected fees leading to a price variance recognition of £5k.

Health

Health audit completion is 11.12% behind trajectory based on the prior year actuals generating an adverse volume variance of £114k. In addition to the volume variance there is a £2k price variance due to agreed fees being higher than expected.

Water

The adverse volume variance is due to the audit being behind the prior year actual.

Further Education (FE)

Progress on 2019/20 audits is 0.40% ahead of schedule leading to a minor positive position of £3k.

Central Government

Central government audits are slightly behind schedule leading to a minor negative volume variance of £1k. The £10k price variance is due to a number of agreed fee increases with the largest increase being applied to Scottish Canals.

3. Staff & Agency Costs

| Business Group | Annual Budget £000 | Actual £000 | Budget £000 | Variance £000 | Actual Average w.t.e. | Budget w.t.e. | Note |
|---|-----------------------|----------------|----------------|------------------|--------------------------|------------------|------|
| ASG staff costs | 9,396 | 2,220 | 2,239 | 19 | 150.2 | 154.5 | a) |
| ASG agency & secondments | 75 | 66 | 19 | (47) | | | |
| PABV staff costs | 4,542 | 1,157 | 1,136 | (21) | 75.8 | 73.5 | b) |
| PABV agency & secondments | 0 | 12 | 0 | (12) | | | |
| CSG staff costs | 2,217 | 575 | 553 | (22) | 37.8 | 35.7 | c) |
| CSG agency & secondments | 0 | 0 | 0 | 0 | | | |
| Business Support staff costs | 703 | 184 | 176 | (8) | 19.8 | 18.7 | d) |
| Business Support agency & secondments | 0 | 0 | 0 | 0 | | | |
| Governance & Other staff costs | 1,165 | 264 | 265 | 1 | 20.0 | 20.0 | e) |
| Governance & Other agency & secondments | 0 | 0 | 0 | 0 | | | |
| Total staff costs | 18,023 | 4,400 | 4,369 | (31) | 303.6 | 302.4 | |
| Total agency & secondments | 75 | 78 | 19 | (59) | | | |

- a) In the first 3 months of the year the average number of staff employed in ASG has been 4.3 w.t.e. less than the funded budget. The establishment is based on 156.1 w.t.e. with the application of a 1% vacancy/turnover factor reducing the funded w.t.e. to 154.5. Overall the saving to budget is due to lower than planned staffing levels (£64k) and higher average actual salary costs per employee (£45k). As in previous years there will be an intake of professional trainees in October. Agency costs are over budget and it is projected that this will continue at current levels to meet audit work demands. This additional cost will be partially met through savings in staff costs due to lower than planned w.t.e. and other budget headings.
- b) PABV is on average 2.3 w.t.e. above budget for the first quarter (£36k) and this is due to the provision of cover for essential posts (e.g. maternity leave) and the 1% vacancy factor. This overspend is being reduced by a positive price variance (£14k). It is projected that this overspend will decrease as the year progresses due to staff turnover and an allocation of additional monies from the new financial powers budget, with the final position being within the allocated budget. Secondment costs of £12k relate to a Scottish Parliament member of staff seconded to assist with housing benefit audit work. This secondment had now finished and will be funded by underspend on the consultancy budget.
- c) The average staff resource requirements in CSG has been higher than the funded w.t.e. (£31k) due to staff turnover being lower than expected and the provision of cover for maternity leave. This overspend is currently partially funded by the favourable variance on average actual salary costs (£9k). During the second half of the year the overspend will reduce with the final outturn overspend projection being met from savings within other expenditure budget headings.
- d) Business support w.t.e. above funded figure (£10k) due to the provision of cover for maternity leave. The actual average salary costs are slightly better than budget (£2k).
- e) The budget in Governance & Other is slightly below budget due to the vacancy of a non-executive board member.

4. Travel and subsistence

Expenditure on travel and subsistence has significantly reduced compared to quarter one last financial year. This is due to homeworking and audit work currently being undertaken remotely rather than onsite at the public bodies. The budget profile for 2020/21 has been adjusted to recognise this situation and expenditure will be significantly less this financial year. The current underspend to budget is due to savings within car lease expenditure. The car lease scheme is a closed scheme with savings generated as eligible staff leave Audit Scotland or staff decide to take the cash for car option when renewal is due.

5. Legal, professional and consultancy

The underspend is being used by PABV to meet unbudgeted secondment expenditure and increased staff costs to deliver an overall balanced budget within the business group. The secondment has now finished with the secondee returning to their position at the Scottish Parliament.

6. Printing and office costs

The current underspend is due to reduced expenditure on printing and is a direct consequence of the policy of staff working from home. Also, expenditure on mobile phones and insurance has been less than budget. It is projected that expenditure on mobile phones will deliver a saving this year following the implementation of a new contract for this service and that the insurance underspend is a timing issue which will catch up as the year progresses.

7. Information technology

Software license expenditure is the reason for the current overspend position within information technology. With homeworking and remote audit the current default position it is essential that we have sufficient licenses (e.g. Microsoft, MKI) to enable the safe delivery of our work requirements. It is projected that the final outturn in this expenditure heading will be in excess of budget and this overspend will be met by savings within other digital services budget headings.

Financial Risks and Contingency

The 2020/21 budget includes a contingency allocation of £300k which is controlled by the Management Team. The budget is included within the Other costs subjective heading.

To date there have been no allocations from the contingency.

In May budget holders were requested to review their operational budgets with a view to identifying budget savings. This exercise identified savings of £312k and business group operational budgets have been adjusted.

The management contingency and savings will enable us to meet some of the financial pressures we are likely to experience as a result of Covid-19. The key financial risks we will need to manage in 2020/21 include:

- Shortfall in closing work in progress at 31 March 2021
- Additional costs to deliver audit
- Resource availability
- Impact on firms' costs
- EAFA completion

Taking in to account the audit sign off extensions in each sector the completion percentage rates for the start of the 2020/21 audit cycle will be below the planned levels as at 31 March 2021. The 2020/21 chargeable audit fees will be determined as part of the 2021/22 budget exercise, however an indication is that a 1% movement in completion is approximately £80k based on current budget figures. A 15% reduction would therefore lead to a total shortfall in income recognition of £1.2 million.

In our budget proposal to the SCPA we indicated that we aim to manage within our overall budget, however it may be necessary to seek in-year adjustments if significant challenges arise. It is unlikely that the management contingency and savings identified will be sufficient to meet all the financial pressures and an additional in-year adjustment will be required.

To comply with the governance process for budget approval the Audit Scotland Board will be requested to approve the proposal of an in-year budget adjustment to the SCPA.

In the longer term there are financial issues that will be considered as part of the 2021/22 budget submission to the SCPA. These include:

- The future of the current fees and funding model
- Resourcing pressures and additional cost of audit post Covid-19
- Pension fund pressures
- Auditing post Covid-19
- Firms procurement exercise
- EAFA
- Pay award uncertainty

Capital Expenditure and Funding

There has been no allocation to capital expenditure in the first quarter of 2020/21. We are currently collating and classifying all the additional IT and furniture expenditure incurred to facilitate improved home working conditions for staff. The classification exercise is required to ensure compliance with our agreed fixed asset accounting policy.

Stuart Dennis

Corporate Finance Manager

31 July 2020